

FINANCIAL STATEMENTS

2022

**FINANCIAL STATEMENTS OF COVESTRO AG
FOR THE FISCAL YEAR 2022**



Publication

The publication of these Annual Financial Statements does not comply with the legally required uniform electronic reporting format pursuant to Section 328, Paragraph 1, Sentence 4 of the German Commercial Code (HGB). A report in this format has been submitted to the operator of the electronic Federal Gazette in Germany and is accessible via the Company Register's website.

Combined Management Report

The Management Report of Covestro AG is combined with the Group Management Report; the Combined Management Report has been published in the Covestro Annual Report 2022. The Annual Financial Statements and the Combined Management Report of the Covestro Group and Covestro AG for fiscal 2022 have been submitted to the operator of the electronic Federal Gazette in Germany and are accessible via the Company Register's website.



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Forward-Looking Statements

This financial information may contain forward-looking statements based on current assumptions and forecasts made by the management of Covestro AG. Various known and unknown risks, uncertainties, and other factors could lead to material differences between the actual future results, financial situation, development, or performance of the company and the estimates given here. These factors include those discussed in Covestro's public reports, which are available on our website at www.covestro.com. The company assumes no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.

This financial report was published in German and English. Only the German version is binding.

STATEMENT OF FINANCIAL POSITION OF COVESTRO AG

Statement of Financial Position of Covestro AG

Assets

	Dec. 31, 2021	Dec. 31, 2022
	€ thousand	€ thousand
Noncurrent assets		
Intangible assets	–	–
Property, plant and equipment	510	398
Financial assets	1,766,024	1,982,866
	1,766,534	1,983,264
Current assets		
Receivables and other assets		
Trade accounts receivable	66,811	35,826
From affiliated companies	66,757	35,801
Receivables from affiliated companies	5,219,545	5,280,834
Other assets	84,765	44,362
	5,371,121	5,361,022
Deferred charges	12,727	12,468
Excess of plan assets over pension liability	5,036	1,197
	7,155,418	7,357,951

STATEMENT OF FINANCIAL POSITION OF COVESTRO AG

Equity and liabilities

	Dec. 31, 2021	Dec. 31, 2022
	€ thousand	€ thousand
Equity		
Capital stock	193,200	193,200
Treasury shares	–	(3,252)
Issued capital	193,200	189,948
Capital reserves	3,943,647	3,805,295
Other retained earnings	427,995	116,992
Distributable profit	656,880	–
	5,221,722	4,112,235
Provisions		
Provisions for pensions	9,259	21,140
Provisions for taxes	92,616	34,885
Other provisions	27,690	9,100
	129,565	65,125
Liabilities		
Bonds	1,500,000	2,000,000
Liabilities to banks	275,000	907,271
Trade accounts payable	11,905	10,559
To affiliated companies	34	–
Liabilities to affiliated companies	4,315	155,218
Other liabilities	12,911	107,543
Tax liabilities	771	89,966
	1,804,131	3,180,591
	7,155,418	7,357,951

INCOME STATEMENT OF COVESTRO AG

Income Statement of Covestro AG

	2021	2022
	€ thousand	€ thousand
Income from profit and loss transfer agreements with affiliated companies	757,163	–
Expenses from profit and loss transfer agreements with affiliated companies	–	(153,489)
Income from investments in affiliated companies	757,163	(153,489)
Income from other investments and loans forming part of the financial assets	–	1,400
From affiliated companies	–	1,343
Other interest and similar income	2,481	27,083
From affiliated companies	2,429	27,083
Interest and similar expenses	(26,100)	(43,479)
From affiliated companies	–	(224)
Expenses from unwinding of discount	(2,587)	(10,707)
Interest result	(23,619)	(14,996)
Other financial income	1,123	554
From currency translation	996	39
Other financial expenses	(7,889)	(8,757)
From currency translation	(1,005)	(184)
Other financial income and expenses	(6,766)	(8,203)
Financial result	726,778	(176,688)
Net sales	22,271	23,173
Cost of services provided	(22,303)	(23,610)
General administration expenses	(79,883)	(55,678)
Other operating income	32,873	1,263
Other operating expenses	(3,124)	(302)
Operating result	(50,166)	(55,154)
Result of operations	676,612	(231,842)
Income taxes	(28,725)	(84,621)
Result after tax/net income/net loss for the year	647,887	(316,463)
Accumulated profit carried forward from prior year	51	5,460
Allocation to/withdrawal from other retained earnings	8,942	311,003
Distributable profit	656,880	–

NOTES

Basis of Preparation

The financial statements of Covestro AG, Leverkusen (Germany), are prepared in accordance with the German Commercial Code (HGB), the German Stock Corporation Act (AktG), and the German Energy Industry Act (EnWG). The company, headquartered in Leverkusen (Germany), is registered in the commercial register of the Local Court of Cologne under register number HRB 85281. Covestro AG is a vertically integrated energy company within the meaning of Section 3, No. 38 of the EnWG. Direct and indirect subsidiaries of Covestro AG conduct activities involving the supply of energy as well as electricity and gas distribution.

The Income Statement has been prepared using the cost-of-sales method. In order to emphasize Covestro AG's role as a holding company, the aggregated items of the financial result are presented first, and this presentation deviates from the format prescribed in Section 275, Paragraph 3 HGB. In addition, financial income and expenses whose disclosure is not covered by a mandatory item are reported under other financial income and expenses.

The declaration of conformity to the German Corporate Governance Code (GCGC) pursuant to Section 161 AktG has been issued and made permanently available to shareholders on the internet. It also forms part of the Declaration on Corporate Governance pursuant to Section 289f HGB. It is available for download at <https://covestro.com/en/investors>.

The consolidated financial statements of Covestro AG represent both the largest and the smallest group of consolidated companies. The consolidated financial statements of Covestro AG are submitted to the operator of the electronic Federal Gazette in Germany and published on the website at <https://covestro.com/en/investors>.

The Management Report of Covestro AG is combined with the Management Report of the Covestro Group pursuant to Section 315, Paragraph 5 in conjunction with Section 298, Paragraph 2 HGB.

Rounding differences between individual line items may arise due to reporting in thousands of euros.

Accounting Policies and Valuation Principles

Purchased intangible assets are recognized at cost and amortized on a straight-line basis over their estimated useful lives. Internally generated intangible assets are not recognized as assets. Writedowns are recognized if the impairment is expected to be permanent.

Property, plant and equipment are recognized at cost, less ordinary depreciation in the case of depreciable property, plant and equipment. In this context, the straight-line method of depreciation is generally applied. Amortization and depreciation are based on the following useful lives:

Useful life

Intangible assets	1 to 20 years
Operating and office equipment	2 to 15 years
Information technology	2 to 15 years
Transportation equipment	2 to 12 years

Movable noncurrent assets that are subject to wear and tear and capable of being used independently are depreciated in full in the year of acquisition if their cost does not exceed €800.

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Impairment losses are recognized to account for any expected permanent impairment in value in excess of the wear and tear caused by use.

Investments in affiliated companies are recognized at cost, or at the lower fair value if permanent impairment is expected. If impairment losses were recognized in previous years and the reasons for the impairment loss have since ceased to apply in full or in part, the impairment loss is reversed up to a maximum of the original cost.

Receivables and other assets are recognized at their principal amounts, less any value adjustments. Value adjustments are based on the probable risk of default. Global value adjustments of 2% are recognized for general credit risk of third-party customers. Non-interest-bearing or low-interest receivables due after one year are discounted to their present value.

In order to meet various obligations related to pension plans and work-time credits of employees, corresponding funds are primarily invested in liquid international bonds, shares, investment funds, and near-money market products using separate pension-provision investment vehicles. These funds are held in trust for Covestro AG and are exempt from attachment by other creditors in the event that the employer declares insolvency. The investments are measured at fair value, which is derived from share prices and market interest rates. The assets held in trust are offset against the underlying obligations. If there is an excess obligation, a provision is recognized. If the value of the securities exceeds the obligations, the difference is recorded in the Statement of Financial Position under assets as "excess of plan assets over pension liability." Income from the trust assets is likewise offset against expenses relating to the interest component of obligations and to changes in the discount rate in the Income Statement, provided that income is available.

Deferred charges and deferred income include expenses incurred and income generated prior to the reporting date, which represent expenses and income for a specific period after that date; they are recognized at their nominal amounts. In addition, in application of the option pursuant to Section 250, Paragraph 3 HGB, deferred charges include the difference between the issue and settlement amount of the bonds issued. The differences are amortized over the maturity of the corresponding bond.

Deferred taxes are recognized for temporary differences between the assets, liabilities, deferred charges, and deferred income recognized in the HGB financial statements and the tax statement. For Covestro AG, this not only includes the differences relating to its own Statement of Financial Position items but also those of tax group subsidiaries and partnerships in which it holds an equity interest. In addition to temporary differences, tax loss carryforwards are also recognized where necessary. Deferred taxes are calculated on the basis of the combined future income tax rate for the tax group of Covestro AG, which is currently 29.10% (previous year: 29.01%). The combined income tax rate includes corporate income tax, trade tax, and the solidarity surcharge. However, deferred taxes relating to temporary valuation differences in the case of investments in partnerships are calculated on the basis of a combined income tax rate, which includes only corporate income tax and the solidarity surcharge; this remained unchanged from the previous year at 15.83%. Any resulting overall tax burden would be recognized as a deferred tax liability in the Statement of Financial Position. In the event of tax relief, the option to recognize the deferred tax would not be exercised. In the fiscal year, there was one deferred tax asset that was not recognized.

The capital stock of Covestro AG is divided into 193,200,000 no-par-value bearer shares with a nominal value of €1 per share.

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Provisions for pensions and similar obligations are determined according to actuarial principles, using the projected unit credit method on the basis of biometric probability using the Heubeck 2018 G mortality tables. Expected future salary and pension increases are taken into account when determining the obligations. We assume annual salary increases of 3.00% (previous year: 2.75%). We expect annual pension increases of 2.20% (previous year: 1.80%). However, for pension commitments granted from January 1, 2000, an annual pension increase of 1.00% applies in line with what was promised to employees. The discount rate as of December 31, 2022, used for discounting pension obligations was 1.78% (previous year: 1.87%). This is the average market interest rate over the past 10 years for an assumed remaining term of 15 years calculated and published by Deutsche Bundesbank for December 2022.

The difference resulting from the change in the discount rate for pension obligations as defined by Section 253, Paragraph 2 HGB is subject to distribution restrictions pursuant to Section 253, Paragraph 6 HGB.

No provisions are recognized for indirect pension obligations relating to pension commitments of Bayer Pensionskasse VVaG and Rheinische Pensionskasse VVaG, for which an option exists under Article 28, Paragraph 1, Sentence 2 of the Introductory Act to the German Commercial Code (EGHGB) to recognize them as liabilities. Calculation of the net liability that must be disclosed in the notes to the financial statements is based on the same assumptions that are used to measure the pension provisions recognized in the statement of financial position.

Other provisions cover all foreseeable risks and uncertain liabilities. They are measured on the basis of the settlement amount required according to sound business judgment. Future price and cost increases are taken into account as long as there are sufficient objective indications that they will occur. Provisions with a remaining maturity of more than one year are discounted using the average market interest rate over the past seven fiscal years appropriate to their remaining maturities. For long-term personnel-related provisions, such as those for bonuses for long-term service, a rate of 1.44% (previous year: 1.35%) is used for an assumed remaining maturity of 15 years. Shorter-term personnel-related provisions, such as obligations under early retirement agreements, are discounted using a rate appropriate to their maturity. In fiscal 2022, the maturity was three years, and the discount rate was 0.51% (previous year: 0.34%). The interest rates at the time that the respective personnel-related provisions were determined are those expected for December.

Liabilities are recognized at their settlement amount.

Receivables and liabilities in foreign currencies, forward exchange contracts, and other currency derivatives are recognized according to the limited mark-to-market method. For this purpose, foreign currency receivables and liabilities are measured at the spot rates and the currency derivatives entered into to hedge them are measured at the forward market rates as of the reporting date. According to the net hedge presentation method (Einfrierungsmethode), the effective part of the hedge is not recognized in the financial statements. A provision for impending losses is recognized for net losses; gains are only recognized to the extent that they relate to receivables and liabilities with a maturity of up to one year.

The disclosed contingent liabilities from sureties and debt guarantees for third-party liabilities correspond to the loan drawdowns and obligations of beneficiaries on the reporting date.

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Notes to the Statement of Financial Position

1. Intangible Assets

Intangible assets

	Software licenses
	€ thousand
Gross carrying amounts as of Jan. 1, 2022	17
Retirements	(17)
Gross carrying amounts as of Dec. 31, 2022	–
Accumulated amortization and writedowns as of Jan. 1, 2022	17
Retirements	(17)
Accumulated amortization and writedowns as of Dec. 31, 2022	–
Net carrying amounts as of Dec. 31, 2022	–
Net carrying amounts as of Jan. 1, 2022	–

2. Property, Plant and Equipment

Property, plant and equipment

	Operating and office equipment
	€ thousand
Gross carrying amounts as of Jan. 1, 2022	1,202
Additions	1
Retirements	(144)
Gross carrying amounts as of Dec. 31, 2022	1,059
Accumulated depreciation and writedowns as of Jan. 1, 2022	692
Depreciation and writedowns	113
Retirements	(144)
Accumulated depreciation and writedowns as of Dec. 31, 2022	661
Net carrying amounts as of Dec. 31, 2022	398
Net carrying amounts as of Jan. 1, 2022	510

3. Financial Assets

Financial assets

	Investments in affiliated companies	Loans to affiliated companies	Other loans	Total
	€ thousand	€ thousand	€ thousand	€ thousand
Gross carrying amounts as of Jan. 1, 2022	1,766,024	–	–	1,766,024
Additions	–	114,604	102,238	216,842
Retirements	–	–	–	–
Gross carrying amounts as of Dec. 31, 2022	1,766,024	114,604	102,238	1,982,866
Accumulated writedowns as of Jan. 1, 2022	–	–	–	–
Writedowns	–	–	–	–
Accumulated writedowns as of Dec. 31, 2022	–	–	–	–
Net carrying amounts as of Dec. 31, 2022	1,766,024	114,604	102,238	1,982,866
Net carrying amounts as of Jan. 1, 2022	1,766,024	–	–	1,766,024

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In 2015, Covestro AG gave a commitment to Bayer-Pensionskasse VVaG, Leverkusen (Germany), to provide, if necessary, a retrospective, repayable initial fund of €208,000 thousand. Based on this commitment, an initial amount of €98,938 thousand was drawn on during the fiscal year. In addition, in 2019, Covestro AG gave a commitment to Rheinische Pensionskasse VVaG, Leverkusen (Germany), to provide, if necessary, a retrospective, repayable initial fund of €11,000 thousand. Based on this commitment, an initial amount of €3,300 thousand was drawn on in the fiscal year.

Loans to affiliated companies in an amount of €114,604 thousand relate to noncurrent loan receivables from Covestro Deutschland AG.

4. Receivables and Other Assets

Receivables from affiliated companies primarily include loan receivables in an amount of €5,380,000 thousand from Covestro Deutschland AG.

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

5. Excess of Plan Assets over Pension Liability

Obligations arising from work-time accounts as well as pension commitments are fully or partially covered by assets that were held in trust and invested using separate pension-provision investment vehicles (plan assets). The invested assets may only be used for the purpose of meeting obligations under specifically defined plans and are exempt from attachment by other creditors in the event that the employer becomes insolvent. They were offset against the underlying obligations. This resulted in a total excess of €1,197 thousand as of the reporting date, of which €322 thousand was attributable to obligations arising from work-time accounts and €875 thousand to pension commitments.

Excess of plan assets over pension liability

	Dec. 31, 2021	Dec. 31, 2022
	€ thousand	€ thousand
Settlement amount of obligations relating to credit balances on employees' work-time accounts	1,474	1,900
Fair value of assets invested	2,045	2,222
Difference between assets and obligations relating to work-time accounts (excess of plan assets)	571	322
Acquisition cost of assets invested	1,682	2,267

	Dec. 31, 2021	Dec. 31, 2022
	€ thousand	€ thousand
Settlement amount of obligations relating to pension commitments (with asset surplus)	22,844	6,469
Fair value of assets invested	27,309	7,344
Difference between assets and obligations relating to pension commitments (excess of plan assets)	4,465	875
Acquisition cost of assets invested	21,592	6,859

Plan assets are carried at fair value and amounted to €46,144 thousand as of December 31, 2022. Offsetting of plan assets of €9,566 thousand against the underlying obligations resulted in an asset surplus. This item is reported as "excess of plan assets over pension liability." The remaining plan assets amounting to €36,578 thousand were recognized under pension provisions.

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6. Equity

During the fiscal year, equity changed as follows:

Equity

	Jan. 1, 2022	Share buybacks	Treasury shares issued under employee share programs	Dividends	Net income/net loss for the year	Dec. 31, 2022
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Capital stock	193,200	–	–	–	–	193,200
Treasury shares	–	(3,480)	228	–	–	(3,252)
Issued capital	193,200	(3,480)	228	–	–	189,948
Capital reserves	3,943,647	(146,431)	8,079	–	–	3,805,295
Other retained earnings	427,995	–	–	–	(311,003)	116,992
Distributable profit	656,880	–	–	(651,420)	(5,460)	–
	5,221,722	(149,911)	8,307	(651,420)	(316,463)	4,112,235

The capital stock of Covestro AG amounts to €193,200,000 (previous year: €193,200,000) and is divided into 193,200,000 (previous year: 193,200,000) no-par-value bearer shares with a nominal value of €1 per share; it is fully paid up.

The net loss for the year of €316,463 thousand was covered by the accumulated profit of €5,460 thousand brought forward from the year 2021 and a withdrawal from other retained earnings of €311,003 thousand. Moreover, the payment of dividends for fiscal 2021 in the amount of €651,420 thousand reduced equity.

The difference between the nominal value and cost of the treasury shares issued was contributed to capital reserves up to the amount settled for the share buy-back pursuant to Section 272, Paragraph 2, No. 4 HGB. In accordance with Section 272, Paragraph 1b, Sentence 2 et seq. HGB, any difference in excess of that amount was contributed to capital reserves pursuant to Section 272, Paragraph 2, No. 1 HGB.

On April 16, 2021, the Annual General Meeting adopted a resolution to create the Authorized Capital 2021 and thereby to authorize the Board of Management, with the consent of the Supervisory Board, to increase the capital stock by up to €57,960,000 by issuing new, no-par value bearer shares against cash and/or noncash contributions in the period through April 15, 2026. The authorization can be used on one or more occasions. The new shares carry dividend rights from the beginning of the fiscal year in which they are issued. However, in contrast to Section 60, Paragraph 2 AktG and to the extent permissible by law, the Board of Management, with the approval of the Supervisory Board, can specify that the new shares will carry dividend rights from the beginning of a prior fiscal year for which, at the time of their issue, the Annual General Meeting had not yet adopted a resolution on the use of the distributable profit. The Board of Management was authorized, with the consent of the Supervisory Board, to set further details of the terms of the capital increase and its implementation. Furthermore, the Board of Management is authorized, with the approval of the Supervisory Board, to disapply subscription rights for capital increases in return for contributions in kind, particularly as part of mergers or the direct (and indirect) acquisition of 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. In the case of capital increases against cash contributions, the new shares must generally be offered to the shareholders for subscription; they can also be underwritten by credit institutions or companies within the meaning of Section 186, Paragraph 5, Sentence 1 AktG with the obligation to offer them for subscription to the shareholders. However, the Board of Management is authorized, with the consent of the Supervisory Board, to disapply the subscription rights of shareholders in the case of cash capital increases where the subscription ratio gives rise to fractional amounts. Subscription rights may also be disappplied to grant holders or creditors of warrants/conversion rights to shares of the company, or equivalent warrant/conversion obligations 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 exercise of these warrants/conversion rights, or performance of these exercise/conversion obligations. Moreover, the Board of Management is authorized, with the consent of the Supervisory Board, to disapply the subscription rights of shareholders in the case of cash capital increases if the new shares are issued at a price that

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is not significantly below the stock market price of the shares of the company already listed. The proportionate interest in the capital stock attributable to the shares issued in accordance with Section 186, Paragraph 3, Sentence 4 AktG against cash contributions while disapplying subscription rights may not exceed 10%. The capital stock used for this calculation is the capital stock on the date this authorization enters into force – or if this amount is lower – on the date this authorization is exercised. The shares to be included in calculating this 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 this provision. Also included in the limit are shares issued or granted, or to be issued or granted, based on a convertible bond or bond with warrants issued during the term of this authorization while disapplying subscription rights in accordance with Section 186, Paragraph 3, Sentence 4 AktG.

The Authorized Capital 2021 has not been utilized to date.

The Annual General Meeting on July 30, 2020, additionally adopted resolutions to create the Conditional Capital 2020 and increased the capital stock conditionally by up to €18,300,000. The conditional capital increase will only be performed by issuing up to 18,300,000 no-par-value bearer shares carrying dividend rights from the beginning of their fiscal year of issue to the extent that the holders or creditors of convertible bonds or of warrants from bonds with warrants that are issued based on the authorization of the Board of Management by the Annual General Meeting on July 30, 2020, by Covestro AG or one of its Group companies up to July 29, 2025, exercise their warrant/conversion rights, fulfill their exercise/conversion obligations, or if shares are tendered, and as long as no other forms of fulfillment are used to service these rights. The new shares will be issued at the warrant or conversion price to be determined in accordance with the authorizing resolution referred to above in the bond or warrant terms. The Board of Management is authorized, with the approval of the Supervisory Board, to specify the further details of the capital increase and its execution. The Conditional Capital 2020 has not been utilized to date.

In the event of a capital increase, the profit participation rules applicable to the new shares may be specified in derogation of Section 60 AktG.

Treasury Shares

On February 28, 2022, Covestro AG's Board of Management resolved to initiate a share buyback program. The total value of the program stands at approximately €500 million (excluding transaction costs), and it is expected to be completed within two years. The share buyback program is based on the authorization of the Annual General Meeting of Covestro AG on April 12, 2019, according to which the Board of Management can acquire treasury shares with a proportionate interest in the capital stock totaling up to 10% of the company's capital stock. The share buybacks are executed on the stock exchange in line with the requirements for share buyback programs set forth in Article 5 of the Market Abuse Regulation and the associated Commission Delegated Regulation. The share buyback resolved in February 2022 began on March 21, 2022.

The change in treasury shares is shown in the following table:

Treasury shares

	2022
	Number of shares
Treasury shares as of Jan. 1, 2022	–
Share buy-backs	3,479,956
Retired treasury shares	–
Treasury shares issued under employee share programs	(228,321)
Treasury shares as of Dec. 31, 2022	3,251,635

The 3,251,635 shares held by Covestro AG correspond to a nominal amount of € 3,251,635 or 1.68% of the capital stock.

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A total of 3,479,956 shares were acquired in fiscal 2022, corresponding to a nominal value of €3,479,956 or 1.80% of the capital stock. A total of €149,911 thousand (excluding transaction costs) was spent for this purpose, corresponding to a weighted average price of €43.08 per share. The shares were acquired in the periods from March 21, 2022, through April 6, 2022, and from May 10, 2022, through June 23, 2022, through a bank engaged by Covestro AG. On each of those trading days, Covestro acquired an average of 75,651 shares. A small proportion of the repurchased shares will be used for issuing shares under share-based participation programs and the rest will be retired and the capital stock reduced accordingly.

228,321 treasury shares were used for the Covestro share-based participation program. The treasury shares were sold to employees at a reduced price of €25.47 per share in accordance with the terms of the employee program.

Disclosures on Amounts Subject to Distribution Restrictions within the Meaning of Section 268, Paragraph 8 and Section 253, Paragraph 6 of the HGB

To cover pension obligations and credit balances on employees' work-time accounts, funds have been transferred under contractual trust arrangements to the trust assets of Metzler Trust e.V., earmarked for this purpose, and protected from insolvency. The funds are measured at fair value. This measurement resulted in an amount of €1,534 thousand subject to distribution restrictions. Furthermore, the difference resulting from the change in the discount rate used to discount provisions for pension obligations, amounting to an additional €4,548 thousand of available reserves, was subject to distribution restrictions pursuant to Section 253, Paragraph 6 HGB.

Available reserves amounted to €2,041,414 thousand after deduction of the amounts subject to distribution restrictions.

Disclosures of Shareholdings Notified in Accordance with Section 33, Paragraph 1 of the German Securities Trading Act (WpHG)

During fiscal 2022 and in the previous years, we received the following notifications of shareholdings in Covestro AG pursuant to Section 33, Paragraph 1 WpHG. In cases where shareholdings reached, exceeded, or fell below the thresholds set out in this provision on several occasions and are reportable, only the most recent or last such notification is included:

Disclosures in accordance with Section 160, Paragraph 1, No. 8 of the German Stock Corporation Act (AktG)

Entity subject to disclosure requirements	Date of notification	Share of voting rights reached on	Threshold	Voting rights		Attribution according to WpHG
				% ¹	absolute	
The Goldman Sachs Group, Inc., Wilmington	Dec. 23, 2022	Dec. 19, 2022	5	5.49	10,616,302	Sec. 34, 38 Para. 1 No. 1, 2
Ministry of Finance on behalf of the State of Norway, Oslo	Dec. 23, 2022	Dec. 22, 2022	3	3.83	7,403,413	Sec. 34, 38 Para. 1 No. 1, 2
BlackRock, Inc., Wilmington	Dec. 14, 2022	Dec. 08, 2022	5	7.24	13,980,311	Sec. 34, 38 Para. 1 No. 1, 2
Franklin Mutual Series Funds, Short Hills	Dec. 08, 2022	Dec. 06, 2022	3	3.00	5,802,174	Sec. 34
Franklin Mutual Advisers, LLC, Wilmington	Nov. 10, 2022	Nov. 08, 2022	3	3.19	6,165,896	Sec. 34
UBS Group AG, Zürich	Mar. 29, 2022	Mar. 24, 2022	3	3.33	6,442,278	Sec. 34, 38 Para. 1 No. 1, 2
T. Rowe Price Group, Inc., Baltimore, Maryland	Mar. 21, 2022	Mar. 14, 2022	3	3.09	5,969,379	Sec. 34
DWS Investment GmbH, Frankfurt am Main	Mar. 16, 2022	Mar. 11, 2022	3	2.69	5,195,384	Sec. 34, 38 Para. 1 No. 1, 2
Allianz Global Investors GmbH, Frankfurt/Main	Feb. 25, 2019	Feb. 20, 2019	3	3.20	5,853,973	Sec. 34, 38 Para. 1 No. 1, 2
BlackRock Investment Management (UK) Limited, London	Oct. 9, 2015	Oct. 7, 2015	3	3.68	7,444,261	Sec. 34
BlackRock Group Limited, London	Oct. 9, 2015	Oct. 7, 2015	3	3.80	7,689,383	Sec. 34

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Disclosures in accordance with Section 160, Paragraph 1, No. 8 of the German Stock Corporation Act (AktG)

Entity subject to disclosure requirements	Date of notification	Share of voting rights reached on	Threshold	Voting rights		Attribution according to WpHG
				% ¹	absolute	
BR Jersey International Holdings L. P., St. Helier, Jersey	Oct. 9, 2015	Oct. 7, 2015	3	3.80	7,691,608	Sec. 34
BlackRock International Holdings, Inc., Wilmington	Oct. 9, 2015	Oct. 7, 2015	3	3.80	7,691,608	Sec. 34
BlackRock Financial Management, Inc., Wilmington	Oct. 9, 2015	Oct. 7, 2015	3	3.85	7,802,680	Sec. 34
BlackRock Holdco 2, Inc., Wilmington	Oct. 9, 2015	Oct. 7, 2015	3	3.85	7,802,680	Sec. 34

¹ If the threshold was reached prior to December 4, 2018, the share of voting rights is based on the capital stock prior to the retirement of shares in fiscal 2018 and prior to the capital increase in fiscal 2020. If the threshold was reached after December 4, 2018, but prior to October 14, 2020, the share of voting rights relates to the capital stock prior to the capital increase in fiscal 2020.

7. Provisions for Pensions

Provisions for pensions include the benefit obligations for current and past employees. This item also includes obligations under early retirement arrangements.

Obligations arising from pension commitments are fully or partially covered by assets held in trust and invested using separate pension-provision investment vehicles (plan assets). The invested assets may only be used for the purpose of meeting pension obligations and are exempt from attachment by other creditors. They were offset against the underlying obligations.

Provisions for pensions

	Dec. 31, 2021	Dec. 31, 2022
	€ thousand	€ thousand
Settlement amount of pension commitments	33,352	57,718
Fair value of assets invested	24,093	36,578
Net value of pension commitments (provisions)	9,259	21,140
Acquisition cost of assets invested	19,409	35,626

The difference resulting from the change in the discount rate within the meaning of Section 253, Paragraph 6, Sentence 1 HGB was €4,548 thousand on December 31, 2022 (previous year: €6,660 thousand).

The net liability resulting from unrecognized benefit obligations within the meaning of Article 28, Paragraph 2 EGHGB totals €10,745 thousand (previous year: €6,207 thousand).

8. Provisions for taxes

The year-over-year decrease in provisions for taxes by a total of €57,731 thousand resulted mainly from the reclassification of provisions for settling possible tax claims to other liabilities.

9. Other Provisions

Other provisions were mainly recognized for personnel-related obligations of €9,063 thousand (previous year: €27,018 thousand). The decline was primarily attributable to lower expenses in connection with the annual incentive (Covestro PSP).

NOTES

10. Bonds

On December 31, 2022, the value of issued bonds amounted to €2,000,000 thousand. They break down as follows:

Bonds

	Par value	Coupon rate	Effective interest rate	Dec. 31, 2022
		in %	in %	€ thousand
DIP bond 2016/2024	€500 million	1.750	1.782	500,000
DIP bond 2020/2026	€500 million	0.875	0.943	500,000
DIP bond 2020/2030	€500 million	1.375	1.447	500,000
Green DIP bond 2022/2028	€500 million	4.750	4.906	500,000
				2,000,000

On November 8, 2022, Covestro AG issued a green euro bond with a total volume of €500 million on the debt markets. The bond, which has an annual coupon of 4.75%, has a maturity of six years ending in November 2028.

The differences between the issue and settlement amount of the bonds issued, which are reported under deferred charges in application of the option pursuant to Section 250, Paragraph 3 HGB, totaled €7,678 thousand on December 31, 2022 (previous year: €4,597 thousand).

11. Additional Disclosures on Liabilities

Liabilities were classified according to maturity as follows:

Maturity structure of liabilities

				Dec. 31, 2021
	Due in 2022	Due in or after 2023	Thereof due in or after 2027	Total
	€ thousand	€ thousand	€ thousand	€ thousand
Bonds	–	1,500,000	500,000	1,500,000
Liabilities to banks	50,000	225,000	–	275,000
Trade accounts payable	11,905	–	–	11,905
Liabilities to affiliated companies	4,315	–	–	4,315
Other liabilities	11,861	1,050	–	12,911
Total	78,081	1,726,050	500,000	1,804,131

Maturity structure of liabilities

				Dec. 31, 2022
	Due in 2023	Due in or after 2024	Thereof due in or after 2028	Total
	€ thousand	€ thousand	€ thousand	€ thousand
Bonds	–	2,000,000	1,000,000	2,000,000
Liabilities to banks	130,667	776,604	37,500	907,271
Trade accounts payable	10,559	–	–	10,559
Liabilities to affiliated companies	155,218	–	–	155,218
Other liabilities	107,158	385	–	107,543
Total	403,602	2,776,989	1,037,500	3,180,591

NOTES

The rise in liabilities to banks is mainly attributable to the placement of Schuldschein loans on the debt markets in October 2022. They have maturities of three, five, and seven years and fixed and variable interest-rate components.

Other liabilities increased primarily due to the reclassification of provisions for taxes.

Notes to the Income Statement

12. Income from Investments in Affiliated Companies

The loss on investments in affiliated companies of €153,489 thousand (previous year: income of €757,163 thousand) was solely attributable to expenses from the control and profit and loss transfer agreement with Covestro Deutschland AG.

13. Interest Result

In addition to expenses related to the bonds of €23,101 thousand (previous year: €22,525 thousand) issued in fiscal years 2016, 2020, and 2022, the interest result contained primarily interest income of €28,426 thousand (previous year: €2,429 thousand) from loans granted to Covestro Deutschland AG.

Furthermore, in addition to expenses from the discounting of pension provisions amounting to €2,180 thousand (previous year: €5,789 thousand), which included expenses from the change in the actuarial interest rate in addition to the expense from discounting, losses from the investment of assets by Metzler Trust e. V., Frankfurt am Main (Germany), amounting to €8,963 thousand (previous year: income of €2,669 thousand) were also included in the interest result.

Moreover, the interest result included expenses for interest on external loan liabilities.

14. Other Financial Income and Expenses

Other financial income and expenses comprised bank fees totaling €6,779 thousand (previous year: €6,638 thousand). These included fees for providing the company lines of credit, the prorated reversal of the discount on the bonds issued, and one-time fees associated with issuing the new bond and the Schuldschein loans.

Income and expenses from foreign currency translation were also reported in this item. Furthermore, other financial income includes intragroup custody fees (negative interest) for amounts invested with Covestro AG under cash pooling arrangements as well as negative interest income on an external loan. Other financial expenses also include negative deposit interest for intragroup cash pooling receivables from Covestro Deutschland AG.

15. Net Sales

Sales include income from services rendered by the Corporate Center divisions of Covestro AG for Covestro Group companies. Of the €23,173 thousand (previous year: €22,271 thousand) reported, sales to foreign Group companies accounted for €849 thousand (3.66%) (previous year: €576 thousand). Expenses incurred for providing the services rendered by the Corporate Center divisions are disclosed under cost of services provided.

16. General Administration Expenses

General administration expenses totaling €55,678 thousand (previous year: €79,883 thousand) 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 primarily from lower expenses for the annual incentive (Covestro PSP) and a decrease in costs associated with setting up the new organizational structure as of July 1, 2021 and the integration of the Resins & Functional Materials (RFM) business acquired from Koninklijke DSM N.V., Heerlen (Netherlands).

17. Other Operating Income

Overall, other operating income included income relating to other accounting periods amounting to €1,054 thousand (previous year: €180 thousand). Of this amount, €926 thousand related to the reversal of personnel-related provisions.

18. Income Taxes

Income tax expenses encompass corporate income tax, trade tax, the solidarity surcharge, and income taxes paid outside Germany.

The tax expense does not include deferred taxes. As of December 31, 2022, Covestro AG expected a future tax relief of €378,632 thousand (previous year: €247,445 thousand) from temporary differences, relating both to itself and to companies within the tax group and partnerships. This was calculated on the basis of the combined future income tax rate of 29.10% (previous year: 29.01%) (Covestro AG and tax group subsidiaries) or 15.83% (investments in partnerships; the tax rate includes only corporate income tax and the solidarity surcharge).

Deferred tax liabilities resulted primarily from a higher valuation of noncurrent assets than previously reported for tax purposes and from valuation differences in connection with unrealized gains on foreign currency translation. Deferred tax assets mainly resulted from the higher recognition of pension obligations in the commercial financial statements compared to their tax measurement. Deferred tax assets also resulted from provisions for impending losses and for pre-retirement leave, which are not eligible for recognition in the tax financial statements. Other reasons for deferred tax assets included measurement differences, including provisions for early retirement arrangements, long-term accounts, and anniversary obligations. Deferred tax assets from loss and interest carryforwards were not included, as it is not expected that losses can be utilized in the next five years. Overall, deferred tax liabilities were more than offset by deferred tax assets. The option provided in Section 274, Paragraph 1, Sentence 2 HGB was exercised for the total resulting tax relief and no deferred tax assets were recognized.

19. Other Taxes

Where other taxes could be allocated to general administration expenses, they are recognized there. Otherwise, they are included under other operating expenses. Other taxes totaled €9 thousand (previous year: €10 thousand).

20. Cost of Materials

Cost of materials

	2022
	€ thousand
Cost of raw materials, consumables and supplies, and of purchased merchandise	6
Cost of purchased services	3
	9

NOTES

21. Personnel Expenses/Employees

Personnel expenses

	2022
	€ thousand
Wages and salaries	26,228
Social expenses and expenses for pensions and other benefits	7,697
Pension expenses	6,368
	33,925

Personnel expenses do not include the interest cost allocated to personnel-related provisions, in particular to provisions for pensions, which are shown in the interest result.

On average, Covestro AG had 158 employees in the reporting year. They break down as follows:

Employees

	2022	
	Women	Men
Senior executives and senior managers	23	74
Junior managers and nonmanagerial employees	39	22
	62	96

Within the group of employees in vocational training and interns, Covestro AG employed an average of one employee in fiscal 2022.

These figures include part-time employees on a prorated basis.

Other Disclosures

22. Contingent Liabilities

Liabilities arising from debt guarantees and sureties amounted to €193,360 thousand. These were issued exclusively in favor of Group companies. To our knowledge, the companies concerned are able to meet the underlying obligations. The risk of utilization is considered low.

Debt guarantees and sureties

	Principal amount
	€ thousand
Covestro International Re, Inc., Colchester, Vermont (USA)	
Open-ended	75,000
Covestro LLC, Pittsburgh, Pennsylvania (USA)	
Principal amount \$57,534 thousand, due in 2027	53,941
LyondellBasell Covestro Manufacturing Maasvlakte V.O.F., Rotterdam (Netherlands)	
Due in 2031	25,000
Covestro Deutschland AG, Leverkusen (Germany)	
Due upon contract performance	16,670
Covestro LLC, Pittsburgh, Pennsylvania (USA)	
Principal amount of \$16,301 thousand, due upon contract performance	15,283
Covestro, S.L., Barcelona (Spain)	
Open-ended	2,798
Covestro Deutschland AG, Leverkusen (Germany)	
Open-ended	2,325
Covestro International SA, Fribourg (Switzerland)	
Principal amount RON 2,600 thousand, due in 2025	525
Covestro International SA, Fribourg (Switzerland)	
Principal amount TRY 9,887 thousand, open-ended	495
Covestro International SA, Fribourg (Switzerland)	
Due in 2025	418
Covestro Elastomers, Romans-sur-Isère (France)	
Due in 2023	295
Covestro Deutschland AG, Leverkusen (Germany)	
Due in 2025	230
Covestro S.r.l., Filago (Italy)	
Due in 2025	143
Covestro S.r.l., Filago (Italy)	
Due in 2023	82
Covestro (Netherlands) B.V., Geleen (Netherlands)	
Due in 6 months after termination of contract	76
Covestro (Netherlands) B.V., Geleen (Netherlands)	
Open-ended	59
Covestro International SA, Fribourg (Switzerland)	
Open-ended	8
Covestro PO LLC, Pittsburgh, Pennsylvania (USA)	
Open-ended	8
Covestro S.r.l., Filago (Italy)	
Open-ended	4
	193,360

In connection with the contribution, indemnification, and post-formation agreement between Bayer AG and Covestro AG, arrangements were made to settle possible claims for taxes, which may result in corresponding liabilities.

23. Other Financial Commitments

In addition to provisions, liabilities, and contingent liabilities, Covestro AG has other financial commitments.

Effective September 1, 2015, Bayer-Pensionskasse VVaG, Leverkusen (Germany), and Covestro AG agreed to include Covestro AG as an additional guarantor in the initial fund previously agreed with Bayer AG. The purpose of the initial fund is to provide Bayer-Pensionskasse VVaG with repayable, interest-bearing loans if necessary. Covestro AG has undertaken to provide a maximum of €208,000 thousand to the initial fund. Following a contribution of €98,938 thousand in the reporting year, Covestro AG has a further obligation to make a contribution of €109,062 thousand.

Effective August 1, 2019, Rheinische Pensionskasse VVaG, Leverkusen (Germany), and Covestro AG agreed to include Covestro AG as an additional guarantor in the initial fund previously agreed with Bayer AG. The purpose of the initial fund is to provide Rheinische Pensionskasse VVaG with repayable, interest-bearing loans if necessary. Covestro AG has undertaken to provide a maximum of €11,000 thousand to the initial fund. Following a contribution of €3,300 thousand in the reporting year, Covestro AG has a further obligation to make a contribution of €7,700 thousand.

The loans to the initial fund bear interest, which is payable only if contractually agreed conditions are met. Payment of interest must be deferred, if and to the extent it would cause the pension fund to incur a net loss for the year.

Future lease and rent payments resulted in obligations totaling €166 thousand. Of the total lease obligations, €97 thousand is due in 2023 and €69 thousand in 2024.

24. Derivative Financial Instruments/Hedging Relationships

Hedging Relationships

Covestro AG has hedged foreign currency liabilities to third parties in an amount of €114,604 thousand with intragroup loans granted to Covestro Deutschland AG. Covestro Deutschland AG is responsible for hedging the foreign exchange risk of the Covestro Group and has in turn hedged the foreign currency risk with suitable instruments.

Since the risks of hedged items and hedging transactions are very similar, it can be assumed that any changes in value will be virtually the same, meaning that the hedges are highly effective. Hedged items and hedging transactions have been combined into hedging relationships under a portfolio hedge. The hedging relationships are accounted for in accordance with the net hedge presentation method (Einfrierungsmethode). As of December 31, 2022, the hedged risk amounted to €8,662 thousand. The hedged risk represents the effect on the Statement of Financial Position that would have arisen without hedging. If there is an unrealized loss because of partial hedge ineffectiveness, this is reported as a provision for hedging relationships under other provisions. A provision of €36 thousand was recognized for the negative measurement difference.

NOTES

The maturity dates of the hedged risks were as follows as of December 31, 2022:

Hedge maturity dates

	Dec. 31, 2022
	Hedged risk
	€ thousand
Maturity	
2023	2
2025	6,208
2027	2,452
	8,662

Derivative Financial Instruments to which Hedge Accounting is not Applied

Furthermore, an intragroup forward exchange contract has been entered into with Covestro Deutschland AG, which is used to hedge currency risks from the general intragroup portfolio of receivables. The forward exchange contract matures in fiscal 2023.

The fair value of the forward exchange contract is determined using customary measurement methods that take account of all market data available as of the measurement date (market values). This is carried out based on the principle that the forward exchange contract is measured on the basis of the forward exchange rate as of the reporting date. The forward exchange rate depends on the spot rate, taking account of forward premiums and discounts.

The nominal value of the intragroup forward exchange contract was €2,103 thousand, its fair value €6 thousand as of December 31, 2022.

25. Related Party Disclosures

Related parties are legal entities or natural persons that are able to exert influence over Covestro AG or over which Covestro AG exercises control or has a significant influence. They include nonconsolidated subsidiaries, joint ventures, associated companies, and post-employment benefit plans.

Transactions with related parties mainly comprise rental, service, and financing transactions.

For more information on the loans to the initial funds, which were partially drawn down by Bayer Pensionskasse VVaG, Leverkusen (Germany), and Rheinische Pensionskasse VVaG, Leverkusen (Germany), please refer to the section on other financial commitments.

NOTES

26. Total Compensation of the Board of Management and Supervisory Board, and Advances and Loans Granted

The compensation of the members of the Board of Management in fiscal 2022 consisted of the following:

Total compensation of the Board of Management

	Board of Management members in office	
	2021	2022
	€ thousand	€ thousand
Fixed annual compensation	3,193	3,264
Fringe benefits	114	108
Short-term variable compensation	7,619	–
Long-term variable compensation ¹	4,176	3,743
Aggregate compensation	15,102	7,115
Pension service cost ²	1,592	1,595

¹ Fair value when granted

² Including company contribution to Bayer-Pensionskasse VVaG and Rheinischen Pensionskasse VVaG.

Compensation consists of a non-performance-related component, an annual incentive, the Covestro Profit Sharing Plan (Covestro PSP), and long-term variable compensation under the Prisma program.

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

Non-performance-related compensation comprises the fixed annual compensation, which reflects the responsibilities and performance of the Board of Management members, along with fringe benefits. The members of the Board of Management also receive pension entitlements for themselves and their surviving dependents.

Performance-related compensation comprises a short-term variable component (Covestro PSP) and the long-term variable compensation (Prisma).

The target value of the short-term variable compensation component is currently 100% of fixed annual compensation. The award is based on the four criteria of profitable growth, liquidity, profitability, and sustainability, which are used as part of Covestro's management system to plan, manage, control, and report on business performance. This means that short-term variable compensation is directly linked to the company's success. The KPIs of EBITDA for profitable growth, free operating cash flow (FOCF) for liquidity; return on capital employed (ROCE) above weighted average cost of capital (WACC) for profitability; and environmental, social and governance (ESG) criteria for sustainability are equally weighted. In 2022, the sustainability component was based on direct and indirect Scope 1 and Scope 2 greenhouse gas emissions (CO₂ equivalents) generated by the main sites.

For each individual performance indicator, the payout can be between 0% (failure to meet minimum requirements) and 300%. The total payout is the arithmetic mean of the individual payouts for all four components. However, it is limited to 250% of the target value corresponding to a maximum payout of 2.5 times the fixed annual compensation.

The members of the Board of Management are eligible to participate in the Prisma compensation program as long as they are employed by the Covestro Group and fulfill the share ownership guidelines applicable to them. This program is based on a target opportunity set at 130% of the fixed annual compensation.

NOTES

The payout is determined by calculating three factors: The total shareholder return (TSR) factor is the return generated by the company's stock expressed as a percentage (total of the final price of Covestro shares and all dividends distributed per share during the four-year performance period divided by the initial price). The outperformance factor is based on the performance of Covestro shares during the performance period relative to the performance of the STOXX Europe 600 Chemicals index. If Covestro's share price performance (in %) matches the performance of the index (in %), the outperformance factor is 100%. If the performance of Covestro shares (in %) underperforms the index by 100 percentage points or more, the outperformance factor is 0%. The outperformance factor increases in proportion with the deviation if Covestro's share price performance falls within ± 100 percentage points of the performance of the index. The same is true if it outperforms the index by more than 100 percentage points. Starting with the tranche issued in fiscal 2022, the sustainability component was defined as a greenhouse gas emissions reduction target (CO₂ equivalents) for Scope 1 emissions. The CO₂ factor amounts to 100% if these emissions are reduced by 400 kilotons (kt) by the end of 2025 in relation to the baseline year of 2020. This corresponds to an emissions reduction of 32%. If annual emissions are reduced by less than 250 kt, the CO₂ factor is 0%. Starting with a reduction of 550 kt, it reaches the maximum value of 200%. Between these values, linear interpolation is used to determine the factor.

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

Expenses for pension commitments of €1,595 thousand were incurred for those members of the Board of Management who were in the service to the company during the reporting year. These included the current service cost for pension commitments and company contributions to Bayer-Pensionskasse VVaG and Rheinische Pensionskasse VVaG. The settlement amount for direct and indirect pension obligations for members of the Board of Management in service was €13,044 thousand as of the reporting date. The settlement amount for direct and indirect pension obligations for former members of the Board of Management was €7,048 thousand.

Total compensation for the Supervisory Board for the reporting year was €2,454 thousand. This includes attendance fees of €113 thousand.

There were no advances or loans to members of the Board of Management or the Supervisory Board outstanding as of December 31, 2022. No loans were repaid in the reporting year.

NOTES

27. Governance Bodies

Board of Management¹

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

¹ As of December 31, 2022.² Memberships of supervisory boards and memberships of comparable supervising bodies of German or foreign corporations.³ Listed.⁴ Non-listed.

NOTES

Supervisory Board¹

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

NOTES

Supervisory Board¹

Name/function	Membership of the Supervisory Board	Position	Memberships ²
Prof. Dr. Rolf Nonnenmacher	Member of the Supervisory Board from August 2015 until April 2022	• Member of various supervisory boards	<ul style="list-style-type: none"> • Member of the Supervisory Board of Covestro Deutschland AG^{4,5} (until April 2022) • Member of the Supervisory Board of Continental AG³ • Member of the Supervisory Board of ProSiebenSat.1 Media SE³
Petra Reinbold-Knape	Member of the Supervisory Board since January 2020	<ul style="list-style-type: none"> • Secretary for IGBCE • Chair of the Board of August-Schmidt-Stiftung 	<ul style="list-style-type: none"> • Member of the Supervisory Board of Covestro Deutschland AG^{4,5} • Member of the Supervisory Board of Bayer AG³ (until April 2022) • Member of the Supervisory Board of Covestro Deutschland AG^{4,5} • Member of the Supervisory Board of Infineon Technologies Austria AG⁴, Austria (Infineon Group) • Member of the Board of Directors, Infineon Technologies China Co., Ltd.⁴, China (Infineon Group) • Member of the Board of Directors, Infineon Technologies Asia Pacific Pte., Ltd.⁴, Singapore (Infineon Group) • Member of the Board of Directors, Infineon Technologies Americas Corp.⁴, USA (Infineon Group) • Member of the Board of Directors, Infineon Technologies Japan K.K.⁴, Japan (Infineon Group)
Dr. Sven Schneider	Member of the Supervisory Board since April 2022	• Chief Financial Officer at Infineon Technologies AG	<ul style="list-style-type: none"> • Member of the Supervisory Board of Covestro Deutschland AG^{4,5} • Member of the Supervisory Board of CECONOMY AG³ (until February 2022) • Member of the Supervisory Board of Leoni AG³ (until May 2022) • Director of SPIE SA³, France • Member of the Supervisory Board of SPIE Deutschland und Zentraleuropa GmbH⁴ (SPIE group)
Regine Stachelhaus	Member of the Supervisory Board since October 2015	<ul style="list-style-type: none"> • Member of various supervisory boards • Chair of the Works Council of Covestro at the Brunsbüttel site 	
Marc Stothfang	Member of the Supervisory Board since February 2017	<ul style="list-style-type: none"> • Chair of Covestro-European Forum • Employee of Covestro Deutschland AG 	
Patrick W. Thomas	Member of the Supervisory Board since July 2020	• Member of various supervisory boards	<ul style="list-style-type: none"> • Member of the Supervisory Board of Covestro Deutschland AG^{4,5} • Non-Executive Director (Chair) of Johnson Matthey plc³, United Kingdom • Non-Executive Director of Akzo Nobel N.V.³, Netherlands
Frank Werth	Member of the Supervisory Board from September 2016 until April 2022	• District Manager of IGBCE – district Dortmund-Hagen	• Member of the Supervisory Board of Covestro Deutschland AG ^{4,5} (until April 2022)

¹ As of December 31, 2022; for members stepping down during fiscal year, the information relates to their leaving date.

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

³ Listed.

⁴ Non-listed.

⁵ Covestro Group membership.

28. Auditor's Fees

The total fee charged by the auditor for the reporting year within the meaning of Section 285, No. 17 HGB is broken down into auditing services, other assurance services, tax advisory services, and other services as presented in the corresponding statement in the consolidated financial statements.

The fees for auditing the financial statements mainly comprise those for the audit of the consolidated financial statements, the review of the interim consolidated financial statements as of June 30, 2022, as well as the audit of the single-entity financial statements of Covestro AG and German subsidiaries.

To a lesser degree, the auditor also provided other attestation services and other services.

29. Disclosures Pursuant to Section 6b, Paragraph 2 of the German Energy Industry Act (EnWG)

There were no transactions in connection with energy-specific services of material relevance to the net assets and results of operations of Covestro AG requiring disclosure pursuant to Section 6b, Paragraph 2 EnWG.

30. List of Shareholdings

Covestro AG directly or indirectly holds shares in the following companies (disclosures pursuant to Section 285, No. 11 HGB). The amounts stated for equity and net income or loss for the year relate to the amounts from the annual financial statements prepared in accordance with national law as of December 31, 2022; all amounts are rounded:

List of shareholdings

Company name	Place of business	Equity interest	Equity	Net income/loss	Footnote(s)
		%	€ thousand	€ thousand	
EMLA					
Covestro (France)	Fos-sur-Mer (France)	100	44,884	4,755	2
Covestro (Netherlands) B.V.	Geleen (Netherlands)	100	1,627,098	355,490	2
Covestro (Slovakia) Services s.r.o.	Bratislava (Slovakia)	100	3,093	747	2
Covestro Amulix V.o.F.	Zwolle (Netherlands)	72	317	-295	2
Covestro Bio-Based Coatings B.V.	Zwolle (Netherlands)	100	412	14	2
Covestro Brunsbüttel Energie GmbH	Brunsbüttel (Germany)	100	39	925	1, 2
Covestro Deutschland AG	Leverkusen (Germany)	100	1,782,686	(116,114)	1
Covestro Elastomers	Romans-sur-Isère (France)	100	49,195	3,554	2
Covestro First Real Estate GmbH	Leverkusen (Germany)	100	87,121	9,717	2
Covestro Indústria e Comércio de Polímeros Ltda.	São Paulo (Brazil)	100	26,228	4,665	2
Covestro Intellectual Property GmbH & Co. KG	Leverkusen (Germany)	100	143,454	132,916	2
Covestro Intellectual Property Verwaltungs GmbH	Leverkusen (Germany)	100	32	2	2
Covestro International SA	Fribourg (Switzerland)	100	(35,781)	(169,550)	2

NOTES

List of shareholdings

Company name	Place of business	Equity interest	Equity	Net income/loss	Footnote(s)
		%	€ thousand	€ thousand	
Covestro Invest GmbH	Leverkusen (Germany)	100	2,190	1,200	1, 2
Covestro Middle East FZ-LLC	Dubai (United Arab Emirates)	100	650	238	2
Covestro Niaga B.V.	Zwolle (Netherlands)	100	(44,995)	(7,703)	2
Covestro NV	Antwerp (Belgium)	100	345,143	26,656	2
Covestro Polimer Anonim Şirketi	Istanbul (Turkey)	100	194	181	2
Covestro Polyurethanes B.V.	Nieuwegein (Netherlands)	100	199,662	15,020	2
Covestro Procurement Services GmbH & Co. KG	Leverkusen (Germany)	100	38,858	38,258	2
Covestro Procurement Services Verwaltungs GmbH	Leverkusen (Germany)	100	31	2	2
Covestro Resins (Germany) GmbH	Meppen (Germany)	100	15,895	420	1, 2
Covestro Resins China Holding B.V.	Zwolle (Netherlands)	100	3,069	(3)	2
Covestro S.r.l.	Filago (Italy)	100	178,986	24,382	2
Covestro, S.L.	Barcelona (Spain)	100	191,299	11,248	2
Covestro Second Real Estate GmbH	Leverkusen (Germany)	100	73,769	15,907	2
Covestro sp. z o.o.	Warsaw (Poland)	100	171	68	2
Covestro Thermoplast Composite GmbH	Markt Bibart (Germany)	100	(1,338)	(15,375)	1, 2
Covestro UK Limited	Cheadle Hulme (United Kingdom)	100	5,145	1,530	2
Crime Science Technology	Lille (France)	41.2	1,369	(97)	2
Covestro Coating Resins China Holding B.V.	Zwolle (Netherlands)	100	19,478	7,835	2
Epurex Films Geschäftsführungs-GmbH	Walsrode (Germany)	100	137	10	2
Epurex Films GmbH & Co. KG	Walsrode (Germany)	100	14,465	16,158	2
LyondellBasell Covestro Manufacturing Maasvlakte V.O.F	Rotterdam (Netherlands)	50	146,806	(14,421)	2
MS Global AG in Liquidation	Köniz (Switzerland)	100	6,966	27	2
Paltough Industries (1998) Ltd.	Kibbutz Ramat Yohanan (Israel)	25	120,189	6,820	2
Solar Coating Solutions B.V.	Zwolle (Netherlands)	100	(7,504)	(2,166)	2
NA					
Covestro International Re, Inc.	Colchester, Vermont (USA)	100	129,367	21,164	2
Covestro International Trade Services Corp.	Wilmington, Delaware (USA)	100	2	63,707	2
Covestro LLC	Pittsburgh, Pennsylvania (USA)	100	1,889,664	115,293	2
Covestro PO LLC	Pittsburgh, Pennsylvania (USA)	100	311,047	50,546	2
Covestro, S.A. de C.V.	Mexico City (Mexico)	100	84,201	12,171	2
PO JV, LP	Houston, Texas (USA)	39.4	346,180	(64,549)	2
Technology JV, LP	Houston, Texas (USA)	33.3	291,870	336,737	1, 2

NOTES

List of shareholdings

Company name	Place of business	Equity interest	Equity	Net income/loss	Footnote(s)
		%	€ thousand	€ thousand	
APAC					
Asellion (Shanghai) Information Technology Co., Ltd.	Shanghai (China)	100	290	32	2
Covestro (Hong Kong) Limited	Hong Kong Special Administration Region (China)	100	29,157	19,122	2
Covestro (India) Private Limited	Navi Mumbai (India)	100	139,708	38,673	3
Covestro (Shanghai) Investment Company Limited	Shanghai (China)	100	408,808	405,654	2
Covestro (Taiwan) Ltd.	Kaohsiung (Taiwan, Greater China)	97.3	70,576	5,529	2
Covestro (Thailand) Co., Ltd.	Bangkok (Thailand)	100	691,621	93,094	2
Covestro (Viet Nam) Company Limited	Ho Chi Minh City (Vietnam)	100	4,184	686	2
Covestro Eternal Resins (Far East) Ltd.	Pingtung (Taiwan, Greater China)	60	7,910	2,056	2
Covestro Eternal Resins (Kunshan) Co., Ltd.	Kunshan (China)	50	19,388	(377)	2
Covestro Far East (Hong Kong) Limited	Hong Kong Special Administration Region (China)	100	287	(10)	2
Covestro Invest (Far East) Company Limited	Hong Kong Special Administration Region (China)	100	15,100	24	2
Covestro Japan Ltd.	Tokyo (Japan)	100	28,167	7,106	2
Covestro Korea Corporation	Seoul (South Korea)	100	12,753	2,438	2
Covestro Material Science and Technology (Shanghai) Company Limited	Shanghai (China)	100	94	5,757	2
Covestro Polymers (China) Company Limited	Shanghai (China)	100	1,819,804	105,518	2
Covestro Polymers (Qingdao) Company Limited	Qingdao (China)	100	13,546	2,767	2
Covestro Polymers (Shenzhen) Co., Ltd.	Shenzhen (China)	100	19,662	2,888	2
Covestro Polymers (Tianjin) Co., Ltd.	Tianjin (China)	100	3,603	223	2
Covestro Polymers (Zhuhai) Company Limited	Zhuhai (China)	100	1,772	(979)	2
Covestro Pty Ltd	Mulgrave (Australia)	100	5,562	956	2
Covestro Resins (Foshan) Company Ltd.	Foshan (China)	100	37,256	6,855	2
Covestro Resins (Shanghai) Co., Ltd.	Shanghai (China)	100	1,648	(1,988)	2
Covestro Resins (Taiwan) Ltd.	Taipei (Taiwan, Greater China)	100	1,056	(4,822)	2
DIC Covestro Polymer Ltd.	Tokyo (Japan)	80	12,591	(87)	2
Guangzhou Covestro Polymers Company Limited	Guangzhou (China)	100	35,025	3,641	2
Japan Fine Coatings Co., Ltd.	Ibaraki (Japan)	100	10,835	2,773	2
PT Covestro Polymers Indonesia	Jakarta (Indonesia)	99.9	59,806	2,652	2
Sumika Covestro Urethane Company, Ltd.	Hyogo (Japan)	60	31,459	(9,981)	2

¹ Profit/loss prior to profit and loss transfer.

² Preliminary net income/loss for the year.

³ Annual financial statements for the period ended March 31, 2022.

31. Events after the End of the Reporting Period

No events of particular significance have occurred since January 1, 2023, that we expect to have a material impact on the net assets, financial position, and results of operations of Covestro AG.

32. Proposal for the Appropriation of Distributable Profit

The annual financial statements of Covestro AG report a distributable profit of €0.00. For this reason, a proposal for the appropriation of the distributable profit by the Board of Management is not required.

Leverkusen, February 24, 2023
Covestro AG
The Board of Management

Dr. Markus Steilemann
(Chair)

Sucheta Govil

Dr. Klaus Schäfer

Dr. Thomas Toepfer

Responsibility Statement

To the best of our knowledge, and in accordance with applicable reporting principles for financial reporting, the Annual Financial Statements give a true and fair view of the net assets, financial position, and results of operations of Covestro AG, and the Management Report, which has been combined with the Management Report of the Covestro Group, includes a fair review of the development and performance of the business and the position of the Covestro Group and Covestro AG, together with a description of the material opportunities and risks associated with the expected development of the Covestro Group and Covestro AG.

Leverkusen, February 24, 2023
Covestro AG
The Board of Management

Dr. Markus Steilemann
(Chair)

Sucheta Govil

Dr. Klaus Schäfer

Dr. Thomas Toepfer

Activity-Based Financial Statements for Activities in Accordance with Section 6b, Paragraph 3, Sentence 1 EnWG

Covestro AG is a vertically integrated energy company within the meaning of Section 3, No. 38 EnWG. According to the determinations made by Ruling Chambers 8 and 9 (BK8-19/00002-A and BK9-19/613-1) of the German Federal Network Agency (Bundesnetzagentur, BNetzA) in 2019 in conjunction with Section 6b, Paragraph 3 EnWG, Covestro AG as a vertically integrated energy company must maintain separate accounts for each of its activities in the areas of electricity distribution and gas distribution to avoid discrimination and cross-subsidization in its internal accounting. In addition, Covestro AG is obligated to prepare and have audited by an auditor activity-based financial statements in accordance with Section 6b, Paragraph 3, Sentence 6 in conjunction with Paragraph 1, Sentence 1 EnWG according to the provisions of the HGB applicable to corporations for energy-specific services relating to the activities of electricity or gas distribution provided to affiliated, vertically integrated companies.

As the Group parent company, Covestro AG provides various services to Group companies in Germany and abroad. These include energy-specific services performed for the subsidiary Covestro Brunsbüttel Energie GmbH in the area of administration.

Covestro Brunsbüttel Energie GmbH, with its registered office in Brunsbüttel (Germany), in its capacity as owner of the power and gas grid at Covestro Industriepark Brunsbüttel supplies electricity and gas to customers in the industrial park. This therefore constitutes a group of affiliated electricity/gas companies within the meaning of Section 6b EnWG.

In compliance with the provisions of the EnWG, Covestro AG prepared activity-based financial statements for the following:

- Electricity distribution (hereinafter "power grid")
- Gas distribution (hereinafter "gas grid")

In accordance with the aforementioned determinations by the German Federal Network Agency, services were identified for purposes of preparing the activity-based financial statements that are classified as directly or indirectly energy-specific and therefore attributable to power grid or gas grid activities performed by the service provider.

The activity-based financial statements each include an income statement. In fiscal 2022, no assets or provisions were attributed to power grid or gas grid activities in connection with the performance of energy-specific services. Furthermore, no energy-specific receivables or liabilities were recognized as of December 31, 2022. For this reason, no statement of provisions or statement of financial position is required.

The activity-based financial statements in accordance with Section 6b, Paragraph 3 EnWG were derived from the Annual Financial Statements of Covestro AG for the period ended December 31, 2022.

The accounting policies and valuation principles for the individual activities correspond to those applied to the Annual Financial Statements of Covestro AG.

No contingent liabilities or other financial commitments required to be reported in accordance with Section 268, Paragraph 7 and Section 285, No. 3a HGB relate to power or gas grid activities.

The activity-based financial statements for power and gas grid activities below are presented in thousands of euros in the same way as in the Statement of Financial Position, the Income Statement, and the Notes.

ACTIVITY-BASED FINANCIAL STATEMENTS

Income Statement – Power Grid

	2021	2022
	€ thousand	€ thousand
Net sales	3	1
Cost of services provided	(3)	(1)
Gross profit	–	–
Operating result	–	–
Expenses from profit transfer/income from loss absorption	–	–
Net income/net loss for the year	–	–

Income Statement – Gas Grid

	2021	2022
	€ thousand	€ thousand
Net sales	1	–
Cost of services provided	(1)	–
Gross profit	–	–
Operating result	–	–
Expenses from profit transfer/income from loss absorption	–	–
Net income/net loss for the year	–	–

Preparation of the Statement of Financial Position and Income Statement

The assets/liabilities and income/expenses were attributed directly to the activities to the greatest extent possible, except in cases where the effort required would have been unjustifiable. In these cases, suitable and appropriate allocation methods were determined to assign energy-specific services to the activities to which they belong. The allocation rules according to which the Income Statement items were attributed to the activities are described below:

Preparation of Income Statement

Net sales	Cost of services allocation
Cost of services provided	Cost of services allocation

Cost of Services Allocation

The method for allocating the cost of energy-specific services provided by Covestro AG was determined by taking into account the cost of services directly attributable to the activities at the level of Covestro Brunsbüttel Energie GmbH.

Leverkusen, February 24, 2023
Covestro AG
The Board of Management

Dr. Markus Steilemann
(Chair)

Sucheta Govil

Dr. Klaus Schäfer

Dr. Thomas Toepfer

INDEPENDENT AUDITOR'S REPORT

To Covestro AG, Leverkusen

Report on the Audit of the Annual Financial Statements and of the Combined Management Report

Opinions

We have audited the annual financial statements of Covestro AG, Leverkusen, which comprise the statement of financial position as of December 31, 2022, and the income statement for the financial year from January 1 to December 31, 2022, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report for the Company and the Group (hereinafter: the "combined management report") of Covestro AG, including the non-financial group statement pursuant to Sections 315b (1) and 315c HGB for the financial year from January 1 to December 31, 2022.

In accordance with German legal requirements, we have not audited the content of those components of the combined management report specified in the "Other Information" section of our auditor's report.

The combined management report contains cross-references that are not provided for by law and which are marked as unaudited. In accordance with German legal requirements, we have not audited the cross-references and the information to which the cross-references refer.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as of December 31, 2022, and of its financial performance for the financial year from January 1 to December 31, 2022, in compliance with German legally required accounting principles, and
- the accompanying combined management report as a whole provides an appropriate view of the Company's position. In all material respects, this combined management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report does not cover the content of those components of the combined management report specified in the "Other Information" section of the auditor's report. The combined management report contains cross-references that are not provided for by law and which are marked as unaudited. Our audit opinion does not extend to the cross-references and the information to which the cross-references refer.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the combined management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and of the combined management report in accordance with Section 317 HGB and the EU Audit Regulation No 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). We performed the audit of the annual financial statements in supplementary compliance with the International Standards on Auditing (ISAs). Our responsibilities under those requirements, principles and standards are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2)(f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the combined management report.

Note on emphasis of matter - Inherent risk due to uncertainties regarding the legal conformity of the interpretation of the EU Taxonomy Regulation

Please refer to management's comments in the "EU Taxonomy" section of the non-financial group statement pursuant to Section 315b (1) HGB contained in the section "Disclosures on sustainability reporting" of the combined management report. That section describes that the EU Taxonomy Regulation and the delegated acts issued in this context contain formulations and terms that remain subject to considerable interpretation uncertainties and for which clarifications have not yet been published in every case. Management explains how they have made the necessary interpretations of the EU Taxonomy Regulation and the delegated acts adopted in this context. Due to the inherent risk that undefined legal terms can be interpreted differently, the legal conformity of the interpretation is subject to uncertainty. We have not modified our opinion on the combined management report in respect of this matter.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2022. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Recoverability of investments in affiliated companies

Please refer to "Accounting policies and valuation principles" in the notes to the financial statements for more information on the accounting policies applied. Explanatory notes on the financial performance, financial position and assets and liabilities of the Company are presented in the chapter "Results of operations, financial position and net assets of Covestro AG" in the combined management report.

THE FINANCIAL STATEMENT RISK

In the annual financial statements of Covestro AG as of December 31, 2022, financial assets include (among other things) investments in affiliated companies in the amount of EUR 1,766 million. The investments in affiliated companies account for 24% of total assets and thus have a material influence on the Company's net assets.

Financial assets are recognized at cost or, if they are expected to be permanently impaired, written down to fair value. The Company calculates the fair value of the investments in affiliated companies using the discounted cash flow method.

INDEPENDENT AUDITOR'S REPORT

The cash flows used for the discounted cash flow method are based on individual projections for each investment, which are extrapolated beyond the detailed planning period based on assumptions of long-term growth rates. The respective discount rate is derived from the return on a risk-adjusted alternative investment. If the fair value is lower than the carrying amount, qualitative and quantitative criteria are used to examine whether the impairment is expected to be permanent.

The impairment testing including the calculation of the fair value in line with the discounted cash flow method is complex and the assumptions made depend to a high degree on assessments and judgments of the Company. This applies (among other things) to the estimate of future cash flows and long-term growth rates, the determination of discount rates as well as the assessment of whether impairment is expected to be permanent.

Due to the deteriorating economic environment, declining macroeconomic development and the significant cost increases for raw materials and energy, uncertainty surrounding the underlying future cash flows grew in the further course of financial year 2022.

The Company did not recognize impairment losses on financial assets in financial year 2022. There is a risk for the annual financial statements that financial assets are impaired.

OUR AUDIT APPROACH

First, we obtained an understanding of the Company's process for impairment testing of financial assets through explanations provided by accounting representatives with the involvement of the controlling function, as well as an assessment of the Company's documentation. In doing so, we examined the Company's approach to determining the need to recognize impairment and, based on the information obtained during our audit, assessed whether there were any indications of impairment that had not been identified by the Company.

With the involvement of our valuation experts, we then assessed the appropriateness of the significant assumptions and the valuation method used by the Company for the impairment testing of direct and indirect investments. For this purpose we discussed the expected cash flows and the assumed long-term growth rates with those responsible for planning. In addition, we assessed the consistency of the significant assumptions with external market assessments. The main sources used were economic reports from recognized industry institutions and assessments by analysts.

We compared the assumptions and data underlying the discount rate, especially the risk-free rate, the market risk premium and the beta factor, with our own assumptions and publicly available data. In order to take account of forecast uncertainty, we also examined the impact of potential changes in the discount rate, the expected cash flows and the long-term growth rate on fair value (sensitivity analysis) by calculating alternative scenarios and comparing these with the Company's measurements. We verified the Company's calculations to ensure the computational accuracy of the valuation method used.

We also confirmed the accuracy of the Company's previous forecasts by comparing the budgets of previous financial years with actual results and by analyzing deviations.

OUR OBSERVATIONS

The approach used for impairment testing of investments in affiliated companies is appropriate and in line with the applicable accounting policies. The Company's assumptions and data used for measurement are within an acceptable range and are appropriate.

INDEPENDENT AUDITOR'S REPORT

Other Information

The Board of Management and/or the Supervisory Board are/is responsible for the other information. The other information comprises the following components of the combined management report, whose content was not audited:

- the corporate governance statement included in the section of the same name in the combined management report,
- the information in the non-financial group statement contained in the "Sustainability in the supply chain" section of the combined management report and marked as unaudited, and
- information extraneous to combined management reports and marked as unaudited.

The other information also includes the remaining parts of the annual report. The other information does not include the annual financial statements, the combined management report information audited for content and our auditor's report thereon.

Our opinions on the annual financial statements and on the combined management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the combined management report information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

As part of a separate engagement, we performed an assurance engagement on the supplementary sustainability information. Please refer to our assurance report dated February 27, 2023, for information on the nature, scope and findings of this assurance engagement.

Responsibilities of the Board of Management and the Supervisory Board for the Annual Financial Statements and the Combined Management Report

The Board of Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles. In addition, the Board of Management is responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud (i.e., fraudulent financial reporting and misappropriation of assets) or error.

In preparing the annual financial statements, the Board of Management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

INDEPENDENT AUDITOR'S REPORT

Furthermore, the Board of Management is responsible for the preparation of a combined management report that, as a whole, provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the Board of Management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) and supplementary compliance with the ISAs will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the Board of Management and the reasonableness of estimates made by the Board of Management and related disclosures.
- Conclude on the appropriateness of the Board of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles.
- Evaluate the consistency of the combined management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the Board of Management in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Board of Management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the actions taken or safeguards applied to eliminate independence threats.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Report on the Assurance on the Electronic Rendering of the Annual Financial Statements and the Combined Management Report Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB

We have performed assurance work in accordance with Section 317 (3a) HGB to obtain reasonable assurance about whether the rendering of the annual financial statements and the combined management report (hereinafter the "ESEF documents") contained in the electronic file „2023-02-27 18-03-58 - Abschluss Covestro AG_Final_2022.zip" (SHA256-Hash value: 0d8fffe35eb8d336c5c270812f67a9d8a6e45116b07ae2c48a9dd875e6cbe1e3) and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the annual financial statements and the combined management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the annual financial statements and the combined management report contained in the electronic file made available identified above and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinion on the accompanying annual financial statements and the accompanying combined management report for the financial year from January 1 to December 31, 2022, contained in the "Report on the Audit of the Annual Financial Statements and of the Combined Management Report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the file identified above.

We conducted our assurance work on the rendering of the annual financial statements and the combined management report, contained in the file made available and identified above in accordance with Section 317 (3a) HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB (IDW AsS 410 (06.2022)). Our responsibility in accordance therewith is further described below. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in Audit Firms (IDW QS 1).

The Company's Board of Management is responsible for the preparation of the ESEF documents including the electronic renderings of the annual financial statements and the combined management report in accordance with Section 328 (1) sentence 4 item 1 HGB.

In addition, the Company's Board of Management is responsible for such internal control that they have considered necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format.

The Supervisory Board is responsible for overseeing the process of preparing the ESEF documents as part of the financial reporting process.

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the assurance work. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.

INDEPENDENT AUDITOR'S REPORT

- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e. whether the file made available containing the ESEF documents meets the requirements of the Commission Delegated Regulation (EU) 2019/815, as amended as of the reporting date, on the technical specification for this electronic file.
- Evaluate whether the ESEF documents provide an XHTML rendering with content equivalent to the audited annual financial statements and the audited combined management report.

Note on the examination of compliance with financial reporting requirements pursuant to Section 6b (3) EnWG

We have examined whether the Company has complied with its obligations according to Section 6b (3) sentences 1 to 5 EnWG [Energiewirtschaftsgesetz: German Energy Act] regarding the maintenance of separate accounts for the financial year from January 1 to December 31, 2022. We have also examined the activity reports for electricity distribution and gas distribution activities pursuant to Section 6b (3) sentence 1 EnWG - comprising in each case the balance sheet as of December 31, 2022, and the income statement for the financial year from January 1 to December 31, 2022, including the disclosures on the accounting methods used for the preparation of the activity reports, which are attached as an appendix.

- In our opinion, the requirements pursuant to Section 6b (3) sentences 1 to 5 EnWG to maintain separate accounts were satisfied in all material respects.
- In our opinion, based on the findings of our work, the accompanying financial statements for individual activities comply, in all material respects, with the requirements of Section 6b (3) sentences 5 to 7 EnWG.

We conducted our examination of compliance with the obligations regarding the separation of accounts and of financial statements for individual activities in accordance with Section 6b (5) EnWG and the IDW Assurance Standard "Assurance pursuant to Section 6b of the German Energy Act" (IDW AsS 610 as amended (07.2021)). Our responsibilities under those requirements and principles are further described below. We are independent of the Company in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. As an audit firm we apply the requirements of the IDW Standard on Quality Management 1: Requirements for Quality Management in Audit Firms (IDW QS 1). We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the compliance of the accounting requirements according to Section 6b (3) EnWG.

The Board of Management is responsible for compliance with the requirements according to Section 6b (3) sentences 1 to 5 EnWG regarding the maintenance of separate accounts. The Board of Management is also responsible for the preparation of the activity reports in accordance with Section 6b (3) sentences 5 to 7 EnWG.

In addition, the Board of Management is responsible for the internal controls that they have considered necessary to comply with the obligations regarding the maintenance of separate accounts.

The Board of Management's responsibility for the financial statements for individual activities corresponds to the responsibility described in the section "Responsibilities of the Board of Management and the Supervisory Board for the Annual Financial Statements and the Combined Management Report" with regard to the annual financial statements, with the exception that the respective financial statement for individual activities does not need to give a true and fair view of assets, liabilities, financial position and financial performance of the Company's activities in accordance with German legally required accounting principles.

The Supervisory Board is responsible for monitoring the Company's compliance with the accounting obligations pursuant to Section 6b (3) EnWG.

INDEPENDENT AUDITOR'S REPORT

Our objectives are to obtain reasonable assurance about,

- whether the Board of Management has complied, in all material respects, with their obligations under Section 6b (3) sentences 1 to 5 EnWG to maintain separate accounts, and
- whether the accompanying activity reports comply, in all material respects, with the requirements of Section 6b (3) sentences 5 to 7 EnWG.

Further, our objectives include the incorporation of a note in the independent auditor's report that includes our opinions on compliance with the accounting obligations according to Section 6b (3) EnWG.

The assurance work on compliance with the obligations according to Section 6 (3) sentences 1 to 5 EnWG regarding the maintenance of separate accounts includes an assessment of whether the assignment of accounts to activities according to Section 6b (3) sentences 1 to 4 EnWG is appropriate and comprehensible, and whether the consistency principle has been observed.

Our responsibility for the examination of the financial statements for individual activities corresponds to that described in the section "Auditor's Responsibility for the Audit of the Annual Financial Statements and Combined Management Report" with respect to the annual financial statements, with the exception that we are unable to undertake an assessment of the overall fair presentation of the respective financial statements for individual activities.

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor at the Annual General Meeting on April 21, 2022. We were engaged by the Audit Committee of the Supervisory Board on November 15, 2022. We have been the auditor of Covestro AG without interruption since financial year 2018.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

Other Matter – Use of the Auditor's Report

Our auditor's report must always be read together with the audited annual financial statements and the audited combined management report as well as the examined ESEF documents. The annual financial statements and the combined management report converted into ESEF format – including the versions to be entered in the company register – are merely electronic renderings of the audited annual financial statements and the audited combined management report and do not take their place. In particular, the ESEF report and our assurance opinion contained therein are to be used solely together with the examined ESEF documents provided in electronic form.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Dr. Kathryn Ackermann.

Düsseldorf, February 28, 2023

KPMG AG
Wirtschaftsprüfungsgesellschaft

Ufer
Wirtschaftsprüfer
[German Public Auditor]

Dr. Ackermann
Wirtschaftsprüferin
[German Public Auditor]

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

The year 2022 was challenging overall. In Europe in particular, the Russian war against Ukraine and the associated gas and energy crisis shaped the economic environment. High inflation, sharply increased prices for raw materials and energy, and a decline in demand had an additional negative impact on the global economy and Covestro. The lockdowns in China during the year as a result of the ongoing coronavirus pandemic, as well as logistical difficulties and partially disrupted supply chains, also contributed to this.

In these critical times, the Board of Management of Covestro always analyzed the situation and developments very closely, developed measures, and made the necessary decisions to safeguard the company's business and future. This also included safeguarding the company's liquidity and profitability.

We, the Supervisory Board, closely accompanied the Board of Management and supported its decisions.

Despite the crisis situations of fiscal 2022, there were also very positive developments and successes for Covestro: For example, the company continued on its path toward full alignment with the circular economy and established and published its path to climate neutrality. To anchor sustainability even more firmly in the company, Covestro also made it part of its management system last year. The Resins & Functional Materials (RFM) business unit acquired from the Netherlands-based Koninklijke DSM N.V. was also successfully integrated in 2022, faster than planned despite acute challenges.

More than ever, the demands placed on globally operating groups have increased. Covestro, with its focus on circularity, renewable resources, and sustainable products, is ideally positioned to master these successfully.

During this period, the Supervisory Board took important decisions to set the course for the continuity of Covestro's management: The contract of the Chairman of the Board of Management, Dr. Markus Steilemann, was extended ahead of schedule by a further 5 years. The expiring contract of the Chief Technology Officer (CTO), Dr. Klaus Schäfer, was extended by six months to ensure personnel stability for Covestro given the current tense policy situation in the energy markets. Also, the long-term succession of the CTO was secured by appointing the current Head of the Coatings & Adhesives Business Unit, Dr. Thorsten Dreier, to the Board of Management as CTO from July 2023.

There have been changes in the composition of the Supervisory Board as of the Annual General Meeting in 2022: Firstly, due to the election of new employee representatives to the Supervisory Board and, secondly, due to the election of a shareholder representative at the Annual General Meeting.

An important area of the Supervisory Board's work in 2022 included the amendments to the German Corporate Governance Code (GCGC) and their implementation.

REPORT OF THE SUPERVISORY BOARD

During the reporting period, the Supervisory Board of Covestro AG performed its duties with due care in accordance with the law, the Articles of Incorporation, and the rules of procedure. During fiscal 2022, it monitored the conduct of the company's business by the Board of Management with regular frequency based on detailed written and oral reports received from the Board of Management, and also acted in an advisory capacity. The discussions between the Supervisory Board and Board of Management were always constructive and were conducted in the spirit of openness and trust.

The Supervisory Board Chair was in regular contact with the Board of Management outside of Supervisory Board meetings and remained informed about current developments in the company's business performance and material transactions. In addition, the Chair of the Supervisory Board was in close contact with the Chair of the Board of Management to discuss important questions and decisions one on one. The full Supervisory Board was informed in detail about the content of these discussions no later than during the next meeting.

In this way, the Supervisory Board was kept regularly and fully informed in the respective meetings about the company's intended business strategy, corporate planning (including financial, investment, and human resources planning), the company's profitability, the state of the business, and the situation of the company and the Group (including the risk situation, risk management, and the compliance situation). Where Board of Management decisions or actions required the approval of the Supervisory Board during the reporting period, whether by law, or under the Articles of Incorporation or the rules of procedure, the draft resolutions were inspected and discussed in detail by the members of the Supervisory Board at its meetings, sometimes after preparatory work by the responsible committees, or approved in writing on the basis of documents circulated to the members. The Supervisory Board was always directly involved in decisions of material importance to the company. It discussed in detail the business trends described in the reports from the Board of Management and the prospects for the development of the Covestro Group as a whole, the individual segments, and the regions. The Supervisory Board continually ensured that the actions of the Board of Management were lawful, due and proper, and appropriate.

Meetings of the Full Supervisory Board and Member Attendance

In fiscal year 2022, the Supervisory Board held a total of six meetings, all of which – with the exception of the constituent meeting on April 21 – were also attended by at least one member of the Board of Management, except where issues were discussed that required them to be absent. In the year 2022, it became possible again to hold physical Supervisory Board meetings (video conferences from January to April, physical meetings from June). Most of the 16 committee meetings were held as video conferences – unless they took place on the same day as one of the Supervisory Board meetings.

REPORT OF THE SUPERVISORY BOARD

The members of the Supervisory Board attended the meetings of the Supervisory Board of Covestro AG and its committees, as follows:

	Supervisory Board	Presidial Committee	Audit Committee	Human Resources Committee	Nomination Committee	Sustainability Committee	Overall amount of meetings ¹	
	Meeting attendance	Meeting attendance	Meeting attendance	Meeting attendance	Meeting attendance	Meeting attendance	Meeting attendance	%
Supervisory Board member								
Dr. Richard Pott (Chair)	6/6	1/1	–	5/5	1/1	–	13/13	100.0
Dr. Christine Bortenlänger	6/6	–	4/4	–	–	–	10/10	100.0
Dr. Christoph Gürtler (since April 2022)	4/4	–	–	3/3	–	3/3	10/10	100.0
Lise Kingo ²	5/6	–	–	–	–	5/5	10/11	90.9
Petra Kronen (Vice Chair)	6/6	1/1	4/4	5/5	–	–	16/16	100.0
Irena Küstner	6/6	–	4/4	–	–	–	10/10	100.0
Dr. Ulrich Liman (until April 2022)	2/2	–	–	2/2	–	2/2	6/6	100.0
Frank Löllgen (since April 2022)	4/4	–	–	–	–	–	4/4	100.0
Prof. Dr. Rolf Nonnenmacher (until April 2022)	2/2	–	1/1	–	–	–	3/3	100.0
Petra Reinbold-Knape	6/6	1/1	4/4	–	–	–	11/11	100.0
Dr. Sven Schneider (since April 2022)	4/4	–	3/3	–	–	–	7/7	100.0
Regine Stachelhaus	6/6	1/1	–	5/5	1/1	–	13/13	100.0
Marc Stothfang ³	4/6	–	–	–	–	3/5	7/11	63.6
Patrick Thomas	6/6	–	4/4	–	1/1	5/5	16/16	100.0
Frank Werth (until April 2022)	2/2	–	–	–	–	–	2/2	100.0
Total	69/72	4/4	24/24	20/20	3/3	18/20	138/143	96.5

¹ Three Supervisory Board and 13 committee meetings were held as video conferences, three Supervisory Board and three committee meetings were held physically.

² Absence due to other diary commitments made before the Supervisory Board appointment.

³ Due to illness no meetings attended since October 2022.

In total, Supervisory Board members attended meetings of the Supervisory Board and its committees with a 96.5% attendance rate. In addition, some Supervisory Board members attended meetings of the Sustainability Committee intended for guest attendance (the Chairman of the Supervisory Board and Petra Kronen attended all five meetings, Regine Stachelhaus attended four, Irena Küstner and Petra Reinbold-Knape three each, and Frank Löllgen one). Moreover, the Chairman of the Supervisory Board attended all four meetings of the Audit Committee as a guest.

Based on its composition and experience, the Supervisory Board as a whole has in-depth industry expertise in the polymer sector in which Covestro operates.

The members of the Supervisory Board once again participated in continuing personal education in the reporting year 2022 in order to enhance the expertise of the Supervisory Board as a whole. The Supervisory Board subjected its activities to an externally facilitated effectiveness and efficiency review in the reporting period. In addition to individual interviews with all Supervisory Board members, a written questionnaire, and 360-degree feedback, this included a two-day workshop in October; in this externally facilitated workshop, aspects relevant to the Supervisory Board's work were discussed. The particular tasks and roles of the Supervisory Board in the context of the current crisis situation (Russian war against Ukraine, energy crisis) and its effects on the company were included in the areas on which the workshop focused in-depth. Another workshop was held in November. This strategy workshop, which had been organized by the Board of Management in connection with the Supervisory Board's strategy meeting, also dealt with issues such as the effects of the crisis situation on the company and on the corporate strategy. In the Supervisory Board meeting on November 10, training was given by external experts on capital market matters and capital market law.

The Supervisory Board also took advantage of the three-yearly K plastics trade fair in Düsseldorf to learn about the plastics industry and the latest trends and challenges, and to obtain information on how Covestro is positioned and the specific products in this environment, focusing on the aspects of sustainability and the circular economy. All costs incurred for the above measures were covered by Covestro.

Change in the Composition of the Supervisory Board

At the Annual General Meeting on April 21, 2022, Dr. Sven Schneider was elected to the Supervisory Board for a term of office of four years, he succeeds Prof. Rolf Nonnenmacher, who stepped down. Moreover, in the election of employee representatives by delegates on March 17, Petra Kronen, Irena Küstner, and Marc Stothfang were reelected to the Supervisory Board and Dr. Christoph Gürtler was elected as a new member to succeed Dr. Ulrich Liman, who stepped down. The candidates proposed by the IG BCE trade union, Petra Reinbold-Knape and Frank Löllgen, were also elected. Petra Reinbold-Knape was reelected and Frank Löllgen was elected as a new Supervisory Board member to succeed Frank Werth, who stepped down. The employee representatives were elected for a term of office of five years, which began at the close of the Annual General Meeting (AGM) on April 21.

The Supervisory Board would like to thank the members who stepped down, Prof. Rolf Nonnenmacher, Dr. Ulrich Liman, and Frank Werth, for the good working relationship on a basis of trust over many years.

Principal Topics Discussed by the Supervisory Board

The deliberations of the Supervisory Board focused on the Board of Management's regular reports on business activities, which contained detailed information on the development of the sales and earnings for the Group and the segments as well as on the strategy, opportunities and risks situation, and personnel matters at Covestro.

The current crisis situation in connection with the Russian war against Ukraine and its impact on the company were discussed at every Supervisory Board meeting in the year 2022; they were also the subject of many additional reports by the Board of Management outside of Supervisory Board meetings. The continued transformation of the Group, which had been launched in the year 2021, and the integration of the RFM business acquired from DSM in 2021 were also discussed at almost all Supervisory Board meetings (the integration of the RFM business was successfully concluded in June 2022). At these meetings, the Supervisory Board received very detailed reports, extensively discussed the existing challenges and progress made, and verified the underlying assumptions. In addition, the Supervisory Board concentrated on the following topics in individual meetings and also through circular resolutions:

The Compensation Report, which had to be created jointly by the Board of Management and Supervisory Board and approved by the AGM for the first time in the year 2022, was adopted by the Supervisory Board on February 10, 2022, after detailed discussion by way of a circular resolution. This followed the resolution to adopt the report by the Board of Management.

In its meeting on February 22, 2022, the Supervisory Board discussed in detail the Financial Statements and Consolidated Financial Statements for fiscal 2021, the Combined Management Report including the nonfinancial Group statement and the proposal for the appropriation of distributable profit. The Supervisory Board also reviewed in detail the audit report and the auditor's oral report concerning the material results of the audit. In addition, the Supervisory Board examined internal risk reporting, which sets out the material risks for the Group and current developments in this regard, as well as the relevant countermeasures. Furthermore, the organization, statistics, training efforts, processes, and effectiveness of the Group's compliance management system were reviewed in depth. In this meeting, the Supervisory Board also approved the Board of Management's decision to hold a virtual AGM on April 21, 2022, due to the ongoing coronavirus pandemic and discussed the AGM agenda and proposed resolutions as well as the election of a shareholder representative to take place there. Further topics included various compensation issues. In this meeting, the Supervisory Board also discussed the path to climate neutrality for the company presented by the Board of Management and approved the proposal and the associated emission reduction targets.

REPORT OF THE SUPERVISORY BOARD

At the Supervisory Board meeting on April 21, 2022, the main agenda item was the virtual AGM held on the same day. Ahead of the AGM, the Chairman of the Supervisory Board had already held discussions with investors relating to the agenda of the AGM, in particular the aspects of Board of Management compensation, Supervisory Board compensation, terms of office and periods of appointment for Supervisory Board members, and other governance topics.

After the AGM, a constituent meeting of the Supervisory Board was held, since the six new employee representatives elected to the Supervisory Board by the Covestro workforce in March and the new shareholder representative, Dr. Sven Schneider, elected at the AGM began their terms of office at the end of the AGM. In this constituent meeting, Petra Kronen was elected Vice Chair of the Supervisory Board. The members representing employees on the Supervisory Board committees were also elected. Dr. Sven Schneider, who had been appointed as a new member of the Supervisory Board by the AGM, was elected to the Audit Committee in Prof. Rolf Nonnenmacher's place and elected as its Chair. In this meeting, an overview of the system for the externally facilitated self-assessment of the effectiveness and efficiency of the Supervisory Board's work, which had to be performed in that year, was also presented.

In the Supervisory Board meeting on June 9, 2022, the system for the self-assessment of the Supervisory Board was discussed in depth and in detail. In this meeting, the Supervisory Board also debated gender representation in the Board of Management and Supervisory Board and specified a new gender quota for the transition period, taking account of the applicable new representation requirements introduced by the Act Supplementing and Amending the Law on Equal Participation of Women and Men in Leadership Positions in the Private and Public Sectors (FüPoG II). In this meeting, the Supervisory Board was also informed about the amendments to the GCGC, which had been published shortly before the meeting. Moreover, the Supervisory Board resolved to reappoint the Chief Executive Officer (CEO), Dr. Markus Steilemann, and extend his contract by another five years following the end of his current appointment.

In the period from the end of July to the beginning of October, the Supervisory Board dealt with four time-critical matters and decisions, each time by way of circulation: On July 29, it discussed the sale of the additive manufacturing business. On August 4, the Supervisory Board approved an increase in the external credit line, and on August 25, it approved the issuance of a Euro Commercial Paper Programme and the issuance of Schuldschein loans. On October 4, the Supervisory Board resolved to appoint Dr. Klaus Schäfer as Chief Technology Officer (CTO) for another six months. Dr. Schäfer had declared that he would be prepared to extend his contract, which was due to expire at the end of the year, by this period to ensure staffing stability for Covestro given the tense policy situation in the energy markets.

In the Supervisory Board meeting held on November 9 and 10, the Supervisory Board resolved to appoint Dr. Thorsten Dreier to the Board of Management as CTO to succeed Dr. Klaus Schäfer, who will step down on June 30, 2023. One particular focus of this meeting was the Group strategy; the Supervisory Board had already discussed the general framework of this strategy at the strategy workshop held earlier. The trends and challenges shaping the short-, medium-, and long-term prospects as well as Covestro's specific skills and strategic scope were also discussed in this context. The meeting also included externally facilitated training on capital market matters and capital market law.

In its meeting on December 16, 2022, the Supervisory Board considered various compensation issues. It reviewed the Board of Management's fixed compensation on a regular basis and considered the long-term variable compensation for the Board of Management. The Board additionally discussed in detail the financial planning for fiscal 2023 proposed by the Board of Management and the medium-term outlook also presented. It approved both the financial plan and the financing framework proposed for fiscal 2023. In this meeting, the Supervisory Board also planned the AGM to be held in the year 2023, discussing the agenda and proposed resolutions and approved the decision of the Board of Management to hold the 2023 AGM as a virtual meeting. In this meeting, the Supervisory Board also voted to issue an unqualified declaration of conformity with the GCGC.

Committees of the Supervisory Board

In the past fiscal year, the Supervisory Board had five permanent committees set up so that it can continue to exercise its duties effectively and efficiently. The committees prepared resolutions by the full Supervisory Board and provided information on other topics to be discussed by this body. Moreover, certain decision-making powers of the Supervisory Board were delegated to the committees to the extent legally permissible. The Supervisory Board currently has the following permanent committees: Presidial Committee, Audit Committee, Human Resources Committee, Nominations Committee, and Sustainability Committee.

The tasks and responsibilities of the standing committees and their current composition are described in greater detail in "Declaration on Corporate Governance" under "Committees of the Supervisory Board" in the Combined Management Report.

The meetings and decisions of all committees, and especially those of the Audit and Sustainability Committees, were prepared on the basis of reports and explanations provided by the Board of Management. The committee chairs regularly provided comprehensive reports on the work of the committees to the full Supervisory Board.

The **Presidial Committee**, on which shareholders and employees are equally represented, made preparations in the year 2022 for the decisions relating to the qualification matrix required by the new GCGC and convened for a meeting for this purpose on November 23, 2022. This followed the preparation by the Nomination Committee of a proposed qualification matrix, including a review of and adjustments to the Supervisory Board's areas of skill.

The **Audit Committee** met a total of four times in the year under review: on February 21, May 2, July 25, and October 24, 2022, each time in the presence of the CFO. Three of these meetings were also attended by the auditor. The Audit Committee conducted a preparatory review of the Financial Statements of Covestro AG, the Consolidated Financial Statements of the Covestro Group, the Combined Management Report, and the proposal for the use of the distributable profit for the Supervisory Board. Additionally, it also discussed in detail the respective audit report and in particular, along with the oral report by the auditor on the material results of the audit. The Combined Management Report also included the Group's nonfinancial statement. In conducting its review, the Audit Committee found no grounds for objections. It recommended to the Supervisory Board to approve the Financial Statements and Consolidated Financial Statements for fiscal 2021 as well as to consent to the Combined Management Report and the proposal for the use of the distributable profit. In addition, the Audit Committee discussed with the Board of Management the half-year financial report in light of the results of the review by the auditor, and the Q1 and Q3 2022 interim statements prior to their publication.

The Audit Committee monitored the accounting and financial reporting process and the appropriateness and effectiveness of the internal control system, the risk management system, and the internal audit system, including sustainability-related aspects, and deliberated on the audit of the Financial Statements and compliance. In doing so, the Committee received reports, including from the heads of Corporate Audit and Corporate Law, Intellectual Property & Compliance functions and from the auditor. No material weaknesses were identified in the internal control system for financial reporting purposes or the risk early warning system.

The Audit Committee additionally undertook preparations for the Supervisory Board's proposal for the appointment of the financial statement auditor by the AGM, the engagement of the auditor and agreement on the auditor's fee. It monitored the quality of the audit and the independence of the auditor as well as the supplementary non-audit services provided in addition to the financial statement audit. In this context, the committee had the auditor confirm their independence.

The Audit Committee discussed the audit risk assessment, audit strategy, audit planning, key audit matters, and the audit results with the auditor. The Chairman of the Audit Committee had regular feedback sessions with the auditor on the audit progress and reported on this to the Audit Committee.

REPORT OF THE SUPERVISORY BOARD

Particular topics discussed by the Audit Committee in the fiscal year under review were current and future regulatory requirements for sustainability reporting and their implementation, including especially the requirements of the EU Taxonomy; the amendments to the GCGC; pension plan asset management; information security; and cyber risk management. Furthermore, the Audit Committee obtained information on an ongoing basis on enhancements to the compliance management system (particularly regarding anti-corruption measures), the handling of suspected compliance violations, progress in significant litigation, new legal and regulatory risks, and the risk situation, risk tracking, and risk monitoring in the Group. The Corporate Audit function provided regular reports about risk assessments.

The heads of the relevant corporate functions also participated in meetings of the Audit Committee on selected agenda items, reported on these, and answered questions. In addition, the Chair of the Audit Committee discussed important matters between meetings, particularly with the Supervisory Board Chair, the CFO and the auditor. The key results of these discussions were reported regularly to the Audit Committee and the Supervisory Board. The Audit Committee continued its practice of closed sessions in the year under review. They allow the auditor and the committee during the meeting to have a discussion without the Board of Management being present.

In the reporting period, the **Human Resources Committee** met for a total of five meetings held on February 22, April 21, June 9, September 28, and December 16, 2022. Topics of particular importance in connection with long-term succession planning for the Board of Management in the past year also included the reappointment of the CEO, Dr. Markus Steilemann, and the extension of his contract as well as succession planning for the CTO. The CTO succession planning was on the agenda of the Human Resources Committee meetings in February, June, and September.

In its first meeting on February 22, the committee discussed the CTO succession planning, as well as target attainment by the members of the Board of Management, long-term variable compensation of the Board of Management, and adjustments to the description of the compensation system for the Board of Management. The meetings on April 21 and June 9 focused on the reappointment of the CEO and the extension of his contract.

In the fourth meeting held on September 28, the Human Resources Committee dealt in particular with the reappointment of Dr. Klaus Schäfer and the extension of his contract and the appointment of Dr. Thorsten Dreier as member of the Board of Management and successor to Dr. Schäfer as of July 1, 2023. It also approved Dr. Thomas Toepfer's membership of the Regional Advisory Council for the Central Region of Commerzbank AG.

The agenda of the meeting held on December 16 included the annual review of the appropriateness of Board of Management compensation, long-term variable compensation of the Board of Management, and short-term variable compensation for the current year.

The members of the **Nomination Committee** held a meeting on September 22 of the reporting year to discuss the skills profile and the qualification matrix of the Supervisory Board required by the GCGC. The Nomination Committee reviewed and added to the skills profile to meet the requirements of the new version of the GCGC. In this meeting, the Nomination Committee also prepared the qualification matrix required by the GCGC, which was subsequently processed further by the Presidial Committee.

REPORT OF THE SUPERVISORY BOARD

The **Sustainability Committee** convened for a total of five meetings. In its first meeting on February 1, it dealt with Covestro's path to climate neutrality (Scope 1 and Scope 2 emissions) and related proposals on objectives and implementation measures. The committee also discussed the EU's chemicals strategy and the approach adopted by Covestro in response. In its second meeting on March 30, the focus was on Scope 3 emissions and how they relate to the circular economy. In the third meeting on June 7, the Scope 3/circular economy topic was raised again on the basis of examples from the market. In addition, discussions centered on ratings by external rating agencies on environmental, social, and governance (ESG) aspects, and the approach pursued by Covestro in this regard. Another topic at this meeting was the concept for the K plastics trade fair in October 2022, with a focus on sustainable solutions and the circular economy. In the fourth meeting on September 9, the committee discussed the key performance indicators (KPIs) for measuring performance against targets. It also considered the ESG aspect of "Compliance with human rights" and spent time on the topic of "Transparency of our reporting" (current forms of reporting at Covestro and future requirements, in particular in accordance with the EU Taxonomy Regulation and the Corporate Sustainability Reporting Directive). The topics focused on at the fifth meeting on November 25 included a progress update on ESG reporting, the 2022 materiality assessment, and the annual planning of the topics of the Sustainability Committee for the year 2023.

Financial Statements/Audit

The Financial Statements of Covestro AG were prepared in accordance with the requirements of the German Commercial Code (HGB) and German Stock Corporation Act (AktG). The Consolidated Financial Statements of the Covestro Group were prepared in accordance with the German Commercial Code and the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). The Combined Management Report including the Group's nonfinancial statement was prepared in accordance with the German Commercial Code. The auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, audited the Financial Statements of Covestro AG, the Consolidated Financial Statements of the Covestro Group, and the Combined Management Report including the Group's nonfinancial statement. KPMG AG Wirtschaftsprüfungsgesellschaft has audited Covestro's Financial Statements since fiscal 2018. Marc Ufer and Dr. Kathryn Ackermann signed the Independent Auditor's Report for fiscal year 2022. Both of them signed the Independent Auditor's Report for first time on December 31, 2022. The conduct of the audit, key audit matters, and results of the audit are explained in the auditor's reports. The auditor finds that Covestro has complied, as appropriate, with the German Commercial Code, the German Stock Corporation Act and/or the IFRS regulations as adopted by the EU, and issues unqualified opinions on the Financial Statements of Covestro AG, the Consolidated Financial Statements of the Covestro Group, the Combined Management Report, including the nonfinancial Group statement, and the Compensation Report. The Financial Statements of Covestro AG, the Consolidated Financial Statements of the Covestro Group, the Combined Management Report including the Group's nonfinancial statement, and the audit reports were submitted to all members of the Supervisory Board. The Audit Committee and the Supervisory Board reviewed the financial statement documentation in depth after the auditor's report was presented. The auditor attended both meetings.

The Supervisory Board examined the Financial Statements of Covestro AG, the Consolidated Financial Statements of the Covestro Group, and the Combined Management Report including the Group's nonfinancial statement. It had no objections and thus concurred with the result of the audit.

The Supervisory Board approved the Financial Statements of Covestro AG and the Consolidated Financial Statements of the Covestro Group prepared by the Board of Management. The Financial Statements of Covestro AG are thus confirmed. Since no net income was generated, there is no proposal for the use of distributable profit. The Board of Management and Supervisory Board jointly prepared the annual compensation report.

Corporate Governance and Declaration of Conformity

During the reporting year, the Supervisory Board again extensively addressed Covestro's corporate governance, taking into account the German Corporate Governance Code and, together with the Board of Management, submitted an unqualified declaration of conformity in accordance with Section 161 of the German Stock Corporation Act in December 2022 based on the Code in the April 28, 2022, version. This declaration has been posted on Covestro's website.

Expression of Appreciation from the Supervisory Board

The Supervisory Board would like to thank the Board of Management and all of Covestro's employees for their unwavering dedication in the 2022 fiscal year. The Supervisory Board wishes all of them success in dealing with the current economic and geopolitical challenges.

The Supervisory Board would also like to thank Covestro's shareholders for the trust they have placed in the company.

Leverkusen, March 1, 2023

For the Supervisory Board

Dr. Richard Pott
Chairman



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