FINANCIAL STATEMENTS 2023

Financial Statements of Covestro AG for the fiscal year 2023

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 website of the German company register.

Combined Management Report
The Management Report of Covestro AG has been combined with the Group Management Report; the Combined Management Report is published in the Covestro Annual Report 2023. The Annual Financial Statements and the Combined Management Report of the Covestro Group and Covestro AG for fiscal 2023 have been submitted to the operator of the electronic Federal Gazette in Germany and are accessible via the website of the German company register.

report.covestro.com/annual-report-2023/

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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 Group and the estimates given here. These factors include those discussed in Covestro's public reports, which are available on the Covestro website at **www.covestro.com**. The company assumes no liability whatsoever to update such forward-looking statements or to conform them to future events or developments.

Statement of Financial Position of Covestro AG

Assets

	Dec. 31, 2022	Dec. 31, 2023
	€ thousand	€ thousand
Noncurrent assets		
Property, plant and equipment	398	293
Financial assets	1,982,866	1,829,324
	1,983,264	**1,829,617**
Current assets		
Receivables and other assets		
Trade accounts receivable	35,826	37,644
From affiliated companies	35,801	37,581
Receivables from affiliated companies	5,280,834	4,858,679
Other assets	44,362	56,948
	5,361,022	**4,953,271**
Deferred charges	**12,468**	**9,805**
Excess of plan assets over pension liability	**1,197**	**1,412**
	7,357,951	**6,794,105**

Equity and liabilities

	Dec. 31, 2022	Dec. 31, 2023
	€ thousand	€ thousand
Equity		
Capital stock	193,200	189,000
Treasury shares	(3,252)	(260)
Issued capital	189,948	188,740
Capital reserves	3,805,295	3,757,197
Other retained earnings	116,992	116,992
Net accumulated losses	–	(123,712)
	4,112,235	**3,939,217**
Provisions		
Provisions for pensions	21,140	21,067
Provisions for taxes	34,885	33,991
Other provisions	9,100	42,098
	65,125	**97,156**
Liabilities		
Bonds	2,000,000	2,000,000
Liabilities to banks	907,271	621,222
Trade accounts payable	10,559	11,005
To affiliated companies	–	48
Liabilities to affiliated companies	155,218	108,780
Other liabilities	107,543	16,725
Tax liabilities	89,966	635
	3,180,591	**2,757,732**
	7,357,951	**6,794,105**

Income Statement of Covestro AG

	2022	2023
	€ thousand	€ thousand
Income from investments in affiliated companies	–	37,000
From affiliated companies	–	37,000
Expenses from profit and loss transfer agreements with affiliated companies	(153,489)	(107,072)
Income from investments in affiliated companies - net	**(153,489)**	**(70,072)**
Income from other investments and loans forming part of the financial assets	1,400	8,037
From affiliated companies	1,343	5,527
Other interest and similar income	27,083	175,417
From affiliated companies	27,083	170,730
Income from discounting or unwinding of discounts	–	4,635
Interest and similar expenses	(43,479)	(76,715)
From affiliated companies	(224)	(2,209)
Expenses from discounting or unwinding of discounts	(10,707)	–
Interest result	**(14,996)**	**106,739**
Other financial income	554	8,006
From currency translation	39	7,490
Other financial expenses	(8,757)	(12,713)
From currency translation	(184)	(7,450)
Other financial income and expenses	**(8,203)**	**(4,707)**
Financial result	**(176,688)**	**31,960**
Net sales	23,173	26,177
Cost of services provided	(23,610)	(22,058)
General administration expenses	(55,678)	(87,745)
Other operating income	1,263	142
Other operating expenses	(302)	(1,942)
Operating result	**(55,154)**	**(85,426)**
Result of operations	**(231,842)**	**(53,466)**
Income taxes	(84,621)	(70,246)
Result after tax/net loss for the year	**(316,463)**	**(123,712)**
Accumulated profit carried forward from prior year	5,460	–
Withdrawal from other retained earnings	311,003	–
Net accumulated losses	**–**	**(123,712)**

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. There were no intangible assets as of the reporting date.

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

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.

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 29.22% (previous year: 29.10%). 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 European Directive on minimum taxation under the OECD's Global Anti-Base Erosion Model Rules (Pillar Two) came into force in December 2022 and was transposed into national law in Germany in November 2023. The amendments contain a mandatory exception from the accounting for deferred taxes arising from the German Minimum Tax Act (MinStG) or similar legislation in other countries. The amendments apply directly and retrospectively and require additional disclosures at the reporting date, depending on whether transposition into national tax law has already happened or is still pending.

Deferred taxes arising from the German Minimum Tax Act (MinStG) or similar legislation in other countries are not taken into account pursuant to Section 274 Paragraph 3 HGB, as amended.

The capital stock of Covestro AG is divided into 189,000,000 no-par-value bearer shares with a nominal value of €1 per share.

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: 3.00%). We expect annual pension increases of 2.00% (previous year: 2.20%). 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, 2023, used for discounting pension obligations was 1.83% (previous year: 1.78%). 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 2023.

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 1.75% (previous year: 1.44%) 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 2023, the maturity was three years, and the discount rate was 0.51% (previous year: 0.51%). 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. There were no derivative financial instruments as of the reporting date.

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.

Notes to the Statement of Financial Position

1. Property, Plant and Equipment

Property, plant and equipment

	Operating and office equipment
	€ thousand
Gross carrying amounts as of Jan. 1, 2023	1,059
Gross carrying amounts as of Dec. 31, 2023	**1,059**
Accumulated depreciation and writedowns as of Jan. 1, 2023	661
Depreciation and writedowns	105
Accumulated depreciation and writedowns as of Dec. 31, 2023	**766**
Net carrying amounts as of Dec. 31, 2023	**293**
Net carrying amounts as of Jan. 1, 2023	398

2. 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, 2023	1,766,024	114,604	102,238	1,982,866
Additions	–	–	–	–
Retirements	–	(114,604)	(38,938)	(153,542)
Gross carrying amounts as of Dec. 31, 2023	**1,766,024**	**–**	**63,300**	**1,829,324**
Accumulated writedowns as of Jan. 1, 2023	–	–	–	–
Writedowns	–	–	–	–
Accumulated writedowns as of Dec. 31, 2023	**–**	**–**	**–**	**–**
Net carrying amounts as of Dec. 31, 2023	**1,766,024**	**–**	**63,300**	**1,829,324**
Net carrying amounts as of Jan. 1, 2023	1,766,024	114,604	102,238	1,982,866

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. An initial amount of €98,938 thousand was drawn on in fiscal 2022. A partial amount of €38,938 thousand was repaid by Bayer-Pensionskasse VVaG in fiscal 2023.

In October 2023, Covestro Deutschland AG prematurely repaid loans to affiliated companies in an amount of €114,604 thousand due to a partial early repayment of Schuldschein loans.

3. Receivables and Other Assets

Receivables from affiliated companies primarily include loan receivables in an amount of €4,837,500 thousand from Covestro Deutschland AG.

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

4. 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 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 €1,412 thousand as of the reporting date, of which €540 thousand was attributable to obligations arising from work-time accounts and €872 thousand to pension commitments.

Excess of plan assets over pension liability

	Dec. 31, 2022	Dec. 31, 2023
	€ thousand	€ thousand
Settlement amount of obligations relating to credit balances on employees' work-time accounts	1,900	1,815
Fair value of assets invested	2,222	2,355
Difference between assets and obligations relating to work-time accounts (excess of plan assets)	**322**	**540**
Acquisition cost of assets invested	2,267	2,163

	Dec. 31, 2022	Dec. 31, 2023
	€ thousand	€ thousand
Settlement amount of obligations relating to pension commitments (with asset surplus)	6,469	7,294
Fair value of assets invested	7,344	8,166
Difference between assets and obligations relating to pension commitments (excess of plan assets)	**875**	**872**
Acquisition cost of assets invested	6,859	6,859

Plan assets are carried at fair value and amounted to €53,017 thousand as of December 31, 2023. Offsetting of plan assets of €10,521 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 €42,496 thousand were offset against the underlying obligations and recognized under pension provisions.

5. Equity

During the fiscal year, equity changed as follows:

Equity

	Jan. 1, 2023	Capital increase	Share buybacks	net loss for the year	Dec. 31, 2023
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Capital stock	193,200	(4,200)	–	–	189,000
Treasury shares	(3,252)	4,200	(1,208)	–	(260)
Issued capital	189,948	–	(1,208)	–	188,740
Capital reserves	3,805,295	–	(48,098)	–	3,757,197
Other retained earnings	116,992	–	–	–	116,992
Net accumulated losses	–	–	–	(123,712)	(123,712)
	4,112,235	**–**	**(49,306)**	**(123,712)**	**3,939,217**

The capital stock of Covestro AG amounts to €189,000,000 (previous year: €193,200,000) and is divided into 189,000,000 (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 €123,712 thousand is carried forward to new account.

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 disapplied 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 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 October 26, 2023, the Board of Management of Covestro AG resolved the early termination of the share buyback program that it had resolved on February 28, 2022. The share buyback program was intended to reach a total volume of €500 million (excluding transaction costs) and be completed by no later than February 28, 2024. The share buyback program was based on the authorization of the Annual General Meeting of Covestro AG on April 12, 2019, according to which the Board of Management could acquire treasury shares with a proportionate interest in the capital stock totaling up to 10% of the company's capital stock. The share buybacks were executed on the stock exchange in accordance with the requirements for share buyback programs set forth in Article 5 of Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, in conjunction with the provisions of Commission Delegated Regulation (EU) 2016/1052 of March 8, 2016. The share buyback began on March 21, 2022, and in three tranches, Covestro AG acquired a total of 4,687,991 shares valued at €199,217 thousand (excluding transaction costs). The average purchase price was €42.50 per share.

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

Treasury shares

	2023
	Number of shares
Treasury shares as of Jan. 1, 2023	3,251,635
Share buy-backs	1,208,035
Retired treasury shares	(4,200,000)
Treasury shares as of Dec. 31, 2023	**259,670**

The 259,670 shares held by Covestro AG correspond to a nominal amount of €259,670 or 0.14%[1] of the capital stock.

A total of 1,208,035 shares were acquired in fiscal 2023, corresponding to a nominal value of €1,208,035 or 0.63%[2] of the capital stock. A total of €49,306 thousand (excluding transaction costs) was spent for this purpose, corresponding to a weighted average price of €40.81 per share. The shares were acquired in the period from May 17, 2023, up to and including June 29, 2023, through a bank engaged by Covestro AG. On each of those trading days, Covestro acquired an average of 37,751 shares. A small proportion of the repurchased shares was to be used for issuing shares under share-based participation programs and the rest was to be retired and the capital stock reduced accordingly.

By resolution of the Board of Management on December 5, 2023, the registered capital stock was reduced by €4,200,000, from €193,200,000 to €189,000,000, through the retirement of 4,200,000 no-par value bearer shares, with a notional value of €1 per share.

Covestro AG did not issue any treasury shares to employees under the Covestment share-based participation program in the reporting year.

[1] In relation to the capital stock as of December 31, 2023: €189,000,000.
[2] In relation to the capital stock as of the share buyback date: €193,200,000.

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 €6,371 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 €1,066 thousand of available reserves, was subject to distribution restrictions pursuant to Section 253, Paragraph 6 HGB.

Available reserves amounted to €1,991,961 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 2023 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	
Morgan Stanley, Wilmington	Dec. 29, 2023	Dec. 22, 2023	5	6.78	12,820,566	§§ 34, 38 Abs. 1 Nr. 1, 2
The Goldman Sachs Group, Inc., Wilmington	Dec. 28, 2023	Dec. 20, 2023	5	6.17	11,657,714	Sec. 34, 38 Para. 1 No. 1, 2
Bank of America Corporation, Wilmington	Dec. 21, 2023	Dec. 19, 2023	5	4.86	9,190,743	§§ 34, 38 Abs. 1 Nr. 1, 2
Barclays PLC, London	Dec. 06, 2023	Nov. 29, 2023	3	2.52	4,871,391	§§ 34, 38 Abs. 1 Nr. 1, 2
BlackRock, Inc., Wilmington	Dec. 04, 2023	Nov. 29, 2023	5	5.53	10,682,079	Sec. 34, 38 Para. 1 No. 1, 2
Amundi S.A., Paris	Oct. 05, 2023	Sep. 29, 2023	3	3.19	6,167,766	§ 34
Ministry of Finance on behalf of the State of Norway, Oslo	July 24, 2023	July 21, 2023	3	4.47	8,632,544	Sec. 34, 38 Para. 1 No. 1
Franklin Mutual Advisers, LLC, Wilmington	June 26, 2023	June 22, 2023	3	2.99	5,775,272	Sec. 34
Franklin Mutual Series Funds, Short Hills	June 22, 2023	June 20, 2023	3	2.87	5,535,973	Sec. 33
Silchester International Investors LLP, London	Mar. 15, 2023	Mar. 14, 2023	3	3.05	5,897,023	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
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

[1] If the threshold was reached on or after December 4, 2018, but prior to October 14, 2020, the share of voting rights is based on the capital stock prior to the capital increase in fiscal 2020 and prior to the retirement of shares in fiscal 2023. If the threshold was reached on or after October 14, 2020, but prior to December 5, 2023, the share of voting rights relates to the capital stock prior to the retirement of shares in fiscal 2023.

6. 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, 2022	Dec. 31, 2023
	€ thousand	€ thousand
Settlement amount of pension commitments	57,718	63,563
Fair value of assets invested	36,578	42,496
Net value of pension commitments (provisions)	**21,140**	**21,067**
Acquisition cost of assets invested	35,626	37,480

The difference resulting from the change in the discount rate within the meaning of Section 253, Paragraph 6, Sentence 1 HGB was €1,066 thousand on December 31, 2023 (previous year: €4,548 thousand).

The net liability resulting from unrecognized benefit obligations within the meaning of Article 28, Paragraph 2 EGHGB totals €9,609 thousand (previous year: €10,745 thousand).

7. Provisions for taxes

The year-over-year decrease in provisions for taxes by a total of €894 thousand resulted mainly from the reduction in provisions for settling possible tax claims.

8. Other Provisions

Other provisions, which amounted to €42,098 thousand (previous year: €9,100 thousand), were recognized for personnel-related obligations of €22,098 thousand (previous year: €9,063 thousand). The increase was due to higher expenses in connection with the annual incentive, the Covestro Profit Sharing Plan (Covestro PSP), and long-term variable compensation under the Prisma program. In addition, a provision for consulting services was recognized in fiscal 2023.

9. Bonds

On December 31, 2023, 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, 2023
		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

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 €6,209 thousand on December 31, 2023 (previous year: €7,678 thousand).

10. Additional Disclosures on Liabilities

Liabilities were classified according to maturity as follows:

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**

Maturity structure of liabilities

				Dec. 31, 2023
	Due in 2024	Due in or after 2025	Thereof due in or after 2029	Total
	€ thousand	€ thousand	€ thousand	€ thousand
Bonds	500,000	1,500,000	500,000	2,000,000
Liabilities to banks	4,722	616,500	25,000	621,222
Trade accounts payable	11,005	–	–	11,005
Liabilities to affiliated companies	108,780	–	–	108,780
Other liabilities	14,947	1,778	–	16,725
Total	**639,454**	**2,118,278**	**525,000**	**2,757,732**

The decline in liabilities to banks is mainly attributable to the partial early repayment of Schuldschein loans in October 2023.

Other liabilities went down, primarily due to the settlement of tax liabilities.

Notes to the Income Statement

11. Income from Investments in Affiliated Companies

The loss on investments in affiliated companies of €70,072 thousand (previous year: €153,489 thousand) was attributable to expenses from the control and profit and loss transfer agreement with Covestro Deutschland AG in an amount of €107,072 thousand (previous year: €153,489 thousand) and the profit of €37,000 thousand distributed by Covestro First Real Estate GmbH.

12. Interest Result

The interest result contained expenses relating to the bonds of €43,729 thousand (previous year: €23,101 thousand) issued in fiscal years 2016, 2020, and 2022. In addition, the interest result contained expenses for interest on external loan liabilities of €31,402 thousand (previous year: €8,122 thousand) and interest income of €176,257 thousand (previous year: €28,426 thousand) from loans granted to Covestro Deutschland AG. The interest result also included interest income of €2,509 thousand (previous year: €57 thousand) from initial funding loans granted to Bayer Pensionskasse VVaG and Rheinische Pensionskasse VVaG.

Furthermore, in addition to expenses from the discounting of pension provisions amounting to €485 thousand (previous year: €2,180 thousand), which included expenses from the change in the actuarial interest rate in addition to the expense from discounting, the interest result included gains on the investment of assets by Metzler Trust e. V., Frankfurt am Main (Germany), amounting to €4,887 thousand (previous year: losses of €8,963 thousand).

13. Other Financial Income and Expenses

Other financial income and expenses comprised bank fees totaling €5,108 thousand (previous year: €6,779 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 bond in the year 2022.

Income and expenses from foreign currency translation were also reported in this item.

14. Net Sales

Sales include income from services rendered by the Corporate Center divisions of Covestro AG for Covestro Group companies. Of the €26,177 thousand (previous year: €23,173 thousand) reported, sales to foreign Group companies accounted for €897 thousand (3.43%) (previous year: €849 thousand). Expenses incurred for providing the services rendered by the Corporate Center divisions are disclosed under cost of services provided.

15. General Administration Expenses

General administration expenses totaling €87,745 thousand (previous year: €55,678 thousand) mainly consisted of personnel expenses for the employees of the Group holding company and members of the Board of Management. The rise in general administration expenses in fiscal 2023 was predominantly due to higher expenses for the annual incentive (Covestro PSP), for long-term variable compensation under the Prisma program, and for consultancy services.

16. Other Operating Income

Overall, other operating income included income relating to other accounting periods amounting to €139 thousand (previous year: €1,054 thousand). Of this amount, €138 thousand (previous year: €926 thousand) related to the reversal of personnel-related provisions.

17. Other operating expenses

Other operating expenses were mainly attributable to a tax payment of €1,600 thousand to Koninklijke DSM N.V., Heerlen (Netherlands) for the Resins & Functional Materials business (RFM) acquired in the year 2021.

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, 2023, Covestro AG expected a future tax relief of €310,413 thousand (previous year: €378,632 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 29.22% (previous year: 29.10%) (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.

Covestro AG falls within the scope of the German Minimum Tax Act, which enters into force on January 1, 2024. Under the legislation, Covestro is required to pay an additional tax per country in the amount of the difference between the GloBE effective tax rate and a minimum tax rate of 15%. All Group companies (with the exception of the company being wound up in Switzerland) are subject to a nominal tax rate of more than 15%. Even if the nominal tax rate is more than 15%, the new legislation could theoretically result in a tax expense due to specific adjustments. As the legislation was not yet in force at the reporting date, the company is not currently subject to any tax burden from this legislation. Covestro is currently assessing the extent to which tax effects will arise in individual countries as a result of the Pillar Two legislation taking effect.

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 €1 thousand (previous year: €9 thousand).

20. Cost of Materials

Cost of materials

	2023
	€ thousand
Cost of raw materials, consumables and supplies, and of purchased merchandise	12
Cost of purchased services	8
	20

21. Personnel Expenses/Employees

Personnel expenses

	2023
	€ thousand
Wages and salaries	40,898
Social expenses and expenses for pensions and other benefits	7,684
Pension expenses	6,435
	48,582

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 148 employees in the reporting year. They break down as follows:

Employees

	2023	
	Women	Men
Senior executives and senior managers	24	71
Junior managers and nonmanagerial employees	33	20
	57	**91**

Within the group of employees in vocational training and interns, Covestro AG employed an average of two employees in fiscal 2023.

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

Other Disclosures

22. Contingent Liabilities

Liabilities arising from debt guarantees and sureties amounted to €183,836 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 $46,756 thousand, due in 2027	42,312
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 $14,629 thousand, due upon contract performance	13,239
Covestro, S.L., Barcelona (Spain)	
Open-ended	2,922
Covestro Deutschland AG, Leverkusen (Germany)	
Open-ended	2,324
Covestro S.r.l., Filago (Italy)	
Due in 2024	1,857
Covestro NV, Antwerpen (Belgium)	
Open-ended	1,755
Covestro S.r.l., Filago (Italy)	
Due in 2026	750
Covestro International SA, Fribourg (Switzerland)	
Principal amount RON 2,600 thousand, due in 2025	523
Covestro S.r.l., Filago (Italy)	
Due in 2025	373
Covestro (Slovakia) Services s.r.o., Bratislava (Slovakia)	
Due in 2024	280
Covestro Elastomers, Romans-sur-Isère (France)	
Due in 2024	233
Covestro Resins (Germany) GmbH, Mepppen (Germany)	
Open-ended	184
Covestro (Netherlands) B.V., Geleen (Nethlerlands)	
Open-ended	152
Covestro (Netherlands) B.V., Geleen (Nethlerlands)	
Due in 6 months after termination of contract	76
Covestro Resins (Germany) GmbH, Mepppen (Germany)	
Due in 2024	54
Epurex Films GmbH & Co. KG, Walsrode (Germany)	
Due in 2024	51
Covestro NV, Antwerpen (Belgium)	
Open-ended	29
Covestro Solar Coating Solutions BV, Geleen (Netherlands)	
Due in 2024	28
Covestro International SA, Fribourg (Switzerland)	
Due in 2025	20
Covestro S.r.l., Filago (Italy)	
Open-ended	4
	183,836

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. After an amount of €98,938 thousand was provided in fiscal 2022 and Bayer Pensionskasse VVaG made a partial repayment of €38,938 thousand in fiscal 2023, Covestro AG has a further obligation to make a contribution of €148,000 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 year 2022, 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 €161 thousand. Of the total lease obligations, €92 thousand is due in 2024 and €69 thousand in 2025.

24. 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.

25. 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 2023 consisted of the following:

Total compensation of the Board of Management

	Board of Management members in office	
	2022	2023
	€ thousand	€ thousand
Fixed annual compensation	3,264	3,344
Fringe benefits	108	94
Short-term variable compensation	–	1,712
Long-term variable compensation[1]	3,743	3,280
Aggregate compensation	**7,115**	**8,430**
Pension service cost[2]	1,595	1,690

[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, 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 earnings before interest, taxes, depreciation and amortization (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. Since the year 2022, the sustainability component was determined by direct and indirect Scope 1 and 2 greenhouse gas emissions (CO_2 equivalents) of the main sites. Other components relating to social criteria and corporate governance are also to be incorporated in the future.

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

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.

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 2023, the sustainability component applied is a reduction target for annual greenhouse gas emissions (CO_2 equivalents) classified in Scope 1 and Scope 2. The CO_2 factor amounts to 100% if these emissions are reduced by 1,300 kilotons (kt) by the end of fiscal 2026 in relation to the baseline year of 2020. This corresponds to an emissions reduction of 23%. If annual emissions are reduced by less than 650 kt, the CO_2 factor is 0%. Starting with a reduction of 1,950 kt, it reaches the maximum value of 200%. Between these values, linear interpolation is used to determine the factor. The Supervisory Board believes that the reduction targets are considerable compared to the company’s actual Scope 1 and Scope 2 emissions.

In order to calculate the total payout for the tranche beginning in fiscal 2023, the Prisma target opportunity is multiplied by the TSR factor, the outperformance factor weighted at 75%, and the CO_2 factor weighted at 25%. The total distribution is limited to no more than 200% of the target opportunity. With the target opportunity being defined as 130% of the fixed compensation, the maximum payout is therefore 260% of the fixed annual compensation.

Expenses for pension commitments of €1,690 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 €8,690 thousand as of the reporting date. The settlement amount for direct and indirect pension obligations for former members of the Board of Management was €14,674 thousand.

Total compensation for the Supervisory Board for the reporting year was €2,515 thousand. This includes attendance fees of €175 thousand.

There were no advances or loans to members of the Board of Management or the Supervisory Board outstanding as of December 31, 2023. No loans were repaid in the reporting year.

26. Governance Bodies

Board of Management[1]

Name	Position	Areas of Responsibility	Memberships[2]
Dr. Markus Steilemann	Chief Executive Officer	• Communications • Corporate Audit • Human Resources • Strategy • Group Innovation & Sustainability	• Member of the Supervisory Board of Fuchs Petrolub SE[3]
Christian Baier	Chief Financial Officer[5] (since October 2023)	• Accounting • Controlling • Finance & Insurance • Information Technology & Digitalization • Investor Relations • Law, Intellectual Property & Compliance • Portfolio Development • Taxes	• Member of the Supervisory Board of TUI AG[3]
Dr. Thorsten Dreier	Chief Technology Officer (since July 2023) Labor Director (since September 2023)	• Engineering • Process Technology • Group Health, Safety and Environment • Group Procurement	
Sucheta Govil	Chief Commercial Officer	• Performance Materials • Tailored Urethanes • Coatings & Adhesives • Engineering Plastics • Specialty Films • Elastomers • Thermoplastic Polyurethanes • Supply Chain & Logistics EMLA, NA, APAC	
Dr. Klaus Schäfer	Chief Technology Officer (until June 2023)	• Engineering • Process Technology • Group Health, Safety and Environment • Group Procurement	• Member of the Supervisory Board of TÜV Rheinland AG[4]
Dr. Thomas Toepfer	Chief Financial Officer[5] Labor Director (until August 2023)	• Accounting • Controlling • Finance & Insurance • Information Technology & Digitalization • Investor Relations • Law, Intellectual Property & Compliance • Portfolio Development • Taxes	• Member of the Supervisory Board of CLAAS KGaA mbH[4] • Member of the General Partners' Committee of CLAAS KGaA mbH (CLAAS-group)[4]

[1] As of December 31, 2023, for members stepping down during fiscal year, the information relates to the leaving date.
[2] Memberships of supervisory boards and memberships in comparable supervising bodies of German or foreign corporations.
[3] Listed.
[4] Non-listed.
[5] The Chief Financial Officer (CFO) is also responsible for country-specific topics in the United States and China.

Supervisory Board members[1]

Name/function	Membership on the Supervisory Board	Position	Memberships[2]
Dr. Richard Pott (Chair)	Member of the Supervisory Board since August 2015	• Member of various supervisory boards	• Chair of the Supervisory Board of Covestro Deutschland AG[4,5] • Member of the Supervisory Board of Freudenberg SE[4] • Member of the Supervisory Board of SCHOTT AG[4]
Petra Kronen (Vice Chair)	Member of the Supervisory Board since October 2015	• 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	• Vice Chair of the Supervisory Board of Covestro Deutschland AG[4,5]
Dr. Christine Bortenlänger	Member of the Supervisory Board since October 2015	• Executive Member of the Board of Deutsches Aktieninstitut e.V.	• Member of the Supervisory Board of Covestro Deutschland AG[4,5] • Member of the Supervisory Board of MTU Aero Engines AG[3] • Member of the Supervisory Board of TÜV SÜD AG[4] • Member of the Supervisory Board of Siemens Energy AG[3] • Member of the Supervisory Board of Siemens Energy Management GmbH[4] (Siemens Energy group)
Dr. Christroph Gürtler	Member of the Supervisory Board since April 2022	• Chair of the Managerial Employees' Committees of Covestro Deutschland AG and of Covestro Group • Managerial Employee of Covestro Deutschland AG	• Member of the Supervisory Board of Covestro Deutschland AG[4,5]
Lise Kingo	Member of the Supervisory Board since April 2021	• Member of various supervisory boards, governing bodies and committees	• Member of the Supervisory Board of Covestro Deutschland AG[4,5] • Independent Board Director of Sanofi SA[3], France • Independent Board Director of Aker Horizons ASA[3], Norway (until April 2023) • Independent Board Director of Danone SA[3], France
Irena Küstner	Member of the Supervisory Board since October 2015	• 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 • Employee of Covestro Deutschland AG	• Member of the Supervisory Board of Covestro Deutschland AG[4,5]
Frank Löllgen	Member of the Supervisory Board since April 2022	• North Rhine District Secretary of the German Mining, Chemical, and Energy Industrial Union (IGBCE), Düsseldorf	• Member of the Supervisory Board of Covestro Deutschland AG[4,5] • Member of the Supervisory Board of Bayer AG[3]
Petra Reinbold-Knape	Member of the Supervisory Board since January 2020	• Secretary for IGBCE • Chair of the Board of August-Schmidt-Stiftung	• Member of the Supervisory Board of Covestro Deutschland AG[4,5]

Supervisory Board members[1]

Name/function	Membership on the Supervisory Board	Position	Memberships[2]
Dr. Sven Schneider	Member of the Supervisory Board since April 2022	• Chief Financial Officer at Infineon Technologies AG	• Member of the Supervisory Board of Covestro Deutschland AG[4,5] • Member of the Supervisory Board of Infineon Technologies Austria AG[4], 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)
Regine Stachelhaus	Member of the Supervisory Board since October 2015	• Member of various supervisory boards	• Member of the Supervisory Board of Covestro Deutschland AG[4,5] • Director of SPIE SA[3], France • Member of the Supervisory Board of SPIE Deutschland und Zentraleuropa GmbH[4] (SPIE group)
Marc Stothfang	Member of the Supervisory Board since February 2017	• Chair of the Works Council of Covestro at the Brunsbüttel site • Chair of Covestro-European Forum • Employee of Covestro Deutschland AG	
Patrick Thomas	Member of the Supervisory Board since July 2020	• Member of various supervisory boards	• Member of the Supervisory Board of Covestro Deutschland AG[4,5] • Non-Executive Director (Chair) of Johnson Matthey plc[3], United Kingdom • Non-Executive Director of Akzo Nobel N.V.[3], Netherlands

1 As of December 31, 2023; for members stepping down during fiscal year, the information relates to their leaving date.
2 Memberships of other supervisory boards and memberships in comparable supervising bodies of German or foreign corporations.
3 Listed.
4 Non-listed.
5 Covestro Group membership.

27. 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, and other services as presented in the corresponding statement in the consolidated financial statements.

This information is not published here pursuant to the exempting clause in Section 285, No. 17 HGB for companies included in the parent company's consolidated financial statements.

The fees for the auditing of financial statements for fiscal 2023 specified there mainly comprise those for the statutory audit of the consolidated financial statements and the single-entity financial statements of Covestro AG and its subsidiaries in Germany.

The fees for other assurance services for fiscal 2023 include, in particular, the review of the consolidated interim financial statements as of June 30, 2023, and the quarterly statements, the audit of sustainability information, and special energy industry audits.

Other services primarily consist of fees for audits of the internal control system and other consulting services.

28. 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.

29. 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, 2023; 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)	100.0	37,880	8,804	2
Covestro (Netherlands) B.V.	Geleen (Netherlands)	100.0	1,724,861	299,077	2
Covestro (Slovakia) Services s.r.o.	Bratislava (Slovakia)	100.0	3,893	1,127	2
Covestro Amulix V.o.F.	Zwolle (Netherlands)	72.0	(190)	(593)	2
Covestro Bio-Based Coatings B.V.	Zwolle (Netherlands)	100.0	424	13	2
Covestro Brunsbüttel Energie GmbH	Brunsbüttel (Germany)	100.0	39	(370)	1, 2
Covestro Deutschland AG	Leverkusen (Germany)	100.0	1,782,686	(107,072)	1
Covestro Elastomers	Romans-sur-Isère (France)	100.0	52,078	4,481	2
Covestro First Real Estate GmbH	Leverkusen (Germany)	100.0	57,793	7,533	2
Covestro Indústria e Comércio de Polímeros Ltda.	São Paulo (Brazil)	100.0	25,976	800	2

List of shareholdings

Company name	Place of business	Equity interest	Equity	Net income/loss	Footnote(s)
		%	€ thousand	€ thousand	
Covestro International SA	Fribourg (Switzerland)	100.0	(13,387)	(141,748)	2
Covestro Invest GmbH	Leverkusen (Germany)	100.0	2,190	347	1, 2
Covestro Middle East FZ-LLC	Dubai (United Arab Emirates)	100.0	868	247	2
Covestro Niaga B.V.	Zwolle (Netherlands)	100.0	(56,752)	(11,757)	2
Covestro NV	Antwerp (Belgium)	100.0	302,475	33,669	2
Covestro Polímer Anoním Şírketí	Istanbul (Turkey)	100.0	235	150	2
Covestro Polyurethanes B.V.	Nieuwegein (Netherlands)	100.0	210,321	10,427	2
Covestro Resins (Germany) GmbH	Meppen (Germany)	100.0	15,895	754	1, 2
Covestro Resins China Holding B.V.	Zwolle (Netherlands)	100.0	3,069	–	2
Covestro S.r.l.	Filago (Italy)	100.0	200,191	20,535	2
Covestro, S.L.	Barcelona (Span)	100.0	201,240	11,165	2
Covestro Second Real Estate GmbH	Leverkusen (Germany)	100.0	90,524	16,755	2
Covestro sp. z o.o.	Warsaw (Poland)	100.0	264	77	2
Covestro Thermoplast Composite GmbH	Markt Bibart (Germany)	100.0	(479)	(1,210)	1, 2
Covestro UK Limited	Cheadle Hulme (United Kingdom)	100.0	4,252	1,082	2
Crime Science Technology	Lille (France)	41.2	945	(424)	2
Covestro Coating Resins China Holding B.V.	Zwolle (Netherlands)	100.0	19,969	491	2
Epurex Films Geschäftsführungs-GmbH	Walsrode (Germany)	100.0	149	11	2
Epurex Films GmbH & Co. KG	Walsrode (Germany)	100.0	14,465	12,307	2
LyondellBasell Covestro Manufacturing Maasvlakte V.O.F	Rotterdam (Netherlands)	50.0	153,075	(14,975)	2
MS Global AG in Liquidation	Köniz (Switzerland)	100.0	6,984	18	2
Paltough Industries (1998) Ltd.	Kibbutz Ramat Yohanan (Israel)	25.0	123,391	8,324	2
Solar Coating Solutions B.V.	Zwolle (Netherlands)	100.0	(9,360)	(1,854)	2
NA					
Covestro International Re, Inc.	Colchester, Vermont (USA)	100.0	97,393	(28,084)	2
Covestro International Trade Services Corp.	Wilmington, Delaware (USA)	100.0	9,694	37,653	2
Covestro LLC	Pittsburgh, Pennsylvania (USA)	100.0	1,564,648	39,231	2
Covestro PO LLC	Pittsburgh, Pennsylvania (USA)	100.0	328,187	144,181	2
Covestro, S.A. de C.V.	Mexico City (Mexico)	100.0	90,962	(167)	2
PO JV, LP	Houston, Texas (USA)	39.4	293,287	(56,205)	2
Technology JV, LP	Houston, Texas (USA)	33.3	281,728	335,933	1, 2

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)	100.0	255	(17)	2
Covestro (Hong Kong) Limited	Hong Kong (Special Administration Region, China)	100.0	62,549	34,924	2
Covestro (India) Private Limited	Navi Mumbai (India)	100.0	120,421	8,154	3
Covestro (Shanghai) Investment Company Limited	Shanghai (China)	100.0	276,633	265,510	2
Covestro (Taiwan) Ltd.	Taipeh (Taiwan, Greater China)	97.3	58,221	(4,375)	2
Covestro (Thailand) Co., Ltd.	Bangkok (Thailand)	100.0	504,180	47,209	2
Covestro (Viet Nam) Company Limited	Ho Chi Minh City (Vietnam)	100.0	8,506	736	2
Covestro Eternal Resins (Far East) Ltd.	Pingtung (Taiwan, Greater China)	60.0	9,531	4,005	2
Covestro Eternal Resins (Kunshan) Co., Ltd.	Kunshan (China)	50.0	19,021	786	2
Covestro Far East (Hong Kong) Limited	Hong Kong (Special Administration Region, China)	100.0	275	(2)	2
Covestro Invest (Far East) Company Limited	Hong Kong (Special Administration Region, China)	100.0	15,388	4,316	2
Covestro Japan Ltd.	Tokyo (Japan)	100.0	22,567	3,728	2
Covestro Korea Corporation	Seoul (South Korea)	100.0	8,562	823	2
Covestro Material Science and Technology (Shanghai) Company Limited	Shanghai (China)	100.0	(7,141)	(170)	2
Covestro Polymers (China) Company Limited	Shanghai (China)	100.0	1,687,329	70,043	2
Covestro Polymers (Qingdao) Company Limited	Qingdao (China)	100.0	6,426	(3,846)	2
Covestro Polymers (Shenzhen) Co., Ltd.	Shenzhen (China)	100.0	12,129	1,714	2
Covestro Polymers (Tianjin) Co., Ltd.	Tianjin (China)	100.0	3,434	62	2
Covestro Polymers (Zhuhai) Company Limited	Zhuhai (China)	100.0	15,216	(15)	2
Covestro Pty Ltd	Mulgrave (Australia)	100.0	5,744	376	2
Covestro Resins (Foshan) Company Ltd.	Foshan (China)	100.0	31,621	1,428	2
Covestro Resins (Shanghai) Co., Ltd.	Shanghai (China)	100.0	(309)	(1,904)	2
DIC Covestro Polymer Ltd.	Tokyo (Japan)	80.0	14,073	3,728	2
Guangzhou Covestro Polymers Company Limited	Guangzhou (China)	100.0	31,561	3,833	2
Japan Fine Coatings Co., Ltd.	Ibaraki (Japan)	100.0	9,927	2,164	2
PT Covestro Polymers Indonesia	Jakarta (Indonesia)	99.9	52,301	2,383	2
Sumika Covestro Urethane Company, Ltd.	Hyogo (Japan)	60.0	6,979	(22,001)	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, 2023.

30. Events after the End of the Reporting Period

No events of particular significance have occurred since January 1, 2024, that we expect to have a material impact on the net assets, financial position, and results of operations of Covestro AG.

31. Proposal for the Appropriation of Distributable Profit

The Annual Financial Statements of Covestro AG report net accumulated losses of €123,712 thousand. This net loss is carried forward to new account. For this reason, a proposal for the appropriation of the distributable profit by the Board of Management is not required.

Leverkusen, February 23, 2024
Covestro AG
The Board of Management

Dr. Markus Steilemann (Chair)	Christian Baier	Dr. Thorsten Dreier	Sucheta Govil

Responsibility Statement

To the best of our knowledge, and in accordance with the 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 principal opportunities and risks associated with the expected development of the Covestro Group and Covestro AG.

Leverkusen, February 23, 2024
Covestro AG
The Board of Management

Dr. Markus Steilemann (Chair)	Christian Baier	Dr. Thorsten Dreier	Sucheta Govil

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 the Covestro Brunsbüttel Industrial Park 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 2023, 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, 2023. 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, 2023.

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.

Income Statement – Power Grid

	2022	2023
	€ thousand	€ thousand
Net sales	**1**	**3**
Cost of services provided	(1)	(3)
Gross profit	**–**	**–**
Operating result	**–**	**–**
Expenses from profit transfer/income from loss absorption	–	–
Net income/net loss for the year	**–**	**–**

Income Statement – Gas Grid

	2022	2023
	€ 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 23, 2024
Covestro AG
The Board of Management

Dr. Markus Steilemann (Chair)	Christian Baier	Dr. Thorsten Dreier	Sucheta Govil

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, 2023, and the income statement for the financial year from January 1 to December 31, 2023, 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, 2023.

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, 2023, and of its financial performance for the financial year from January 1 to December 31, 2023, 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

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. This 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, 2023. 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, 2023, 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 26% 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.

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. These include the expected business and earnings performance as well as the investment spending of the respective investments over the planning horizon, the assumed long-term growth rates and the determination of the discount rates.

Due to the ongoing tough economic environment and the macroeconomic development, uncertainty surrounding the underlying future cash flows remains high in financial year 2023.

The Company did not recognize impairment losses on financial assets in financial year 2023. 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 staff 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. To this end, we discussed the expected business and earnings performance, the investment spending as well as 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.

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.

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.

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.

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 combined declaration on corporate governance of the Company and the Group, which is contained in the “Declaration on Corporate Governance” section of 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.

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 26, 2024, 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.

Furthermore, the Board of Management is responsible for the preparation of the 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.
- 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 "2024-02-22 15-53-48 - Zusammengefasster Lagebericht und Jahresabschluss Covestro AG 2023.zip" (SHA256 hash value: 95ad8a31ae014b7ceca0e6867c77f9f2c1ffb69afc1200eda0b4cb7eb4b13e9e) made available 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, 2023, 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 as 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.
- 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 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 Industry Act] regarding the maintenance of separate accounts for the financial year from January 1 to December 31, 2023. We have also examined the financial statements for individual activities for electricity distribution and gas distribution activities pursuant to Section 6b (3) sentence 1 EnWG - comprising in each case the statement of financial position as of December 31, 2023, and the income statement for the financial year from January 1 to December 31, 2023, 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 financial statements for individual activities 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.

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 financial statements for individual activities 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 6b (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 Responsibilities for the Audit of the Annual Financial Statements and of the 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 19, 2023. We were engaged by the Audit Committee of the Supervisory Board on July 28, 2023. 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 into 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 26, 2024

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Ufer	Dr. Ackermann
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

Report of the Supervisory Board

Dear Shareholders,

Fiscal 2023 was again a challenging year for Covestro. Continuous geopolitical uncertainty, e.g., the Russian war against Ukraine or the conflicts in the Middle East, impacted on global economic development. Other factors, such as high inflation and low demand from Covestro's main customer industries, weighed on the company's 2023 fiscal year.

The Board of Management analyzed this extremely complex and difficult overall global situation very closely and reflected it in the strategy in order to secure Covestro's business and its long-term future. Alongside continuing to implement the strategic goals, the Board's efforts focused on improving operational performance. We, the Supervisory Board, closely accompanied the Board of Management and supported it in its deliberations and decisions.

In terms of strategy, it is also our view that Covestro continues to be on the right track and is well-positioned for the future with its focus on establishing the circular economy and overall on innovations for more sustainability. In this regard, the company also reached further milestones and achieved business successes last year. In the course of its internal transformation, these include the continuing shift in production to sustainable raw materials, renewable energy sources, and recycling as well as the ongoing digitalization with the focus on artificial intelligence. With regard to customers, Covestro has also further expanded its range of circular, climate-neutral products and solutions as the basis for sustainable growth.

During this period, the Supervisory Board took important decisions to set the course for the continuity of Covestro's management: After the termination, agreed at the start of reporting year, of the Board of Management contract with CFO Dr. Thomas Toepfer as of August 31, 2023, the Supervisory began the search for a new CFO, and successfully recruited Mr. Christian Baier for this role, who took over his new position as of October 1, 2023. Dr. Thorsten Dreier, who had already been appointed as Chief Technology Officer (CTO) in the year before, took up office as a member of the Board of Management as of July 1, thus succeeding Dr. Klaus Schäfer. The new Board of Management team works very well together, especially given the current challenging tasks.

Important issues in fiscal 2023 were defining Scope 3 targets for the company, preparing a sustainability component relating to "Social" topics for the compensation of the Board of Management, and reviewing the strategic options for the company in detail, including deliberations on the interest expressed by the Abu Dhabi National Oil Company (ADNOC), Abu Dhabi (United Arab Emirates) in relation to Covestro AG.

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 2023, 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), 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 2023, the Supervisory Board held a total of ten meetings, all of which 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 addition, the various committees of the Supervisory Board convened a total of 21 meetings. The Supervisory Board and the Presidial Committee held more meetings in fiscal 2023 than in prior years because of additional extraordinary meetings in connection with ADNOC's expression of interest in relation to Covestro AG.

The regular Supervisory Board meetings were held physically, while the extraordinary meetings convened at short notice were held by video conference. Most of the committee meetings were held as video conferences, unless they took place on the same day as one of the Supervisory Board meetings held physically. The Audit Committee meeting for the half-year financial statements was also held physically.

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**	**Sustain-ability Committee**	**Overall amount of meetings[1]**	
Supervisory Board member	Meeting attendance	Meeting attendance	Meeting attendance	Meeting attendance	Meeting attendance	Meeting attendance	Meeting attendance	%
Dr. Christine Bortenlänger	10/10	–	4/4	–	–	–	14/14	100.0
Dr. Christoph Gürtler	10/10	–	–	5/5	–	5/5	20/20	100.0
Lise Kingo	10/10	–	–	–	–	5/5	15/15	100.0
Petra Kronen (Vice Chair)	10/10	7/7	4/4	5/5	–	–	26/26	100.0
Irena Küstner	10/10	–	4/4	–	–	–	14/14	100.0
Frank Löllgen[2]	9/10	–	–	–	–	–	9/10	90.0
Dr. Richard Pott (Chair)	10/10	7/7	–	5/5	–	–	22/22	100.0
Petra Reinbold-Knape	10/10	7/7	4/4	–	–	–	21/21	100.0
Dr. Sven Schneider[2]	9/10	–	4/4	–	–	–	13/14	92.9
Regine Stachelhaus[2]	10/10	5/7	–	5/5	–	–	20/22	90.9
Marc Stothfang[3]	9/10	–	–	–	–	4/5	13/15	86.7
Patrick Thomas[4]	10/10	–	4/4	–	–	4/5	18/19	94.7
Total	**117/120**	**26/28**	**24/24**	**20/20**	**–/–**	**18/20**	**205/212**	**96.7**

[1] Five Supervisory Board and 16 committee meetings were held as video conferences, five Supervisory Board and five committee meetings were held physically.
[2] Absence solely for extraordinary meetings convened at short notice due to not being available at that time.
[3] Absence due to longer-term illness during the first half of the year.
[4] Absence for personal reasons.

In total, Supervisory Board members attended meetings of the Supervisory Board and its committees with a 96.7% attendance rate. In addition, some Supervisory Board members attended meetings of the Sustainability Committee intended for guest attendance (the Chair of the Supervisory Board attended all five meetings, Petra Kronen and Irena Küstner each attended four, Petra Reinbold-Knape three, and Regine Stachelhaus one). Moreover, Dr. Richard Pott attended all four meetings of the Audit Committee as a guest. The Chair of the Audit Committee, Dr. Sven Schneider, attended as a guest five meetings of the Presidial Committee held to deal with ADNOC's expression of interest; Frank Löllgen attended one of those meetings 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 2023 in order to enhance the expertise of the Supervisory Board as a whole. A workshop organized by the Board of Management in connection with the strategy meeting was held in October 2023, at which Covestro-specific and other topics of relevance for Covestro were highlighted and discussed: influence of the people strategy on the successful transformation of the company, influence of research and development and of artificial intelligence on the sustainable growth of the company, and achieving climate neutrality through the circular economy.

The Chair of the Supervisory Board was also available during the past fiscal year for discussions with investors. At one such discussion in October 2023, topics were discussed that fall within the Supervisory Board's tasks and responsibilities. The special focus here was on Environmental, Social, and Governance (ESG) aspects and the strategy process.

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 challenging economic situation in connection with the acute crises and their impact on the company were part of every Supervisory Board meeting in the year 2023. At these meetings, the Supervisory Board received very detailed reports, dealt extensively with the existing challenges and the measures adopted by the Board of Management. In addition, the Supervisory Board concentrated on the following topics in individual meetings and also through circular resolutions:

On January 15, the Supervisory Board discussed the issue of bonuses (Covestro Profit Sharing Plan) for the Board of Management for the year 2022 and set them to zero by way of a circular resolution on the recommendation of the Human Resources Committee. A corresponding resolution had been adopted by the Board of Management for the employees.

In a further circular resolution, the Supervisory Board acceded to the request of CFO Dr. Thomas Toepfer for the early termination, on August 31, 2023, of his current contract, which was due to expire on March 31, 2026, in order to give Dr. Toepfer the opportunity to accept a new position as CFO at the European aircraft manufacturer Airbus.

At its two-day meeting on February 28 and March 1, 2023, the Supervisory Board dealt with strategic issues and the topics concerning the Financial Statements. The first day focused on the topic of the corporate strategy, and the Supervisory Board continued its discussions on strategic options under the current prevailing trends and general conditions that had begun in November 2022. On day two, the Supervisory Board discussed in detail the Financial Statements and Consolidated Financial Statements for fiscal 2022, and the Combined Management Report including the nonfinancial Group statement. It 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 addition, items on the agenda and resolution proposals for the 2023 Annual General Meeting were updated or added. Various compensation issues were also discussed, and the Compensation Report of the Board of Management and the Supervisory Board for fiscal 2022 was approved. At this meeting, the Supervisory Board also dealt with its self-assessment regarding the effectiveness and efficiency of its work in fiscal 2022, in which an external review had additionally been carried out. On the whole, members found the Supervisory Board's activity effective and efficient. They particularly valued the detailed discussions and exchanges with the Board of Management on issues relating to strategy, for which sufficient time was allowed at Supervisory Board meetings and the annual strategy workshop.

At the Supervisory Board meeting on April 19, 2023, the main focus was on the virtual Annual General Meeting taking place on the same day, which was held in the current virtual format in accordance with the amendments to the German Stock Corporation Act (AktG) of July 2022.

A major issue at the Supervisory Board meeting on June 15, 2023 was the continuation and conclusion of the strategy discussions conducted at the previous two Supervisory Board meetings, including the corresponding priorities regarding the next steps. The analysis of the Annual General Meeting held in April and future optimization measures were also discussed. In addition, the Supervisory Board approved the extension of a long-term purchasing contract for a crucial raw material at the meeting.

The Supervisory Board met on August 16, 2023, to appoint a successor for the position of CFO and to discuss the successor for the role of Labor Director. On the recommendation of the Human Resources Committee, the Supervisory Board resolved to appoint Christian Baier for the period from October 1, 2023 as CFO for Covestro AG. For the transition period from September 1 to 30, arising after CFO Dr. Thomas Toepfer stepped down on August 31, 2023, the Supervisory Board appointed Chief Executive Officer Dr. Markus Steilemann as interim CFO. In this context, the Supervisory Board discussed the adjustment of the schedule of duties for the Board of Management.

On the recommendation of the Human Resources Committee, the Supervisory Board resolved on August 18, 2023, by way of circulation to appoint Chief Technology Officer Dr. Thorsten Dreier as Labor Director. Furthermore, the Supervisory Board approved the schedule of duties proposed by the Board of Management from October 1, 2023 and the schedule of duties for the transition period from September 1 to 30.

At the Supervisory Board meeting on October 11, 2023, the focus was on the regularly scheduled topic of the corporate strategy, after the Supervisory Board had, as in previous years, addressed strategy issues in depth on the day before in a strategy workshop organized by the Board of Management. The workshop dealt with updating the corporate strategy after delving deeper into topics such as people strategy, digitalization as a growth driver, climate neutrality and circularity. Another important item of the agenda for this Supervisory Board meeting was looking in more depth at the issue of safety: In addition to the current occupational safety situation at the company, which is always discussed at every Supervisory Board meeting, in-depth analyses and statistics, findings and measures were presented and discussed.

At its meeting on December 6, 2023, the Supervisory Board considered various compensation issues. As regularly scheduled, it reviewed the Board of Management’s fixed compensation and considered the long-term variable compensation for the Board of Management. It decided, in accordance with the existing compensation system, to include a sustainability component relating to “Social” topics in the long-term variable compensation, comprising two metrics relating to occupational safety and employee engagement. The metrics for this sustainability component had been developed in the course of the year on a cross-committee basis and agreed with the Human Resources Committee, the Sustainability Committee, and the Audit Committee. In another important agenda item, the Supervisory Board looked in detail at the corporate planning for fiscal 2024 proposed by the Board of Management and the medium-term outlook also presented. It approved both the corporate plan and the financing framework proposed for fiscal 2024. In addition, it approved the Scope 3 targets adopted by the Board of Management and the accompanying publication schedule, after the Sustainability Committee had issued its corresponding recommendation. At this meeting the Supervisory Board also discussed the agenda and proposed resolutions for the Annual General Meeting 2024. After completion of the share buyback program and the Board of Management resolution on the retirement of the shares bought back and the resulting reduction in the capital stock and in the number of shares, the Supervisory Board approved the corresponding amendment to the Articles of Incorporation. At this meeting, the Supervisory Board also voted to issue an unqualified declaration of conformity with the German Corporate Governance Code (GCGC).

In addition, the Supervisory Board held four extraordinary meetings in the year 2023, on August 16, September 8, September 26, and October 2, and passed circular resolutions on August 23 and October 23, 2023. The extraordinary meetings of the Supervisory Board were used to give this body comprehensive information on the state of affairs of ADNOC’s expression of interest in relation to Covestro AG as well as for extended consultations following the relevant discussions at Presidial Committee meetings. At all four extraordinary Supervisory Board meetings, the Board of Management reported in detail on the state of affairs and on its assessment of the situation, as it had already done at each of the Presidial Committee meetings. On this basis, the

Supervisory Board held in-depth discussions, including with the involvement of external advisers, and, as the Presidial Committee before it, agreed the next steps in close consultation with the Board of Management. By way of a circular resolution of August 23, 2023, the Supervisory Board transferred additional decision-making powers on matters of takeovers to the Presidial Committee and took a decision on Dr. Sven Schneider's attendance at corresponding Presidial Committee meetings. The circular resolution of October 23 was about Frank Löllgen's attendance at corresponding extraordinary Presidial Committee meetings.

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, convened for one ordinary meeting in the year 2023. At this meeting on December 6, 2023, the Presidial Committee discussed the annual review of the Qualification Matrix of the Supervisory Board implemented in fiscal 2022. The review showed that the Qualification Matrix continues to be up to date since there were no changes in the composition of the Supervisory Board in the year 2023, and no changes to the qualifications of the individual Supervisory Board members.

In addition, the Presidial Committee held six extraordinary meetings in the year 2023, on July 19, August 15, August 24, September 22, October 18, and October 31, and passed one circular resolution on August 31, 2023. The subject of all extraordinary meetings of the Presidial Committee, as well as of the four extraordinary Supervisory Board meetings, was in-depth discussion of the respective state of affairs of ADNOC's expression of interest in relation to Covestro AG. The extraordinary meetings of the Presidial Committee were also used to prepare for the subsequent extraordinary meetings of the Supervisory Board. As reported already, five of these extraordinary meetings were attended by the Chair of the Audit Committee, Dr. Sven Schneider, as a guest participant and expert adviser, and one by Mr. Löllgen as guest participant and expert adviser, in addition to the members of the Presidial Committee, on which shareholders and employees are equally represented. At all extraordinary meetings, the Board of Management reported in detail on the state of affairs of ADNOC's expression of interest and on its assessment of the situation. On this basis, the Presidial Committee held in-depth discussions, including with the involvement of external advisers, and agreed the next steps in close consultation with the Board of Management. The circular resolution of the Presidial Committee taken on August 31 related to a decision to engage external consultants.

The **Audit Committee** met a total of four times in the year under review: on February 28, April 26, July 28, and October 26, 2023, each time in the presence of the CFO and the auditor. At a working meeting on June 15, only members of the Audit Committee were present. The Audit Committee conducted a preparatory review of the Financial Statements of Covestro AG, the Consolidated Financial Statements of the Covestro Group, and the Combined Management Report for the Supervisory Board. In particular, it also discussed in detail the respective audit report and 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 2022 as well as to consent to the Combined Management Report. 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 2023 quarterly 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 the 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 audit results with the auditor. The Chair of the Audit Committee had regular feedback sessions with the auditor on the audit progress and reported on this to the Audit Committee.

Special topics discussed by the Audit Committee in the fiscal year under review were aspects of opportunities and risks as well as of regulatory requirements, such as the Chemicals Strategy for Sustainability (CSS), the Corporate Social Due Diligence Directive (CSDDD), the cyber risk specifically with regard to the security of production and technical IT systems, and an update on tax positions and tax risks. Other special topics were the results of a readiness assessment of the risk management and internal control system, and dealing with the issue of a sustainability component relating to "Social" topics for the Board of Management compensation with the focus on checking the auditability of the selected metrics.

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.

The **Human Resources Committee** convened for a total of five meetings in the reporting year. Topics of particular importance that year were the search for and appointment of a successor for the position of CFO to replace Dr. Thomas Toepfer, who was stepping down, and the design of a sustainability component relating to "Social" topics for the compensation of the Board of Management with effect from the year 2024.

At its first meeting on January 13, 2023, the Human Resources Committee discussed the issue of bonuses (Covestro Profit Sharing Plan) for the Board of Management for the year 2022 and recommended that the Supervisory Board set it to zero, after the Board of Management had previously adopted a corresponding resolution for the employees.

In a circular resolution on January 15, 2023, the Human Resources Committee dealt with the request of CFO Dr. Thomas Toepfer for the early termination of his Board of Management contract, and recommended that the Supervisory Board agree to conclude a termination agreement with Dr. Toepfer.

At its meeting on February 21, 2023, the Human Resources Committee dealt, among other things, with an amendment to a metric with relevance for the Board of Management compensation that had become necessary, and recommended that the Supervisory Board agree to this amendment.

On August 10, 2023, the Human Resources Committee dealt with the successors for the positions of CFO and Labor Director. It recommended that the Supervisory Board appoint Christian Baier for the period from October 1, 2023 as CFO for Covestro AG. For the transition period from September 1 to 30, arising after CFO Dr. Thomas Toepfer had stepped down on August 31, 2023, the Human Resources Committee recommended the appointment of Chief Executive Officer Dr. Markus Steilemann as interim CFO. It also discussed the successor for the position of Labor Director.

On August 18, the Human Resources Committee recommended by way of circulation that the Supervisory Board appoint Dr. Thorsten Dreier, Chief Technology Officer, as Labor Director from September 1.

At the meeting on October 11, the Human Resources Committee dealt with the human resources planning and succession planning for the Board of Management, and with the design of a sustainability component relating to “Social” topics for the Board of Management compensation starting from 2024.

On December 6, 2023, the Human Resources Committee addressed the final proposal for this sustainability component for the compensation of the Board of Management, after the Sustainability Committee and the Audit Committee had also previously checked the concept, and recommended that the Supervisory Board accordingly approve this component for the variable long-term compensation. Other topics at this meeting 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 **Sustainability Committee** convened for a total of five meetings. The main topics of their deliberations were the circular economy and the formulation of Scope 3 targets for the company.

At its first meeting on February 14, 2023, the Sustainability Committee dealt with its own targets for fiscal 2023 regarding circular economy and Scope 3 targets, and agreed an appropriate action plan. The current procedures in the industry regarding Scope 3 and the upstream side of Covestro (suppliers) regarding transformation to the circular economy were then examined at this meeting. The corresponding analysis of the downstream (customer) side then followed at the second meeting on March 31, also with initial feasibility studies and potential estimates. Elaboration of the details continued over the course of the year.

One focus of the meeting on May 31, 2023, was on the issue of human rights and corresponding due diligence obligations in the Supply Chain Act. The meeting on September 22, 2023, discussed the concept for the sustainability component relating to “Social” topics for the compensation of the Board of Management requested by the Supervisory Board and developed on a cross-committee basis. At this meeting, the Scope 3 targets were then presented and subsequently adopted, after elaboration of the accompanying implementation recommendations, at the Sustainability Committee meeting on November 20, 2023, and recommended for approval by the Supervisory Board. In addition, the committee looked at the sustainability reporting for the year 2023 at its November meeting.

At all the meetings during the year, current developments and requirements regarding EU chemicals policy, regulations, ratings, and rankings were discussed in addition to the specific topics mentioned. Where relevant, the discussion of all the topics addressed in the Sustainability Committee also included the discussion of company-specific impacts, risks, and opportunities associated with them.

The members of the **Nominations Committee** did not meet for any official meetings in the reporting year 2023. The aspects of the Qualification Matrix of the Supervisory Board that had still been developed in the previous year by the Nominations Committee were continued by the Presidial Committee. The members of the Nominations Committee will deal in fiscal 2024 with the upcoming elections of shareholder representatives for the 2025 Annual General Meeting since the periods of office for several of the representatives will expire on the day of the Annual General Meeting.

Financial Statements/Audit

The Financial Statements of Covestro AG were prepared in accordance with the requirements of the German Commercial Code (HGB), the German Stock Corporation Act (AktG), and the German Energy Industry Act (EnWG). 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 2023. 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. The Compensation Report was subjected to a substantive audit and issued with an audit opinion, which confirms that the report, including the related disclosures, complies in all material respects with the financial reporting requirements of Section 162 AktG.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 adopted. 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 2023 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 2023 fiscal year. The Supervisory Board wishes all of them success in dealing with the current economic and geopolitical challenges in a time of multidimensional crises.

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

Leverkusen, February 28, 2024

For the Supervisory Board

Dr. Richard Pott
Chair

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