

# Covestro AG

Annual General Meeting  
on April 17, 2024

**Report by the Board of Management to the Annual General Meeting under Section 71, Paragraph 1 no. 8, Sentence 5 in conjunction with Section 186, Paragraph 4, Sentence 2 of the German Stock Corporation Act (AktG) on item 6 of the Agenda (Resolution on issuing a new authorization to acquire and use own shares with possible exclusion of subscription rights and any tender rights as well as the possibility of cancelling own shares; authorization to use derivatives in the context of the purchase of own shares with possible exclusion of subscription rights and any tender rights)**

The Annual General Meeting authorized the Board of Management on April 12, 2019, under item 7 of the Agenda, to acquire own shares to the amount of 10% of the capital stock at that time and to use them in accordance with Section 71, Paragraph 1 no. 8 of the German Stock Corporation Act (AktG), also using derivatives. In order to maintain the Company's flexibility with regard to the acquisition and use of own shares, a new authorization to acquire and use own shares in accordance with Section 71, Paragraph 1 no. 8 of the German Stock Corporation Act (AktG), with the option to disapply tender rights when acquiring own shares and subscription rights when using own shares, shall therefore be resolved.

Agenda item 6 includes under no. 1 the proposal of the Management to authorize the Company under Section 71 Paragraph 1 no. 8 of the to acquire own shares up to April 16, 2029, with a proportionate amount of the capital stock attributable to up to 10% of the Company's capital stock in existence as of the date of the resolution – or if this value is lower – as of the date when the authorization is exercised. The shares, together with other own shares held by the company or attributable to it under Sections 71a et seq. of the German Stock Corporation Act (AktG), may at no time exceed 10% of the capital stock of the Company. The acquisition may, at the discretion of the Board of Management, take place via the stock exchange or by means of a public purchase offer and must satisfy the principle of equal treatment of shareholders (Section 53a of the German Stock Corporation Act (AktG)).

If the acquisition of the shares takes place via the stock exchange, the purchase price per share of the company paid by the company (excluding transaction costs) may neither exceed, nor be lower than, the company's share price, as determined by the opening auction in XETRA® trading (or a comparable successor system) on the Frankfurt Stock Exchange on the trading day, by more than 10%.

If the acquisition takes place by means of a public purchase offer, the offer price paid by the Company (excluding transaction costs) may, according to the proposed authorization, neither exceed, nor be lower than, the Company's share price, as determined by the closing auction in XETRA® trading (or a comparable successor system) on the Frankfurt Stock Exchange on the last trading day before the publication of the purchase offer, by more than 10%.

In the event of a public purchase offer, the quantity of shares in the Company offered by the shareholders may quantitatively exceed the quantity of shares requested by the Company. In this case, according to the proposed authorization, an allocation may be made in proportion to the number of shares tendered (tender ratios) in order to facilitate settlement. It shall also be possible to provide for preferential acceptance of small numbers of shares up to a maximum of 50 shares per shareholder. Ultimately, it shall not be possible to provide for rounding in accordance with commercial principles to avoid notional share fractions. To this extent, the acquisition rate and the number of shares to be acquired from individual tendering shareholders may be rounded to the extent necessary to represent the acquisition of total shares for settlement purposes. The Board of Management considers the exclusion of any

further shareholder tender rights in this respect to be objectively justified and appropriate in relation to the shareholders.

The proposed authorization may be exercised in full or in number of partial amounts split across several acquisition dates, once or several times, directly by the Company or by Group companies dependent on the Company within the meaning of Section 17 of the German Stock Corporation Act or by third parties for its or their account until the maximum acquisition volume is reached. The proposed authorization should, subject to compliance with the statutory requirements, be exercised for any purpose permissible in law, especially in pursuit of one or more of the purposes listed below. Trading in own shares is not permitted.

The Board of Management, with the consent of the Supervisory Board, shall also be authorized to sell own shares acquired under the proposed or earlier authorization in a manner other than via the stock exchange or by way of an offer to all shareholders, while disapplying the shareholders' subscription rights, provided that the sale takes place against cash consideration and at a price which, at the date of the sale, is not significantly lower than the market price for the same class of shares in the Company. In this respect, the authorization allows for a faster and more cost-effective placement of the shares than if they were sold with subscription rights for the shareholders.

The financial interests and voting rights of the shareholders are adequately protected upon this sale of own shares to third parties while disapplying the shareholders' subscription rights under Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act. The principle of protecting shareholders against dilution shall be taken into account in that the shares may only be sold at a price that is not significantly lower than the quoted share price. The selling price of own shares is determined immediately before sale. Taking into account current market conditions, the Board of Management shall endeavor to keep any discount to the stock market price as low as possible. Interested shareholders may maintain their stake on essentially the same terms by making acquisitions in the market.

In addition, this authorization is restricted to a total of up to 10% of the Company's capital stock in existence as of the date of the resolution or – if this value is lower – as of the date when the authorization is exercised. Although the Act on the Financing of Future-Proof Investments of December 11, 2023 (Future Financing Act – ZuFinG) has raised the statutory upper limit for the simplified exclusion of subscription rights in Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act (AktG) from 10% to 20% of the share capital, and this requirement also applies mutatis mutandis to the simplified exclusion of subscription rights to own shares pursuant to Section 71, Section 1, Paragraph 8, Sentence 5, Half-sentence 2 of the German Stock Corporation Act (AktG), which the company sells again. However, the proposed resolution by the Board of Management and the Supervisory Board deliberately does not exhaust this extended legal framework, but leaves it at a volume of up to 10% of the share capital.

In calculating this limit of 10% of the capital stock, those shares shall be included that are issued or sold during the term of this authorization by direct or indirect application of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act, e.g. by utilizing an authorization to issue new shares from authorized capital while disapplying subscription rights. In addition, the limit of 10% of the capital stock shall include those shares that are issued or to be issued to service bonds with option or conversion rights or option/conversion obligations shall also count towards this limit of 10% of the capital stock, here such bonds were issued during the term of this authorization while disapplying subscription rights in accordance with Paragraph 186, Section 3, Sentence 4 of the German Stock Corporation Act.

The authorization also provides that the Board of Management may, with the consent of the Supervisory Board, transfer acquired shares to third parties for the purpose of acquiring companies, parts of companies or equity interests in companies or other assets, or to effect

business combinations, while disapplying subscription rights. In these cases, this will enable the Company to offer own shares as consideration – also in combination with other forms of consideration – and in particular to settle receivables against the Company by own shares. Company expansions generally require quick decisions. The proposed authorization may enable the Board of Management to react quickly and flexibly to market opportunities and to take advantage of opportunities to expand the Company. The price at which own shares are used in this case depends on the individual circumstances and the timing. The Board of Management shall ensure that the interests of the shareholders shall be adequately protected when determining the valuation ratios.

In addition, the authorization stipulates that acquired shares may also be used by the Management Board with the approval of the Supervisory Board, excluding subscription rights, for the fulfilment of option or conversion rights or obligations arising from warrant bonds or convertible bonds issued or issued by the Company or its subordinate affiliates on the basis of an authorization granted by the Annual General Meeting. This may be expedient in order to use existing shares to satisfy the conversion or option rights or to fulfill the conversion or option obligations, instead of issuing new shares from conditional or authorized capital for the same purpose. In this context, it must be taken into account that bonds with conversion or option rights or conversion or option obligations may in principle only be issued in compliance with the shareholders' subscription rights – subject to other resolutions by the Annual General Meeting – so that the shareholders' subscription rights are indirectly safeguarded in this respect.

In addition, the Board of Management shall be authorized to retire own shares without a further resolution by the Annual General Meeting. Such an authorization is usual and complies with market standards. It allows the Company to react appropriately and flexibly to any capital market situation. The proposed authorization also provides that, under Section 237, Paragraph 3 no. 3 of the German Stock Corporation Act (AktG), the shares may be retired by the Board of Management without reducing the capital. In this case, the Board of Management is to be authorized to adjust the number of no-par value shares in the Articles of Incorporation. By retiring the shares without reducing the capital, the proportionate interest of the remaining no-par value shares in the capital stock of the Company increases.

The Board of Management shall also be authorized, with the consent of the Supervisory Board, to use own shares acquired as a result of the proposed authorization or an earlier authorization to pay a scrip dividend. In the case of a scrip dividend using own shares, shareholders are offered the opportunity to assign their entitlement to payment of the cash dividend to the company, based on the resolution on appropriation of profits passed by the Annual General Meeting, in return for receiving own shares. A scrip dividend may be paid using own shares by way of an offer to all shareholders, while maintaining subscription rights and the principle of equal treatment (Section 53a of the German Stock Corporation Act (AktG)). As part of the practical settlement of the scrip dividend, shareholders may only be offered whole shares as subscription rights; with regard to the portion of the dividend entitlement that does not reach or exceeds the subscription price for a whole share, shareholders are referred to the subscription of the cash dividend and may therefore not receive any shares. An offer of partial rights or trading in subscription rights or fractions thereof does not generally take place because shareholders receive a proportional cash dividend in place of the subscription to own shares. However, the Board of Management shall also be authorized to disapply shareholders' subscription rights upon payment of a stock dividend so as to be able to pay the stock dividend under optimum conditions. Depending on the capital market situation, it may be preferable to arrange for the share dividend to be paid using own shares in such a way that the Board of Management may offer own shares to all shareholders entitled to dividends in accordance with the general principle of equal treatment (Section 53a of the German Stock Corporation Act (AktG)) in return for payment of their dividend entitlement, thus granting the shareholders subscription rights in economic terms, but legally excluding the subscription rights of shareholders to new shares. Disapplying subscription rights in this way allows the stock

dividend to be paid on flexible terms. In view of the fact that own shares are offered to all shareholders and excess dividends are paid in cash, disapplying subscription rights seems justified and appropriate in this case.

To the extent that measures under the proposed authorization do not necessarily require the consent of the Supervisory Board, the Supervisory Board may determine that the Board of Management may only take measures under this proposed authorization with its consent.

The aforementioned authorizations may be utilized on one or more occasions, individually or collectively, in relation to partial volumes of own shares or to all own shares held in total.

In each individual case, the Board of Management shall carefully examine whether it will make use of the authorization to acquire own shares while disapplying tender rights and to use own shares while disapplying shareholders' subscription rights. This option will only be exercised if, in the opinion of the Board of Management and the Supervisory Board, this is in the interest of the Company and of its shareholders, and is proportionate. At the next Annual General Meeting, the Board of Management will report on each use made of the authorization to acquire and use own shares.

The proposed authorization also provides under no. 2 for the Company to be authorized to acquire own shares as part of the authorization under no. 1, using put or call options. The proposed authorization provides that the acquisition of shares using put or call options is limited to a maximum of 5% of the company's capital stock in existence as of the date of the resolution or, if lower, as of the date when the authorization is exercised.

When selling put options, the Company grants the buyer the right to sell shares in the Company to the Company at a price fixed in the put option (strike price). The Company receives an option premium in return. If the put option is exercised, the option premium paid by the buyer of the put option reduces the total consideration paid by the Company for the acquisition of the share. Exercising the put option makes economic sense for option holders if the price of the Company's share at the time of exercise is below the exercise price because they can then sell the shares at the higher exercise price. From the Company's point of view, a share buyback using put options offers the advantage that the exercise price is already fixed at the time the option transaction is concluded, but without any outflow of liquidity until the date when the option is exercised. The use of put options in share buybacks can be useful, for example, if the Company intends to buy back its own shares at low prices, but is not sure about the optimal time for the buyback, i.e. the time at which the company's share price will be at its lowest. In this case, it may be advantageous for the Company to sell put options where the exercise price is lower than the price of the company's share at the time the put option transaction is entered into. The use of put options has the particular advantage here, in that the buyback is carried out at a lower price level as opposed to an immediate buyback. If the option holder does not exercise the option because the share price on the date of exercise date exceeds the strike price, the Company, although unable to acquire any of its own shares, still retains the option premium received.

When exercising a call option, the Company receives the right to purchase a predetermined number of shares at a predetermined price (strike price) from the seller of the option against payment of an option premium. Exercising the call option makes economic sense for the Company if the price of the Company's share is above the exercise price because it can then buy the shares at the lower exercise price. This allows the Company to hedge against rising share prices. The Company's liquidity is also conserved, as the fixed purchase price for the shares does not have to be paid until the call options are exercised.

The option transactions must be entered into in accordance with the proposed authorization, with a credit- or securities institution that is independent of the Company or a Company or a

consortium of such institutions or undertakings which operates in accordance with Section 53, Paragraph 1, Sentence 1 or in accordance with Section 53b, Paragraph 1, Sentence 1 or Paragraph 7 of the German Banking Act (financial institution), provided that this financial institution, when exercising the option, only delivers shares which were previously acquired via the stock exchange at a market-driven price in compliance with the principle of equal treatment.

The premium paid by the Company for call options may not be materially higher and the option premium received for put options may not be materially lower than the theoretical fair value of the options concerned calculated using accepted valuation techniques. This and the limited extent to which own shares may be acquired using derivatives, reflect the fundamental idea of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act (AktG), which applies to the disapplication of subscription rights, and which has been transferred to any shareholders' tender rights.

The exercise price agreed in the option transaction (in each case excluding transaction costs, but taking into account the option premium received or paid) may be higher or lower than the stock exchange price of the Company on the day on which the option transaction is concluded, however it may not be more than 10% higher or lower than the price of the Company's shares as determined by the opening auction in the XETRA<sup>®</sup> trading system (or a comparable successor system) on the Frankfurt Stock Exchange on the trading day on which the option transaction was entered into. The ability to remain below the market price by up to 10% is necessary to enable the Company, even in a volatile market environment, to use options with medium and longer terms to repurchase its own shares or to make forward purchases.

The maturity of the individual derivatives must be chosen in such a way that the acquisition of the shares using the derivatives does not take place after April 16, 2029. The reason for this is that the proposed acquisition authorization expires at the end of April 16, 2029 and no more shares may be repurchased on this basis after that date. Since the proposed authorization to acquire shares using derivatives supplements this acquisition authorization, consistency in timing is therefore expected.

If own shares are acquired using put or call options in accordance with the above provisions, the right of shareholders to enter into such option transactions directly with the Company shall be excluded under the proposed authorization. The fact that the Company enters into option transactions with financial institutions enables it – in contrast to an offer to enter into option transactions with all shareholders – to enter into these option transactions at short notice. This gives the Company the necessary flexibility to react quickly to market situations. When exercising the option, the financial institution shall only deliver shares which have previously been acquired on the stock exchange at a market-driven price in compliance with the principle of equal treatment.

The provisions described above exclude the possibility that shareholders may suffer a material economic disadvantage when acquiring own shares using put or call options. Since the Company receives or pays a fair market price, the shareholders who do not participate in the option transactions do not suffer any material economic disadvantage. The position of shareholders essentially corresponds to their position in relation to share buybacks via the stock exchange, where not all shareholders are actually able to sell shares to the company. The specifications for the structure of the put or call options and the requirements for the shares to be delivered ensure that the principle of equal treatment of shareholders is also observed with this method of acquisition. It is therefore justifiable that the option transactions are only entered into with a financial institution and that the shareholders' right to enter into the aforementioned option transactions with the Company is thus excluded.

Considering all of the aforementioned circumstances, the Board of Management and the Supervisory Board deem the resulting exclusion of any right to offer shares to be objectively justified and appropriate vis-à-vis the shareholders. The Board of Management shall report to

the Annual General Meeting on details of any utilization of the authorization to repurchase own shares using put or call options.

The use of own shares which are acquired using derivatives shall be subject to the same provisions which also apply to own shares which are acquired on the basis of the authorization proposed under no. 1 above.

Leverkusen, March 2024  
Covestro AG

The Board of Management  
Dr. Markus Steilemann  
Christian Baier  
Dr. Thorsten Dreier  
Sucheta Govil

This translation is provided for convenience only. The German version is the sole legally binding version.