



Green Financing Framework

May 11, 2022

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1. Sustainability at Covestro

Covestro is one of the leading global suppliers of high-tech polymer materials and application solutions developed for these materials. Covestro AG, the parent company of the Covestro Group, is headquartered in Leverkusen (Germany). It is listed on the stock exchange in Germany and is included in the DAX, Germany's leading index. The main segments served are the automotive and transportation, construction, wood processing and furniture electronics and household appliances industries. Other sectors include sports and leisure, cosmetics, and health as well as the chemical industry itself.

Advancing climate change, the growing global population, increasing urbanization, and new forms of mobility are enormous global challenges. Covestro faces and want to drive solutions for these challenges, thus bringing together economic success and sustainability. The goal is to realize Covestro's purpose: To make the world a brighter place. Our aim is to provide solutions to global challenges with our high-performance polymer materials. In pursuing it, we rely on technologies that reduce energy usage and emissions in our production processes. We are convinced that our long-term strategy of pursuing a circular economy will bring us closer to achieving our purpose.

Building on our purpose, the implementation of our vision is the foundation of our Group strategy: We will be fully circular. This vision sets a clear direction for our company's future sustainable development. Our corporate values and corporate culture as embodied by our employees are major factors in putting our purpose, vision, and strategy into action.

Exhibit 1: Covestro's Purpose, Vision, and Strategy.



Our overarching goals derived from our purpose and our vision set the course for our Group's Sustainable Future strategy. This incorporates the changing external and internal dynamics, such as shifts in policies, in markets, and in digital transformation, and reflects the new influence of our vision. Our Group strategy comprises three strategic chapters: We want to "Become the best of who we are," while we "Drive sustainable growth," and "Become fully circular." Our strategy is based on a solid foundation; its implementation is being enabled by the acceleration of Covestro's digital transformation and expansion of our "We Are 1" culture.

We integrate sustainability into our business activities, while at the same time ensuring adequate focus on the issues of greatest relevance to us and our stakeholders. In addition to our responsibility for the environment, we also engage on our social responsibility within the society in accordance with our purpose. This is why we strive to add value equally at the social, environmental, and economic levels. Our decisions and our actions take into account the three dimensions of sustainability: people, planet, and profit. We are oriented towards a positive impact on at least two of the dimensions, while at the same time ensuring none of them is negatively impacted. Every decision, every action we take, and the resulting consequences are considered holistically, that is, throughout the entire value cycle¹.

Sustainability criteria are also part of our compensation system. Starting in 2022, these will be applicable to the compensation of not only the Board of Management but to all employees.

We apply a comprehensive approach to our sustainability goals, defined as early as 2016, which covers the entire product life cycle, including social, environmental, and economic aspects. Our sustainability goals contribute to achieving the United Nations' Sustainability Development Goals ("SDGs"). One of these sustainability goals was to cut specific greenhouse gas emissions by 50% compared to the 2005

¹ Additional information on our Sustainability formula and What drives us can be found [here](#).

benchmark by the year 2025. In 2021, we reached our 2025 reduction goal for specific greenhouse gas emissions by achieving a 53.9% cut four years ahead of plan. Given also the urgency to act more strongly as a company and as a society on climate change, we replaced this specific goal with a new one, which will be explained in greater detail in [section 1.2 Climate Neutrality and Climate Targets](#).

We continually observe developments outside the company, in our markets, on our planet and society, and develop our sustainability goals in line with our vision and corporate strategy. Our progress and potential updates of our sustainability goals are reported transparently, and thus verifiably².

Exhibit 2: Covestro's current sustainability goals.



We want our R&D project portfolio to be aligned with the SDGs. By the year 2025, 80% of project expenditures for research and development will take place in areas that contribute to reaching these goals. In the year 2021, 54% of R&D project costs met this goal (previous year: 51%).



All of our suppliers with regular purchasing volumes of more than €100,000 per year are expected to comply with our sustainability requirements by 2025. During the year 2021, 80% of relevant suppliers met our sustainability requirements (previous year: 79%).



New: *Become climate neutral and achieve net zero emissions by 2035 for scope 1 and scope 2. On the path to achieving this goal, the company plans to cut greenhouse gas emissions from its own production (scope 1) and from external energy sources (scope 2) by 60 percent³ to 2.2 million metric tons by 2030.*



We want 10 million people in underserved markets to benefit from our solutions by the year 2025. The goal is to improve their standard of living primarily through affordable housing, sanitation, and food security. By the end of fiscal 2021, our solutions had already reached 3.2 million people (previous year: 1.1 million people).



We intend to create more value and increase our carbon productivity by using fewer carbon-based fossil resources. The goal is to decouple our value-generating activities from these non-renewable and non-circular raw materials. We see our circular economy activities as a key lever for shifting the previously linear use of resources in our business toward circularity and regeneration.

We set high standards that are applicable globally. We are committed to the goals and provisions set out in the United Nations Global Compact (UNGC) and have signed the UNGC Charter. The ten principles of this charter in the areas of human rights, labor, the environment and anti-corruption are binding for all our employees. We are committed to fostering the same high level of commitment to sustainability that we apply when engaging with our business partners. To this end, we maintain a Supplier Code of Conduct which sets out key social, ecological and ethical standards that are mandatory for all our suppliers. Sustainability management is an integral part of all functions and positions at Covestro.

As a company we are committed to operating sustainably, and take a clear stand on relevant issues. The minimum standards applicable to such efforts are stipulated in our voluntary corporate commitments which are publicly available on our [website](#). Compliance with them is governed by the corresponding directives, which are valid throughout the Group.

While all of our business activities are covered by quality management system standards such as ISO 9001, we exhibit different certification scopes for environmental management system standards pursuant to ISO 14001 or, an EMAS validation, occupational health and safety management system standards according to ISO 45001 (previous OHSAS 18001) or energy management system standards following ISO 50001.

² Additional information on our Sustainability goals can be found [here](#).

³ Reference value: base year 2020, 5.6 million metric tons of greenhouse gas emissions.

1.1. Circular Economy

For Covestro, becoming fully circular also includes the transition to climate neutrality. Circularity and climate neutrality are two sides of the same coin in our endeavor to build a sustainable future and economy. Since 2005, we have been successful in consistently increasing our energy efficiency and subsequently lowering our specific Scope 1 and Scope 2 greenhouse gas emissions. The relevance we ascribe to climate change is further reflected in our Climate Roadmap which is to become our long-term plan toward climate neutrality. On March 1, 2022, Covestro published its mid and long-term targets and its roadmap towards climate neutrality, see also [section 1.2 Climate Neutrality and Climate Targets](#).

Efforts toward building a circular economy⁴ in the company can be measured by verifying the degree to which we can replace fossil sources of carbon for production with renewable raw materials and create a closed loop for producing renewable compounds. We accomplish this for carbon sources by concentrating on products and processes that permit us to employ biomass (including via mass-balance), CO₂, and raw materials recycled from waste or used materials. Synthetic raw materials manufactured using green electricity, such as hydrogen, are also becoming increasingly important. In particular, Covestro can leverage procurement on the one hand and the development of our own innovative process technologies for CO₂ use, biotechnology, and plastics recycling using chemical means, on the other hand. We are counting on new strategic partnerships to promote recycling within the value chain to make alternative raw material use transparent and to ensure used plastics are recycled at the end of their life cycle, for more details and examples of our joint solutions, please visit our [website](#).

Exhibit 3: Four pillars of the Circular Economy program.



In addition to Covestro's own production of products based on alternative raw materials, the strategic alignment of our raw material and energy procurement activities with our corporate vision is vitally important. We aim to continually increase the share of alternative raw materials used in production and reach 100% in the long term. As a first step, we have begun to have our production facilities audited and certified under the ISCC PLUS certification scheme to reflect the certification of these raw materials for further use along the entire value chain. Our sites in Krefeld-Uerdingen (Germany), Leverkusen (Germany), Dormagen (Germany), Antwerp (Belgium), and Shanghai (China) are already ISCC Plus certified, with more sites to follow. ISCC Plus certification can be applied at all stages of the value chain, offering certified mass-balance products as drop-in solutions for our customers with constant product quality.

⁴ Additional information on Circular Economy can be found [here](#).

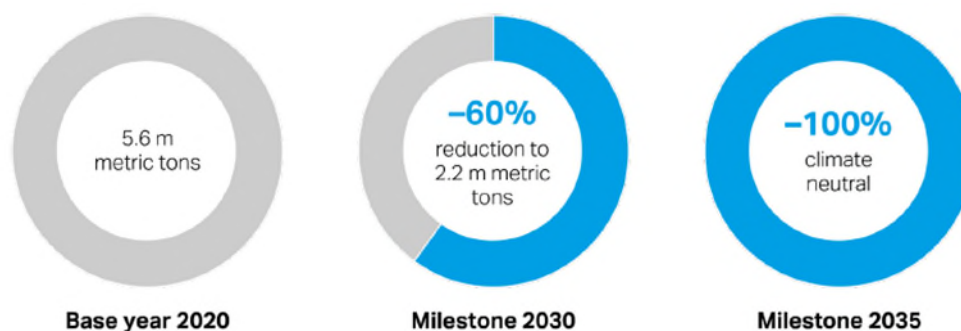
1.2. Climate Neutrality and Climate Targets

Covestro is committed to delivering on the 1.5 degree ambition of the Paris Agreement and the UN Sustainable Development Goals. Our corporate vision of becoming fully circular goes hand in hand with operating in a climate neutral way⁵.

In 2021, the global CO₂ roadmap was updated and will fundamentally be used to address and analyze direct and indirect sources of emissions in accordance with the Greenhouse Gas Protocol (“GHG Protocol”). Covestro already has a regular reporting system in place for Scope 1 and Scope 2 GHG emissions. In 2021, a system was established for reporting Scope 3 GHG emissions based on the GHG Protocol.

In the year 2022, we updated our global climate targets to align our goal of reducing greenhouse gas emissions with our new corporate vision, regulatory requirements as well as stakeholder expectations. In order to develop our new targets, we applied different scenarios, analyzed different methodologies, such as for setting science-based targets and incorporated the views of our stakeholders. In order to contribute in meeting with the 1.5 degree goal under the Paris Agreement ahead of the year 2050, we are determined to reach net zero Scope 1 and Scope 2 GHG emissions by the year 2035. As an intermediate goal we plan to deliver on a 60% emissions reduction for Scope 1 and 2 emissions by 2030, compared to 2020 levels.

Exhibit 4: Covestro’s targets* toward climate neutrality**



*Million metric tons of greenhouse gas emissions comprise Scope 1 (emissions from own production) and Scope 2 (emissions from external energy sources).

**Climate neutrality describes a state in which own activities do not affect the climate. Achieving Net zero greenhouse gas emissions is part of this and defined as a balance between anthropogenic greenhouse gas emissions (from own operations and energy procurement) and anthropogenic greenhouse gas removals.

Our goals are backed by a strong set of activities to ensure we meet them and we continuously look out for further actions in the process. We rely on technological measures to go beyond our previously successful and important energy efficiency projects. We are investigating options of nitric acid treatment as well as process technology measures in order to reduce our Scope 1 and Scope 2 emissions further. A number of procurement related activities complete the set of measures that will take us toward climate neutrality. We plan to double our efforts in purchasing renewable energy⁶. Steam is essential for our production, and we plan to elaborate further on possibilities to reduce the carbon footprint of steam use. Ultimately, technological approaches to carbon sinks will be explored. In the future, hydrogen is also expected to contribute substantially to the energy transition – for example, as part of CO₂ conversion for the generation of climate neutral sources of energy, for use as energy and as a raw material. We intend to deliver as far as technologically feasible absolute emission reductions. While we do our utmost and would there still be residual emissions unavoidable, we will as a last resort consider credible compensation measures.

The implementation of the activities specified above, and our continuous search for measures beyond those currently in use go hand in hand with a full transformation of our production sites. We are confident that our actions put us in a strong position to become fully circular and climate neutral. We are

⁵ Additional information on Climate neutrality can be found [here](#).

⁶ In the year 2021, we signed different power purchase agreements (PPAs) for renewable electricity supply, e.g., for our sites in Belgium, China and Germany.

determined to achieve our goal of net zero Scope 1 and Scope 2 emissions by 2035. In line with our vision to become fully circular, we will reduce greenhouse gas emissions across the full value chain stemming from purchased raw materials, logistics and other sources (scope 3) – with a more detailed commitment on this scope to be defined. Covestro intends to announce a reduction target for this by 2023. In addition, we have set the long-term goal that every product is to be offered in a climate neutral version in the future with major products already on offer today⁷.

2. Covestro Green Financing Framework

Covestro has established this Green Financing Framework (“Framework”) under which the company intends to issue green bonds and other green debt instruments to finance and/or refinance green products or projects with a clear benefit to environment and/or society as defined under 2.1 below.

This Green Financing Framework is based on the International Capital Markets Association’s (“ICMA”) Green Bond Principles (“GBP”) in their 2021 version⁸. These ICMA GBP constitute a set of voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of green financing instruments. The proposal for an EU Green Bond Standard has also been considered where possible. Any future changes in the standards mentioned above may be implemented in future versions of this Green Financing Framework.

The Green Financing Framework has four core components:

- 1) Use of Proceeds
- 2) Process for Project Evaluation and Selection
- 3) Management of Proceeds
- 4) Reporting

For each green financing instrument issued, Covestro asserts that it will adopt (i) Use of Proceeds (ii) Process for Project Evaluation and Selection (iii) Management of Proceeds and (iv) Reporting, as set out in this Framework.









The Green Financing Framework also follows the recommendations of the ICMA’s Green Bond Principles regarding external review.

2.1. Use of Proceeds







The net proceeds of Covestro’s Green financing instruments will be used to finance and/or refinance, in whole or in part, new or existing projects (assets, capital expenditures, operational expenditures including R&D) that meet the eligibility criteria defined below (“Eligible Green Projects”).

⁷ For more information please see our announcements on climate neutral [MDI](#) and climate neutral [PCS](#).

⁸ To be found [here](#)

ICMA GBP Categories	Eligible Green Projects	UN SDGs / EU environmental objective
Circular economy adapted products, production technologies and processes; and /or certified eco-efficient products	<p>Manufacturing activities, investments and R&D expenses related to products / solutions:</p> <ul style="list-style-type: none"> • based on or including alternative raw materials, enabling a reduction of CO2 impact, incl. bio- and bio-circular-attributed raw materials, CO2-based and waste-based raw materials, • for the manufacture and charging of electric vehicles, incl. battery casings, EV supply equipment and loading stations • for the production of clean energy, incl. polyurethane components of wind turbine blades, or • enhancing energy efficiency, incl. insulation products, • Innovative recycling solutions, incl. mechanical recycling, chemical recycling 	<p>Climate Change Mitigation</p> <p>Transition to a Circular Economy</p> <p>Pollution Prevention and Control</p>   
Energy efficiency	<p>Projects or activities related to:</p> <ul style="list-style-type: none"> • Heat Integration e.g. projects to re-use condensate or waste heat • Process optimization for energy efficiency (e.g. Adiabatic Isocyanate production technology or gas-phase technology) • Technology with improved energy efficiency (e.g. frequency converter, compressors, electrolysis membranes) 	<p>Climate Change Mitigation</p>  
Renewable energy	<p>Projects or activities related to:</p> <ul style="list-style-type: none"> • purchase of renewable energy pursuant to long-term power purchase agreements (“PPA”) or virtual power Purchase agreements (“VPPA”) entered into prior to the commencement of commercial operation of the renewable project that contribute to the expansion of renewable energy sources to the grids • replacement of natural gas by biogas in power and incineration plants <p>In addition, any projects or activities aligned with the technical screening criteria in the EU Taxonomy Climate Delegated Act⁹, including projects such as:</p> <ul style="list-style-type: none"> • wind power generation units • solar power generations units • wind/solar related installation and maintenance • cogeneration of heat/cool and power from renewable non-fossil gaseous and liquid fuels • cogeneration of heat/cool and power from bioenergy 	<p>Climate Change Mitigation</p>   

⁹ Where referenced, the “EU Taxonomy Climate Delegated Act” designates the Commission Delegated Regulation of 4.6.2021 supplementing Regulation 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives. The text is available [here](#).

ICMA GBP Categories	Eligible Green Projects	UN SDGs / EU environmental objective
Sustainable water and wastewater management	<p>Projects or activities related to:</p> <ul style="list-style-type: none"> water efficiency (e.g. multiple use of closed loop cooling systems, reduction of water losses through evaporation) water treatment installations e.g. decreased salt contamination or “Re-Salt” Technology: A Pioneering Treatment for Wastewater <p>In addition, any project or activities aligned with the technical screening criteria in a future EU Taxonomy Delegated Act¹⁰ related to “sustainable use and protection of water and marine resources”</p>	<p>Sustainable use and protection of water and marine resources</p>  
Pollution prevention and control	<p>Projects or activities related to:</p> <ul style="list-style-type: none"> reduction of the release of GHGs and other hazardous substances, e.g. reduce emissions of N2O waste prevention, reduction and recycling, e.g. improved resource efficiency to turn residue into products <p>In addition, any project or activities aligned with the technical screening criteria in a future EU Taxonomy Delegated Act related to “pollution prevention and control” as applicable.</p>	<p>Pollution prevention and control</p>  
Green Buildings	<p>Buildings that have received green building labels, including but not limited to:</p> <ul style="list-style-type: none"> BREEAM “Very Good” or above certification LEED “Gold” or above certification DGNB certification “Gold” and/or above NF HQE Bâtiment Tertiaire en Exploitation “Excellent” and/or above Nordic Swan Ecolabel <p>In addition, any projects related to the acquisition, ownership, construction or refurbishment of buildings aligned with the technical screening criteria in the EU Taxonomy Climate Delegated Act (paragraphs 7.1, 7.2, or 7.7 of the Delegated Act):</p> <ul style="list-style-type: none"> buildings built before 31 December 2020 either with an EPC label ≥ “A” or belonging to the top 15% of the national building stock in terms of Primary Energy Demand (PED) buildings built after 31 December 2020 with energy performance lower of at least 10% than the threshold set for nearly zero-building (NZEB) requirements renovated buildings that comply with the applicable requirements for major renovations renovated buildings with energy savings of at least 30% in comparison to the baseline performance before the building renovation 	<p>Climate Change Mitigation</p>  

¹⁰ Where referenced, „future EU Taxonomy Delegated Act” refer to delegated acts expected to be released regarding the remaining four EU environmental objectives, but which have not been published and approved in final form as of the date of publication of this framework. See [here](#).

2.2. Process for Project Evaluation and Selection

Sustainable Finance Committee

Covestro has established a Sustainable Finance Committee. The Sustainable Finance Committee is composed of representatives from Finance & Insurance and Sustainability & Public Affairs. Additional departments and subject matter experts will be invited as deemed appropriate. The Sustainable Finance Committee is responsible for:

- Reviewing the content of the Framework and potentially updating it to reflect changes in corporate strategy, technology, market, or regulatory developments on a best effort basis
- Initiating the update of non-Covestro documents such as Second Party Opinion (SPO) and related documents from external auditors as far as required
- Overseeing the allocation of the proceeds from green financing instruments to Eligible Green Projects, to ensure that the amount of Green Projects equals or exceeds the amount of green financing instruments, replacing those projects that no longer comply with the eligibility criteria
- Overseeing, approving and publishing the allocation and impact reporting, including external assurance statements.¹¹
- Considering the applicability of sustainable finance regulation such as the EU Taxonomy Regulation (including the EU environmental objectives, the technical screening criteria (TSC), the Do No Significant Harm criteria and minimum safeguards) and the proposed EU Green Bond Standard and introducing alignment on a best effort basis and as far as required.

The committee will meet at least on an annual basis.

Covestro's sustainability guidelines and policies

Covestro's sustainability commitments, guidelines and policies are considered as minimum standards for business conducted by Covestro, including any projects financed with the proceeds of green financing instruments issued under this Framework. They ensure that the environmental and social risks potentially associated with the Eligible Green Projects are properly mitigated via the due-diligence processes conducted by Covestro, and comply with national and international environmental and social standards, local laws and regulations.

Examples of commitments, internal policies and guidelines, which mitigate environmental/social/legal risks potentially associated with Eligible Green Projects, are¹²:

- UN Sustainable Development Goals
- Ten Principles of UN Global Compact
- Responsible Care® - the chemical industry commitment to sustainability
- Human Rights
- Slavery and Human Trafficking (UK Modern Slavery Act Statement)
- Water
- Handling Products Responsibly
- Corporate Compliance
- Responsible Lobbying
- Responsible Marketing & Sales

¹¹ Covestro may rely on external consultants and their data sources, in addition to its own assessment

¹² Current commitments, policies and guidelines can be found [here](#)

- Tax Transparency
- Conflict Minerals - Dodd-Frank Act, EU 2017/821

2.3. Management of Proceeds

Covestro intends to allocate the net proceeds from issued green financing instruments to Eligible Green Projects that meet the use of proceeds eligibility criteria defined under 2.1 of this Framework and in accordance with the evaluation and selection process presented above.

Covestro will strive, over time, to achieve a level of allocation to the Eligible Green Projects that matches or exceeds the balance of net proceeds from its outstanding green financing instruments. Additional projects may be added or removed to the extent required.

Eligible green assets and green capital expenditures shall qualify for refinancing without a specific look-back period, provided that at the time of issuance they follow the relevant eligibility criteria. Eligible green operating expenditures shall qualify for refinancing with a maximum three-year look-back period.

Pending the full allocation of an amount equivalent to the net proceeds, the unallocated amount will be managed within Covestro's regular treasury operations.

2.4. Reporting

Covestro will publish annually an allocation and impact report until full allocation of the proceeds and on a timely basis in case of material development.

Allocation report

The allocation report may provide:

- the total amount of green financing instruments issued
- the total amount of Eligible Green Projects by eligible project category
- the balance of unallocated proceeds
- the amount or the percentage of new financing and refinancing

Impact report

The impact report may provide:

- a description of the Eligible Green Projects by category
- the share of financing and refinancing, showing the percentage of the total Eligible Green Projects corresponding respectively to Projects financed during the reporting year and to Projects financed during previous reporting years
- metrics regarding the environmental impacts such as the indicators below and associated methodology calculation will be described

Covestro intends to align, on a best effort basis, the reporting with ICMA's "Handbook – Harmonized Framework for Impact Reporting (June 2021)"¹³. The Allocation and Impact reporting will be made available on Covestro's website.

ICMA GBP Categories	Potential Impact Indicators
Circular economy adapted products, production technologies and processes; and/or certified eco-efficient products	<ul style="list-style-type: none"> • Amount or percentage of sales of enabling products

¹³ To be found [here](#)

	<ul style="list-style-type: none"> • GHG emissions avoided/reduced (tons of CO₂e) through the use of Covestro products • Tons of alternative raw materials
Energy efficiency	<ul style="list-style-type: none"> • GHG emissions avoided/reduced (tons of CO₂e) • Energy savings of electricity (MWh/GWh)
Renewable energy	<ul style="list-style-type: none"> • Capacity of renewable energy constructed (MWh/GWh)
Sustainable water and wastewater management	<ul style="list-style-type: none"> • Annual water savings
Pollution prevention and control	<ul style="list-style-type: none"> • Pollutant emissions or release to air or water reduced
Green buildings	<ul style="list-style-type: none"> • Number of green buildings labels • GHG emissions avoided/reduced (tons of CO₂e)

3. External Review

Second Party Opinion

Covestro will obtain an independent verification assessment to confirm the alignment of the Framework with the ICMA's Green Bond Principles.

The Second Party Opinion document will be made available on Covestro's website¹⁴, together with this Framework.

External verification

Covestro intends to engage an external auditor or other independent third party to verify the allocation of proceeds in accordance with this Framework.

4. Disclaimer

This document is intended to provide non-exhaustive, general information. The document may contain or incorporate by reference public information not separately reviewed, approved or endorsed by Covestro and accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by Covestro as to the fairness, accuracy, reasonableness or completeness of such information. The information and opinions contained in this document are provided by Covestro as at the date of this document and are subject to change without further notice.

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