



# We Will Be Fully Circular

Sustainability @ Covestro  
Covestro 2021



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# Inventor and leader in high-tech material solutions

## Covestro at a glance



### WHAT WE DO

Covestro is among the world's largest polymer companies. Business activities are focused on the manufacture of high-tech polymer materials and the development of innovative solutions for products used in many areas of daily life.

The main segments served are the automotive, construction, wood processing and furniture, and electrical and electronics industries. Other sectors include sports and leisure, cosmetics and health.

Together with our partners and customers, we are taking big steps to tackle a fundamental challenge: Shifting towards a Circular Economy.

To achieve this bold goal, we are innovating efficient ways to close energy and material cycles. We are pushing boundaries in polymers.

### WHAT WE STRIVE FOR

#### Purpose



To make the world a brighter place

#### Vision



We will be fully circular

#### Values



Curious, courageous, colorful

#### Goals



Financial 2021 and non-financial 2025 goals

€10.7bn

Sales 2020

16,500

Employees (in FTE) 2020

#1

Global producer of PU and its derivatives as well as PC<sup>(a)</sup>

# Setting the path for tomorrow

## New Covestro strategy 'Sustainable Future'



### BECOME THE BEST OF WHO WE ARE



Transform the company to exploit its full potential



### DRIVE SUSTAINABLE GROWTH



Address sustainability in a profitable way



### BECOME FULLY CIRCULAR



Accelerate the transition to a fossil-free economy

ADVANCE DIGITALIZATION

EXPAND 'WE ARE 1' CULTURE

# Pursuing long-term goals that transform the company

## Covestro strategic objectives

### BECOME THE BEST OF WHO WE ARE



Raise mid-cycle EBITDA from ~€2.2bn to ~€2.8bn in 2024



Maintain fixed costs unchanged until 2023, based on 2020



Improve EBITDA margin of S & S segment to 17% in 2024

### DRIVE SUSTAINABLE GROWTH



Grow by long-term average capex slightly above D&A



Complete MDI world-scale expansion by 2026



Pursue options for bolt-on acquisitions in S & S segment

### BECOME FULLY CIRCULAR



Invest in CE projects almost €1bn of capex over 10 years



Produce 100% of our products from alternative raw materials long-term

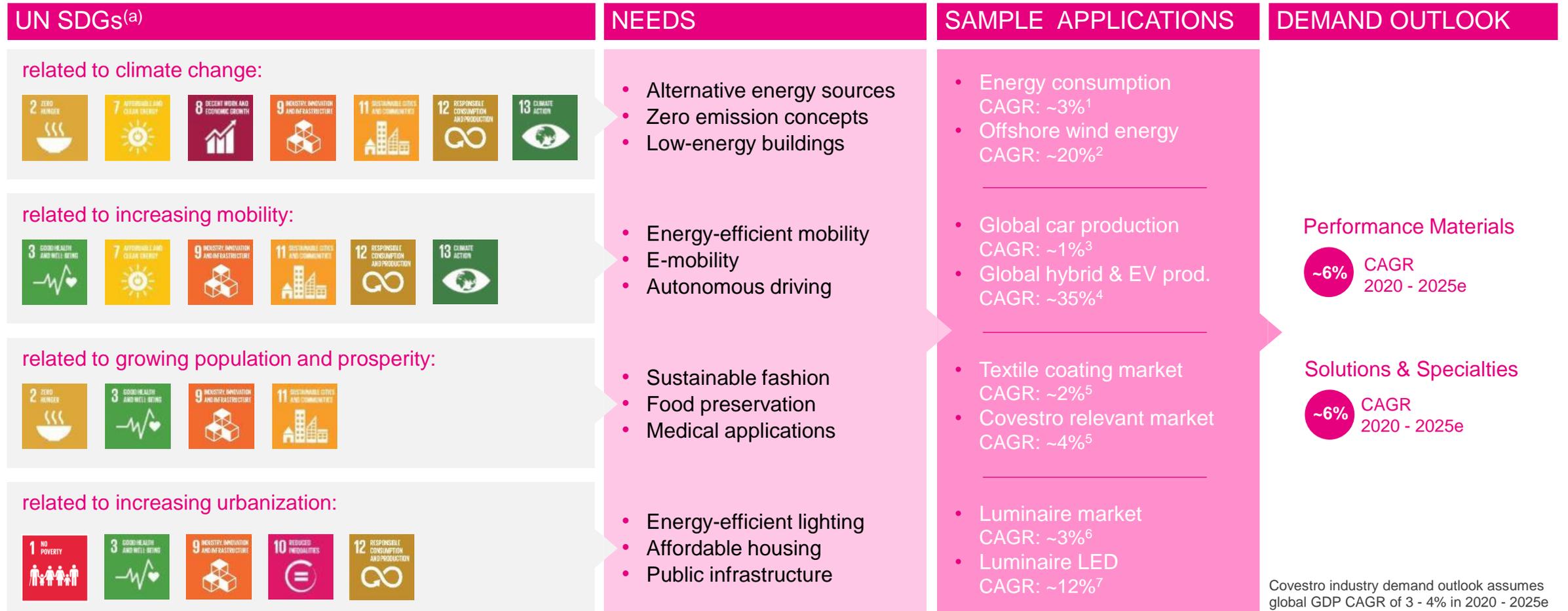


Transform polymer research through increasing investments in digital R&D

# Our innovative products tap into attractive new markets



## Structural growth drivers

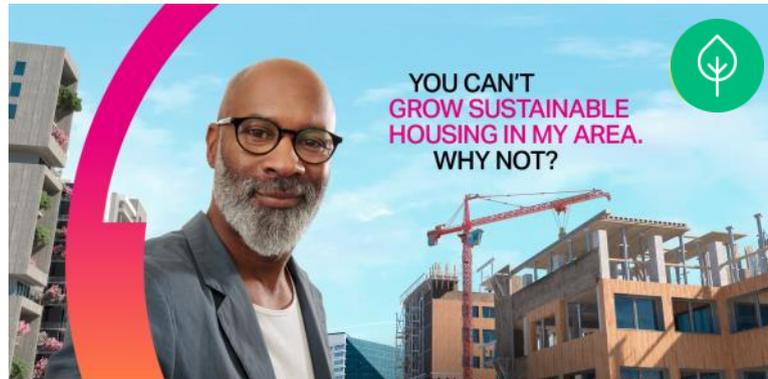


Notes: (a) Most impacted goals out of 17 Sustainable Development Goals, set by the United Nations' "2030 Agenda for Sustainable Development"; (b) Comprises MDI, TDI and polyether polyols; (c) Shows PU raw materials industry demand in coatings, adhesives, sealants (excl. architectural/textiles coatings /solvent-borne polyacrylates); plus TPU, elastomers and PC/TPU films  
 1) Covestro estimates for 2020-2025, based on BP, Energy Outlook, 2017 for 2015-2020 based on million tons oil equivalent; 2) GWEC, Global Wind Executive Council: Annual-Wind-Report 2019 for 2020-2025; 3) LMC, Aug 2020, for years 2019-2023 4) LMC, Aug 2020, for years 2018-2023; 5) Covestro estimates for 2019-2023; 6) Covestro estimates for 2020-2025; 7) Covestro estimates based on LEDinside report H2 Y2020 (CAGR 2018-24) and Global Luminaires and Lighting Market Analysis and Forecast 2016, PennWell for 2015-2022

# Over products positively impact sustainability in our daily lives



## Covestro product applications



### PU RAW MATERIALS



Increasing energy efficiency of buildings through materials and technologies for insulation



CO<sub>2</sub>-based polymers used in mattresses saving crude oil, e.g. cardyon®



Food preservation along the cool chain



### ENGINEERING PLASTICS



Enabling electro-mobility with materials for battery housings, housings for charging stations



Recycled content grades on a virgin performance level



Use in protective gear and medical applications, e.g. drug delivery devices



### SOLUTIONS & SPECIALTIES



Waterborne coatings and adhesives, replacing solvent



Bio-based raw materials to improve CO<sub>2</sub> footprint, e.g. Baycusan® eco

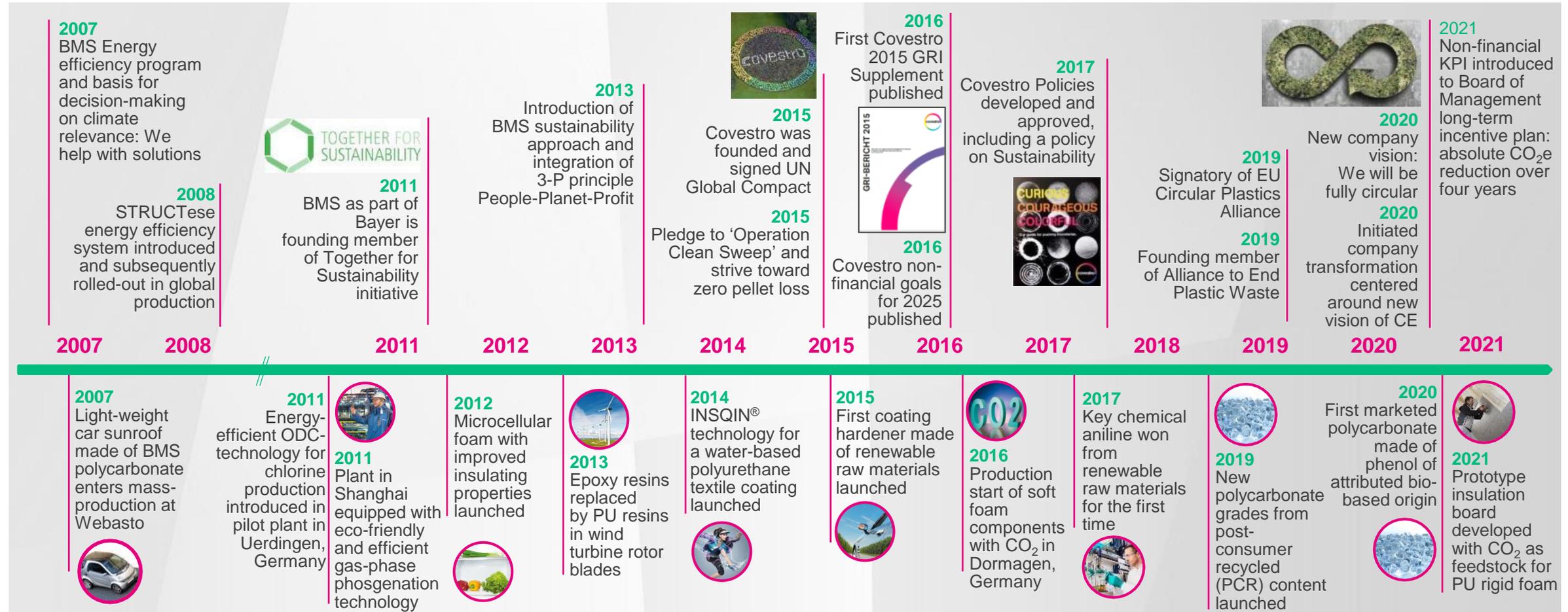


Fully recyclable shoes made from thermoplastic PU powder and filament

# Long history of innovations inspired by sustainability



## Covestro milestones in sustainability



# On track to achieve our ambitious non-financial targets

## Covestro non-financial targets for 2025



1

80% of project expenditures for R&D go toward areas that contribute to UN SDGs

Achievement: 51% of R&D project expenditures in 2020



2

100% of our suppliers comply with our sustainability requirements

Achievement: 79% by end of 2020



3

Reduce specific greenhouse gas emissions by 50% from the benchmark in 2005

Achievement: -46.2% by end of 2020



4

Ten million people in underserved markets benefit from our solutions

Achievement: 1.1 million people by end of 2020



5

Extract the maximum benefit from carbon and increase carbon productivity

Achievement: Company vision to become fully circular announced in 2020, corporate goal setting under way



# Comprehensive set of KPIs and goals underway

## Covestro non-financial disclosure



CO<sub>2</sub>e reduction KPI introduced for top management since Jan. 2021

LTI remuneration

STI remuneration

Addition of non-financial KPI in preparation for 2022

Data submitted, first rating pending and to be published soon

CDP Climate 2021

Scope 3 GHG emissions

In preparation for FY 2021 reporting, data to be audited by KPMG

According to TCFD standard in preparation for FY 2021 reporting

Climate-related disclosure

EU Taxonomy

Disclosure according to Non-Financial Reporting Directive (NFRD) in preparation for FY 2021 reporting

Inclusion of non-financial KPI in preparation for 2022

Core KPIs

Climate neutrality target

Absolute CO<sub>2</sub>e reduction target for scope 1 and 2 emissions, in preparation for 2022

# Categorizing material topics determines management approach



## Material topics at Covestro

### WE INNOVATE

Topics with high stakeholder relevance and high impact and influence of Covestro that require innovation of management approaches

#### Circular and climate-neutral economy

- Business models
- Renewable energy
- Alternative raw materials
- Recyclability and end-of-life solutions
- Greenhouse gas emissions

#### Solutions contributing to UN SDGs

- Sustainable innovation portfolio
- UN SDG-conform product portfolio
- Inclusive business

#### Corporate culture

- Employer attractiveness
- Diversity, equity and inclusion



### WE MANAGE

Topics with high stakeholder relevance and high impact and influence of Covestro for which management approaches are in place

#### Environmental impact of own operations

- Waste
- Air quality
- Water and wastewater

#### Health and safety

- Product safety
- Process and plant safety
- Health and safety of workforce

#### Responsible business practices

- Compliance
- Community engagement
- Human rights due diligence
- Sustainability in sourcing
- Transparency and trust



### WE ADHERE TO

#### Responsible governance

- Corporate Governance
- Board responsibilities and oversight
- Board skills and diversity
- Board compensation system
- Tax transparency

# MATERIAL TOPICS THAT PUSH US TO INNOVATE OUR MANAGEMENT APPROACHES

Examples of full list of material topics on p. 11

# Our vision: we will be fully circular

Material topic **Circular and climate neutral economy** Business models

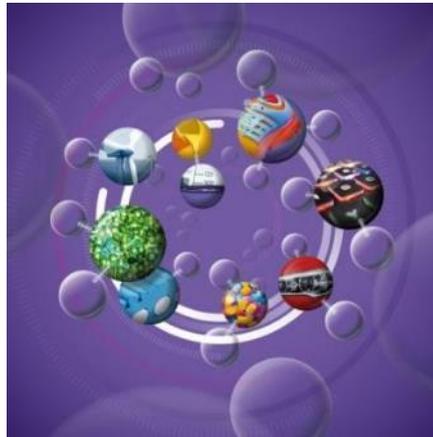
“ BY CLOSING THE MATERIAL AND CARBON LOOP,  
WE AIM TO BECOME CLIMATE-NEUTRAL

Alternative raw materials

Innovative recycling

Renewable energy

Joint solutions



Biomass, CO<sub>2</sub>, used materials and waste can replace fossil resources

Energy-efficient technologies allow more used products and waste to be recycled

Wind and sun: clean energy must power the circular economy

Cross-industry collaboration is needed to bring the circular economy forward

**N°5** Non-financial target

Our goal is to extract the maximum benefit from carbon. Increasing carbon productivity enables us to create more value with fewer carbon-based fossil resources

Achievement: new company vision announced in 2020, corporate goal setting under way



# Goal to obtain 100% of our electricity from renewable sources long-term



Material topic Circular and climate neutral economy Renewable energy

## ONSHORE WIND



- PPA with ENGIE signed in 2021, covering a capacity of 39 MW from 15 newly constructed wind turbines since April 2021
- About 45% of our site's electricity demand in Antwerp, Belgium, covered by renewable energy, saving about 39kt of CO<sub>2</sub>e emissions annually

## OFFSHORE WIND



- PPA with Ørsted signed in 2019 for offshore wind energy, to be newly built in the North Sea
- Starting in 2025, Ørsted to provide 100 MW of electricity for 10 years, covering c. 10% of electricity consumed by Covestro in Germany

## SOLAR



- PPA with Datang Wuzhong New Energy Co. signed in 2021 for power from solar farms in China's northwest region Ningxia
- Agreement covers 100 MW capacity, equivalent to c. 10% of our site's annual electricity demand in Shanghai, PRC

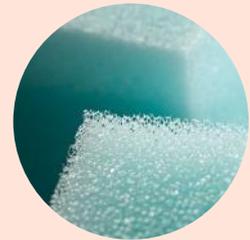
# Goal to produce 100% of products from alternative raw materials long-term



Material topic **Circular and climate neutral economy** Alternative raw materials

## CO<sub>2</sub>-BASED

- 11 products commercialized
- 14 running R&D projects



**Example**  
**Performance Materials**  
CO<sub>2</sub> as raw material

- CO<sub>2</sub> replaces up to 20% of crude oil-based feedstock of polyols
- Demo plant of 5kt p.a. at Dormagen site and product brand cardyon® launched in 2016
- Recticel promotes foam mattresses with portions of oil content replaced by CO<sub>2</sub>-based chemicals
- Sports flooring producer Polytan installed first elastic subfloor using cardyon® as binder

## WASTE-BASED

- 21 products commercialized
- 46 running R&D projects



**Example**  
**Engineering Plastics**  
Recycled polycarbonates

- New polycarbonate grades from post-consumer recycled (PCR) content, e.g. water bottles or auto-motive lighting
- Open loop recycling system to collect, sort, shred and clean material
- PCR grades contain up to 75% of recycled content with up to 50% reduced carbon footprint
- PCR grades are used in various consumer electronics applications for a second life

## BIO-BASED

- 13 products commercialized
- 28 running R&D projects



**Example**  
**Coatings and Adhesives**  
Bio-based car top coat

- Enabling customers to optimize the CO<sub>2</sub> footprint of their products
- New hardener for automotive coatings with carbon basis up to 70% from renewable raw materials
- No compromises with regards to protective functions and appearance
- Collaboration with automotive group Audi and the coating experts at BASF Coatings

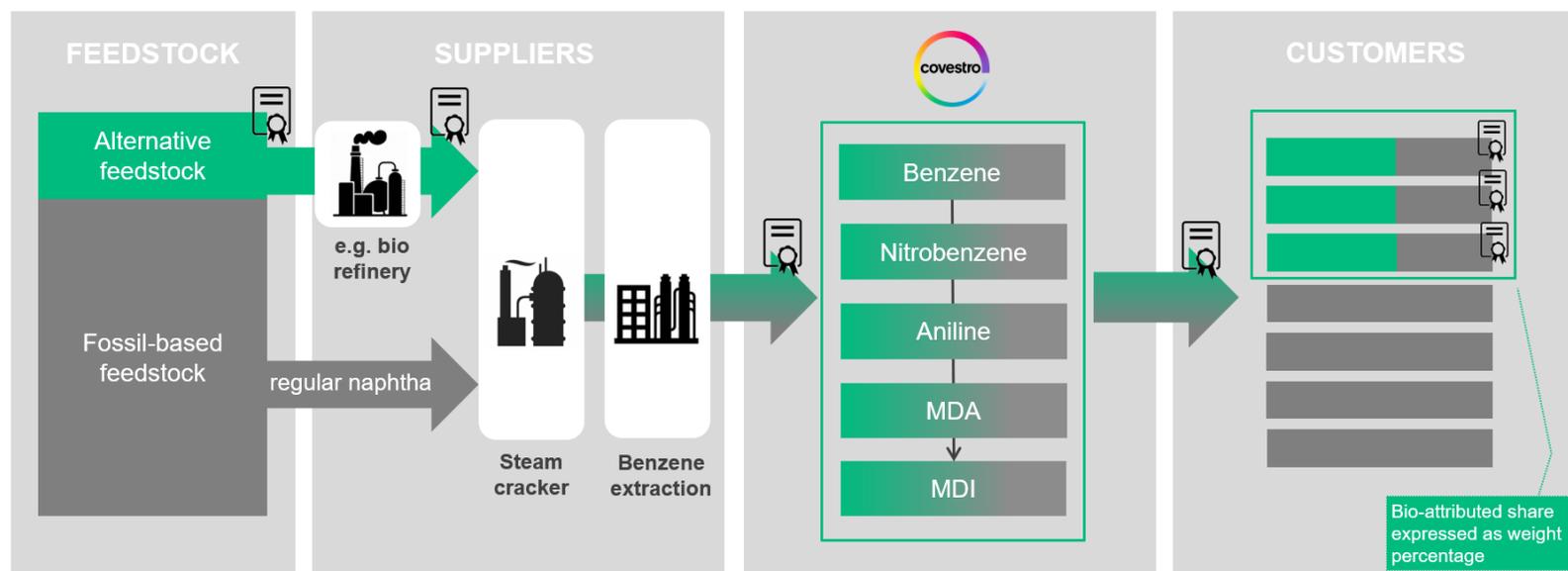
# Certified alternative feedstock lower attributed CO<sub>2</sub> footprint of products



Material topic Circular and climate neutral economy Alternative raw materials

## EXAMPLE MDI

Conceptual illustration



ISCC Plus certification

## MASS BALANCE APPROACH

### Principle

- Mass balance is a chain of custody method
- Fossil and alternative feedstock mixed in production but separated in bookkeeping
- Tracks materials through the value chains and allows attribution of alternative feedstock to selected end products
- ISCC standard applies to all stages of the value chain and is recognized worldwide

### Advantages

- Alternative raw materials are introduced into the value chain as drop-in solution
- Taking advantage of existing chemical infrastructure with its high efficiency and economies of scale
- Product quality and properties remain the same

# Certified alternative feedstock serve as drop-in solutions



Material topic **Circular and climate neutral economy** Alternative raw materials

## ALTERNATIVE PHENOL

- ISCC Plus-certified raw material
- Drop-in precursor for PC



- First delivery of 1,000 tons of ISCC Plus-certified mass balanced phenol received in Q4 2020, another 2,000 tons received in Q1 2021
- Neste produced ISCC Plus-certified 100 percent bio-based hydrocarbons from renewable raw materials, such as waste and residual oils / fats
- Borealis converts hydrocarbons from Neste into ISCC Plus-certified phenol and acetone

## ALTERNATIVE BENZENE

- ISCC Plus-certified raw material
- Drop-in precursor for MDI



- First delivery of 2,000 tons of ISCC Plus-certified mass balanced benzene received in Q1 2021
- Resulting product quality on par with petrochemical-based MDI
- Drop-in solution with alternative raw material helps clients to reduce carbon footprint

## PRODUCTION SITES

- ISCC Plus-certification for Covestro production sites



- ISCC Plus-certification for Covestro sites received
  - for PC made in Antwerp, Belgium, Uerdingen, Germany, and Shanghai, PRC
  - for MDI made in Uerdingen, Germany, and Shanghai, PRC
- Drop-in solutions for customers with constant product quality compared to fossil-based product

# Attractive terms for certified alternative MDI as adhesive raw material



Material topic Circular and climate neutral economy Alternative raw materials



- **Covestro and leading adhesives provider H. B. Fuller announced supply agreement in July 2021**
- **H.B. Fuller to become first customer for adhesive applications with a mass-balanced product**
- **New, strategic product development as commitment to jointly work towards a more sustainable world**

## Mission

- Replace c. 60% of fossil raw materials in MDI by certified alternative precursors
- Significantly improve carbon footprint of product
- Multi-year supply agreement with attractive terms for both parties

## Challenge

- Use new solution in existing manufacturing processes without technical conversions
- No inferior product quality compared to conventional alternative

## Solution

- Covestro to supply MDI as adhesive raw material with attributed share of renewable feedstock via ISCC-Plus certified mass-balance
- Alternative raw materials used as a basis at the very beginning of the value chain and processed together with fossil ingredients

## Target applications

- Drop-in solution for H.B. Fuller's reactive hot-melt adhesive
- Adhesive mainly used in automotive, wood, composite and textile industries
- Likely extension of new adhesive solution into other products and areas of production

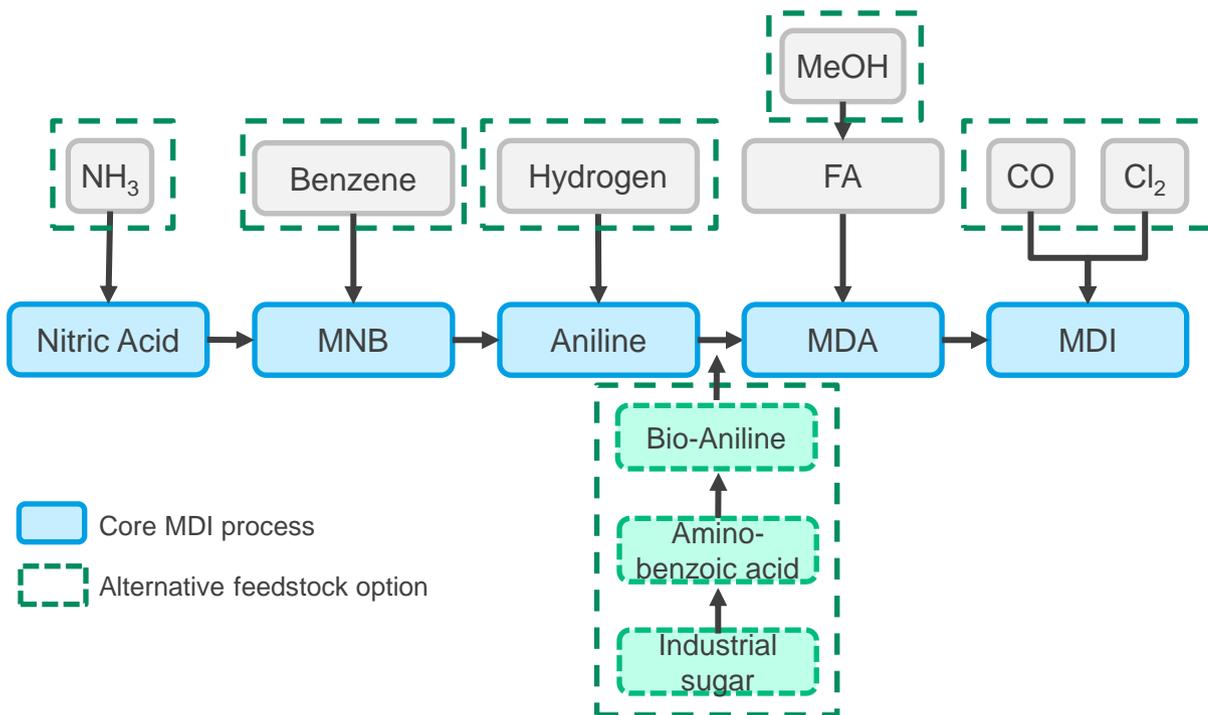
# Certified alternative MDI possible with current technology and assets



Material topic Circular and climate neutral economy Alternative raw materials

## PRODUCTION PROCESS – MDI

Conceptual illustration



## OPTIONS TO PRODUCE ALTERNATIVE MDI

### Alternative raw materials as potential drop-in solutions

- Certified alternative benzene via mass balance
- Hydrogen (H<sub>2</sub>) from chlor-alkali electrolysis or water electrolysis based on renewable energy (green H<sub>2</sub>)
- Ammonia (NH<sub>3</sub>) from conventional process based on green H<sub>2</sub>
- Methanol (MeOH) from industrial waste CO<sub>2</sub> plus green H<sub>2</sub> with mass balance approach
- CO from waste or biogas-fed steam-methane-reformer incl. CO<sub>2</sub> recycling

Commercial

Commercial

Commercial

Pre-Commercial

Commercial

### Alternative energy

- Energy from renewable sources, e.g. wind

Commercial

### Alternative precursor

- Bio-aniline based on industrial sugar in development, using proprietary technology

Early R&D

**Global availability of drop-in solutions for alternative MDI raw materials results in low risk for future stranded assets**

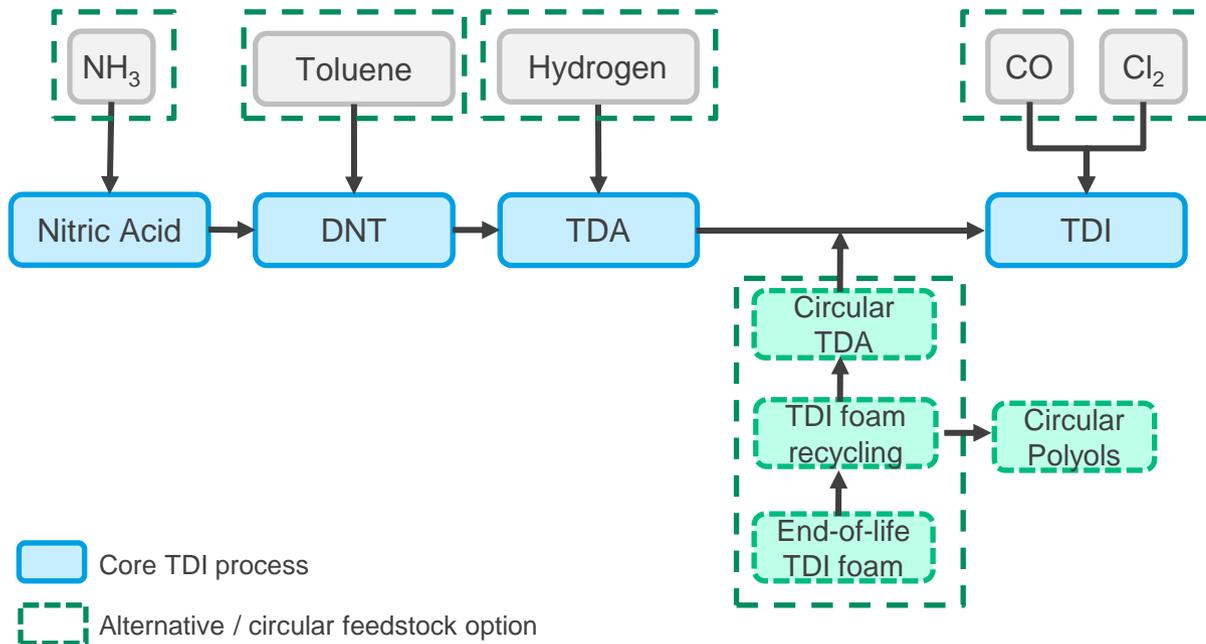
# Certified alternative TDI possible with current technology and assets



Material topic Circular and climate neutral economy Alternative raw materials

## PRODUCTION PROCESS – TDI

Conceptual illustration



## OPTIONS TO PRODUCE ALTERNATIVE TDI

### Alternative raw materials as potential drop-in solutions

- Certified alternative toluene via mass balance
- Hydrogen (H<sub>2</sub>) from chlor-alkali electrolysis or water electrolysis based on renewable energy (green H<sub>2</sub>)
- Ammonia (NH<sub>3</sub>) from conventional process based on green H<sub>2</sub>
- CO from waste or biogas-fed steam-methane-reformer incl. CO<sub>2</sub> recycling

Commercial

Commercial

Commercial

Commercial

### Alternative energy

- Energy from renewable sources, e.g. wind

Commercial

### Alternative precursor

- Circular TDA based on recycled TDI-foam, e.g. recycling of mattresses, as supplementing TDA source possible, using proprietary technology

Pre-Commercial

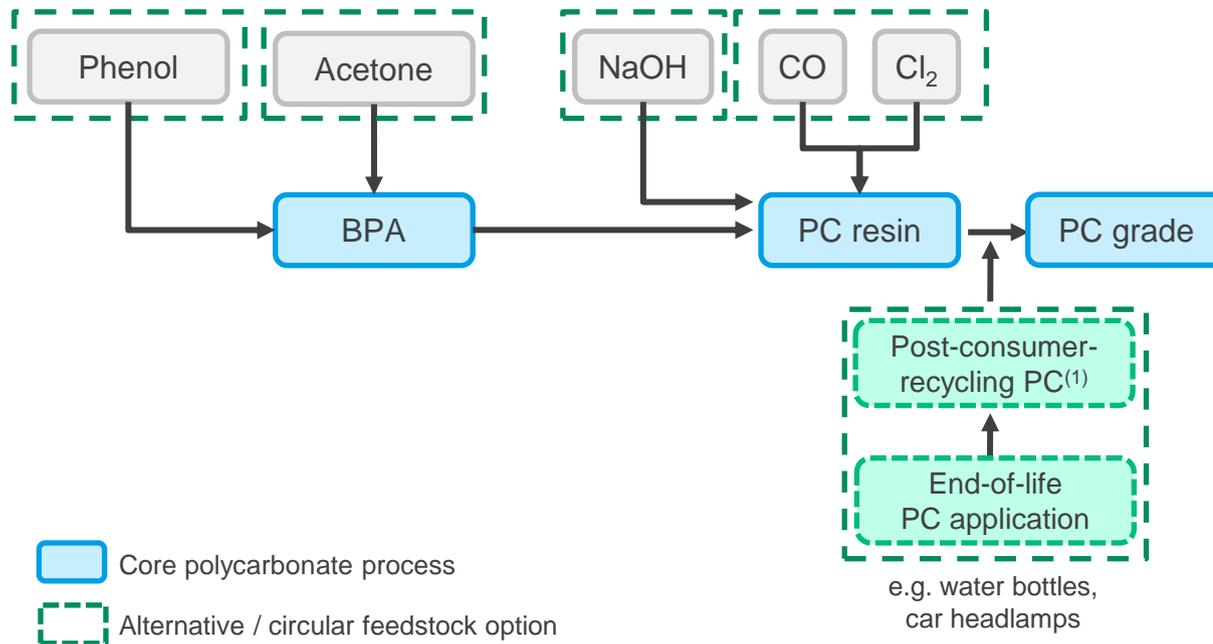
**Global availability of drop-in solutions for alternative TDI raw materials results in low risk for future stranded assets**

# Certified alternative PC possible with current technology and assets

Material topic **Circular and climate neutral economy** Alternative raw materials

## PRODUCTION PROCESS – POLYCARBONATES (PC)

Conceptual illustration



## OPTIONS TO PRODUCE ALTERNATIVE PC

### Alternative raw materials as potential drop-in solutions

- Certified alternative phenol via mass balance **Commercial**
- Certified alternative acetone via mass balance **Commercial**
- Chlorine (Cl<sub>2</sub>) and caustic soda (NaOH) from chlor-alkali electrolysis based on renewable energy **Commercial**
- CO from waste or biogas-fed steam-methane-reformer incl. CO<sub>2</sub> recycling **Commercial**

### Alternative energy

- Energy from renewable sources, e.g. wind **Commercial**

### Alternative precursor

- Polycarbonate based on post-consumer recycling (PCR) grades from e.g. water bottles, car headlamps; also pre-consumer recycling (PIR) **Commercial**
- Circular feedstock likely as supplement and mixed with virgin resins to achieve desired material properties<sup>(1)</sup>

**Global availability of drop-in solutions for alternative PC raw materials results in low risk for future stranded assets**

# Re-shaping the PU value chain for soft foams into a closed loop



Material topic Circular and climate neutral economy End-of-life solutions

## COVESTRO TECHNOLOGY

- Chemical recycling of polyurethane (PU) mattress foams
- Proprietary process for recovering *both* PU components polyol and TDA
  - rPolyol in high purity and quality enables high content of recycled raw material in existing plants
  - rTDA fulfills specifications for conversion into TDI in existing plants
- Preliminary LCA with significant improvement of the CO<sub>2</sub> footprint compared to fossil route, meeting high customer and consumer demand
- Shared IP on high accuracy, high yield foam sorting – process to be covered by industrial partner

## FUTURE PU SOFT FOAM LOOP

Conceptual illustration



## INDUSTRIAL SCALE-UP

- Q1 2021 **Pilot plant** started up
- mid 2020s **Commercial plant** in early planning
- early 2030s **Further scale-up** subject to demand and technology

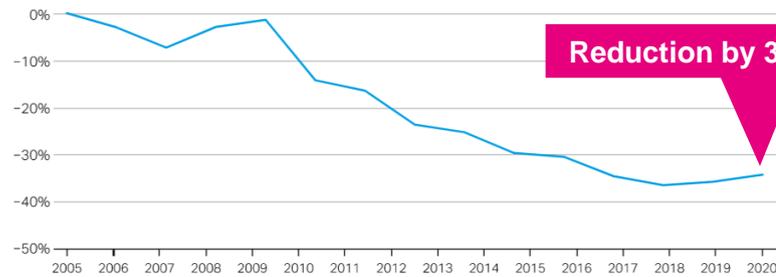
# Underway to halve specific greenhouse gas emissions

Material topic Circular and climate neutral economy GHG emissions

## Specific energy consumption

### Development of specific energy usage at our main production sites

(Change in specific primary energy usage per metric ton of product, compared with the base year 2005, expressed in %)<sup>1</sup>

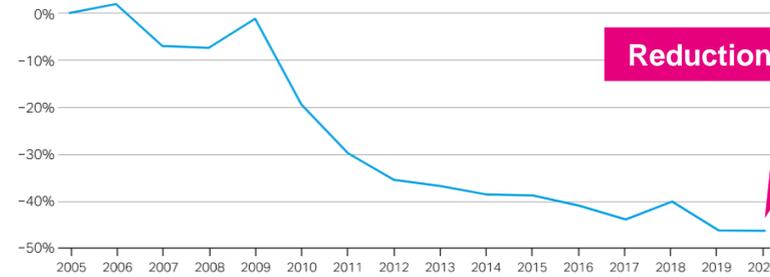


- Specific energy consumption improved by 34%; goal to reduce by 50% until 2030
- STRUCTese energy efficiency system contributed lasting reductions of 2.32 mio. MWh of primary energy, or around 700,000 metric tons of CO<sub>2</sub> p.a. since 2008
- Measures in 2020 resulted in savings of 58,000 MWh in primary energy or 12,000 metric tons of CO<sub>2</sub> emissions
- STRUCTese compares and bridges Covestro-wide actual energy consumption with the potential optimum

## Specific greenhouse gas (GHG) emissions

### Development of specific greenhouse gas emissions

(Cumulative annual change in the specific greenhouse gas emissions per metric ton of product manufactured, compared with the base year 2005 – expressed in %)<sup>1</sup>



- Specific GHG emissions reduced by 46%
- Improvement of energy efficiency is key lever to significantly lower our specific GHG emissions (scope 1+2)
- Continued investments in process innovation improve production efficiency and specific energy use

**N°3** Non-financial target

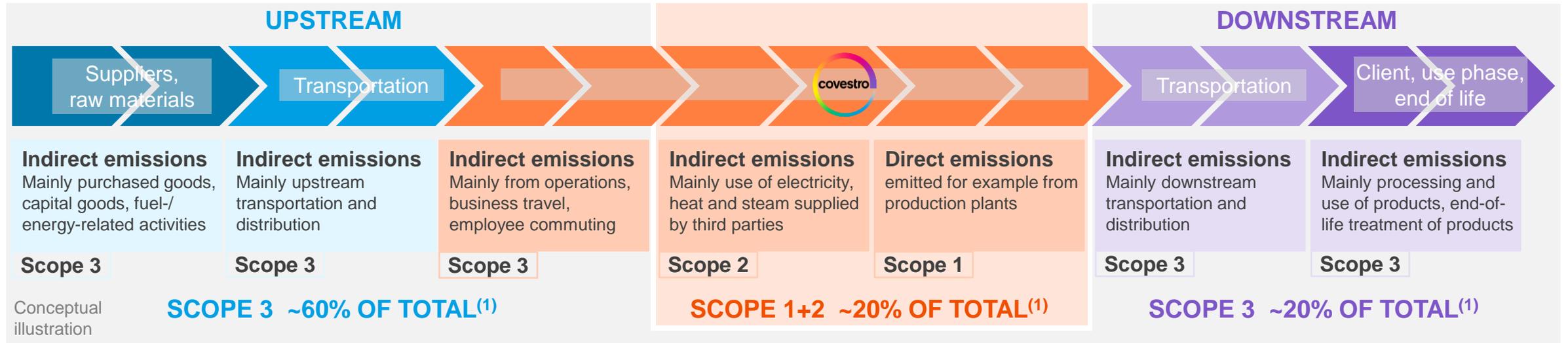
By 2025, specific greenhouse gas emissions per metric ton of product manufactured to be reduced by 50% from the 2005 benchmark

Achievement: -46.2% by end of 2020 vs 2005 benchmark

# Progress toward climate neutrality with existing technologies and assets

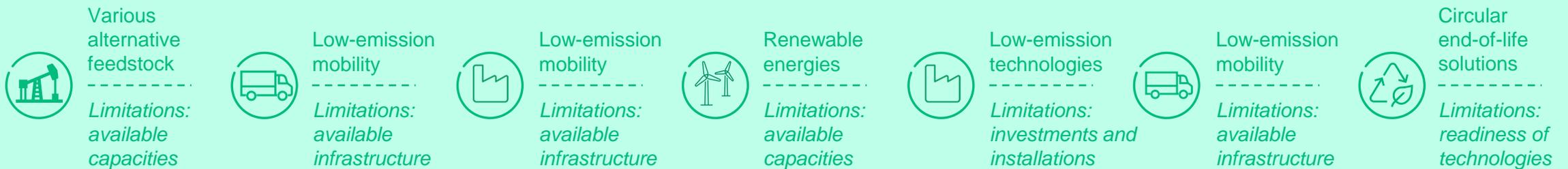


Material topic Circular and climate neutral economy GHG emissions



## EXISTING OPTIONS AND CURRENT LIMITATIONS TO REDUCE GHG EMISSIONS

Selective examples only



# Sustainability-driven innovations, innovation-driven sustainability



Material topic Solutions contributing to UN SDGs Sustainable innovation portfolio



- Research & Development activities aligned with the People Planet Profit principle since 2013
- Focus on the UN Sustainable Development Goals (UN SDGs)
- Capture promising growth opportunities with innovative sustainable solutions

€262m	R&D expenditure in 2020
1,205	R&D employees (FTE) in 2020
201	Patent applications in 2020
~18%	of 2020 net sales with new products (not >5 years)

**N°1** Non-financial target

By 2025, 80% of project expenditures for research and development will go toward areas that contribute to reaching the UN SDGs

Achievement: 51% of R&D project expenditures in 2020

# Bring product innovations to people in underserved markets



Material topic Solutions contributing to UN SDGs Inclusive business



## Solar dryer domes

- Polycarbonate sheets-based solutions for smallholder farmers
- Avoid food wastage after harvest, benefitting farmers economically
- Locations: Thailand, Vietnam, Myanmar, India, Indonesia, Cambodia, Malaysia, Philippines
- About 2,200 units installed



## Hygienic sanitation

- Toilets based on polyurethane rigid foam (PIR)
- Solutions for fecal sludge management and water farms
- Locations: India, Malaysia
- About 840 units installed



## Affordable houses

- Constructions based on polyurethane rigid foam (PIR)
- Affordable building material with outstanding insulation and mechanical properties
- Locations: Iraq, Malaysia, Philippines, India
- About 80 units installed

“Our Inclusive Business activities positively contribute to **13** out of **17** UN SDGs

**Nº4** Non-financial target

We want ten million people in underserved markets to benefit from our solutions by 2025

Achievement: 1,100,000 people by end of 2020

# Global Covestro diversity & inclusion initiatives support UN SDGs

Material topic Corporate culture Diversity, equity and inclusion



# MATERIAL TOPICS THAT WE MANAGE WITH EXISTING MANAGEMENT APPROACHES

Examples of full list of material topics on p. 11

# Covestro risk-based water approach expanded



Material topic Environmental impact of own operations Water and wastewater

## Risk

Growing world population and climate change will lead to changes in the global water situation:

- **Water scarcity** may limit water access for manufacturing companies which may not be sufficient for 100% production
- **Flooding** may impede production by destroying transport routes, supply chains or production facilities

**Covestro relies on water supply as ~80% of water usage is once-through cooling water**

**Risk-based approach helps to spot risks at an early stage and to identify potential for improvement**

**Our objective: Further develop the risk-based water approach and establish a global water community**

## Measure

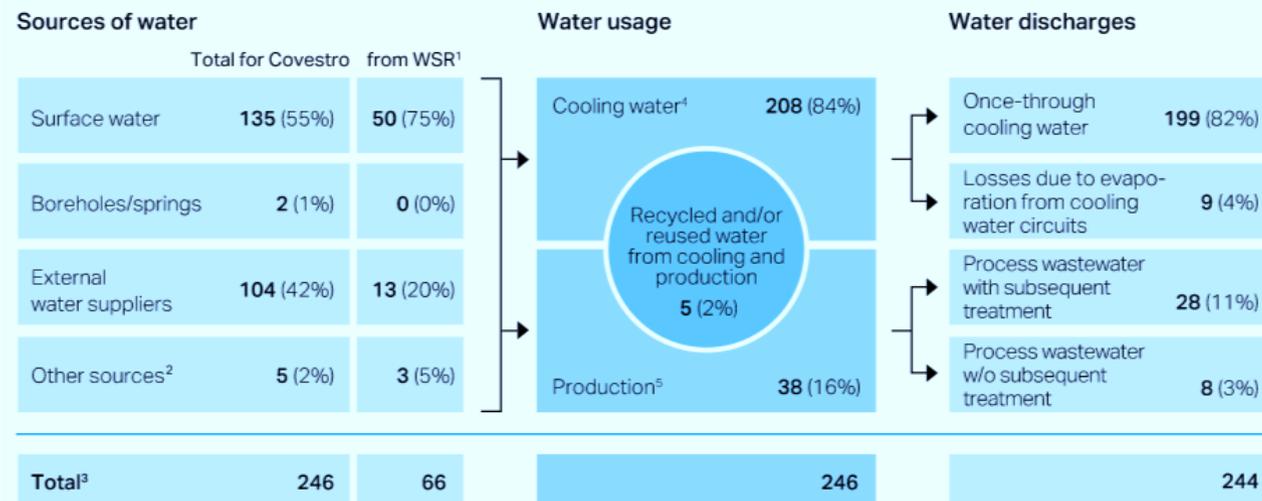
- Analysis of physical water risks conducted for all Covestro sites
- Site evaluation by occurrence probability and economic loss
- Implementation of information management system
- “Covestro Water Community” serves as a global platform for exchange of information and best practices between sites



# Over 80% of water usage is once-through cooling water

**Material topic** Environmental impact of own operations **Water and wastewater**

## Use of water in the year 2020 (million cubic meters)



<sup>1</sup> Water stress regions.

<sup>2</sup> e.g., rainwater.

<sup>3</sup> Differences between the volumes of water drawn and discharged can be explained in part through unquantified evaporation, leaks, water used as a raw material in products, and condensate from the use of steam as a source of energy.

<sup>4</sup> Also includes water for irrigation purposes.

<sup>5</sup> Total from production processes, sanitary wastewater, and rinsing and purification in production.

## 2020 highlights

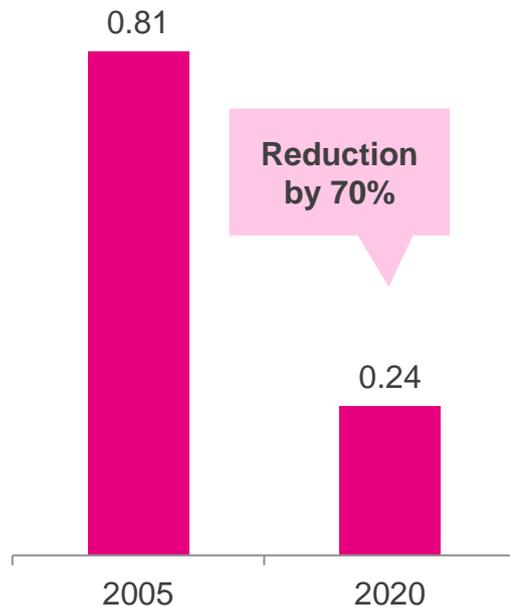
- 246 million cubic meters overall water usage, below previous year
- Once-through cooling water accounts for 199 million cubic meters or over 80% of this figure, representing most of the used water
- Once-through cooling water is only heated, does not come into contact with products and can be returned to the water cycle without further treatment (in line with relevant permits)
- 2 million cubic meters was total water consumption, equal to the difference between total water used and total water discharged
- Total water consumption is calculated according to GRI Standard 303-5 (2018)

# Our priority: Nothing we do is worth getting hurt for

**Material topic** Health and safety Health & safety of workforce / Process & plant safety

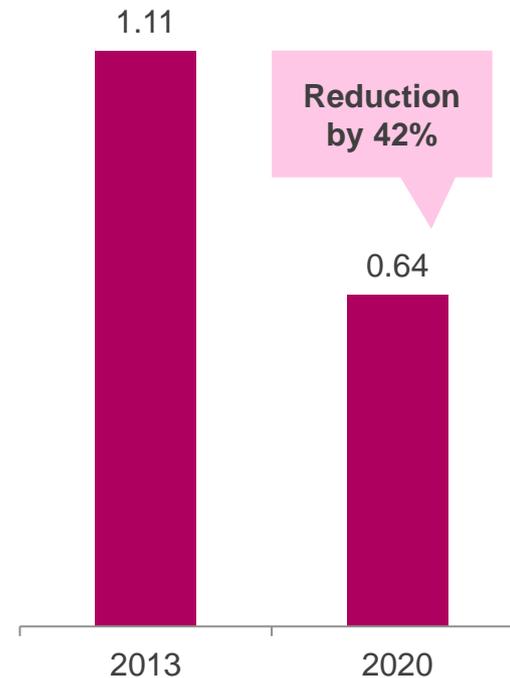
## Occupational safety

Recordable Incident Rate  
RIR<sup>(a)</sup>



## Plant & process safety

Loss of Primary Containment  
Incident Rate, LoPC IR<sup>(b)</sup>



- Continuous improvement of a safe work environment as key component of corporate responsibility and corporate culture
- Integrated management system implemented throughout Covestro to report and process work incidents and potential hazards
- Active safety and incident awareness and prevention campaigns, e.g. CEO Safety Award awarded for 12th time in 2020 during global Covestro Safety Day
- We aim for safe processes and plants that avoid unacceptable risks to our employees, neighbors and the environment
- Long-term we aim to prevent workplace accidents and occupational illnesses entirely

# Taking a broad view on human rights throughout our value chains

**Material topic** Responsible business practices Human rights due diligence



“ Human Rights Due Diligence requires Covestro to continuously monitor and evaluate processes with regards to potential and actual human rights violations

“ A cross-departmental Human Rights Task Force established in 2020 drives the implementation of a comprehensive human rights management system and reports to the Board of Management twice per year

# Together for Sustainability – compliance along the value chain

Material topic Responsible business practices Sustainability in sourcing



“ This standardized approach for supplier assessment improves sustainability practices within the supply chain while minimizing monitoring and audit efforts

- Initiative founded in 2011, with 30 members as of March 2021
- Members use same approach, share assessments and audits results within the initiative: 13,800 suppliers (online) assessed and 2,200 on-site supplier audits performed
- EcoVadis responsible for high-quality, third-party sustainability assessments and on-site audits, with criteria are based on GRI, UN Global Compact, and ISO 26000 global standards
- Covestro uses TfS methodology as one approach towards suppliers as well as customers

**N°2 Non-financial target**

All of our suppliers representing a regular purchasing volume of more than €100,000 per year comply with our sustainability requirements

Achievement: 79% by end of 2020

# Our priority: We play by the rules



Material topic Responsible business practices Compliance

### 6 Covestro Policies

Value creation	Sustainability
Innovation	People
HSEQ	Compliance

<b>Policies</b>	<ul style="list-style-type: none"> <li>Define our mindset, how we want to act and be perceived</li> <li>Corporate level</li> <li>Externally and internally available</li> </ul>
<b>Directives</b>	<ul style="list-style-type: none"> <li>Define our corporate standards by establishing organizational structures, our processes/workflows and IT-tools, on a Management level</li> <li>Corporate level, internally available</li> </ul>
<b>Procedures</b>	<ul style="list-style-type: none"> <li>Assure implementation of the standards and observance, on employee level</li> <li>Legal-entity level, internally available</li> </ul>

CFO chairs Group Compliance Committee

### 11 Corporate Commitments

To underline our mission as a sustainable company, we take a clear stance on key issues and are committed to adhering to standards.

- UN Sustainable Development Goals
- Ten Principles of UN Global Compact
- Responsible Care
- Human Rights
- Slavery and Human Trafficking (Modern Slavery Act statement)
- Water
- Product Responsibility
- Corporate Compliance
- Responsible Lobbying
- Responsible Marketing & Sales
- Tax Transparency

# Translating the RC Global Charter into actionable company directives



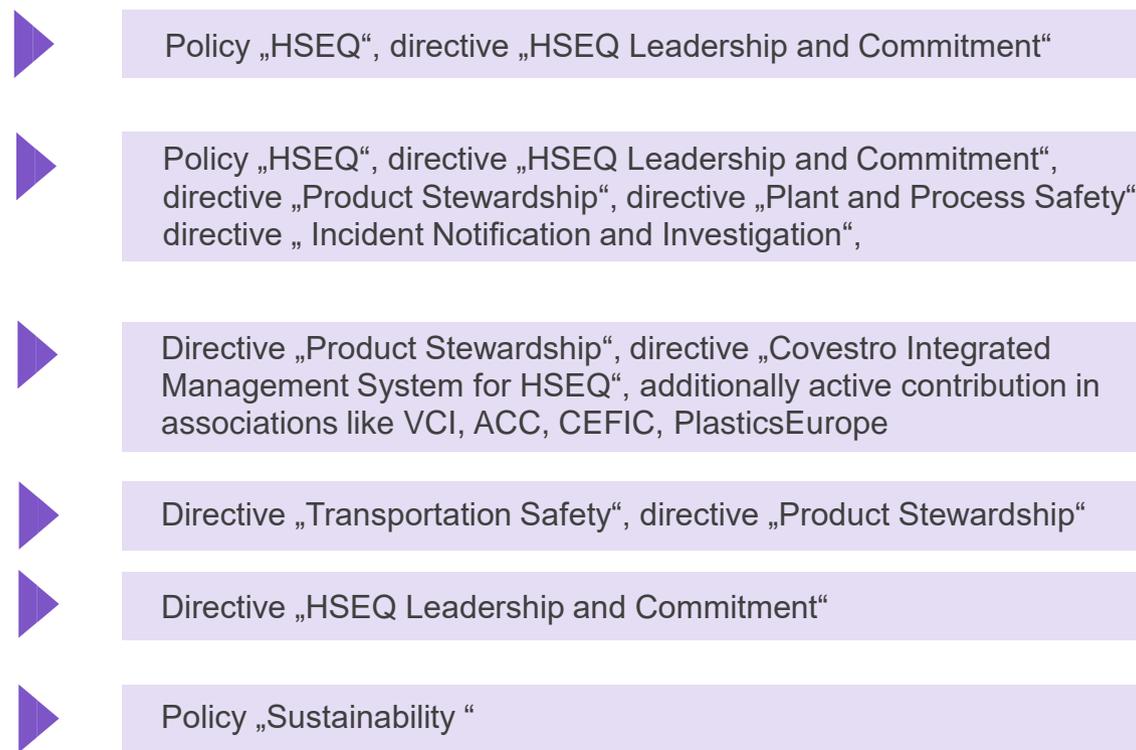
Material topic Responsible business practices Compliance

## Responsible Care Global Charter

of the International Council of Chemicals Associations

- 1 A Corporate Leadership Culture** that proactively supports safe chemicals management through the global Responsible Care initiative
- 2 Safeguarding People and the Environment** by continuously improving our environmental, health and safety performance; the security of our facilities, processes and technologies; and by driving continuous improvement in chemical product safety and stewardship throughout the supply chain
- 3 Strengthening Chemicals Management Systems** by participating in the development and implementation of lifecycle-oriented, sound-science and risk-based chemical safety legislation and best practices
- 4 Influencing Business Partners** to promote the safe management of chemicals within their own operations
- 5 Engaging Stakeholders**, understanding and responding to their concerns and expectations for safer operations and products and communicating openly on our performance and products
- 6 Contributing to Sustainability** through improved performance, expanded economic opportunities and the development of innovative technologies and other solutions to societal challenges

Sample to illustrate the implementation of a public charter into Covestro corporate policies and directives



Head of HSEQ Management System commissioned by Board of Management



# RESPONSIBLE GOVERNANCE THAT WE ADHERE TO

# Annually declaring conformity with the GCGC



Material topic Responsible governance Corporate Governance



**Declaration of compliance by the Board of Management and the Supervisory Board of Covestro AG on the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act**

*Convenience Translation*

The recommendations of the Commission of the German Corporate Governance Code, as amended on 7 February 2017, published by the Federal Ministry of Justice and Consumer Protection on 24 April 2017 in the official part of the Federal Gazette, have been complied with since the last declaration of compliance was issued in October 2019.

The recommendations of the Commission of the German Corporate Governance Code, as amended on 16 December 2019, published by the Federal Ministry of Justice and Consumer Protection on 20 March 2020 in the official part of the Federal Gazette, are being complied with. Covestro AG will continue to comply with them in the future.

Leverkusen, December 2020

For the Board of Management

Steilemann

For the Supervisory Board

Pott

## Responsible governance

- The German Corporate Governance Code (GCGC) reflects material legal requirements for responsible governance
- Covestro annually declares and publishes conformity with the GCGC
- In compliance with all principles and recommendations of the GCGC since company IPO in 2015
- Detailed corporate governance report as an integral part of the annual report

# Board of Management responsible for operational businesses and goals



Material topic Responsible governance Board responsibilities and oversight



Dr. Markus Steilemann  
Chief Executive Officer

Areas or responsibility:

- Communications
- Corporate Audit
- Human Resources
- Strategy
- Sustainability



Sucheta Govil  
Chief Commercial Officer

Areas or responsibility:

- Polyurethanes
- Polycarbonates
- Coatings, Adhesives, Specialties
- Central Marketing
- Innovation Management & Commercial Services
- Supply Chain Center EMLA
- Supply Chain Center NAFTA
- Supply Chain Center APAC



Dr. Klaus Schäfer  
Chief Technology Officer

Areas or responsibility:

- Global Project Engineering
- Health, Safety, Environment & Quality
- Production & Technology
- Procurement
- Site Management NRW
- Site Management Baytown
- Site Management Shanghai



Dr. Thomas Toepfer  
Chief Financial Officer

Areas or responsibility:

- Accounting
- Controlling
- Finance
- Information Technology
- Investor Relations
- Law, Intellectual Property & Compliance
- Portfolio Development
- Taxes

# Supervisory Board advises and oversees Board of Management



Material topic Responsible governance Board responsibilities and oversight

## Shareholder representatives



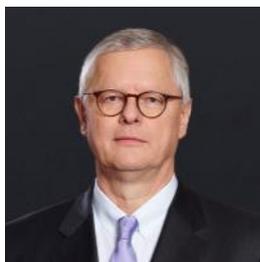
**Dr. Richard Pott**  
**Chair**  
Presidial Committee,  
Chair  
Human Resources  
Committee, Chair  
Nominations  
Committee, Chair



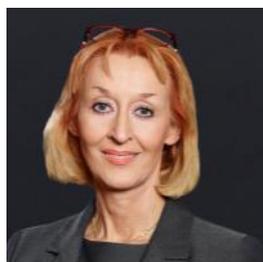
**Lise Kingo**



**Dr. Christine  
Bortenlänger**  
  
Audit Committee



**Prof. Dr. Rolf  
Nonnenmacher**  
  
Audit Committee, Chair



**Regine Stachelhaus**  
  
Presidial Committee  
Human Resources  
Committee  
Nominations  
Committee

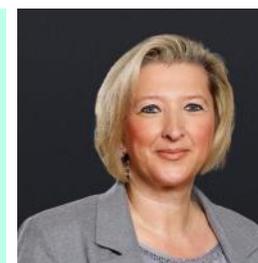


**Patrick W. Thomas**  
  
Audit Committee

## Employee representatives



**Petra Kronen<sup>(1)</sup>**  
**Vice Chair**  
  
Presidial Committee  
Audit Committee  
Human Resources  
Committee



**Irena Küstner<sup>(1)</sup>**  
  
Audit Committee



**Dr. Ulrich Liman<sup>(1)</sup>**  
  
Human Resources  
Committee



**Petra Reinbold-  
Knape<sup>(2)</sup>**  
  
Presidial Committee  
Audit Committee



**Marc Stothfang<sup>(1)</sup>**



**Frank Werth<sup>(2)</sup>**

# Supervisory Board – objectives for the composition and diversity concept



Material topic Responsible governance Board skills and diversity

## Supervisory Board Duties and composition

- Advises and oversees the Board of Management
- Activities governed by rules of procedure (published)
- Composed of at least 30% women and at least 30% men<sup>(1)</sup>
- 75% of members and more than half of shareholder representatives are to be independent
- Not more than two former members of the Board of Management

## Supervisory Board Membership

- Co-determined with 12 seats, thereof six shareholder and six employee representatives<sup>(1)</sup>
- Not serve more than three full terms
- Not serve beyond AGM following 72nd birthday

### Gender structure

**50% women**  
Supervisory Board

**50% women**  
Shareholder  
representatives

**50% women**  
Employee  
representatives

## Supervisory Board Skills

- At least two members with function-specific knowledge in each of the following areas:
  1. Accounting and/or auditing
  2. Strategy, mergers and acquisitions, capital markets
  3. Marketing, sales, supply chain
  4. Research and development, innovation
  5. Sustainability, circular economy and new technologies
  6. Digitalization
  7. Human resources, change management
  8. Corporate governance, compliance
- At least two members with Covestro-relevant experience in industries, sales markets and/or divisions, e.g. polymer chemistry, production and technology
- At least three members should have managerial experience in an international enterprise and/or experience serving on other supervisory boards or supervisory bodies
- The Board shall strive to ensure sufficient diversity among its members

# Board of Management is paid for performance



## Material topic Responsible governance Board compensation system

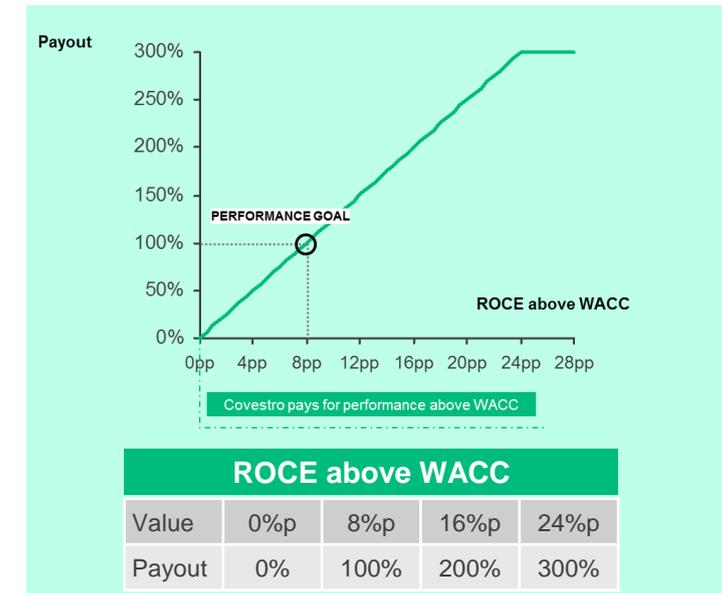
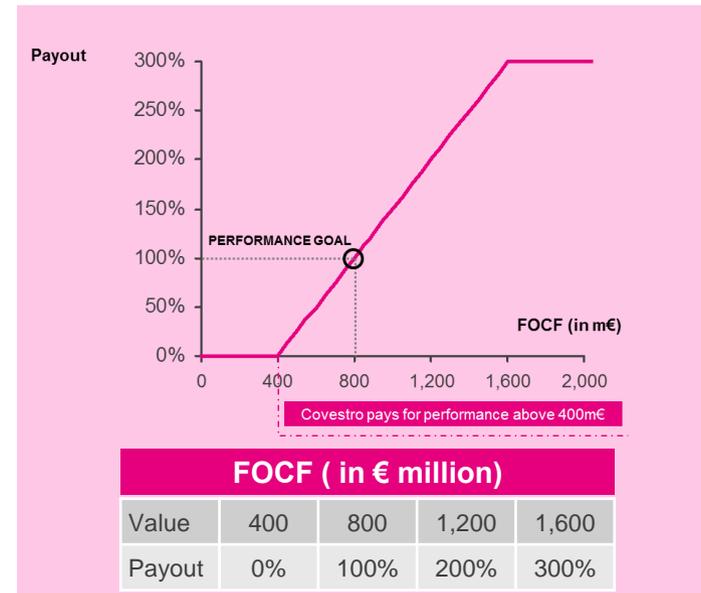
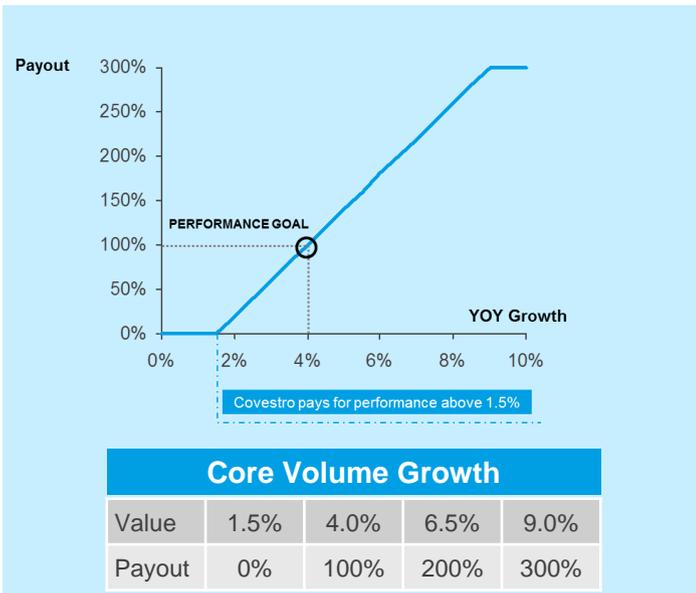
Component	2021 determination base and parameters	Component	2021 determination base and parameters
Fixed compensation ~30%	<ul style="list-style-type: none"> <li>Annual benchmark: horizontally again DAX/MDAX and vertically against all German employees</li> <li>Annual adjustments determined by Supervisory Board in line with the increase in the consumer price index in Germany</li> <li>2020e values: CEO €1.2m; CFO €0.7m; CCO/CTO €0.6m</li> </ul>	Cap on compensation	<ul style="list-style-type: none"> <li>Total remuneration capped at € 9.0 million for CEO and € 5.5 million for other Board members</li> </ul>
Short-term variable component ~30%	<ul style="list-style-type: none"> <li>Target value: 100% of the respective annual base salary</li> <li>Key performance indicators, each weighted 1/3: Core volume growth, liquidity (FOCF), profitability (ROCE)</li> <li>Threshold values fixed for three years (2019-2021)</li> <li>Payout between 0 and 250% of target</li> </ul>	Pension entitlements	<ul style="list-style-type: none"> <li>Introduction of new pension plan for all employees: direct pension promise (defined contribution-oriented plan) based on capital account</li> <li>Personal contribution adjusted to max. 10%, company contribution adjusted to up to 36% accordingly</li> <li>Board members offered to transfer into new plan in 2021</li> </ul>
Long-term variable component ~40%	<ul style="list-style-type: none"> <li>Target value: 130% of respective annual base salary</li> <li>Key performance indicators, linked by multiplication:                             <ul style="list-style-type: none"> <li>Total Shareholder Return (TSR factor)</li> <li>Relative share price development (Outperformance factor)</li> <li>Reduction of absolute GHG emissions (CO<sub>2</sub> factor)</li> </ul> </li> <li>Rolling performance periods of four years, e.g. 2020-2023</li> <li>Payout between 0 and 200% of target</li> </ul>	Fringe benefits	<ul style="list-style-type: none"> <li>Company car / vehicle allowance; driver service</li> <li>Security equipment; health screening examinations; other</li> <li>Payments upon start of office, if applicable</li> </ul>
Share ownership guidelines	<ul style="list-style-type: none"> <li>Obligation to purchase Covestro shares equivalent in value to 100% of the fixed annual compensation within three years</li> <li>Hold shares for the duration of Board membership</li> <li>Voluntary disclosure of individual shareholdings in Annual Report</li> </ul>	Contract termination	<ul style="list-style-type: none"> <li>Payments made, including fringe benefits, capped to the value of two years' compensation</li> <li>Exception: termination for good cause</li> </ul>
		Change of control	<ul style="list-style-type: none"> <li>Indemnity payments of 250% of fixed annual compensation</li> <li>Capped at the compensation for the remainder of the contract term</li> </ul>

# Short-term incentive fully based on profit sharing

**Material topic** Responsible governance Board compensation system

## Management bonus based on Profit Sharing Plan (PSP)

- Target value (i.e. 100%) related to respective annual base salary
- Key performance indicators, each weighted 1/3: Core volume growth, liquidity (FOCF), profitability (ROCE)
- Threshold values fixed for three years (2019-2021)
- Attainment between 0 and 300% of individual targets, total payout capped at 250%
- Supervisory Board reserves the right to cancel PSP for a given year if ROCE is below WACC (ROCE over WACC < 0pp)

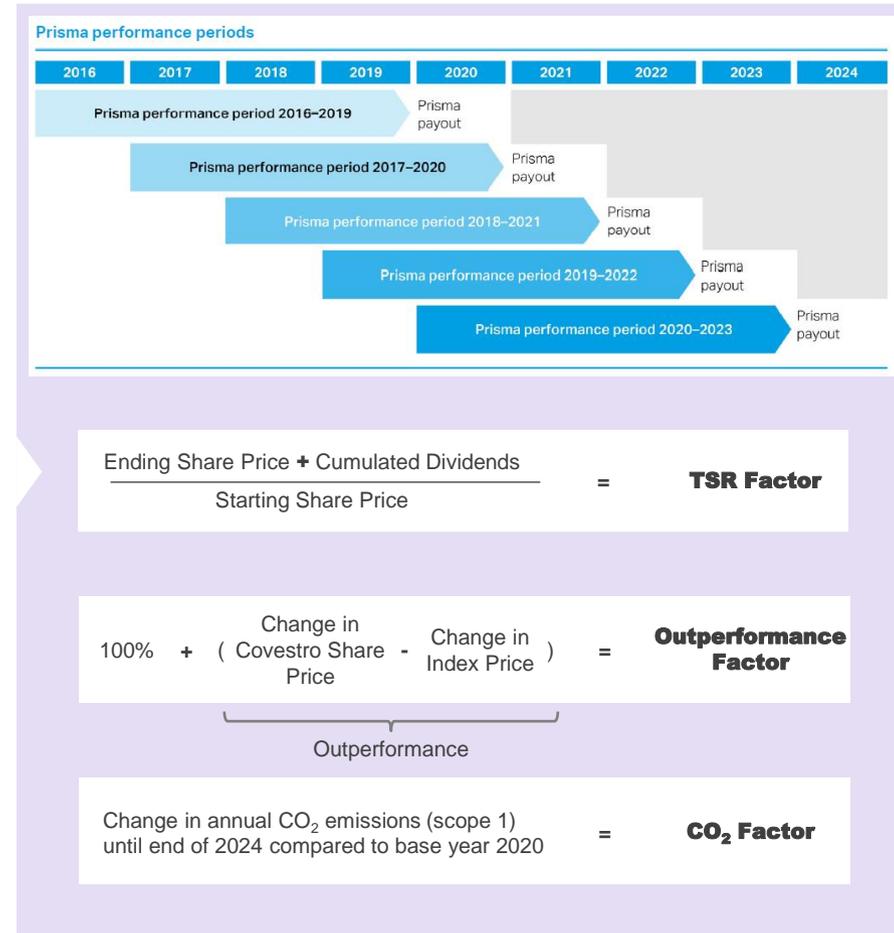


# Long-term incentive plan linked to TSR and sustainability

Material topic Responsible governance Board compensation system

## Key features of incentive plan “Prisma”

- Cash settled plan with four-year performance periods
- Globally consistent program for all eligible employees
- Target amount based on fixed percentage of annual base salary
- Payout (capped at 200% of target) based on:
  1. *TSR (Total Shareholder Return) as absolute performance criterion*
  2. *Outperformance factor as relative payout criterion based on STOXX Europe 600 Chemicals index*
  3. *Sustainability criterion: reduction of absolute GHG emissions (CO<sub>2</sub> equivalents, CO<sub>2</sub>e), classified in Scope 1*
- Starting and ending prices for Covestro share and index are determined by the average closing prices during November and December before and at the end of the performance period



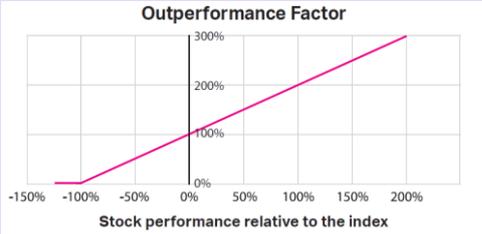
# Long-term incentive plan linked to TSR and sustainability

Material topic Responsible governance Board compensation system

## Long-term incentive plan until 2020

$$\text{LTI payout amount} = \text{LTI target amount} \times \text{TSR factor} \times \text{Outperformance factor}$$

Total Shareholder Return:

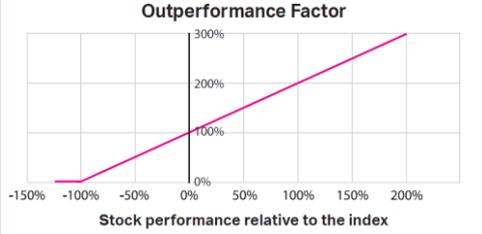
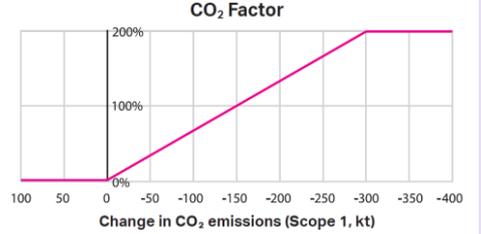
$$\frac{\text{Ending Share Price} + \text{Dividends}}{\text{Starting Share Price}}$$


The graph shows a linear relationship between stock performance relative to the index (x-axis, -150% to 200%) and the Outperformance Factor (y-axis, 0% to 300%). The line starts at approximately -100% on the x-axis and 0% on the y-axis, passing through (0, 100%) and (200, 300%).

## Long-term incentive plan starting 2021

$$\text{LTI Payout amount} = \text{LTI target amount} \times \text{TSR factor} \times \left( 75\% \times \text{Outperformance factor} + 25\% \times \text{CO}_2 \text{ factor} \right)$$

Total Shareholder Return:

$$\frac{\text{Ending Share Price} + \text{Dividends}}{\text{Starting Share Price}}$$



The Outperformance Factor graph is identical to the one in the previous section. The CO2 Factor graph shows a linear relationship between the change in CO2 emissions (Scope 1, kt) on the x-axis (100 to -400) and the CO2 Factor on the y-axis (0% to 200%). The line starts at 0% for 0 kt and reaches 200% at -300 kt, remaining constant thereafter.

# Fully fixed compensation system for Supervisory Board



Material topic Responsible governance Board compensation system

Component	Determination base and parameters
Fixed compensation 100%	<ul style="list-style-type: none"> <li>• Fixed annual compensation of €100,000</li> <li>• Chairperson's fixed annual compensation of €300,000, also covering committee memberships</li> <li>• Vice chairperson's fixed annual compensation of €150,000, also covering committee memberships</li> <li>• Additional compensation for committee memberships                             <ul style="list-style-type: none"> <li>– Audit Committee: €50,000 for the chairperson and €25,000 for all other members</li> <li>– Other committees: €30,000 for the chairpersons and €20,000 for all other members</li> <li>– Nominations Committee: No additional compensation</li> <li>– In case of multiple committee memberships, compensation limited to the two functions with the highest compensation</li> </ul> </li> </ul>
Attendance fee	<ul style="list-style-type: none"> <li>• €1,000 for each personal attendance of a board or committee meeting</li> <li>• In case of multiple meetings on one day, only one attendance fee is paid</li> </ul>
Reimbursements	<ul style="list-style-type: none"> <li>• Reimbursement of expenses incurred through the exercise of their office, including value-added tax payable on their compensation and on the reimbursement of their expenses</li> <li>• The Company has purchased liability insurance for the members of the Supervisory Board to cover the personal liability arising from their activities as members of the Supervisory Board</li> </ul>



# Committed to tax transparency

Material topic Responsible governance Tax transparency

## Covestro tax principles

- Zero tolerance regarding any non-compliance, foremost tax fraud
- Tax payments in line with respective value creation in each country and territory
- Tax optimization in line with business reasons and needs
- Cooperative approach with tax authorities

- Covestro and its affiliated companies believe that it is their obligation to pay the amount of tax legally due in any country and/or territory, in accordance with the rules set by the respective governments
- Appropriate tax payments is one core element of Covestro's corporate social responsibility
- Tax payments by Covestro provide essential revenues for governments needed to fulfill their social, economic and societal tasks
- Covestro complies with all relevant tax regulations as well as filing, documentation, disclosure and approval requirements in all countries and territories it operates in



# ESG REPORTING @ COVESTRO

# Find more information online

## Useful links and sources

### TOPICS RELATED TO ENVIRONMENT, SOCIAL AND GOVERNANCE

#### Circular and climate-neutral economy

- Alternative raw materials 
- Renewable energy 
- Business models 
- Recyclability and end of life solutions 
- Green house gas emissions 

#### Solutions contributing to UN SDGs

- Sustainable innovation portfolio 
- UN SDG conform product portfolio 
- Inclusive business 

#### Corporate culture

- Employer attractiveness 
- Diversity, equity and inclusion 

#### Environmental impact of own Operations

- Air quality 
- Waste 
- Water and wastewater 

#### Health and safety

- Health and safety of workforce 
- Process and plant safety 
- Product safety 

#### Responsible business practices

- Community engagement 
- Compliance 
- Human rights due diligence 
- Sustainability in sourcing 
- Transparency and trust 

#### Responsible governance

- Corporate Governance 
- Board of Management 
- Supervisory Board 
- Board compensation system 
- Tax transparency 
- Compliance hotline 

- Annual Report 2020 
- GRI reporting 

- TCFD disclosure (index) 
- SASB disclosure (index) 

- Covestro non-financial goals 
- ESG ratings and indices 

# Scores reflect Covestro's broad engagement in ESG matters

## Ratings and index memberships as of August 2021



Rating / Index	2016	2017	2018	2019	2020	2021	Scoring	Benchmark
	BBB	BBB	A	A	A		AAA - CCC	in Specialty Chemicals
	B-		B-		B-		A+ - D-	Prime Status
	74	75	80	23.3	20.0	18.3	max. 100 Points 0 - 100 Points (the lower the better)	Low Risk
	73		80				max. 100 Points	Gold Ranking
								Inclusion in FTSE4Good Index <sup>(b)</sup>

