We Will Be Fully Circular

Sustainability @ Covestro
June 2021
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

**Notes:**

(a) Based on total combined nameplate capacity for MDI, TDI and polyether polyols at year end 2020 as per Covestro estimates; PU = Polyurethanes; PC = Polycarbonates
Number one producer globally and inventor of polyurethanes

Polyurethanes (PUR) at a glance

**Products**

Polyurethane rigid foam is an excellent insulation material and adds to high energy efficiency in cooling units and buildings.

As soft foam polyurethane provides comfort, for example in mattresses, car seats and upholstery.

Covestro develops and produces the components of this versatile material.

**Key customer industries:**

For comfortable cars
For sustainable houses
For cozy furniture
For robust sports equipment

**Sample applications**

1.4%
Core volume CAGR in 2015 - 2020\(^{(a)}\)

€5.0bn
Sales 2020

€625m
EBITDA 2020

Notes:
Industry position based on total combined nameplate capacity for MDI, TDI and polyether polyols at year end 2019 as per Covestro estimates
(a) Figures adjusted to reflect the transfer of the specialty elastomers business from the PUR segment to the CAS segment as of January 1, 2018
Core volume CAGR impacted by negative year-on-year core volume growth in 2020 as a result of the Coronavirus pandemic.
Number one producer globally and inventor of polycarbonates

Polycarbonates (PCS) at a glance

Products
As a true high-tech material, polycarbonate is not only very robust, break-proof and light-weight, but also offers a high degree of design flexibility.

Polycarbonate is available in all colors ranging from crystal clear to deep black. It is an excellent substitute for traditional material such as glass or metal.

This allows for a wide variety of application possibilities ranging from vehicles to smartphones and laptops as well as lenses or large roofs.

Key customer industries:

Sample applications

- For trendy smartphones
- For bright buildings
- For light-weight cars
- For safe medical products

Notes:
Industry position based on nameplate capacity at year end 2019 as per Covestro estimates
Core volume CAGR impacted by negative year-on-year core volume growth in 2020 as a result of the Coronavirus pandemic.
Performance materials for coatings, adhesives and specialties

Coatings, Adhesives, Specialties (CAS) at a glance

Products

There is a vast application range of coatings and finishes made of Covestro polyurethane raw materials. They are used for protection and decoration.

In addition, the company produces pre-products for adhesives, sealants and elastomers as well as specialty films.

Coating, Adhesives, Specialties (CAS) also supplies materials for cosmetics, textiles and medical goods.

Key customer industries:

Sample applications

- For long-lasting cosmetics
- For functional textiles
- For robust floors
- For fancy cars

Notes:

(a) Figures adjusted to reflect the transfer of the specialty elastomers business from the PUR segment to CAS segment as of January 1, 2018
Core volume CAGR impacted by negative year-on-year core volume growth in 2020 as a result of the Coronavirus pandemic.
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

MILESTONE 2020
LEAP transformation initiated

MILESTONE 2020
Acquisition of RFM announced\(^{(a)}\)

MILESTONE 2020
First certified renewable phenol sourced

Notes:
(a) Acquisition of DSM’s Resins and Functional Material (RFM) business closed on April 1, 2021
Our innovative products tap into attractive new markets

Structural growth drivers

### UN SDGs<sup>(a)</sup>

#### related to climate change:
- 2: Energy efficiency
- 7: Affordable and clean energy
- 9: Industry, innovation and infrastructure
- 11: Sustainable cities and communities
- 12: Responsible consumption and production
- 13: Climate action
- 14: Life below water
- 15: Life on land

#### related to increasing mobility:
- 3: Good health and well-being
- 9: Industry, innovation and infrastructure
- 11: Sustainable cities and communities
- 12: Responsible consumption and production
- 13: Climate action
- 14: Life below water
- 15: Life on land

#### related to growing population and prosperity:
- 1: No poverty
- 3: Good health and well-being
- 9: Industry, innovation and infrastructure
- 11: Sustainable cities and communities
- 12: Responsible consumption and production
- 13: Climate action
- 14: Life below water
- 15: Life on land

#### related to increasing urbanization:
- 1: No poverty
- 3: Good health and well-being
- 9: Industry, innovation and infrastructure
- 11: Sustainable cities and communities
- 12: Responsible consumption and production
- 13: Climate action
- 14: Life below water
- 15: Life on land

### Needs

- Alternative energy sources
- Zero emission concepts
- Low-energy buildings
- Energy-efficient mobility
- E-mobility
- Autonomous driving
- Sustainable fashion
- Food preservation
- Medical applications
- Energy-efficient lighting
- Affordable housing
- Public infrastructure

### Sample Applications

- **Polyurethanes**<sup>(b)</sup>
  - Energy consumption: CAGR: ~3%<sup>1</sup>
  - Offshore wind energy: CAGR: ~20%<sup>2</sup>
  - Global car production: CAGR: ~1%<sup>3</sup>
  - Global hybrid & EV prod.: CAGR: ~35%<sup>4</sup>
  - Textile coating market: CAGR: ~2%<sup>5</sup>
  - Covestro relevant market: CAGR: ~4%<sup>5</sup>
  - Luminaire market: CAGR: ~3%<sup>6</sup>
  - Luminaire LED: CAGR: ~12%<sup>7</sup>

- **Polycarbonates**
  - CAGR 2020 - 2025e: ~5%

- **Coatings, Adhesives, Specialties**<sup>(c)</sup>
  - CAGR 2020 - 2025e: ~4%

### Demand Outlook

Covestro industry demand outlook assumes global GDP CAGR of 3 - 4% in 2020 - 2025e

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

COVestro industry demand outlook is subject to conditions like macroeconomic conditions, geopolitical developments, etc.

Over 30% of sales positively impact sustainability in our daily lives

Covestro product applications

Polyurethanes:
- Increasing energy efficiency of buildings through materials and technologies for insulation
- CO₂-based polymers used in mattresses saving crude oil, e.g. cardyon®
- Food preservation along the cool chain

Polycarbonates:
- 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

Coatings, Adhesives, Specialties:
- Waterborne coatings and adhesives, replacing solvent
- Bio-based raw materials to improve CO₂ footprint, e.g. Baycusan® eco
- Fully recyclable shoes made from thermoplastic PU powder and filament

Notes: Indicative 2020 sales of Covestro products in sustainable applications, including insulation of buildings and cool chains, lightweight mobility and wind turbines
Long history of innovations inspired by sustainability

Covestro milestones in sustainability

- **2007**
  - BMS Energy efficiency program and basis for decision-making on climate relevance: We help with solutions
  - STRUCTese energy efficiency system introduced and subsequently rolled-out in global production

- **2008**
  - BMS as part of Bayer is founding member of Together for Sustainability initiative

- **2007**
  - Light-weight car sunroof made of BMS polycarbonate enters mass-production at Webasto

- **2011**
  - Energy-efficient ODC-technology for chlorine production introduced in pilot plant in Uerdingen

- **2012**
  - Microcellular foam with improved insulating properties launched

- **2013**
  - Introduction of BMS sustainability approach and integration of 3-P principle People-Planet-Profit

- **2014**
  - INSQIN® technology for a water-based polyurethane textile coating launched

- **2015**
  - Covestro was founded and signed UN Global Compact
  - Pledge to ‘Operation Clean Sweep’ and strive toward zero pellet loss

- **2016**
  - First Covestro 2015 GRI Supplement published

- **2017**
  - Covestro Policies developed and approved, including a policy on Sustainability

- **2018**
  - Covestro non-financial goals for 2025 published

- **2019**
  - Covestro Policies developed and approved, including a policy on Sustainability
  - Founding member of Alliance to End Plastic Waste

- **2020**
  - New company vision: We will be fully circular
  - Initiated company transformation centered around new vision of CE

- **2021**
  - Non-financial KPI introduced to Board of Management long-term incentive plan: absolute CO₂e reduction over four years
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
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
• Alternative raw materials
• Recyclability and end-of-life solutions
• Renewable energy
• 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

Notes: UN SDGs = United Nations Sustainable Development Goals
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: Biomass, CO₂, used materials and waste can replace fossil resources
Innovative recycling: Energy-efficient technologies allow more used products and waste to be recycled
Renewable energy: Wind and sun: clean energy must power the circular economy
Joint solutions: Cross-industry collaboration is needed to bring the circular economy forward

No 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
Closing material and carbon loops

Material topic Circular and climate neutral economy Business models

Covestro approach to circular economy (CE)

1. Alternative raw materials e.g. CO₂/waste-(bio-based, certified sustainable feedstock

2. Innovative recycling for end-of-life solutions e.g. PU soft foam recycling, PC water bottle recycling

3. Renewable energy e.g. power purchase agreements from onshore/offshore wind parks

4. Cross-industry collaborations e.g. Carbon4PUR

Notes: Shown recycling technologies and energy recovery are illustrative examples only
Covestro definition of circular economy: holistic focus on end-of-life solutions and independence from fossil sources, keeping carbon in the productive loop as long as possible
### Goal to produce 100% of products from alternative raw materials in future

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

<table>
<thead>
<tr>
<th>CO₂-based</th>
<th>Waste-based</th>
<th>Bio-based</th>
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</thead>
<tbody>
<tr>
<td>▪ 9 products commercialized</td>
<td></td>
<td></td>
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<tr>
<td>▪ 9 running R&amp;D projects</td>
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<tr>
<td>Example PUR</td>
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<tr>
<td>CO₂ as raw material</td>
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<tr>
<td>▪ CO₂ replaces up to 20% of crude oil-based feedstock of polyols</td>
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<td>▪ Demo plant of 5kt p.a. at Dormagen site and product brand cardyon® launched in 2016</td>
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<tr>
<td>▪ Recticel promotes foam mattresses with portions of oil content replaced by CO₂-based chemicals</td>
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<tr>
<td>▪ Sports flooring producer Polytan installed first elastic subfloor using cardyon® as binder</td>
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<tr>
<td>▪ ▪ 16 products commercialized</td>
<td></td>
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<tr>
<td>▪ ▪ 43 running R&amp;D projects</td>
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<tr>
<td>Example PCS</td>
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<tr>
<td>Recycled polycarbonates</td>
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<tr>
<td>▪ New polycarbonate grades from post-consumer recycled (PCR) content, e.g. water bottles, CDs and auto-motive lighting</td>
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<tr>
<td>▪ Open loop recycling system to collect, sort, shred and clean material</td>
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<tr>
<td>▪ PCR grades contain up to 75% of recycled content with up to 50% reduced carbon footprint</td>
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<tr>
<td>▪ PCR grades are used in various consumer electronics applications for a second life</td>
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<td></td>
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<tr>
<td>▪ ▪ 13 products commercialized</td>
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<td></td>
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<tr>
<td>▪ ▪ 25 running R&amp;D projects</td>
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<tr>
<td>Example CAS</td>
<td></td>
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<tr>
<td>Bio-based car top coat</td>
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<tr>
<td>▪ Enabling customers to optimize the CO₂ footprint of their products</td>
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<tr>
<td>▪ New hardener for automotive coatings with carbon basis up to 70% from renewable raw materials</td>
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<td></td>
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<tr>
<td>▪ No compromises with regards to protective functions and appearance</td>
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<tr>
<td>▪ Collaboration with automotive group Audi and the coating experts at BASF Coatings</td>
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</tbody>
</table>

Notes: Numbers as of March 2021
Certified sustainable feedstock serve as drop-in solutions

<table>
<thead>
<tr>
<th><strong>Sustainable benzene</strong></th>
<th><strong>Sustainable phenol</strong></th>
<th><strong>Antwerp and Uerdingen sites</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ ISCC Plus-certified raw material</td>
<td>▪ ISCC Plus-certified raw material</td>
<td>▪ ISCC Plus-certification for Covestro sites</td>
</tr>
<tr>
<td>▪ Drop-in precursor for MDI</td>
<td>▪ Drop-in precursor for PC</td>
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</tbody>
</table>

**Notes:**
- ISCC = International Sustainability and Carbon Certification, internationally recognized system for sustainability certification of biomass and bioenergy

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

- First delivery of 1,000 tons of ISCC Plus-certified mass balanced phenol received in Oct. 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

- ISCC Plus-certification for Covestro production sites received in Dec. 2020
- PC made from renewable attributed raw materials now available from Antwerp, Belgium
- MDI made from renewable attributed aniline now available from Uerdingen, Germany
- Drop-in solutions for customers with constant product quality compared to fossil-based product
Turning waste gas from steel factories into valuable polymers

Cross-sector project of 14 partners from seven countries, led by Covestro, funded by the European Union

- Key achievements of this 3.5-year project, initiated in October 2017
  - Proof of principle of novel polyols from waste CO or CO$_2$ with mixed gases at lab scale
  - Proof of principle of CO-based rigid foam & Production of polyols based on comm. intermediate upscaled to semi-industrial scale (400 kg)
  - New polyols successfully implemented on a semi-industrial scale in rigid foams for insulation boards and in waterborne polyurethane dispersions for wood coatings
- Potential for industrial-scale
  - Potential industrial symbiosis investigated by engineering study in Marseille-Fos
  - For example, carbon in form of mixed waste gases from the ArcelorMittal plant in Fos-sur-Mer, France, could undergo catalytic transformations in the nearby Covestro plant to become a chemical feedstock for polyols

Pan-European project partners

Academic and institutional partners:

This project was funded by the European Union's Horizon 2020 research and innovation program under grant agreement No. 768919
Closing the loop for polyurethane mattresses

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

Consortium as an end-to-end collaboration spanning the entire PU reprocessing value chain

Target: Recovery over 90% of end-of-life PU with the goal of converting it into valuable inputs for new products

EU-funded project running 4 years, started in January 2019, including 9 partners from 6 countries

Covestro is industry partner in the project consortium, coordinated by the Belgian company Recticel

Recycling of PU foam

Highlights of ongoing cross-industry collaboration

**smart SORTING**
Recticel, Redwave and Covestro developed intelligent sorting solution for separating different PU foams from post-consumer mattresses (average 15-20 kg foam/unit)
Software to correctly identify different foam types for effective recycling

**smart CHEMOLYSIS**
Covestro aims to deliver through innovative process for chemical recycling
1. recycled polyol in high purity and high quality that fulfill customer specifications
2. recycled toluene diamine (TDA) that is suitable for further processing into TDI

**smart DESIGN**
Design new molecules to make PU re-processable

Notes:
This project was funded by the European Union's Horizon 2020 research and innovation program under grant agreement No. 814543. The PUReSmart project results presented only reflect Covestro's view. The Commission is not responsible for any use that may be made of the information it contains.
Goal to obtain 100% of our electricity from renewable sources in future

Material topic: Circular and climate neutral economy
Renewable energy

Polyurethane-based wind turbine blades

- Covestro, Goldwind and LZ Blades develop world’s first 64-meter polyurethane (PU) wind turbine blade
- Wind turbine blade from the spar cap to the shear web and the shell made entirely of PU infusion resin
- PU resin displays better mechanical properties compared with traditional epoxy resin
- Lower viscosity and faster infusion speed of PU resin system can greatly improve the efficiency of blade production

ENGIE and Ørsted wind energy supplies

- ENGIE power purchase agreement signed in March 2021, covering a capacity of 39 MW from 15 newly constructed wind turbines since April 2021
- About 45 percent of Covestro Antwerp’s electricity demand covered by renewable energy, saving about 39kt of CO₂e emissions annually
- Ørsted power purchase agreement signed in December 2019, at this time world’s largest corporate supply contract for offshore wind energy
- Starting in 2025, Ørsted to provide 100 MW of electricity for 10 years from newly built wind farm in North Sea, covering c. 10% of electricity consumed by Covestro in Germany
Underway to halve specific greenhouse gas emissions

Material topic Circular and climate neutral economy GHG emissions

Specific energy consumption

- Specific energy consumption improved by 34%; goal to reduce by 50% until 2030
- STUCTese energy efficiency system contributed lasting reductions of 2.32 mio. MWh of primary energy, or around 700,000 metric tons of CO₂ p.a. since 2008
- Measures in 2020 resulted in savings of 58,000 MWh in primary energy or 12,000 metric tons of CO₂ emissions
- STUCTese compares and bridges Covestro-wide actual energy consumption with the potential optimum

Specific greenhouse gas (GHG) emissions

- 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

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
Sustainability-driven innovations, innovation-driven sustainability

- 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

- Material topic: Solutions contributing to UN SDGs
- Sustainable innovation portfolio

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

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

Hygenic 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

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

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

Notes: Stated numbers as of 2020
Inclusive Business positively contributes to UN SDGs 1, 2, 3, 4, 6, 8, 9, 10, 11, 12, 13, 16, 17
Global Covestro diversity & inclusion initiatives support UN SDGs

Material topic Corporate culture Diversity, equity and inclusion

Global Covestro D&I Team sponsored by Board of Management

Colleagues
- Build, engage and develop a strong, diverse workforce
- Design inclusive workspaces and office concepts like in Shanghai / Leverkusen
- Support employee resource groups, e.g. UNITE, Compass
- Create part-time working and job/top share positions
- Facilitate parental leave
- Non-traditional and flexible work hours
- Adoption assistance
- Tuition reimbursement and student loan relief program

Company
- Establish an inclusive, supportive environment and culture for everyone
- Support employee resource groups, e.g. UNITE, Compass
- Create part-time working and job/top share positions
- Facilitate parental leave
- Non-traditional and flexible work hours
- Adoption assistance
- Tuition reimbursement and student loan relief program

Community
- Expand opportunities for achieving business objectives through community engagement and customer interactions
- Establish partnerships with a wider range of (international) colleges and universities as well as networks (e.g. UNITECH)
- Global Covestro D&I team cooperation and alignment with corporate culture
- Community engagement and partnership efforts
- Operate Inclusive Business, e.g. temporary housing for refugees
- Supplier Diversity Program rollout

Notes: D&I = Diversity and inclusion; STEM = Science, technology, engineering and mathematics
* Difference in generation, gender, culture and cross-unit/function/region
Not all examples apply to all Covestro countries as efforts are currently in the process to be expanded
MATERIAL TOPICS THAT WE MANAGE WITH EXISTING MANAGEMENT APPROACHES

Examples of full list of material topics on p. 11
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
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)

<table>
<thead>
<tr>
<th>Sources of water</th>
<th>Total for Covestro</th>
<th>from WSR(^1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surface water</td>
<td>135 (55%)</td>
<td>50 (75%)</td>
</tr>
<tr>
<td>Boreholes/springs</td>
<td>2 (1%)</td>
<td>0 (1%)</td>
</tr>
<tr>
<td>External water suppliers</td>
<td>104 (42%)</td>
<td>13 (20%)</td>
</tr>
<tr>
<td>Other sources(^2)</td>
<td>5 (2%)</td>
<td>3 (5%)</td>
</tr>
</tbody>
</table>

Water usage

- Cooling water\(^3\): 208 (64%)
- Recycled and/or reused water from cooling and production: 5 (2%)
- Production\(^4\): 38 (16%)

Water discharges

- Once-through cooling water: 199 (62%)
- Lost due to evaporation from cooling water circuits: 9 (4%)
- Process wastewater with subsequent treatment: 28 (11%)
- Process wastewater with subsequent treatment: 8 (3%)

Total\(^5\)

- Water used: 246
- Water discharged: 244

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)

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\(^1\) Water stress regions.

\(^2\) e.g., rainwater.

\(^3\) 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.

\(^4\) Also includes water for irrigation purposes.

\(^5\) Total from production processes, sanitary wastewater, and rinsing and purification in production.
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\(^{(a)}\)**
  - 2005: 0.81
  - 2020: 0.24
  - **Reduction by 70%**

### Plant & process safety

**Loss of Primary Containment Incident Rate, LoPC IR\(^{(b)}\)**

- **2013**: 1.11
- **2020**: 0.64
- **Reduction by 42%**

Notes:

- (a) Number of incidents recordable after Occupational Safety & Health Administration (OSHA)-regularities per 200,000 hours worked by Covestro employees
- (b) Number of LoPC (Loss of Primary Containment) incidents per 200,000 hours worked by operational employees

- 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

**Covestro promotes and respects human rights**
- Human rights are the basis for how we deal with people and form the foundation of our social responsibility
- Human rights are important to our employees, investors, customers and communities

**Covestro is publicly committed to respect human rights**
- Public Corporate Commitments on
  - Human Rights
  - Ten Principles of UN Global Compact
  - Slavery and Human Trafficking (Modern Slavery Act Statement)

**Covestro is taking responsibility for human rights along the value chain**
- Our Supplier Code of Conduct defines expectations to our suppliers to adhere to our sustainability requirements
- We employ a sustainability standard for our supply base through the industry initiative Together for Sustainability (TfS)

"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

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

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

"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

Policies

- Define our mindset, how we want to act and be perceived
- Corporate level
- Externally and internally available

Directives

- Define our corporate standards by establishing organizational structures, our processes/workflows and IT-tools, on a Management level
- Corporate level, internally available

Procedures

- Assure implementation of the standards and observance, on employee level
- Legal-entity level, internally available

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.

1. UN Sustainable Development Goals
2. Ten Principles of UN Global Compact
3. Responsible Care
4. Human Rights
5. Slavery and Human Trafficking (Modern Slavery Act statement)
6. Water
7. Product Responsibility
8. Corporate Compliance
9. Responsible Lobbying
10. Responsible Marketing & Sales
11. Tax Transparency

Notes: The six Covestro Policies and eleven Covestro Corporate Commitments are published on covestro.com
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:

- Policy „HSEQ“, directive „HSEQ Leadership and Commitment“
- Policy „HSEQ“, directive „HSEQ Leadership and Commitment“, directive „Product Stewardship“, directive „Plant and Process Safety“, directive „Incident Notification and Investigation“.
- Directive „Product Stewardship“, directive „Covestro Integrated Management System for HSEQ“, additionally active contribution in associations like VCI, ACC, CEFIC, PlasticsEurope
- Directive „Transportation Safety“, directive „Product Stewardship“
- Directive „HSEQ Leadership and Commitment“
- Policy „Sustainability “

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

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

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<tr>
<th>Dr. Markus Steilemann</th>
<th>Chief Executive Officer</th>
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<td>• Law, Intellectual Property &amp; Compliance</td>
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<td>• Portfolio Development</td>
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<td>• Taxes</td>
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</table>

Areas of responsibility as published in the Annual Report 2020
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

Dr. Christine Bortenlänger
Audit Committee

Regine Stachelhaus
Presidial Committee
Human Resources Committee
Nominations Committee

Lise Kingo

Employee representatives

Petra Kronen(1)
Vice Chair
Presidial Committee
Audit Committee
Human Resources Committee

Irena Küstner(1)
Audit Committee

Prof. Dr. Rolf Nonnenmacher
Audit Committee, Chair

Dr. Ulrich Liman(1)
Human Resources Committee

Petra Reinbold-Knape(2)
Presidial Committee
Audit Committee

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

Regine Stachelhaus
Presidial Committee
Human Resources Committee
Nominations Committee

Patrick W. Thomas
Audit Committee

Marc Stothfang(1)

Frank Werth(2)

Notes
(1) Covestro employee
(2) Union representative (German Mining, Chemical and Energy Industrial Union (IG BCE))
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\(^{(1)}\)
- 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\(^{(1)}\)
- 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

Notes: Objectives for composition and diversity concept including skill set as published in Annual Report 2020

\(^{(1)}\) According to German Stock Corporation Act (AktG)
## Board of Management is paid for performance

### Material topic: Responsible governance

### Board compensation system

<table>
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<tr>
<th>Component</th>
<th>2021 determination base and parameters</th>
</tr>
</thead>
</table>
| **Fixed compensation**                 | • Annual benchmark: horizontally again DAX/MDAX and vertically against all German employees  
  ~30%                                    | • Annual adjustments determined by Supervisory Board in line with the increase in the consumer price index in Germany  
  • 2020e values: CEO €1.2m; CFO €0.7m; CCO/CTO €0.6m                                                                                                                                         |
| **Short-term variable component**      | • Target value: 100% of the respective annual base salary  
  ~30%                                    | • Key performance indicators, each weighted 1/3: Core volume growth, liquidity (FOCF), profitability (ROCE)  
  • Threshold values fixed for three years (2019-2021)  
  • Payout between 0 and 250% of target                                                                                                                                                    |
| **Long-term variable component**       | • Target value: 130% of respective annual base salary  
  ~40%                                    | • Key performance indicators, linked by multiplication:  
  • Total Shareholder Return (TSR factor)  
  • Relative share price development (Outperformance factor)  
  • Reduction of absolute GHG emissions (CO₂ factor)  
  • Rolling performance periods of four years, e.g. 2020-2023  
  • Payout between 0 and 200% of target                                                                                                                                                    |
| **Share ownership guidelines**         | • Obligation to purchase Covestro shares equivalent in value to 100% of the fixed annual compensation within three years  
  • Hold shares for the duration of Board membership  
  • Voluntary disclosure of individual shareholdings in Annual Report |                                                                                                                                                                                            |

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<th>Component</th>
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<tr>
<td><strong>Cap on compensation</strong></td>
<td>• Total remuneration capped at € 9.0 million for CEO and € 5.5 million for other Board members</td>
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</table>
| **Pension entitlements**               | • Introduction of new pension plan for all employees: direct pension promise (defined contribution-oriented plan) based on capital account  
  • Personal contribution adjusted to max. 10%, company contribution adjusted to up to 36% accordingly  
  • Board members offered to transfer into new plan in 2021                                                                                                                          |
| **Fringe benefits**                    | • Company car / vehicle allowance; driver service  
  • Security equipment; health screening examinations; other  
  • Payments upon start of office, if applicable                                                                                                                                          |
| **Contract termination**               | • Payments made, including fringe benefits, capped to the value of two years’ compensation  
  • Exception: termination for good cause                                                                                                                                                                                                   |
| **Change of control**                  | • Indemnity payments of 250% of fixed annual compensation  
  • Capped at the compensation for the remainder of the contract term                                                                                                                       |
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)

**Notes:** Program description based on German program; program details and eligibility may vary in other countries
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 (CO₂ equivalents, CO₂e), 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:
\[
\frac{\text{Ending Share Price} + \text{Dividends}}{\text{Starting Share Price}}
\]

### 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:
\[
\frac{\text{Ending Share Price} + \text{Dividends}}{\text{Starting Share Price}}
\]
## Fully fixed compensation system for Supervisory Board

**Material topic** Responsible governance  Board compensation system

<table>
<thead>
<tr>
<th>Component</th>
<th>Determination base and parameters</th>
</tr>
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| **Fixed compensation 100%** | - Fixed annual compensation of €100,000  
- Chairperson’s fixed annual compensation of €300,000, also covering committee memberships  
- Vice chairperson’s fixed annual compensation of €150,000, also covering committee memberships  
- Additional compensation for committee memberships  
  - Audit Committee: €50,000 for the chairperson and €25,000 for all other members  
  - Other committees: €30,000 for the chairpersons and €20,000 for all other members  
  - Nominations Committee: No additional compensation  
  - In case of multiple committee memberships, compensation limited to the two functions with the highest compensation |
| **Attendance fee**   | - €1,000 for each personal attendance of a board or committee meeting  
- In case of multiple meetings on one day, only one attendance fee is paid |
| **Reimbursements**   | - 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  
- 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 |

**Notes:** Compensation values unchanged since 2015
Committed to 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
## Useful links and sources

### TOPICS RELATED TO ENVIRONMENT, SOCIAL AND GOVERNANCE

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

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**Sources**

- 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 May 2021

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Notes:
(a) Methodology reversed - the lower the score the better
(b) Since December 2016, reviewed in June 2020
Forward-looking statements

This presentation may contain forward-looking statements based on current assumptions and forecasts made by Covestro AG.

Various known and unknown risks, uncertainties and other factors could lead to material differences between the actual future results, financial situation, development or performance of the company and the estimates given here. These factors include those discussed in Covestro’s public reports which are available on the Covestro website at www.covestro.com.

Covestro assumes no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.