



Covestro Corporate Commitment

Forced labour and child labour

**Fighting Against Forced Labour and Child Labour
in Canadian Supply Chains Report** (financial year
ending 31st December 2023)



Corporate Commitment against forced labour and child labour (financial year 2023)

Purpose

This statement is made in relation to [Section 11 of the Fighting Against Forced Labour and Child Labour in Supply Chains Act 2023](#) (the “Act”) on behalf of Covestro Deutschland AG, Covestro LLC, and Covestro S.A. de C. V. in the Covestro Group (“Covestro”). Covestro’s understanding of forced labour and child labour is based on the definitions given in the Act. Covestro has zero tolerance to any form of child labour, forced labour, modern slavery, or human trafficking. We are committed to always acting ethically and with integrity and transparency in our business dealings. This statement sets out Covestro’s approach to safeguard against child labour and modern slavery in our business operations and supply chain.

Our Business

In our core business, Covestro produces precursors for polyurethane foams and the high-performance plastic polycarbonate as well as precursors for coatings, adhesives, sealants, and specialty products, including films. Other noncore precursors in Covestro’s product portfolio include chlorine and by-products like styrene. The company’s materials are used in many areas of modern life, such as insulation for refrigerators and entire buildings, laptop and smartphone cases, medical technology, as well as scratch-resistant and fast-drying vehicle coatings and film coverings for personal identification cards.

Covestro is organized in seven business entities. The Performance Materials segment focuses on delivering Covestro’s standard polyurethanes, standard polycarbonates, and base chemicals. The Solutions & Specialties segment comprises six business entities: Engineering Plastics, Coatings & Adhesives, Tailored Urethanes, Thermoplastic Polyurethanes, Specialty Films, and Elastomers. Covestro’s Solutions & Specialties business comprises a variety of polymer products including polycarbonates, precursors for coatings and adhesives, MDI specialties and polyols, thermoplastic polyurethanes, specialty films, and elastomers.

In the reporting year, Covestro operated 48 production sites and 13 Research and Development facilities in 21 countries in the EMLA (Europe, Middle East, Latin America (excluding Mexico), Africa), NA (Canada, Mexico, United States), and APAC (Asia and Pacific) regions. Covestro procured goods and services from some 15,000 suppliers for €11.6 billion. The procurement spending of Covestro’s main sites in



Germany, the United States, and China accounted for 76% of Covestro's global spending. Most of this amount – 85% - went to local suppliers in the individual countries.

Covestro Commitments

The respect for human rights is an integral element of the business policies at Covestro and guides its social responsibility efforts. Covestro is committed to respecting and safeguarding human rights on the basis of the [United Nations \(UN\) Declaration of Human Rights](#), [“Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy”](#) from the International Labour Organization ([ILO](#)) and the [UN Guiding Principles on Business and Human Rights](#). Covestro is a member of the [UN Global Compact](#) and actively supports the national action plans and applicable national legislation on corporate human rights due diligence. Therefore, Covestro commits to apply due diligence to prevent violations in all our activities and throughout our global supply chains and value chains. A key component of our commitment is zero tolerance towards child labour, forced labour, slavery, and human trafficking.

Organizational Responsibility for Human Rights Risk Management

In the reporting year, the Board of Management appointed the head of the Group Quality department within the Group Innovation & Sustainability function as the Group Human Rights Officer. The Group Human Rights Officer, in its function, reports directly to the Board of Management and is responsible for monitoring Covestro's human rights risk management system. In addition, the respective heads of the corporate functions who are responsible for the relevant, prioritized human rights focus areas, are appointed as Human Rights Risk Owners.

To support the Board of Management, the Group Human Rights Officer, and the Human Rights Risk Owners, Covestro has established a cross-departmental working group (Human Rights Office), which is responsible for fully integrating human rights requirements into the group's activities, including safeguards against child labour, forced labour, slavery, and human trafficking. The Human Rights Office works under the guidance of the Global Human Rights Officer and its human rights-related responsibilities include developing and implementing the comprehensive management approach, systematically assessing risks, such as child labour and modern slavery, prioritizing and monitoring the implementation of individual measures, planning and conducting trainings, preparing reports for the Board of Management, and communicating about this issue in general. The involved functions are responsible for, among other things, identifying and assessing risks and developing measures and monitoring their effectiveness. These measures are designed and implemented in the departments in consultation with the Human Rights Office.



Comprehensive Human Rights Due Diligence Process

Covestro has established a comprehensive due diligence process to safeguard human rights in our business activities. The overarching management approach is based on the [UN's Guiding Principles on Business and Human Rights](#), the "[Guidelines for Multinational Enterprises](#)" from the [Organization for Economic Cooperation and Development \(OECD\)](#) and operates in line with applicable national legislation on corporate human rights due diligence. This overarching management approach is a continual process comprising the six core elements described below.

Covestro Policies

The principles of our human rights due diligence at Covestro are delineated in the Covestro [Human Rights Policy Statement](#), various Corporate policies, Group regulations, and in our [Supplier Code of Conduct](#). In these documents, Covestro has specified key international conventions and principles as the basis of our conduct and our expectations to business partners worldwide. These documents are published either on Covestro's website or on our internal intranet to ensure accessibility for the relevant stakeholders.

Covestro's corporate commitment to safeguarding human rights ([Human Rights Policy Statement](#)), which describes Covestro's human rights strategy to exercise proper regard for our due diligence obligations, is anchored in the necessary operational policies and procedures and has been published on our website. The human rights policy statement was updated, adopted by the Board of Management, subsequently communicated via a global intranet article, and presented to the General Works Council Committee in the year 2023.

Within the supply chain, Covestro regards adherence to sustainability standards as a fundamental factor in value creation and an important lever for minimizing risks. Both current and new Covestro suppliers must meet not only economic standards but also social, ethical, and environmental standards as well as those related to corporate responsibility. All standards, also in regard to the prevention of child labour and modern slavery, are defined in Covestro's [Supplier Code of Conduct](#).

Human Rights Risk Analysis

The starting point for human rights due diligence at Covestro is a risk analysis that identifies and assesses actual or potential negative impacts on human rights that Covestro could cause, contribute to, or which we could be directly linked with, as a result of our business activities. The comprehensive risk analysis, which is performed every three to four years, first identifies all potential human rights risk areas, including the worst forms of human rights violations which includes child labour, forced labour



and modern slavery risks. The relevant risks are then discussed with respective business entities and corporate functions on an annual and on an ad-hoc basis and prioritized for further management, depending on the gross assessment of the severity of a potential human rights violation and its likelihood of occurrence. On a yearly and on an ad-hoc basis, Covestro's Human Rights Risk Owners assess and prioritize the human rights risks in their focus areas. Potential human rights violations assigned with the highest degree of severity based on the scale, scope, and irremediability of the potential violation, always take top priority. Findings from this risk analysis are continually updated by the Human Rights Office, taking relevant information obtained from internal and external sources into account, such as from Covestro's grievance mechanism.

For our suppliers, we analyse and prioritize human rights risks using a combination of country and industry or sector risks based on recognized external sources, which include modern slavery country indices and industry indicators for child and forced labour risks. In a second step, we consider our ability to influence our suppliers to further prioritize these risks.

In the reporting year, Covestro again performed the comprehensive risk analysis in combination with the materiality analysis and identified human rights focus areas along the value chain. No grievances were reported in the reporting year that could have been analysed in the human rights-related risks analysis conducted in the year 2023. In addition, there was no need to perform an ad-hoc risk analysis, e.g., due to a material change in Covestro's business activities.

Prioritized Risks

For our own business activities, the human rights risks of forced labour, child labour, environmental emissions, the disposal of (hazardous) waste, the occupational health and safety of our workers, as well as product stewardship were globally prioritized in the reporting period and local human rights-related risks of our water consumption in India were prioritized for further management as part of the human rights management system. Additionally, the material risks of forced and child labour were prioritized for certain supplier industry and country combinations.

Forced labour and child labour are prioritized for their severity. For the chemical production industries, we consider the likelihood for child labour, forced labour, modern slavery, and human trafficking to be generally low. However, the salient risks of forced and child labour are prioritized for certain supplier industry and country combinations. In adjacent areas like supply chain services, including logistics, we also assess a higher likelihood of the potential risk for forced labour.



Preventative & Remedial Measures (including Training & Dialogue)

Covestro's Human Rights Risk Owners assess the suitability of existing preventive measures in accordance with the risk-based approach recommended in the UN Guiding Principles and, if necessary, implement appropriate new measures to prevent or mitigate adverse impacts on human rights for the prioritized human rights risks.

Own Business Area

Many measures in the areas of health and safety, product safety, compliance, human resources, and sustainable supplier management have long been implemented at Covestro and aim to prevent or mitigate negative impacts on human rights. Most of these measures are already integrated into Covestro's existing Group-wide management systems, including the integrated Health, Safety, Environment, Energy, and Quality (HSEQ) management system, the compliance management system, the human resources process landscape, and other corporate governance frameworks.

The cross-functional Human Rights Office organizes trainings on human rights aspects that are relevant to the activities of the Group and its value chain. In addition, the Human Rights Office provides regular information about human rights in the company and advises corporate functions on how to fully integrate the human rights requirements, of which child labour and modern slavery are included, into Covestro's management systems.

In the reporting year, the Human Rights Office published two global intranet articles and set up an internal SharePoint page with information for employees on Covestro's approach to human rights. In addition, a web-based training course on Covestro's approach to human rights was developed and rolled out worldwide as part of a global learning initiative. Specifically in the corporate Group Procurement function, function-wide training events on the topic of human rights were held in the reporting year. These training events were used to teach employees the principles of human rights, and to explain our human rights management approach, risk analysis of direct suppliers, including the results, and the planned future steps.

If there are reasonable indications of human rights violations within Covestro, the local Compliance Officer investigates the facts based on Group-wide standards which are outlined in a Group policy. If Covestro has directly caused a human rights violation, Covestro is committed to work quickly to stop or change the responsible business activities in order to end the violation. Any human rights violation caused by a Covestro employee is evaluated and appropriate mitigation measures may be taken accordingly. There were no concrete indications of human rights violations, such as child or forced labour, within the Covestro organization in the reporting year.



Vis-à-vis Direct Suppliers

In the supply chain of Covestro, the Supplier Code of Conduct is integrated into the electronic ordering systems and contracts across the Covestro Group. Covestro expects its suppliers and subcontractors to agree to the principles in this Supplier Code of Conduct and implement these standards in the upstream supply chain. New and renewed supply agreements, in particular, generally contain special clauses calling on suppliers to adhere to the sustainability requirements, including those related to the prevention of child and forced labour, and entitling Covestro to verify compliance. Covestro is a member of [Together for Sustainability \(TfS\)](#), a joint initiative undertaken by the chemical industry that now includes 50 companies. This industry-led initiative pursues the goal of establishing a program of global standards for responsibly sourcing goods and services and standardizing supplier evaluation methods worldwide.

Using a standardized TfS assessment process, Covestro evaluates whether the suppliers maintain the required sustainability standards. A structured prioritization process is then carried out to select the suppliers to be evaluated and either an online assessment or an on-site audit is initiated for these suppliers – provided that there are no current results. In addition, further actions are defined for suppliers where a concrete human rights risk was identified. These include targeted human rights trainings on child labour and forced labour, supplier dialogues, contractual obligations, and online assessments or on-site audits.

In addition, dialogue and close collaboration are essential in enabling suppliers to successfully comply with Covestro's sustainability requirements. Covestro therefore offers its suppliers a range of opportunities for training and dialogue. This provides the foundation for building reliable relationships and enables us to identify and eliminate issues at an early stage. Continually improving suppliers' sustainability performance is a priority for Covestro and is supported by the TfS initiative, which regularly organizes education and training courses, also on child and forced labour, for example. Moreover, TfS offers a platform for buyers in the chemical industry and their suppliers, known as the TfS Academy, where they can expand and deepen their knowledge, keep up to date with trends, and make their contribution to creating more sustainable, more innovative, and more resilient supply chains. Trainings include introductory courses to human rights, focal courses on specific aspects, such as forced labour, along with courses focusing on supplier human rights due diligence.

If there are reasonable indications of human rights violations in Covestro's supply chain, we investigate them carefully and consistently. Covestro expects our business partners to cooperate in clarifying the surrounding facts within a reasonable timeframe.



If Covestro determines that business activities have contributed to or are indirectly linked to human rights violations through direct or indirect suppliers, Covestro is prepared to take measures to address the violation. Depending on the severity of the violation, Covestro reserves the right to respond appropriately in connection with our business partners. Inadequate working conditions, especially in relation to compensation and occupational health and safety, were found at one of our suppliers. Covestro worked with this supplier on the recommended remedial actions in the reporting year. There were no concrete indications of forced labour or child labour in the supply chain in the reporting year.

Complaints Procedure

Covestro expressly encourages reporting of suspected human rights violations in the Group as well as at suppliers' companies. Suspected human rights violations can be reported using a whistleblower system consisting of a global hotline and an online tool. Covestro therefore enables employees and third parties to anonymously inform us of any potential violations at our direct or indirect suppliers. We investigate cases of suspected human rights violations by following a defined process based on the involvement of (potentially) affected stakeholders. To enhance the transparency of how reported complaints are handled, an [operating procedure](#) for the Group's grievance mechanism is published on our website. The accessibility of the grievance mechanism was further improved in the reporting year by optimizing its placement on our website and expanding the available languages of our grievance procedure. No confirmed human rights violations were reported through the Group-wide grievance mechanism in 2023.

Effectiveness Monitoring

Appropriate qualitative and quantitative indicators along with internal and external sources are used to assess the effectiveness of Covestro's human rights measures, in the existing management processes, at preventing negative impacts on human rights. In the year 2023, the corporate functions represented in the Human Rights Office reported on the implemented measures and potential findings regarding their effectiveness. Additionally, the effectiveness of the complaints procedure and remedial actions are reviewed annually and on an ad-hoc basis as needed. The appropriateness and effectiveness of the human rights risk management system is reviewed by the Group Human Rights Officer. In addition, the Corporate Audit function regularly reviews our activities in objective and independent audits. The human rights risk management system was reviewed by Corporate Audit in the year 2023.

In addition, none of the supplier assessments conducted in 2023 revealed any indication of child or forced labour. Covestro had no cause to terminate a supplier



relationship in the reporting year or in the previous year solely on account of an externally determined result or a serious sustainability deficit, e.g., human rights violations like child or forced labour.

Reporting

Every year, Covestro communicates our human rights activities to the public in our Group Management Report, which is assured by external auditors. Moreover, the Group Human Rights Officer and the Human Rights Office report regularly (no less than once a year) to the Board of Management on the status of human rights due diligence and the systematic integration of these requirements into the management systems at Covestro.

Approval for this Statement

In accordance with the requirements of the Act, and in particular Section 11 thereof, we attest that we have reviewed the information contained in the report for the entities listed above. Based on our knowledge, and having exercised reasonable diligence, we attest that the information in the report is true, accurate and complete in all material respects for the purposes of the Act, for the reporting year listed above. We have the authority to bind the respective legal entity, as represented below.

Handwritten signature of Markus Steilemann in black ink.

Markus Steilemann (Mar 30, 2024 18:10 GMT+1)

30-Mar-2024

Dr. Markus Steilemann
Chief Executive Officer
Covestro Deutschland AG

Handwritten signature of Dr. Martin Broeler in black ink.

Dr. Martin Broeler (Mar 28, 2024 11:24 GMT+1)

28-Mar-2024

Dr. Martin Broeler
General Counsel
Covestro Deutschland AG

Handwritten signature of Samir Hifri in black ink.

Samir Hifri (Mar 28, 2024 07:34 EDT)

28-Mar-2024

Samir Hifri
Managing Director
Covestro LLC

Handwritten signature of Arturo Molina in black ink.

Arturo Molina (Apr 5, 2024 10:49 MDT)

05-Apr-2024

Arturo Molina
Managing Director
Covestro, S.A. de C.V.