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Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Covestro Group, and the Group Management Report, which has been combined with the Management Report of Covestro AG, includes a fair review of the development and performance of the business and the position of the Covestro Group and Covestro AG, together with a description of the principal opportunities and risks associated with the expected development of the Covestro Group and Covestro AG.

Leverkusen, February 17, 2021

Covestro AG

The Board of Management

Dr. Markus Steilemann
(Chairman)

Sucheta Govil

Dr. Klaus Schäfer

Dr. Thomas Toepfer

Independent Auditor's Report

To Covestro AG, Leverkusen

Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report

Opinions

We have audited the consolidated financial statements of Covestro AG, Leverkusen, and its subsidiaries (the Group) – which comprise the consolidated income statement and consolidated statement of comprehensive income for the financial year from 1 January 2020 to 31 December 2020, the consolidated balance sheet as at 31 December 2020, and the consolidated statement of cash flows and the consolidated statement of changes in equity for the financial year from 1 January 2020 to 31 December 2020 as well as the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of Covestro AG for the financial year from 1 January 2020 to 31 December 2020 including the non-financial statement in accordance with Section 315b (1), 315c HGB [Handelsgesetzbuch: German Commercial Code]. In accordance with German legal requirements, we have not audited the content of those components of the combined management report specified in the "Other Information" section of our auditor's report.

The management report contains cross-references marked as unaudited and not required by law. In accordance with German legal requirements, we have not audited the content of these cross-references or the information to which they refer.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2020, and of its financial performance for the financial year from 1 January 2019 to 31 December 2020, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report does not cover the content of those components of the combined management report specified in the "Other Information" section of the auditor's report. In accordance with German legal requirements, we have not audited the content of those components of the combined management report specified in the "Other Information" section of our auditor's report.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). *We performed the audit of the consolidated financial statements in supplementary compliance with the International Standards on Auditing (ISAs).* Our responsibilities under those *requirements, principles and standards* are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other

German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January 2020 to 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

- **Recoverability of the carrying amount of goodwill and of assets with determinable useful lives**

The accounting policies as well as the assumptions made are disclosed in the notes to the consolidated financial statements in note 3. Disclosure of the amount of goodwill is provided in the notes to the consolidated financial statements in note 15 with explanations with respect to the business development of the operating segments included in the combined management report in the chapter "Performance of the Reportable Segments".

THE FINANCIAL STATEMENT RISK

In the consolidated financial statements of Covestro AG Goodwill, Other intangible assets, and Property, plant and equipment amount to EUR 5,5 billion in total. These items account for a significant portion of the Group's noncurrent assets and for 43% of the Group's total assets. Of these items, Goodwill amounts to EUR 255 million for the financial year 31 December 2020.

A central impairment test is carried out, when there is an indication of impairment for an asset. Goodwill is also tested annually for impairment. To this end, the carrying amount of the individual Cash Generating Units (CGU) is compared with their recoverable amount. If the carrying amount exceeds the recoverable amount of the respective CGU, an impairment is recorded. Initially the impairment reduces the carrying amount of goodwill and then the carrying amount of the other assets of the CGU.

The goodwill impairment test for CGU is complex and is based on a number of judgmental assumptions. These include, among others, the expected business and earnings development of the CGU for the upcoming years, the assumed long-term growth rates and the discount rate used.

The financial year 2020 was characterized by the significant negative economic consequences of the COVID-19 pandemic and the resulting strong decline in global economy. Due to the continuing COVID-19 pandemic, the year 2021 is expected to be a challenging year for the global economy. Despite these special circumstances, there are also signs of improvement of future business prospects in the company's main customer's industries from 2021 onwards. As a result of the impairment test carried out by the company, no need for the recording of an impairment was identified. However, the Company's sensitivity analyses indicated that a reasonably possible change in the expected cash flows, the discount rate or in the long-term growth rate of the CGU Polyether polyols and Thermoplastic Polyurethanes would lead to an impairment.

There is the risk for the financial statements that required impairments were not identified. In addition, there is the risk that the disclosures in the notes associated herewith are not complete and appropriate.

OUR AUDIT APPROACH

We initially obtained an understanding of the Company's process for assessing the recoverability of the carrying amount of goodwill and of assets with determinable useful lives on the basis of explanations provided by the accounting and controlling departments as well as by assessing documentation.

Subsequently, with the support of our valuation specialists, we have assessed the appropriateness of the significant assumptions as well as company's valuation model. This included a discussion of the expected development of the business and results as well as of the assumed underlying long-term growth rates with those responsible for the planning process. In addition, reconciliations were made with other internally available forecasts as well as with the financial planning prepared by the Executive Board and approved by the Supervisory Board. Furthermore, we also assessed the consistency of the assumptions with external market expectations, by utilizing economic reports from recognized industry institutes as well as analyst assessments.

Moreover, we assessed the Company's planning accuracy by comparing projections for previous financial years with the actual results realised and analysed deviations. We have compared the assumptions and parameters underlying the discount rate – in particular the risk-free rate, the market risk premium and the beta factor – with our own assumptions and publicly available information.

To provide for the mathematical accuracy of the valuation model utilised, we recalculated the Company's calculations.

To reflect the existing uncertainty with respect to forecasts for the impairment test, we have assessed reasonably possible changes of the discount rate, the expected earnings respectively the long-term growth rate on the recoverable amount (sensitivity analysis) by calculating alternative scenarios and comparing these with the Company's valuation results.

Finally, we assessed whether the disclosures in the notes with respect to the recoverability of the carrying amount of the goodwill are appropriate. This also included an assessment as to the appropriateness of the disclosures in the notes pursuant to IAS 36.134(f) with respect to sensitivities resulting from reasonably possible changes of key assumptions underlying the valuation.

OUR OBSERVATIONS

The underlying valuation model used in the impairment test of goodwill is appropriate and consistent with the applicable accounting principles. The Group's assumptions and data underlying the valuation are within an acceptable bandwidth and are, on the whole, acceptable. The disclosures in the notes associated herewith are complete and appropriate.

Other Information

Management and the Supervisory Board are responsible for the other information. The other information comprises the following unaudited parts of the combined management report:

- the Declaration on Corporate Governance included in the chapter "Declaration on Corporate Governance" of the combined management report,
- the information included in the chapter "Sustainability in the Supply Chain" of the combined management report that is marked as unaudited and a part of the non-financial statement, and
- information extraneous to management reports and marked as unaudited.

The other information also includes the remaining parts of the annual report.

The other information does not include the consolidated financial statements, the combined management report information audited for content and our auditor's report thereon.

Our opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In addition, we were engaged to perform a separate assurance engagement on the supplementary sustainability information. Regarding the type, scope and results of that assurance engagement, we refer to our assurance report dated 18 February 2021.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) *and supplementary compliance with the ISAs* will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be

expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Group.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Report on the Assurance in accordance with Section 317 (3b) HGB on the Electronic Reproduction of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes

We have performed assurance work in accordance with Section 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the file that can be downloaded by the issuer from the electronic client portal with access protection, „covestroag-2020-12-31.zip“ (SHA256-Hashwert: a9e84028dcb02434ddc515a3b5cda50f7652e44c2263bb463b9f546e31912d42), and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned electronic file and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from 1 January 2020 to 31 December 2020 contained in the "Report on the Audit of the Consolidated Financial Statements and the Group Management Report" above.

We conducted our assurance work on the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned electronic file in accordance with Section 317 (3b) HGB and the Exposure Draft of the IDW Assurance Standard: Assurance in accordance with Section 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410) and the International Standard on Assurance Engagements 3000 (Revised). Accordingly, our responsibilities are further described below. Our audit firm has applied the IDW Standard on Quality Management 1: Requirements for Quality Management in Audit Firms (IDW QS 1).

The company's management is responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the group management report in accordance with Section 328 (1) sentence 4 item 1 HGB and for the tagging of the consolidated financial statements in accordance with Section 328 (1) sentence 4 item 2 HGB.

In addition, the company's management is responsible for the internal controls they consider necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format.

The company's management is also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited consolidated financial statements and audited group management report as well as other documents to be published to the operator of the German Federal Gazette [Bundesanzeiger].

The supervisory board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgement and maintain professional scepticism throughout the assurance work. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance of the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e. whether the electronic file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815 on the technical specification for this electronic file.
- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited consolidated financial statements and the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 30 July 2020. We were engaged by the Audit Committee of the Supervisory Board on 10 August 2020. We have been the group auditor of Covestro AG without interruption since financial year 2018.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Dr. Markus Zeimes.

Düsseldorf, 19 February 2021

KPMG AG
Wirtschaftsprüfungsgesellschaft

[Original German version signed by:]

Dr. Zeimes
[German Public Auditor]

Geier
[German Public Auditor]

Limited Assurance Report of the Independent Auditor regarding the supplementary sustainability information¹

To the Management Board of Covestro AG, Leverkusen

We have performed an independent limited assurance engagement on the supplementary sustainability information in the "Covestro Annual Report 2020" (hereinafter: "report") of Covestro AG, Leverkusen, Germany for the period from January 1 to December 31, 2020.

Management's Responsibility

The legal representatives of the Company are responsible for the preparation of the report in accordance with the reporting criteria. Covestro AG applies the principles and standard disclosures specified in the Global Reporting Initiative (GRI) Sustainability Reporting Standards in conjunction with the Corporate Accounting and Reporting Standard (Scope 1 and 2) of the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD) as reporting criteria (hereinafter: "Reporting Criteria").

This responsibility of the legal representatives includes the selection and application of appropriate methods to prepare the supplementary sustainability information and the use of assumptions and estimates for individual disclosures which are reasonable under the given circumstances. Furthermore, the legal representatives are responsible for the internal controls they deem necessary for the preparation of the supplementary sustainability information that is free of – intended or unintended – material misstatements.

Practitioner's Responsibility

It is our responsibility to express a conclusion on the supplementary sustainability information based on our work performed within a limited assurance engagement.

We conducted our work in the form of a limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information", published by IAASB. Accordingly, we have to plan and perform the assurance engagement in such a way that we obtain limited assurance as to whether any matters have come to our attention that cause us to believe that the supplementary sustainability information of the Company for the period from January 1 to December 31, 2020 has not been prepared, in all material respects, in accordance with the aforementioned Reporting Criteria. We do not, however, issue a separate conclusion for each disclosure. As the assurance procedures performed in a limited assurance engagement are less comprehensive than in a reasonable assurance engagement, the level of assurance obtained is substantially lower. The choice of assurance procedures is subject to the auditor's own judgement.

Within the scope of our engagement we performed, amongst others, the following procedures:

- Inquiries of group-level personnel who are responsible for the materiality analysis in order to understand the processes for determining material topics and respective reporting boundaries for Covestro AG
- A risk analysis, including media research, to identify relevant information on Covestro AG's sustainability performance in the reporting period
- Evaluation of the design and the implementation of systems and processes for identifying, processing, and monitoring sustainability performance data and metrics within the scope of the audit, including the consolidation of data

¹ Our engagement applied to the German version of the Covestro Annual Report 2020. This text is a translation of the Independent Assurance Report issued in German, whereas the German text is authoritative.

- Inquiries of group-level personnel who are responsible for determining disclosures on concepts, results, performing internal control functions and consolidating disclosures
- Inspection of selected internal and external documents
- Analytical procedures for the evaluation of data and of the trends of quantitative disclosures as reported at group level by all sites
- Assessment of local data collection, validation, and reporting processes and the reliability of reported data through a sample survey at Baytown (USA), Shanghai (China), Fos-sur-Mer (France), Leverkusen (Germany), New Martinsville (USA), South Deerfield (USA), and Tarragona (Spain).
- Assessment of the overall presentation of the disclosures

In our opinion, we obtained sufficient and appropriate evidence for reaching a conclusion for the assurance engagement.

Independence and Quality Assurance on the Part of the Auditing Firm

In performing this engagement, we applied the legal provisions and professional pronouncements regarding independence and quality assurance, in particular the Professional Code for German Public Auditors and Chartered Accountants (in Germany) and the quality assurance standard of the German Institute of Public Auditors (Institut der Wirtschaftsprüfer, IDW) regarding quality assurance requirements in audit practice (IDW QS 1).

Conclusion

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the supplementary sustainability information of Covestro AG for the period from January 1 to December 31, 2020 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

Restriction of Use/General Engagement Terms

This assurance report is issued for purposes of the Management Board of Covestro AG, Leverkusen only. We assume no responsibility with regard to any third parties.

Our assignment for the Management Board of Covestro AG, Leverkusen, and professional liability as described above was governed by the General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften) in the version dated January 1, 2017 (https://www.kpmg.de/bescheinigungen/lib/aab_english.pdf). By reading and using the information contained in this assurance report, each recipient confirms notice of the provisions contained therein including the limitation of our liability as stipulated in No. 9 and accepts the validity of the General Engagement Terms with respect to us.

Düsseldorf, February 19, 2021

KPMG AG

Wirtschaftsprüfungsgesellschaft

[Original German version signed by:]

Dr. Zeimes
Wirtschaftsprüfer
[German Public Auditor]

Hell

Glossary

A

AktG/German Stock Corporation Act

Regulates the legal provisions pertaining to German stock corporations

ADR/American Depositary Receipt

A depositary receipt issued by U.S. banks that documents ownership of a certain number of deposited shares of a foreign company and is traded on U.S. stock markets as representation of the original shares

APAC

Comprises all countries in the Asia and Pacific region in which Covestro is active

C

Capital employed

Capital employed is the sum of noncurrent and current assets less non-interest-bearing liabilities such as trade accounts payable

Carbon productivity

The value generated per carbon unit used (e.g., in the form of fossil raw materials such as coal, oil and natural gas). Measuring carbon productivity is intended to promote a sustainable and optimal use of carbon.

Circular economy

A regenerative economic system in which resource input, waste production, emissions, and energy consumption are minimized based on long-lasting and closed material and energy cycles.

COVeC approach

Covestro venture capital approach in which Covestro invests in start-ups with innovative products, solutions, or business models. Covestro aims to actively support these new companies wherever they offer value added.

Covestment

Stock participation program in which approximately 98% of all employees worldwide can acquire Covestro shares at a discount

D

DRS/German Accounting Standards

Pronouncements of the German Accounting Standards Committee e. V., which substantiate the HGB requirements in reference to the application of the Group accounting principles

Due diligence

Information on the processes for identifying, preventing, and mitigating the actual or possible negative impact on nonfinancial aspects.

E

EBIT/earnings before interest and taxes

Income after income taxes plus financial result and income tax expense

EBITDA/earnings before interest, taxes, depreciation and amortization

EBIT plus depreciation and amortization of property, plant, equipment, and intangible assets

EcoVadis

Rating agency that evaluates the degree to which suppliers' business practices are aligned with sustainability principles.

EMLA

Comprises all countries in Europe, the Middle East, Africa and Latin America (excluding Mexico) in which Covestro is active

Earnings per share

Net income divided by the weighted average number of outstanding shares in the reporting period

EURO STOXX 50

European stock index that reflects the share price performance of the 50 most important and highest revenue companies in Europe.

F

FOCF/free operating cash flow

Operating cash flows (pursuant to IAS 7) less cash outflows for additions to property, plant, equipment and intangible assets

G

GCGC/German Corporate Governance Code

A set of regulations compiled by the Government Commission on the German Corporate Governance Code in respect of responsible corporate governance, which contains recommendations and suggestions for the management and oversight of listed corporations in Germany

GHG Protocol/Greenhouse Gas Protocol

International accounting system for greenhouse gas emissions developed by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD)

GPS/Global Product Strategy

Initiative of the International Council of Chemical Associations (ICCA) with the aim of anchoring uniform global standards for product safety in the chemical industry

GRI / Global Reporting Initiative

Guidelines for the preparation of sustainability reports by companies, governments and non-governmental organizations (NGOs)

H**HDI/hexamethylenediisocyanate**

A chemical compound from the class of aliphatic isocyanates, primarily used in polyurethane coating systems

HGB/German Commercial Code

Comprises much of the German accounting legislation

HSEQ/Health, safety, environment, energy, and quality

Health, safety, environment, energy, and quality

I**IAS/Accounting Standards**

International accounting standards as endorsed by the European Union respectively published by the IASB or the IFRS IC

IASB/International Accounting Standards Board

The International Accounting Standards Board is an independent, private-sector body that develops and approves the International Financial Reporting Standards (IFRSs).

ICS/internal control system

Internal control system to ensure compliance with directives by means of technical and organizational rules

IDW/Institut der Wirtschaftsprüfer in Deutschland e. V.

A professional association of German Public Auditors and German Public Audit Firms that represents the interests of its members and supports their work

IFRSs/International Financial Reporting Standards

International accounting standards as endorsed by the European Union respectively published by the IASB or the IFRS IC

IPDI/isophorone diisocyanate

A chemical compound from the class of aliphatic isocyanates, primarily used in polyurethane coating systems

L**LGBTIQ**

International abbreviation for lesbian, gay, bisexual, trans, intersex, and queer people.

LoPC/Loss of Primary Containment

Leaks of chemicals in amounts above defined thresholds leaking from their primary containers, such as pipelines, pumps, tanks and drums

LTRIR/lost time recordable incident rate

Lost time recordable incident rate

M**MDI/diphenylmethane diisocyanate**

A chemical compound from the class of aromatic isocyanates, primarily used in polyurethane foams

Core volume growth

Core volume growth refers to the core products in the Polyurethanes, Polycarbonates and Coatings, Adhesives, Specialties segments. It is calculated as the percentage change in externally sold volumes compared with the prior year. Covestro also takes advantage of business opportunities outside its core business, for example the sale of precursors and by-products such as hydrochloric acid, sodium hydroxide solution and styrene. These transactions are not included in core volume growth.

N**NAFTA**

Region comprising the United States, Canada, and Mexico in which Covestro is active

Net financial debt

Interest-bearing liabilities (excluding pension obligations) less liquid assets

Net income

Income after income taxes that is attributable to the shareholders

NOPAT/net operating profit after taxes

Operating result (EBIT) after imputed income taxes

P**PMDI/Polymeric diphenylmethane diisocyanate**

A chemical compound from the class of aromatic isocyanates, primarily used in polyurethane foams

PO/propylene oxide

A chemical compound from the class of epoxies used in the production of polyurethanes

Prisma

Prisma is a stock-based compensation program with a four-year performance period for senior executives and other managerial employees.

PSP/Profit Sharing Plan

Covestro PSP is the Group's short-term variable compensation system. It is based exclusively on the target attainment of the relevant Covestro performance indicators (core volume growth, FOCF, ROCE).

R**REACH Regulation**

REACH stands for Registration, Evaluation, Authorisation, and Restriction of Chemicals. Regulation (EC) No. 1907/2006, which entered into force in 2007, standardizes EU chemicals law.

Responsible Care™ initiative

Initiative by the German Chemical Industry Association (VCI) aimed at continuously improving health, environmental protection and safety in its member states

RIR/recordable incident rate

Total number of recordable workplace accidents per 200,000 working hours

ROCE/return on capital employed

Ratio of operating result after imputed income taxes to the capital employed

S**Scope 1, Scope 2, Scope 3 emissions**

The GHG Protocol distinguishes between direct emissions of greenhouse gases (Scope 1), emissions from the generation of externally purchased energy (Scope 2), and all other emissions arising in the value chain either before or after our business activities (Scope 3).

SDGs

The 17 United Nations Sustainable Development Goals were ratified by all UN member states and entered into force on January 1, 2016. Their objective is to combat global poverty, protect the planet, and secure peace and prosperity for all.

Stakeholders

Internal and external interest groups which are directly or indirectly impacted by the company's corporate activities and/or may be so in the future

STOXX Europe 600 Chemicals

A sector index provided by STOXX. The STOXX Europe 600 is comprised of 600 companies across Europe.

T**TCFD / Task Force on Climate-related Financial Disclosures**

The TCFD was formed by the Financial Stability Board to develop a uniform framework for reporting on climate-related opportunities and risks.

TDI/toluene diisocyanate

A chemical compound from the class of aromatic isocyanates, primarily used in polyurethane foams and coating systems

TfS/Together for Sustainability

An initiative undertaken by various companies in the chemical industry to standardize supplier assessments globally in order to improve sustainability practices in the supply chain

U**UN Global Compact**

The world's largest responsible corporate governance initiative. The member companies undertake to implement ten universal principles and regularly document their progress.

V**Value contribution**

The difference between the operating result after imputed income taxes and the cost of capital. A positive value contribution means that value has been created.

VCI/Verband der Chemischen Industrie – German Chemical Industry Association

German chemical industry association

W**WACC/weighted average cost of capital**

Weighted average cost of capital reflecting the expected return on the company's equity and debt capital

Materiality analysis

A materiality analysis enables companies to systematically identify the most important sustainability issues from the internal and external perspective.

World-scale plants

Covestro defines world-scale plants in terms of their permitted production capacity in kilotons per year:

- MDI plants
from 400 kilotons per year
- Polyether polyol plants
from 300 kilotons per year
- Polycarbonate plants
from 240 kilotons per year
- HDI plants
from 40 kilotons per year
- TDI plants
from 300 kilotons per year

Segment and Quarterly Overview

Segment information 4th quarter

	Polyurethanes		Polycarbonates		Coatings, Adhesives, Specialties		Others/consolidation		Covestro Group	
	4th quarter 2019	4th quarter 2020	4th quarter 2019	4th quarter 2020	4th quarter 2019	4th quarter 2020	4th quarter 2019	4th quarter 2020	4th quarter 2019	4th quarter 2020
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales	1,336	1,519	814	803	533	529	181	156	2,864	3,007
Change in sales										
Volume	-0.2%	+2.9%	0.0%	+7.4%	+0.1%	+7.5%	-9.4%	-3.2%	-0.7%	+4.7%
Price	-16.9%	+16.2%	-13.5%	-2.1%	-4.2%	-4.9%	-7.9%	-9.8%	-13.3%	+5.4%
Currency	+1.5%	-4.8%	+1.6%	-3.7%	+1.9%	-3.4%	+0.7%	-0.8%	+1.5%	-4.0%
Portfolio	-0.7%	-0.6%	0.0%	-3.0%	+2.0%	0.0%	0.0%	0.0%	0.0%	-1.1%
Core volume growth¹	+3.6%	+0.8%	+3.5%	+3.2%	+6.2%	+2.8%			+3.8%	+1.7%
Sales by region										
EMLA	546	683	270	244	224	227	139	134	1,179	1,288
NAFTA	394	365	160	154	129	116	36	19	719	654
APAC	396	471	384	405	180	186	6	3	966	1,065
EBITDA	123	379	95	200	62	52	(2)	6	278	637
EBIT	24	264	39	143	32	19	(2)	6	93	432
Depreciation, amortization, impairment losses and impairment loss reversals	99	115	56	57	30	33	-	-	185	205
Operating cash flows	282	285	204	178	170	113	(19)	59	637	635
Cash outflows for additions to property, plant, equipment and intangible assets	168	138	84	61	55	43	-	(1)	307	241
Free operating cash flow	114	147	120	117	115	70	(19)	60	330	394
Trade working capital ²	839	900	580	550	483	444	63	55	1,965	1,949

¹ Reference values calculated on the basis of the definition of the core business effective March 31, 2020

² Trade working capital includes inventories plus trade accounts receivable and contract assets, less trade accounts payable, contract liabilities, and refund liabilities as of December 31, 2019/2020. Reference information was restated accordingly, see note 4 "Change in presentation of rebates granted to customers and trade working capital."

Segment information full year

	Polyurethanes		Polycarbonates		Coatings, Adhesives, Specialties		Others/consolidation		Covestro Group	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales	5,779	5,021	3,473	2,985	2,369	2,039	791	661	12,412	10,706
Change in sales										
Volume	+1.5%	-5.0%	+2.4%	-2.3%	-2.1%	-9.0%	-5.4%	-7.3%	+0.8%	-5.1%
Price	-24.7%	-5.1%	-16.5%	-7.0%	-1.1%	-4.2%	-1.9%	-8.9%	-17.3%	-5.7%
Currency	+1.8%	-2.0%	+2.0%	-1.5%	+2.3%	-1.0%	+1.2%	-0.2%	+1.9%	-1.6%
Portfolio	-0.1%	-1.0%	-2.2%	-3.3%	+1.2%	+0.3%	0.0%	0.0%	-0.5%	-1.3%
Core volume growth¹	+2.3%	-6.1%	+2.7%	-3.0%	-1.0%	-8.9%			+2.0%	-5.6%
Sales by region										
EMLA	2,487	2,189	1,146	942	1,052	908	604	561	5,289	4,600
NAFTA	1,680	1,389	734	610	562	469	165	86	3,141	2,554
APAC	1,612	1,443	1,593	1,433	755	662	22	14	3,982	3,552
EBITDA	648	625	536	553	469	341	(49)	(47)	1,604	1,472
EBIT	250	197	300	332	352	215	(50)	(48)	852	696
Depreciation, amortization, impairment losses and impairment loss reversals	398	428	236	221	117	126	1	1	752	776
Operating cash flows	575	423	613	484	349	327	(154)	-	1,383	1,234
Cash outflows for additions to property, plant, equipment and intangible assets	543	409	209	157	158	138	-	-	910	704
Free operating cash flow	32	14	404	327	191	189	(154)	-	473	530
Trade working capital ²	839	900	580	550	483	444	63	55	1,965	1,949

¹ Reference values calculated on the basis of the definition of the core business effective March 31, 2020

² Trade working capital includes inventories plus trade accounts receivable and contract assets, less trade accounts payable, contract liabilities, and refund liabilities as of December 31, 2019/2020. Reference information was restated accordingly, see note 4 "Change in presentation of rebates granted to customers and trade working capital."

Quarterly overview

	1st quarter 2019	2nd quarter 2019	3rd quarter 2019	4th quarter 2019	1st quarter 2020	2nd quarter 2020	3rd quarter 2020	4th quarter 2020
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales	3,175	3,211	3,162	2,864	2,783	2,156	2,760	3,007
Polyurethanes	1,476	1,489	1,478	1,336	1,274	913	1,315	1,519
Polycarbonates	860	898	901	814	733	648	801	803
Coatings, Adhesives, Specialties	627	621	588	533	572	443	495	529
Core volume growth¹	-1.8%	+1.1%	+5.3%	+3.8%	-4.1%	-22.7%	+3.0%	+1.7%
EBITDA	442	459	425	278	254	125	456	637
Polyurethanes	157	172	196	123	50	(24)	220	379
Polycarbonates	155	154	132	95	109	96	148	200
Coatings, Adhesives, Specialties	146	150	111	62	130	60	99	52
EBIT	264	274	221	93	67	(68)	265	432
Polyurethanes	57	72	97	24	(51)	(130)	114	264
Polycarbonates	105	99	57	39	54	41	94	143
Coatings, Adhesives, Specialties	118	120	82	32	100	28	68	19
Financial result	(23)	(23)	(19)	(26)	(39)	(17)	(22)	(13)
Income before income taxes	241	251	202	67	28	(85)	243	419
Income after taxes	180	190	149	38	21	(53)	180	306
Net income	179	189	147	37	20	(52)	179	312
Operating cash flows	120	164	462	637	(110)	171	538	635
Cash outflows for additions to property, plant, equipment and intangible assets	165	219	219	307	139	147	177	241
Free operating cash flow	(45)	(55)	243	330	(249)	24	361	394

¹ Reference values calculated based on the definition of the core business effective March 31, 2020

Five-Year Summary

Five-year summary

	2016	2017	2018	2019	2020
	€ million	€ million	€ million	€ million	€ million
Core volume growth¹	+7.5%	+3.4%	+1.5%	+2.0%	-5.6%
Sales	11,904	14,138	14,616	12,412	10,706
Polyurethanes	5,927	7,660	7,362	5,779	5,021
Polycarbonates	3,298	3,737	4,051	3,473	2,985
Coatings, Adhesives, Specialties	2,040	2,053	2,361	2,369	2,039
EBITDA	2,014	3,435	3,200	1,604	1,472
EBIT	1,331	2,808	2,580	852	696
Financial result	(196)	(150)	(104)	(91)	(91)
Net income	795	2,009	1,823	552	459
Earnings per share (€) ²	3.93	9.93	9.46	3.02	2.48
Operating cash flows	1,786	2,361	2,376	1,383	1,234
Cash outflows for additions to property, plant, equipment and intangible assets	419	518	707	910	704
Free operating cash flow	1,367	1,843	1,669	473	530
Trade working capital ³	1,859	2,177	2,353	1,965	1,949
Net financial debt	1,499	283	348	989	356
ROCE	+14.2%	+33.4%	+29.5%	+8.4%	+7.0%
Employees (in FTE)	15,579	16,176	16,770	17,201	16,501

¹ Values calculated based on the definition of the core business effective March 31 of the respective subsequent year.

² Figures based on weighted average number of voting shares outstanding that were subject to relevant changes resulting from, among other factors, the IPO on October 6, 2015, the share buyback program of November 21, 2017, through December 4, 2018, and the capital increase on October 19, 2020.

³ Trade working capital includes inventories plus trade accounts receivable and contract assets, less trade accounts payable, contract liabilities, and refund liabilities as of December 31, 2018 to 2020. In the years 2016 and 2017, trade working capital comprised inventories plus trade accounts receivable, less trade accounts payable. Reference information for 2018 and 2019 was restated accordingly, see note 4 "Change in presentation of rebates granted to customers and trade working capital."