

CORPORATE GOVERNANCE

Covestro's corporate governance is characterized by a sense of responsibility as well as ethical principles. Covestro places great importance on responsible corporate governance. This promise to shareholders, business partners, and our employees is based on our commitment to the German Corporate Governance Code (GCGC) and Articles of Incorporation that reflect these standards. In pursuing our business activities, we follow company principles that exceed the requirements of the law and the GCGC. A key concern is combining business success with environmental and social goals, so when making any business decision, we always consider the three dimensions of sustainability – people, planet, profit. The principles guiding our actions, which are also based on these dimensions, are documented in six policies applicable throughout the Group. These provide our employees with guidance in the areas of value creation; sustainability; innovation; employees; health, safety, environment, energy, and quality (HSEQ); and compliance. The standards contained in these policies are mandatory for all employees worldwide.

+ Additional information is available at: www.covestro.com/en/sustainability/service-downloads/policies-commitments

The Board of Management and Supervisory Board provide information pertaining to corporate governance in the sections that follow, including a Declaration on Corporate Governance for Covestro AG pursuant to Section 289f and for the Covestro Group pursuant to Section 315d of the German Commercial Code (HGB). Pursuant to Section 317, Paragraph 2, Sentence 6 HGB, the disclosures in the Declaration on Corporate Governance are not included in the financial statement audit.

Declaration on Corporate Governance

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

The Board of Management and Supervisory Board issued the current Declaration of Conformity with the GCGC pursuant to Section 161 of the German Stock Corporation Act (AktG) in December 2021. In this Declaration, Covestro AG affirms that in the reporting year it complied with the recommendations of the Commission of the German Corporate Governance Code, as amended on December 16, 2019, published by the Federal Ministry of Justice and Consumer Protection on March 20, 2020 in the official part of the Federal Gazette, and will continue to do so in the future. Corporate governance disclosures and supplementary information on the Board of Management and Supervisory Board, along with declarations of conformity with the GCGC from December 2021 and prior years are published on Covestro's website.

+ Additional information is available at: www.covestro.com/en/company/management/corporate-governance

Composition, Duties and Activities of the Board of Management and Supervisory Board Board of Management

Duties and Activities of the Board of Management

The Board of Management runs the company on its own responsibility with the goal of sustainably increasing the company's enterprise value and achieving defined corporate objectives. In doing so, it takes into account the interests of shareholders, employees, and other stakeholders. The Board of Management performs its duties according to the law, the Articles of Incorporation, the Board of Management's rules of procedure, and the recommendations of the GCGC as stated in the Declaration of Conformity. It ensures compliance with the law and internal company policies, and works with the company's other governance bodies in a spirit of trust.

+ The current rules of procedure of the Board of Management are available at: www.covestro.com/en/company/management/corporate-governance

The Board of Management defines the long-term goals and strategy for the company and sets forth the principles and policies for the resulting corporate policies. Furthermore, it coordinates and monitors the most important activities, defines the company's portfolio, develops and deploys managerial staff, allocates resources, and decides on the financial steering and reporting of the Covestro Group.

During their period of service for Covestro, Board of Management members are subject to a comprehensive non-compete clause. They are obligated to work in the company's interests at all times and may not pursue any personal interests in making decisions for the company or take advantage of the company's business opportunities for themselves. All Board of Management members are required to immediately disclose any conflicts of interest to the Chair of the Supervisory Board's Human Resources Committee and the Board of Management Chair, and inform the other Board of Management members of this fact. Other duties, particularly holding seats on Supervisory Boards or comparable governing bodies at companies outside the Group, may only be assumed with the approval of the Supervisory Board.

The members of the Board of Management bear joint responsibility for running the business as a whole. However, the individual members manage the areas assigned to them on their own responsibility within the framework of the decisions made by the full Board. The allocation of duties among the members of the Board of Management is defined in a written schedule appended to its rules of procedure and listed in the following table.

The full Board of Management makes decisions on all matters of fundamental importance and in cases where a decision of the full Board is prescribed by law or otherwise mandatory. The rules of procedure of the Board of Management contain a list of topics that must be dealt with and resolved by the full Board.

Board of Management meetings are held regularly and are convened by the Chair of the Board of Management. Any member of the Board of Management may also request that a meeting be convened, notifying the other members of the matter for discussion. The Board of Management makes decisions by a simple majority of the votes cast, except where unanimity is required by law. In the event of a tie, the Chair casts the deciding vote.

According to the Board of Management's rules of procedure, the Chair bears particular responsibility for functional coordination of all Board of Management areas. The Chair represents the Board of Management as well as Covestro AG and the Group in dealings with the public and other third parties.

Composition of the Board of Management

The Supervisory Board appoints the Board of Management of Covestro AG and its Chair. The Board of Management currently has no committees. In the 2021 fiscal year, the composition of the Board of Management was as follows:

Areas of responsibility¹

Name	Position	Areas of responsibility	Memberships ²
Dr. Markus Steilemann	Chief Executive Officer	• Communications • Corporate Audit • Human Resources • Strategy • Sustainability & Public Affairs • Group Innovation	
Sucheta Govil	Chief Commercial Officer	• Performance Materials • Tailored Urethanes • Coatings & Adhesives • Engineering Plastics • Specialty Films • Elastomers • Thermoplastic Polyurethanes • Supply Chain & Logistics EMLA, NA, APAC	Independent non-executive director of Eurocell plc (United Kingdom)
Dr. Klaus Schäfer	Chief Technology Officer	• Engineering • Process Technology • Group Health, Safety and Environment • Group Procurement	Member of the Supervisory Board of TÜV Rheinland AG
Dr. Thomas Toepfer	Chief Financial Officer Labor Director	• Accounting • Controlling • Finance & Insurance • Information Technology & Digitalization • Investor Relations • Law, Intellectual Property & Compliance • Portfolio Development • Taxes	Member of the General Partners' Committee of CLAAS KGaA mbH (since September 1, 2021)

¹ As of December 31, 2021.

² Memberships on supervisory boards and memberships in comparable supervising bodies of German or foreign corporations.

Objectives and Concept for the Composition of the Board of Management

Assisted by the Human Resources Committee and the Board of Management, the Supervisory Board arranges long-term succession planning for individual Board of Management members. It conducts a systematic process for selecting candidates for the Board of Management, while following the recommendations of the GCGC. In accordance with Covestro's corporate values, it also observes the diversity principle, i.e., balancing the Board's composition in terms of age, educational and professional background as well as a balanced ratio of male and female members. For instance, Board of Management members will generally not be appointed if they are over the age of 63. The Board of Management as a whole should represent a variety of backgrounds and possess extensive experience in corporate strategy, innovation, production and technology, marketing and sales, finance, leadership and sustainability management.

When filling specific Board of Management positions, the Supervisory Board also develops a skills profile that is based on the diversity criteria and used to evaluate candidates from within and outside the company. Decisions are made in the company's interest and taking into account all of the circumstances of each individual case.

Implementation Status of the Objectives

Covestro AG's Board of Management currently has four members. The goals regarding age structure and function-specific expertise were generally met in fiscal 2021. The Board of Management additionally meets the education and professional background requirements. The Board of Management's members ranged in age from 49 to 59 in fiscal 2021. As a whole, the Board of Management features members with a range of different educational backgrounds. In particular, they possess many years of experience in the following areas: engineering, physics and chemistry, business administration, and finance. The members of the Board of Management have gathered extensive professional experience in Germany and abroad as well as in the petroleum and chemical industries. In the course of their careers, they have held leadership positions in marketing and sales, innovation, corporate strategy, production and technology, and finance, among others, and possess extensive experience in human resources management and project management.

Promotion of Equal Participation of Women and Men in Leadership Positions

The Act Supplementing and Amending the Law on Equal Participation of Women and Men in Leadership Positions in the Private and Public Sectors of August 7, 2021, (FüPoG II) requires listed companies in Germany that are subject to codetermination rules whose Boards of Management have more than three members to appoint at least one woman and one man in the future. The duty stipulated by the First Leadership Positions Act (FüPoG I) as far back as 2015 remains in effect: these companies are required to define target quotas for appointing women to their Supervisory Boards, Boards of Management, and the two management levels below, and to establish dates by which this quota is to be achieved in each case. If quotas are newly set in percent since FüPoG II entered into force, these may not correspond to fractions.

In accordance with Section 96, Paragraph 2 AktG, the Supervisory Board of a company which is both listed and subject to codetermination rules should be composed of at least 30% women and at least 30% men. As of December 31, 2021, the Supervisory Board of Covestro AG comprised six women and six men. The minimum legal requirement has thus been met.

At the end of the first target attainment period on June 30, 2017, the Supervisory Board decided on a target quota of at least 40% for women on the Board of Management of Covestro AG and an implementation period through June 30, 2022. The statutory requirement to set a minimum quota has therefore already been met. As of December 31, 2021, one woman and three men served on the Board of Management. Women therefore made up 25% of the Board of Management.

In addition, in fiscal 2017 the Board of Management set new targets for the first two management levels below the Board of Management. For the period until June 30, 2022, the goal of Covestro AG and the Covestro Group is to achieve a minimum of 30% women at both levels.

Proportion of women in the first two management levels below the Board of Management

	Covestro AG		Covestro Group	
	As of Dec. 31, 2021	Target by June 30, 2022	As of Dec. 31, 2021	Target by June 30, 2022
Proportion of women in management level 1 ¹	0%	30%	23%	30%
Proportion of women in management level 2 ²	28%	30%	23%	30%

¹ Direct reports to the Board of Management with management responsibilities.

² Direct reports to management level 1 with management responsibilities.

Supervisory Board

Duties and Activities of the Supervisory Board

The Supervisory Board advises and oversees the Board of Management. The Supervisory Board is directly involved in decisions on matters of fundamental importance to the company, regularly conferring with the Board of Management on the strategic alignment of Covestro AG and the Covestro Group, and on the implementation status of the business strategy. The Supervisory Board Chair coordinates its work and presides over the meetings. The Chair also represents the Supervisory Board outside the company and, in this capacity, is generally prepared to conduct Supervisory Board-specific discussions with investors. In accordance with the Articles of Incorporation, the Supervisory Board has issued rules of procedure governing its activity. These rules of procedure are applicable to the Supervisory Board as a whole as well as to individual Supervisory Board committees. They also include rules concerning the composition and work of the committees.

+ Rules of Procedure for the Supervisory Board are available at:
www.covestro.com/en/company/management/corporate-governance

The Supervisory Board members are obligated to work in the company's interests at all times and may not pursue any personal interests in making decisions for the company or take advantage of the company's business opportunities for themselves. They are required to immediately disclose any conflicts of interest to the Chair of the Supervisory Board, in particular including those resulting from executive functions or consulting activities at customers, suppliers, lenders, or other third parties. If the conflict of interest is material and of more than a temporary nature, the Supervisory Board member must step down. In its report to the Annual General Meeting, the Supervisory Board discloses any conflicts of interest and how they were handled.

In fiscal 2021, the Supervisory Board discussed at length the results of the regularly scheduled effectiveness and efficiency review performed as a self-evaluation based on a written questionnaire answered by Supervisory Board members. The main topics covered were the Supervisory Board meeting process; cooperation with the Board of Management; the provision of information to the Supervisory Board; the responsibilities, composition and work of the committees; and cooperation with the shareholder and employee representatives. In addition, an externally facilitated two-day Supervisory Board workshop covered the specific roles, duties, and challenges of the Supervisory Board and its committees. On the whole, the Supervisory Board's activity was evaluated and found to be effective and efficient by its members.

+ See "Meetings of the Full Supervisory Board and Member Attendance."

The Board of Management informs the Supervisory Board about business policy, corporate planning, and strategy in regular and open discussions. The Supervisory Board approves the corporate planning and financing framework. It also approves the financial statements of Covestro AG and the consolidated financial statements of the Covestro Group, along with the Group management report, taking into account the auditor's reports and explanations. The Board of Management and Supervisory Board issue an annual compensation report in accordance with Section 162 of the German Stock Corporation Act. The Supervisory Board also regularly meets without the Board of Management in attendance. Employee representatives often hold discussions with members of the Board of Management prior to Supervisory Board meetings.

Composition of the Supervisory Board

The Supervisory Board has 12 members, half of whom are shareholder representatives and half employee representatives pursuant to the German Codetermination Act. The six employee representatives comprise four Covestro employees and two union representatives. The shareholder representatives are elected individually by the Annual General Meeting. On April 16, 2021, the Annual General Meeting elected Lise Kingo as successor to Ferdinando Falco Beccalli, who stepped down from the Supervisory Board.

The Supervisory Board discussed the requirements stipulated by Section 100, Paragraph 5 AktG. Based on its composition, the Supervisory Board as a whole has in-depth industry expertise in the chemical and polymer sector in which Covestro operates. This industry knowledge was acquired by the members either through their jobs or the requisite continuing education.

Supervisory Board members¹

Name/function	Membership on the Supervisory Board	Position	Memberships ²
Dr. Richard Pott (Chair)	Member of the Supervisory Board since August 2015	• Member of various supervisory boards	• Chair of the Supervisory Board of Covestro Deutschland AG • Member of the Supervisory Board of Freudenberg SE • Member of the Supervisory Board of SCHOTT AG
Petra Kronen (Vice Chair)	Member of the Supervisory Board since October 2015	• Chair of the Works Council of Covestro at the Uerdingen site • Chair of the General Works Council of Covestro • Vice Chair of Covestro-European Forum • Employee of Covestro Deutschland AG	• Vice Chair of the Supervisory Board of Covestro Deutschland AG • Member of the Supervisory Board of Bayer Beistandskasse VVaG
Ferdinando Falco Beccalli	Member of the Supervisory Board until April 2021	• Chair of the Board of Falco Capital AG	• Member of the Supervisory Board of Covestro Deutschland AG (until April 2021)
Dr. Christine Bortenlänger	Member of the Supervisory Board since October 2015	• Executive Member of the Board of Deutsches Aktieninstitut e.V.	• Member of the Supervisory Board of Covestro Deutschland AG • Member of the Supervisory Board of MTU Aero Engines AG • Member of the Supervisory Board of OSRAM GmbH (until February 2021) • Member of the Supervisory Board of OSRAM Licht AG (until February 2021) • Member of the Supervisory Board of TÜV SÜD AG • Member of the Supervisory Board of Siemens Energy AG • Member of the Supervisory Board of Siemens Energy Management GmbH
Lise Kingo	Member of the Supervisory Board since April 2021	• Member of various supervisory boards, governing bodies and committees	• Member of the Supervisory Board of Covestro Deutschland AG (since April 2021) • Independent Board Director of Sanofi SA, France • Independent Board Director of Aker Horizons ASA, Norway (since April 2021)
Irena Küstner	Member of the Supervisory Board since October 2015	• Chair of the Works Council of Covestro at the Leverkusen site • Chair of the Group Works Council of Covestro • Vice Chair of the General Works Council of Covestro • Employee of Covestro Deutschland AG	• Member of the Supervisory Board of Covestro Deutschland AG
Dr. Ulrich Liman	Member of the Supervisory Board since January 2018	• Chair of the Managerial Employees' Committee of Covestro Deutschland AG • Manager of Covestro Deutschland AG	• Member of the Supervisory Board of Covestro Deutschland AG
Prof. Dr. Rolf Nonnenmacher	Member of the Supervisory Board since August 2015	• Member of various supervisory boards	• Member of the Supervisory Board of Covestro Deutschland AG • Member of the Supervisory Board of Continental AG • Member of the Supervisory Board of ProSiebenSat.1 Media SE
Petra Reinbold-Knape	Member of the Supervisory Board since January 2020	• Member of the Executive Committee of the German Mining, Chemical and Energy Industrial Union (IG BCE) (until October 2021) • Secretary for the IG BCE union (since November 2021) • Chair of the Board of August-Schmidt-Stiftung (since November 2021)	• Member of the Supervisory Board of Covestro Deutschland AG • Member of the Supervisory Board of Bayer AG

¹ As of December 31, 2021.

² Memberships on other supervisory boards and memberships in comparable supervising bodies of German or foreign corporations.

Supervisory Board members¹

Name/function	Membership on the Supervisory Board	Position	Memberships ²
Regine Stachelhaus	Member of the Supervisory Board since October 2015	• Member of various supervisory boards	• Member of the Supervisory Board of Covestro Deutschland AG • Member of the Supervisory Board of CECONOMY AG • Member of the Supervisory Board of Leoni AG • Member of the Supervisory Board of SPIE Deutschland und Zentraleuropa GmbH • Director of SPIE SA, France
Marc Stothfang	Member of the Supervisory Board since February 2017	• Chair of the Works Council of Covestro at the Brunsbüttel site • Chair of Covestro-European Forum • Employee of Covestro Deutschland AG	
Patrick Thomas	Member of the Supervisory Board since July 2020	• Member of various supervisory boards • District Manager of the German Mining, Chemical and Energy Industrial Union (IG BCE) – district Leverkusen • District Manager of the German Mining, Chemical and Energy Industrial Union (IG BCE) – district Dortmund-Hagen (since November 2021)	• Member of the Supervisory Board of Covestro Deutschland AG • Non-Executive Director (Chair) of Johnson Matthey plc, United Kingdom • Non-Executive Director of Akzo Nobel N.V., Netherlands
Frank Werth	Member of the Supervisory Board since September 2016		• Member of the Supervisory Board of Covestro Deutschland AG

¹ As of December 31, 2021.

² Memberships on other supervisory boards and memberships in comparable supervising bodies of German or foreign corporations.

Committees of the Supervisory Board

The Supervisory Board currently has the following committees:

Presidial Committee: The Presidial Committee comprises the Supervisory Board Chair and Vice Chair along with an additional shareholder representative and an additional employee representative. The Presidial Committee serves primarily as the mediation committee pursuant to the German Codetermination Act. It has the task of submitting proposals to the Supervisory Board on the appointment of members of the Board of Management if the necessary two-thirds majority is not achieved in the first vote at a plenary meeting. Certain decision-making powers in connection with capital measures, including the power to amend the Articles of Incorporation, have also been delegated to this committee.

Members: Dr. Richard Pott (Chair), Petra Kronen, Petra Reinbold-Knape, and Regine Stachelhaus

Audit Committee: The Audit Committee has three shareholder and three employee representatives. The current legal requirements for the expertise of Audit Committee members are met in that Prof. Dr. Rolf Nonnenmacher has the requisite expertise in the areas of accounting and auditing. The requirement that the Supervisory Board and Audit Committee should have a second member with financial expertise is subject to a legal transition period. Prof. Dr. Rolf Nonnenmacher meets the requirements of the GCGC for the qualifications and independence of the Chair of the Audit Committee.

The Audit Committee's main responsibilities include auditing the accounts; monitoring the accounting and financial reporting process; monitoring the effectiveness of the internal control system, the risk management system, and the internal audit system; financial statement audits; and compliance. The accounting comprises in particular the consolidated financial statements and the Group Management Report (including sustainability reporting). The Audit Committee is responsible for examining the financial statements, consolidated financial statements and management reports, and for discussing the quarterly and half-yearly reporting with the Board of Management. On the basis of the auditor's report, the Audit Committee develops proposals for resolutions by the Supervisory Board relating to the confirmation of the financial statements, the approval of the consolidated financial statements, and the use of the distributable profit.

The Audit Committee is also responsible for the company's relationship with the external auditor. It submits a proposal to the full Supervisory Board concerning the auditor's appointment and is authorized to award the audit contract to the audit firm appointed on behalf of the Supervisory Board and to agree the auditor's remuneration. It also suggests areas of focus for the audit and monitors the quality of the audit as well as the independence and qualifications of the auditor. To this end, the Audit Committee has obtained a statement of independence from the auditor, who is required to immediately inform the Audit Committee about all possible grounds for exclusion or lack of impartiality arising during the audit or review, and all findings and incidents material to the Supervisory Board's responsibilities, particularly suspected accounting irregularities. Moreover, the Audit Committee has requested that the auditor inform the Committee and make a note in the audit report if facts are identified during the financial statement audit process that indicate an error in the Declaration of Conformity with the German Corporate Governance Code submitted by the Board of Management and Supervisory Board.

Members: Prof. Dr. Rolf Nonnenmacher (Chair), Dr. Christine Bortenlänger, Petra Kronen, Irena Küstner, Petra Reinbold-Knape, and Patrick Thomas

Human Resources Committee: On the Human Resources Committee, too, there is parity of representation between shareholders and employees. It consists of the Supervisory Board Chair and three other members. The Committee prepares the personnel decisions of the full Supervisory Board, which resolves on appointments or dismissals of members of the Board of Management. The Human Resources Committee resolves on behalf of the Supervisory Board on the service contracts of the members of the Board of Management. However, it is the responsibility of the full Supervisory Board, based on the recommendations submitted by the Human Resources Committee, to resolve on the total compensation of the individual members of the Board of Management and the respective compensation components, as well as to regularly review the compensation system. The Human Resources Committee also discusses the long-term succession planning for the Board of Management.

Members: Dr. Richard Pott (Chair), Petra Kronen, Dr. Ulrich Liman, and Regine Stachelhaus

Nomination Committee: The Nomination Committee carries out preparatory work when an election of shareholder representatives to the Supervisory Board is to be held. It suggests suitable candidates for the Supervisory Board to propose to the Annual General Meeting for election. The committee comprises the Supervisory Board Chair, the other shareholder representative on the Presidial Committee, and another elected shareholder representative.

Members: Dr. Richard Pott (Chair), Ferdinando Falco Beccalli (until April 2021), Regine Stachelhaus, and Patrick Thomas (since June 2021)

Sustainability Committee: The Sustainability Committee was formed in August 2021. It consists of four Supervisory Board members with parity of representation between shareholders and employees. The Chair of the Sustainability Committee is elected by the Supervisory Board from between the two shareholder representatives elected to the Committee. The committee advises the Supervisory Board, its committees, and the Board of Management, as well as working on sustainable corporate governance and the company's environmental, social, and governance (ESG) activities in particular. It supports, monitors, and issues recommendations on the Board of Management's ESG strategies, targets, and initiatives, including the environmental, social, societal, ethical, and circular economy aspects of Covestro's business along the entire value chain.

The Sustainability Committee additionally helps the Audit Committee examine sustainability-related statements in the context of the audit of the (Group's) nonfinancial statement. Furthermore, it advises the Human Resources Committee on setting ESG targets for Board of Management compensation.

Members: Lise Kingo (Chair), Dr. Ulrich Liman, Marc Stothfang, and Patrick Thomas

Details on the Supervisory Board's activities and its committees are provided by the Supervisory Board in its Report.

[+ See "Report of the Supervisory Board."](#)

Objectives for the Composition of the Supervisory Board and Diversity Concept

The composition of the Supervisory Board should be such that its members jointly possess the necessary expertise, skills, and professional experience to properly perform their duties, and are sufficiently independent. The Supervisory Board assesses the independence of its members according to the recommendation contained in the GCGC.

Covestro AG's Supervisory Board has agreed the following specific goals for its composition that align with the recommendations of the GCGC and at the same time provide for diversity in terms of age, independence, and professional experience:

- The Supervisory Board has resolved that 75% of its members and more than half of the shareholder representatives on the Supervisory Board are to be independent.
- Absent of special circumstances, a Supervisory Board member shall not serve more than three full terms of office and shall not hold office beyond the end of the next Annual General Meeting following his or her 72nd birthday.
- The Supervisory Board shall not include more than two former members of the company's Board of Management. Supervisory Board members may not perform executive functions or consulting activities for major competitors of the company or any Group company, and they must not be exposed to other significant conflicts of interest.
- One member of the Supervisory Board shall have expertise in the area of accounting and at least one other member shall have expertise in the area of auditing.
- At least two Supervisory Board members must have function-specific knowledge in each of the following areas:
 - Strategy, mergers and acquisitions, capital markets
 - Marketing, sales, supply chain
 - Research and development, innovation
 - Sustainability, circular economy and new technologies
 - Digitalization
 - Human resources, change management
 - Corporate governance, compliance
- The Supervisory Board must have at least two members with experience in industries, sales markets, and/or divisions of importance to Covestro, e.g., (polymer) chemistry, production, and technology.
- Taking into account the specific situation and international operations of Covestro and its affiliated companies, the Supervisory Board strives to ensure sufficient diversity among its members. Moreover, at least three members should have managerial experience in an international enterprise and/or experience serving on other supervisory boards or supervisory bodies.

The objectives described refer to the Supervisory Board as a whole unless resolved otherwise. However, since the Supervisory Board can only nominate candidates for election as shareholder representatives, it can only consider the objectives in making these nominations.

Implementation Status of the Objectives

The Supervisory Board has several members with international business experience and an international background. The objectives pertaining to age limits, length of service, and independence are being met. In the opinion of the Supervisory Board, the shareholder representatives Dr. Richard Pott, Dr. Christine Bortenlänger, Lise Kingo, Prof. Dr. Rolf Nonnenmacher, Regine Stachelhaus, and Patrick Thomas are independent pursuant to the GCGC. The requirements for function-specific knowledge are generally being met, but the specific goal of having at least two shareholder representatives per field of expertise is not fulfilled in all areas.

+ Additional information about Covestro AG's current Supervisory Board members is available at: www.covestro.com/en/company/management/supervisory-board

Shareholdings and Reportable Securities Transactions by Members of the Board of Management or Supervisory Board

In the year under review, members of the Board of Management and Supervisory Board and their close relatives are legally required to disclose all transactions involving the purchase or sale of Covestro AG securities where such transactions total €20,000 or more in a calendar year no later than three business days after the date of the transaction. Covestro publishes the details of reportable transactions in suitable media in the European Union and on its website without delay, but no later than two business days after receipt of the disclosure, and also provides this information to the company register for archiving.

+ Additional information on securities transactions by members of the Board of Management or Supervisory Board is available at: www.covestro.com/en/investors/share-details/disclosure-of-securities-transactions

Systematic Risk Management

Covestro's enterprise risk management system ensures early identification of any financial or nonfinancial risks. We attempt to avoid or mitigate identified risks, or to transfer them to third parties (such as insurers) to the extent possible and economically acceptable.

The internal control system (ICS) for accounting and financial reporting enables the timely monitoring of risks to prevent or correct potential errors in accounting for business transactions. It thus ensures the availability of reliable data on the company's financial situation.

However, the control and risk management system cannot provide absolute protection against losses arising from business risks or fraudulent actions.

☐ See "Opportunities and Risks Report."

Detailed Reporting

We provide regular and timely information on the Covestro Group's position and significant changes in business activities to shareholders, financial analysts, shareholders' associations, the media, and the general public to maximize transparency. Four times a year we report to our shareholders about the company's business performance, its net assets, financial position, and results of operations, and the risks it faces. Covestro's reporting thus complies with the provisions of the GCGC.

In line with statutory requirements, the members of the company's Board of Management provide assurance that, to the best of their knowledge, the financial statements of Covestro AG, the consolidated financial statements of the Covestro Group, and the Combined Management Report provide a true and fair view.

The financial statements of Covestro AG, the consolidated financial statements of the Covestro Group, and the Combined Management Report are published within 90 days following the end of each fiscal year. During the fiscal year, Covestro additionally informs shareholders and other interested parties about developments by means of the half-year financial report and interim reports for the first and third quarters. The half-year financial report is voluntarily subjected to a review by the auditor appointed by the Annual General Meeting.

Covestro also provides information about the current corporate strategy, important growth areas, the financial position and results of operations, and financial targets at regular press conferences and analysts' meetings. The company uses the internet as a platform for the timely disclosure of information, with major publications, such as annual reports, half-year financial reports, and quarterly statements, and the dates of events, such as Annual General Meetings, posted on the Group's website.

In line with the principle of fair disclosure, Covestro treats all shareholders and other key stakeholders equally as regards the communication of valuation-relevant information. All significant new facts are disclosed immediately to the general public. In addition to our regular reporting, we issue ad-hoc statements on developments that otherwise might not become publicly known but have the potential to materially affect the price of Covestro shares.

Shareholders and Annual General Meeting

Covestro's shareholders exercise their rights within the scope provided for by the law and the Articles of Incorporation at the Annual General Meeting and there exercise their right to vote. Each share of Covestro AG confers the same rights and carries one vote at the Annual General Meeting. Shareholders can exercise their voting rights by way of a proxy, e.g., a credit institution, a shareholders' association, or another third party. Shareholders can issue and revoke proxies in respect of the company electronically using the company's online proxy system. The company also makes it easier for its shareholders to exercise their personal rights by appointing voting proxies to cast their votes, subject to their instructions. They are also available during the Annual General Meeting. The Board of Management can enable shareholders to take part in the Annual General Meeting without in-person attendance and without a proxy, and exercise all of their rights or individual rights in whole or in part through electronic means of communication. All of the company's shareholders and interested members of the public may watch the opening of the Annual General Meeting by the meeting chair and follow the report of the Board of Management live online. The Annual General Meeting on April 16, 2021, was held virtually due to the coronavirus pandemic. All documents and information on the Annual General Meeting such as the invitation, including the agenda, and the annual report are available on Covestro's website as well.

➤ The live feed of the opening of the Annual General Meeting and the report of the Supervisory Board are available at: www.covestro.com/en/investors/financial-calendar/annual-general-meeting

Takeover-Relevant Information

Disclosures Pursuant to Section 289a, Paragraph 1 and Section 315a, Paragraph 1 of the German Commercial Code (HGB)

Investments in Capital Interest Held, Exceeding 10% of Total Voting Rights

We have received no notification nor are we otherwise aware of direct or indirect investments in capital interest held, equal to or exceeding 10% of the voting rights.

+ Additional information on Covestro's ownership structure is available at:
www.covestro.com/en/investors/stock-details/shareholder-structure

Board of Management

Appointment and Dismissal of Members of the Board of Management, Changes to the Articles of Incorporation

The appointment and dismissal of members of the Board of Management are subject to the provisions of Sections 84 and 85 of the German Stock Corporation Act, Section 31 of the German Codetermination Act, and Article 6 of the Articles of Incorporation of Covestro AG. Pursuant to Section 84, Paragraph 1 of the German Stock Corporation Act, the members of the Board of Management are appointed and dismissed by the Supervisory Board. The term of service for a Board of Management member appointed for the first time is generally three years. Since Covestro AG falls within the scope of the German Codetermination Act, the appointment or dismissal of members of the Board of Management requires a majority of two-thirds of the votes of the members of the Supervisory Board on the first ballot pursuant to Section 31, Paragraph 2 of that act. If no such majority is achieved, the appointment is resolved pursuant to Section 31, Paragraph 3 of the Codetermination Act on a second ballot by a simple majority of the votes of the members of the Supervisory Board. If the required majority still is not achieved, a third ballot is held. Here again, a simple majority of the votes of the members suffices, but in this ballot, the Supervisory Board Chair has two votes pursuant to Section 31, Paragraph 4 of the Codetermination Act. Under Article 6, Paragraph 1 of the Articles of Incorporation, the number of members of the Board of Management is determined by the Supervisory Board but must be at least two. The Supervisory Board may appoint one member of the Board of Management to be its Chair and one member to be the Vice Chair pursuant to Section 84, Paragraph 2 of the German Stock Corporation Act and Article 6, Paragraph 1 of the Articles of Incorporation.

Any amendments to the Articles of Incorporation are made pursuant to Section 179 of the German Stock Corporation Act and Articles 10 and 17 of the Articles of Incorporation. Under Section 179, Paragraph 1 of the German Stock Corporation Act, amendments to the Articles of Incorporation require a resolution of the Annual General Meeting. Pursuant to Section 179, Paragraph 2 of the German Stock Corporation Act, this resolution must be passed by a majority of three-quarters of the voting capital represented at the meeting, unless the Articles of Incorporation provide for a different majority. However, where an amendment relates to a change in the object of the company, the Articles of Incorporation may only specify a larger majority. Article 17, Paragraph 2 of the Articles of Incorporation utilizes the scope for deviation pursuant to Section 179, Paragraph 2 of the German Stock Corporation Act and provides that resolutions may be passed by a simple majority of the votes cast or, where a capital majority is required, by a simple majority of the capital represented. Pursuant to Article 10, Paragraph 9 of the Articles of Incorporation, the Supervisory Board may resolve on amendments to the Articles of Incorporation that relate solely to their wording.

Capital

Composition of the Capital Stock

The capital stock of Covestro AG amounted to €193,200,000 as of December 31, 2021, and is composed of 193,200,000 no-par value bearer shares. Each share confers equal rights and one vote at the Annual General Meeting (AGM).

Board of Management's Authorizations to Issue Shares

The AGM passed a resolution on April 16, 2021, authorizing the Board of Management to increase the capital stock by up to €57,960,000 in the period up to April 15, 2026, with the approval of the Supervisory Board, by issuing new, no-par value bearer shares against cash contributions and/or contributions in kind (Authorized Capital 2021).

On July 30, 2020, the AGM additionally authorized the Board of Management to issue bonds with conversion or exchange rights or warrants, or with conversion obligations, or a combination of these instruments on up to 18,300,000 no-par value bearer shares of Covestro AG. Based on this authorization, convertible/warrant bonds can be issued up to a total nominal value of €2,000,000,000 by the company or a Group company in the period up to July 29, 2025. The 2020 AGM also resolved to conditionally increase the capital stock by up to €18,300,000 by issuing up to 18,300,000 no-par value bearer shares to grant shares to the holders or creditors of such convertible/warrant bonds (Conditional Capital 2020). New shares from Authorized Capital 2021 and the aforementioned bonds can be issued against cash contributions or contributions in kind. They must generally be offered to the shareholders for subscription. The Board of Management is authorized, with the approval of the Supervisory Board, to disapply shareholders' subscription rights when instruments are issued against contributions in kind. When issuing instruments against cash contributions, subscription rights can be disapplied with the approval of the Supervisory Board in the following cases:

- Subscription rights must be disapplied where the subscription ratio gives rise to fractional amounts.
- Subscription rights are disapplied to provide compensation for dilution in connection with convertible/warrant bonds already issued.
- The issue price of the new shares or bonds will not be significantly lower than their stock market price or the theoretical fair value of the bonds calculated using recognized financial valuation methods (disapplication of subscription rights limited to 10% of the capital stock under or in accordance with Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act).

Additional restrictions, which are described in greater detail in the respective authorization, may apply to the new shares issued or to be issued against cash contributions or contributions in kind while disapplying the subscription rights of shareholders. In addition, the Board of Management declared in a Corporate Commitment ending no later than April 15, 2026, that it will not increase the company's capital stock from Authorized Capital 2021 and Conditional Capital 2020 by a total of more than 10% of the amount of capital stock at the time of the AGM on April 16, 2021, insofar as capital increases are implemented from Authorized Capital 2021 against cash contributions or contributions in kind while disapplying subscription rights, or for the purpose of servicing convertible/warrant bonds issued under the authorization resolved on July 30, 2020, while disapplying subscription rights.

Acquisition and Use of Treasury Shares

By a resolution adopted by the Annual General Meeting on April 12, 2019, the Board of Management is authorized to acquire and use treasury shares, also using derivatives. The individual details of the resolution are as follows:

1. Authorization Granted to the Board of Management to Acquire and Use Treasury Shares

- 1.1 The Board of Management is authorized until April 11, 2024, to acquire treasury shares with a proportionate interest in the capital stock totaling up to 10% of the company's capital stock existing at the date of the resolution, or if this amount is lower, at the time the authorization is exercised, subject to the proviso that the shares acquired as a result of this authorization, together with other shares of the company that the company has already acquired and still holds, or which are attributable to it under Sections 71a et seqq. of the German Stock Corporation Act, at no time exceed 10% of the capital stock of the company. The provisions in Section 71, Paragraph 2, Sentences 2 and 3 of the German Stock Corporation Act must be complied with.

The acquisition may only take place via the stock exchange or by means of a public purchase offer and must satisfy the principle of the equal treatment of shareholders (Section 53a of the German Stock Corporation Act). If the acquisition takes place via the stock exchange, the purchase price paid by the company (excluding transaction costs) may neither exceed, nor be lower than, the company's share price as determined by the opening auction in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange on the trading day, by more than 10%. If the acquisition takes place by means of a public purchase offer, the offer price paid by the company (excluding transaction costs) may neither exceed, nor be lower than, the company's share price as determined by the closing auction in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange on the last trading day before the publication of the purchase offer, by more than 10%. If the total number of the shares tendered in response to a public purchase offer exceeds the offer volume, purchases may be made in proportion to the number

of shares tendered (tender ratios); in addition, preferential acceptance of small numbers of shares (up to 50 shares per shareholder), as well as rounding in accordance with commercial principles to avoid notional share fractions, may be provided for. Any further shareholder tender rights are disappplied to this extent.

- 1.2 The authorization may be exercised in full, or in a number of partial amounts split across several acquisition dates, until the maximum purchase volume has been reached. The acquisition may also be carried out by Group companies that are dependent on the company within the meaning of Section 17 of the German Stock Corporation Act, or by third parties on behalf of the company or such Group companies. The authorization may, subject to compliance with the statutory requirements, be exercised for any purpose permissible in law, especially in pursuit of one or more of the purposes listed in 1.3, 1.4, 1.5, and 1.6. Trading in treasury shares is not permitted.

If the treasury shares acquired are used for one or more of the purposes described under 1.3 or 1.4, the shareholders' subscription rights are disappplied. The Board of Management is authorized to disapply subscription rights if the treasury shares acquired are used for the purpose specified in 1.6. Shareholders likewise do not have any subscription rights if the treasury shares acquired are sold via the stock exchange. In the event that the treasury shares acquired are sold by means of a public offer to shareholders, and this public offer complies with the principle of equal treatment, the Board of Management is authorized to disapply the shareholders' subscription rights for fractions.

- 1.3 The Board of Management is authorized to also sell the treasury shares acquired on the basis of the above or an earlier authorization in a manner other than via the stock exchange or by way of an offer to all shareholders, provided that the sale takes place against cash payment and at a price which, at the date of the sale, is not significantly lower than the market price for the same class of shares in the company. This authorization governing the use of shares is restricted to shares whose proportionate interest in the capital stock may not in total exceed 10% of the capital stock either at the date this authorization becomes effective or, if this amount is lower, at the date the present authorization is exercised. The upper limit of 10% of the capital stock is reduced by the proportionate interest in the capital stock that is attributable to those shares which are issued or sold during the term of this authorization while disapplying subscription rights under or in accordance with Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act. The upper limit of 10% of the capital stock is further reduced by the proportionate interest in the capital stock that is attributable to those shares which are to be issued to service bonds with warrants or conversion rights or obligations, provided that these bonds are issued during the term of this authorization while disapplying subscription rights in application of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act, with the necessary modifications.
- 1.4 The Board of Management is authorized to transfer the treasury shares acquired under the above or an earlier authorization to third parties, provided this is done for the purpose of acquiring companies, parts of companies, equity interests in companies, or other assets, or to effect business combinations.
- 1.5 The Board of Management is authorized to retire the treasury shares acquired under the above or an earlier authorization without a further resolution by the Annual General Meeting. The shares may also be retired without reducing the capital by adjusting the proportionate interest of the remaining no-par value shares in the capital stock of the company. In this case, the Board of Management is authorized to amend the number of no-par value shares in the Articles of Incorporation.
- 1.6 The Board of Management is authorized to use the treasury shares acquired under the above or an earlier authorization to pay a scrip dividend.
- 1.7 The Board of Management may only use the authorizations in 1.3, 1.4, and 1.6 with the approval of the Supervisory Board. Moreover, the Supervisory Board may determine that the measures taken by the Board of Management on the basis of this resolution by the Annual General Meeting may only be implemented with its approval.
- 1.8 Overall, the above authorizations governing the use of shares may be utilized on one or several occasions, individually or together, in relation to partial volumes of the treasury shares, or all treasury shares held in total.

2. Authorization for Acquisition Using Derivatives

- 2.1 Treasury shares being acquired as part of the authorization under 1.1 may also be acquired using put or call options. In this case, the option transactions must be entered into with a credit institution, or a company which operates in accordance with Section 53, Paragraph 1, Sentence 1 or Section 53b, Paragraph 1, Sentence 1 or Paragraph 7 of the German Banking Act, that is independent of the company (financial institution), provided that this financial institution, when the option is exercised, only delivers shares which were previously acquired via the stock exchange at a market-driven price in compliance with the principle of equal treatment.
- 2.2 The acquisition of shares using put or call options is limited to a maximum of 5% of the capital stock in existence either at the date of the resolution by the Annual General Meeting or, if this amount is lower, at the date the authorization is exercised.
- 2.3 The option premium paid by the company in the case of call options may not be materially higher and the option premium received in the case of put options may not be materially lower than the theoretical fair value of the options concerned calculated using accepted financial valuation methods. The exercise price agreed in the option transaction (in each case not including transaction costs, but taking into account the option premium received or paid) may not be more than 10% higher or lower than the price of the company's shares as determined by the opening auction in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange on the trading day on which the option transaction was entered into.
- 2.4 The term of the individual derivatives may not, in each case, exceed 18 months; it must end at the latest on April 11, 2024, and must be selected so that the shares are not acquired using derivatives after April 11, 2024.
- 2.5 The provisions under 1. also apply to the use of company shares acquired on the basis of the authorization under 2. using derivatives.

Material Conditional Agreements

Some debt financing instruments contain clauses that refer to cases of change of control. Such clauses grant the respective investor additional rights of termination, which may be restricted by additional conditions – such as a rating being downgraded. Our syndicated credit line and our bonds, for example, are governed by change-of-control agreements.

For the case of a takeover offer for Covestro AG, agreements are in place which stipulate that financial benefits in the event of early termination of the service contract of a Board of Management member due to a change of control are subject to the severance cap set out in the German Corporate Governance Code as amended on December 16, 2019, and may not exceed compensation for the remaining term of the contract.

Compliance

Compliance Management System

Our corporate conduct is characterized by a sense of responsibility as well as ethical principles. Compliance with legal and regulatory requirements is integral to our operations. It is only in this manner that we can sustainably increase the company's enterprise value and safeguard our reputation.

Culture and Targets

In its Corporate Compliance Policy, Covestro has specified a Group-wide code of conduct that mandates fundamental principles and rules for all employees. This code of conduct details our commitment to fair competition, integrity in business dealings, the principles of sustainability and product stewardship, data protection, upholding of foreign trade and insider dealing laws, the separation of business and private interests, proper record-keeping and transparent financial reporting, as well as to providing fair, respectful, and nondiscriminatory working conditions. These requirements apply within the company as well as to all interactions with external partners and the general public. Our code of conduct provides a framework for all decisions by the company and our employees. The Corporate Compliance Policy is available on our intranet and on our website, and is part of an information packet distributed to new employees when they are hired.

+ Additional information is available at: www.covestro.com/en/company/profile/procurement/sustainability-in-procurement/supplier-code-of-conduct

Covestro is aware that employees will likely embrace and exhibit integrity if managers are excellent role models. The Board of Management states very clearly in its Corporate Compliance Policy for all staff that, above and beyond any legal requirements, Covestro elects not to conduct any business activities that would violate our rules and that management staff is prohibited from instructing employees otherwise. In this way, management continuously fosters our compliance culture by, for example, regularly drawing employees' attention to compliance topics and their significance to the company. At Covestro town hall meetings, for example, Board of Management members regularly present recent compliance cases to employees and underscore the importance of complying with statutory requirements and internal regulations.

 See "Corporate Commitments."

We want to utilize our compliance management system in order to:

- Foster and reinforce conduct per compliance requirements,
- Minimize or even eliminate compliance violations,
- Identify risks for potential violations,
- Implement preventive measures, and
- Uncover, halt, and proactively eliminate a repeat occurrence of any compliance violations committed by individuals acting without authorization and in breach of clear rules.

We have taken steps to meet our targets, including implementing an internal control system to ensure compliance rules are followed. The insights gained from our annual evaluation of effectiveness are leveraged in our efforts to continually improve our compliance management system.

 See "Internal Control System to Ensure Compliance."

Compliance Organization

The Chief Compliance Officer is in charge of all compliance activities at Covestro, and in this function reports directly to the Board of Management. The Law, Intellectual Property & Compliance corporate function is the single point of contact that coordinates Group-wide compliance activities. Chaired by the Chief Financial Officer (CFO) of Covestro, the Compliance Committee is the Group's top-level decision-making body on these issues. The Committee's responsibilities include the following: exercising a Group-wide compliance governance function, initiating and approving compliance-related regulations, and approving the annual training plan. In the reporting period, the Compliance Committee met a total of four times.

A local Compliance Officer has also been appointed for each country in which Covestro has employees. This person serves as a local point of contact for employees on all questions regarding legally and ethically correct conduct in business situations. The country organizations also have local compliance committees.

Communications and Compliance

Covestro systematically conducts training courses on compliance. Once focus areas have been specified, target groups are defined for each content category and the employees are selected as appropriate.

Covestro expressly encourages its employees to openly address any doubts about proper conduct in business situations and to solicit advice. We inform all employees whom they can contact if they have any doubts or questions. Covestro has also set up a whistleblowing tool. Employees and third parties can report potential compliance violations through a hotline accessible worldwide or use an online tool that also permits anonymous reports. In addition, employees can also report any compliance incidents to their supervisors or to the Compliance organization.

+ Additional information is available at: www.covestro.com/en/company/management/compliance

An internal policy sets out the principles for handling compliance incidents at Covestro. All suspected compliance incidents are recorded in a central database. Confirmed violations are evaluated, and organizational, disciplinary, or legal measures are taken if necessary.

Compliance incidents are regularly reported to the Supervisory Board, the Board of Management, and the business entities' management teams. Moreover, a current overview of incidents, including additional information on various aspects and developments related to this topic, is published in a monthly Compliance Telegram on the intranet. This ensures a high degree of transparency for all employees.

On a quarterly basis, all companies document risks arising from pending or current legal or administrative proceedings. Relevant cases are reported on a regular basis to the Board of Management and to the Audit Committee of the Supervisory Board. The material legal risks are disclosed in the Notes to the Consolidated Financial Statements.

📄 See note 26 "Legal Risks" in the Notes to the Consolidated Financial Statements.

[Supplementary information >](#)

Tax Compliance

Principles and Targets

Covestro takes seriously its responsibility to pay the statutory tax liability in accordance with the rules set by each government as well as to meet all registration, documentation, disclosure, and licensing requirements in all the applicable countries and/or tax jurisdictions. Ensuring that tax payments are made in the appropriate amount is a core element of Covestro's responsibility to society, because this is a major source of revenue for governments that is used to carry out economic and social policies.

Our tax principles are as follows:

- Zero tolerance for violations, especially tax fraud/evasion;
- Tax payments in line with the value created in the relevant countries/territories;
- Cooperation with tax authorities.

These principles are also published online.

➕ Additional information is available at: www.covestro.com/en/sustainability/service-downloads/policies-commitments

Our principles are at the heart of a tax policy applicable to the entire Group, which was reviewed and approved by the corporate Taxes function and the Chief Financial Officer (CFO). The tax policy also includes our tax strategy in alignment with our Group strategy and our C³ corporate values. The tax strategy is discussed and amended as necessary in regular exchanges with the CFO.

📖 See "Strategy."

In addition, we are interested in keeping abreast of ongoing developments in tax law and therefore participate in political discussions in trade association committees. All of our activities rest on compliance with our ethical principles. The aim of our participation in trade associations is fair, transparent, and administratively streamlined evolution of tax law.

Tax Compliance Organization

Responsibility for implementing and continually improving the appropriate tax processes lies with the corporate Taxes function, which reports to the CFO. Local tax experts in Covestro's subsidiaries implement tax processes or support this effort. To the extent that third-party professionals are tasked with tax-related responsibilities in certain countries, they agree to adhere to our principles and compliance rules.

Covestro expressly encourages employees to openly discuss any concerns about proper conduct by the company regarding taxes with their supervisors or local tax departments, and to obtain assistance or advice. Our whistleblower tool is also available to employees and third parties.

📖 See "Communications and Compliance."

A standardized process is used to report tax risks worldwide to the corporate Taxes function once a year. Tax risks are monitored on an ongoing basis in cooperation with the Group companies and, if necessary, the risk reports are amended. Financial reporting comprises tax risks, which are integrated into the internal control system for the (Group) accounting and financial reporting process and the risk early warning system.

📖 See "Internal Control System for (Group) Accounting and Financial Reporting" and "Risk Early Warning System."

[< Supplementary information](#)

Compensation Report

The Compensation Report outlines the principles for determining the compensation for the members of the Board of Management and the Supervisory Board of Covestro AG and explains the compensation of the individual members. The Report was prepared by the Board of Management and the Supervisory Board in accordance with the requirements of section 162 of the German Stock Corporation Act (AktG) and conforms to the recommendations of the German Corporate Governance Code (GCGC) as amended on December 16, 2019. Relevant information is published on Covestro's website.

+ Additional information on the details of the compensation system, the report on the audit of the compensation report, and the resolution of the Annual General Meeting approving the compensation system is available at: www.covestro.com/en/company/management/corporate-governance

In December 2020, Covestro AG's Supervisory Board resolved to revise the compensation system for Board of Management members approved by the Annual General Meeting (AGM) on May 3, 2016, effective January 1, 2021. The total target compensation remained essentially the same. The changes primarily entailed adding a sustainability component to long-term variable compensation, introducing rules for withholding or recovering variable compensation components (malus and clawback), and defining maximum compensation. These modifications were made pursuant to the provisions of the law and the German Corporate Governance Code (GCGC) as amended on December 16, 2019. The compensation system for the Board of Management members, which was revised as described, was approved by the AGM on April 16, 2021, with a majority of 91.66%; it is available on the company's website.

+ Additional information is available at: www.covestro.com/-/media/covestro/corporate/company/management/corporate-governance/documents/en/covestro-compensation-system-board-of-management.pdf

Compensation of the Board of Management

The following section reports the compensation of the Board of Management of Covestro AG for fiscal 2021. The members of the Board of Management of Covestro AG are the same as the members of the Board of Management of Covestro Deutschland AG, which is a wholly owned subsidiary of Covestro AG. Compensation is not paid for the members' work on the Board of Management of Covestro Deutschland AG.

Guiding Principles for Compensation

The compensation structure is standardized for all Covestro employees in line with our "We are 1" corporate culture:

- The variable compensation of the Board of Management and all participating employees is based on a uniform system and identical criteria.
- Differences exist only in the target percentages related to fixed compensation.

The variable compensation is based on Covestro's corporate performance, which is measured based on financial and environmental targets and share performance:

- The system and criteria for **short-term variable compensation** are closely aligned to Covestro's annual performance.
- The system and the criteria are agreed upon and binding for a three-year period. The Covestro Profit Sharing Plan (Covestro PSP) is a bonus system based on the company's average expected performance. The Covestro PSP is designed in such a way that an average payout level of 100% can be achieved over a period of up to 10 years. From 2022, a sustainability component will be agreed in addition to the financial performance criteria.
- In very good years, high payout percentages are achieved (such as 239.5% for fiscal 2021), while in less successful years they are significantly lower (such as 10.8% for fiscal 2020).
- The Prisma stock-based compensation program for **long-term variable compensation** is based on the performance of Covestro stock, including the dividend, compared with the STOXX Europe 600 Chemicals* index. Since fiscal 2021, Prisma has also been amended to include a sustainability component.

The determination of variable compensation is simple, transparent, and based on objective criteria:

- The system with the underlying curves is defined and documented in the Annual Report.
- All criteria have been audited and are also documented in the Annual Report.

Compensation system and structure at a glance

	In % of target compensation	Target compensation in € thousand	Modifiers/target compensation	Further components
30% fixed	30% Fixed annual compensation	CEO ¹ : 1,219 OBM ¹ : 614 – 746	Fixed	Fringe benefits
70% variable	30% Covestro PSP	CEO: 1,219 OBM: 614 – 746	Core volume growth 0 – 300% 1/3 × Free operating cash flow 0 – 300% 1/3 × Return on capital employed 0 – 300% 1/3 Cap: 250%	Malus (100%) Clawback (up to 3 years)
	40% Prisma	CEO: 1,585 OBM: 798 – 970	Prisma target × Total shareholder return factor × CO₂ factor 25% + Outperformance factor 75% Cap: 200%	
	100% ²	CEO: 4,023 OBM: 2,026 – 2,462	Severance cap: 2 times annual compensation	
	Pension benefits ³	CEO: 679 OBM: 182 – 280	Defined contribution plans or defined contribution (company pension): 9 – 17% of target compensation	Share ownership guidelines: 100% of fixed annual compensation within 4 years (CEO & OBM)
	Total compensation ²	CEO: 4,702 OBM: 2,208 – 2,742	Max. compensation limit (incl. fringe benefits and pension): €9,000 thousand (CEO); €5,500 thousand (OBM)	

¹ Chief Executive Officer (CEO), ordinary Board of Management member (OBM).

² Excluding fringe benefits.

³ Expected pension service cost (IFRSs).

* STOXX Europe 600 Chemicals: Sector index by index issuer STOXX; the STOXX Europe 600 comprises 600 European companies.

Basic Principles for Determining Compensation

Determining Target Compensation

The Supervisory Board determines the total target compensation for the upcoming fiscal year for each Board of Management member in accordance with the compensation system. This compensation is appropriate in view of the Board of Management member's duties and takes into account Covestro's financial situation, performance, and future prospects.

As of January 1, 2021, the fixed compensation of Board of Management members was increased based on the change in the previous year's consumer price index (0.78% from November 2019 to October 2020). The target compensation of individual Board of Management members based on the compensation system in effect is outlined below.

Target compensation of individual Board of Management members¹

	Dr. Markus Steilemann (Chair)				Sucheta Govil (Sales and Marketing)				Dr. Klaus Schäfer (Technology)				Dr. Thomas Toepfer (Finance and Labor Director)			
	2020		2021		2020		2021		2020		2021		2020		2021	
	€ thou- sand	in %	€ thou- sand	in %	€ thou- sand	in %	€ thou- sand	in %	€ thou- sand	in %	€ thou- sand	in %	€ thou- sand	in %	€ thou- sand	in %
Fixed annual compensation	1,210	25.7	1,219	25.8	609	27.9	614	27.4	609	26.3	614	26.3	740	27.4	746	27.4
Fringe benefits ²	30	0.6	30	0.6	30	1.4	30	1.3	30	1.3	30	1.3	30	1.1	30	1.1
Total	1,240		1,249		639		644		639		644		770		776	
Short-term variable compensation ³																
for fiscal 2020	1,210	25.7			609	27.9			609	26.3			740	27.4		
for fiscal 2021			1,219	25.8			614	27.4			614	26.3			746	27.4
Long-term variable compensation ⁴																
2020–2023 Prisma tranche	1,573	33.4			792	36.2			792	34.1			962	35.7		
2021–2024 Prisma tranche			1,585	33.5			798	35.7			798	34.2			970	35.6
Pension expense ⁵	681	14.5	679	14.3	146	6.7	182	8.1	279	12.0	280	12.0	225	8.3	235	8.6
Total compensation	4,704		4,732		2,186		2,238		2,319		2,336		2,697		2,727	

¹ Due to rounding, the percentage values do not always add up to 100%.

² Included: Annual mobility allowance of €24 thousand and normally expected costs (e.g., of a health screening examination, and maintenance and repair of security systems installed).

³ Target value: 100% of fixed annual compensation.

⁴ Target value: 130% of fixed annual compensation.

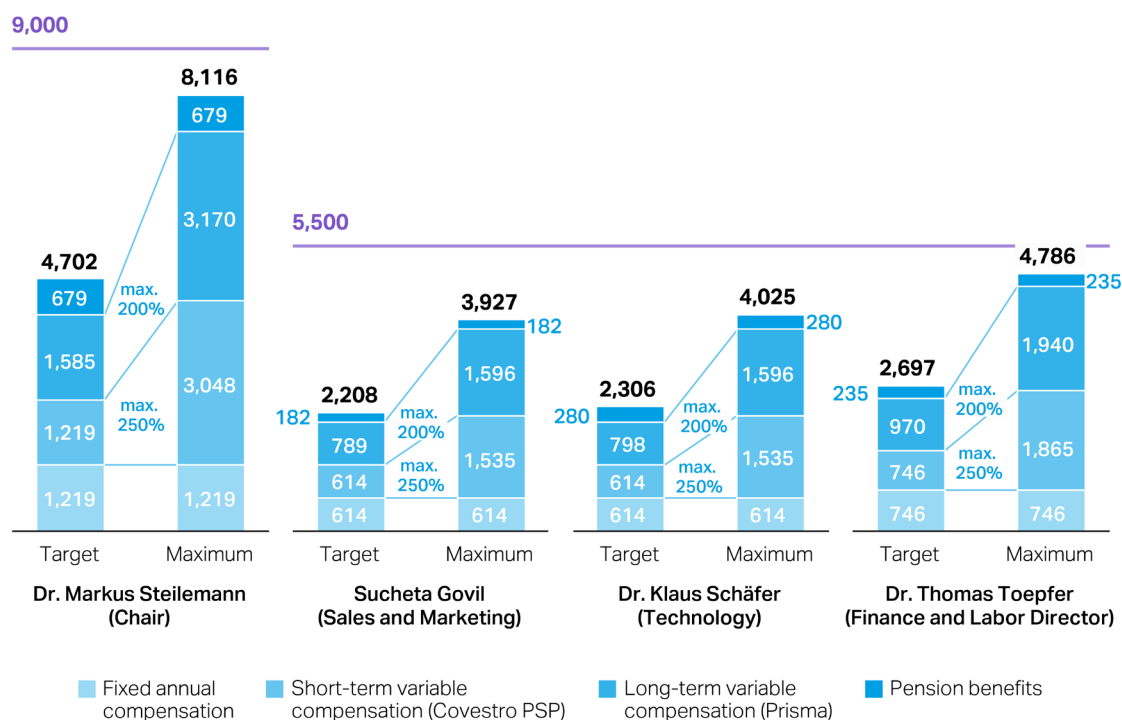
⁵ Expected pension service cost (IFRSs).

Compliance with Maximum Compensation Limit

Pursuant to Section 87a, Paragraph 1, Sentence 2, No. 1 of the German Stock Corporation Act (AktG), the Supervisory Board has stipulated maximum total compensation for the Board of Management members. The absolute amount in euros for the maximum possible payout includes fixed compensation, fringe benefits (e.g., mobility allowance, payments toward the cost of security equipment, screening examinations, etc.), capped variable compensation components, and pension expenses. As a result, the maximum total compensation for a full fiscal year for the Chair of the Board of Management amounts to €9.0 million, while this amount for the regular Board of Management members is €5.5 million.

A report cannot be provided on compliance with this maximum compensation limit until fiscal 2025, when the Board of Management members are entitled to receive a payout from the 2021–2024 tranche of the Prisma long-term variable compensation program. The possible maximum compensation for fiscal 2021, taking into account the respective caps of 250% for short-term and 200% for long-term variable compensation, is outlined below. Based on these two caps, the aforementioned amounts are guaranteed not to exceed the maximum total compensation for Board of Management members.

Target compensation and maximum compensation for the Board of Management for fiscal 2021 (€ thousand)¹



¹ For purposes of clarity, fringe benefits are not included, but since these generally do not exceed €30 thousand, they do not contribute to meeting or surpassing the maximum thresholds.

Review of Appropriateness

The Supervisory Board commissioned an expert opinion from a third-party consultant firm to ensure the compensation is appropriate compared to other companies. The peer group used was the entire group of DAX and MDAX companies, except banks and insurance companies due to their limited comparability. Based on equally weighted KPIs – revenue, headcount, and market capitalization – Covestro ranks 37th (56th percentile) in this group. The following Board of Management compensation components were compared with the market value for each, i.e., the compensation of board of management members in the peer group:

- Fixed annual compensation
- Target cash compensation = Fixed annual compensation + Target value for short-term variable compensation
- Target direct compensation = Target cash compensation + Target value for long-term variable compensation
- Total target compensation = Target direct compensation + Company pension plan

The costs of the company pension plan were determined by using actuarial methods to calculate a company pension plan premium. This premium indicates the amount that would have to be paid to a third-party pension plan to purchase the relevant pension benefits. Using the same parameters for the calculation, the premium amount, and therefore the costs, can be compared to the pension benefits of the board of management members of other companies.

Based on the expert opinion, the target and maximum compensation of the Board of Management was deemed to be in line with the market standard on the whole and therefore appropriate within the meaning of the AktG.

Furthermore, the Supervisory Board reviewed the company's compensation structure and, for this purpose, compared the fixed annual compensation, target cash compensation, and target direct compensation of the Board of Management members with the corresponding compensation components of the Executive Leadership Team (executives at the two highest contract levels below of the Board of Management) and the workforce as a whole (employees subject and not subject to collective bargaining agreements, including the Executive Leadership Team) at Covestro in Germany. The internal compensation structure was also determined to be appropriate in view of this comparison, which covered the period from 2015 to 2020. No adjustment was therefore made to the compensation structure or maximum compensation, except for the aforementioned increase in fixed annual compensation.

Application of the Compensation System in the Reporting Period

The application of the compensation system in fiscal 2021 is presented below.

Nonperformance-Related Components

Fixed Annual Compensation, Fringe Benefits

The adjustment to fixed annual compensation at the start of the fiscal year was described above in "Determining Target Compensation." Fringe benefits mainly comprise a mobility allowance, maintenance and repair of security installations, as well as reimbursement of the cost of an annual screening examination. Sucheta Govil additionally received reimbursement of the cost of tax preparation by an external consulting firm. Fringe benefits are reported at cost or the amount of the taxable benefit gained.

Post-Employment Benefits

Dr. Markus Steilemann and Dr. Klaus Schäfer, who were appointed to the Board of Management in 2015, will receive lifelong pension benefits after they step down from the Covestro Group, but not before they reach the age of 62. These pension payments will be made monthly. The arrangements for surviving dependents basically provide for a widow's/widower's pension amounting to 60% of the member's pension entitlement, and an orphan's pension amounting to 12% of the member's pension entitlement for each child.

The annual pension entitlement is based on defined contributions. From September 1, 2015, onward, Covestro has provided a hypothetical benefit amounting to 33% of the respective fixed compensation beyond the relevant income threshold in the statutory pension plan. This percentage comprises a 6% basic contribution and a matching contribution of up to 27% – three times the member's maximum personal contribution of 9%. The total annual contribution is converted into a pension module according to the annuity table for the applicable tariff of the Rheinische Pensionskasse VVaG, Leverkusen (Germany), pension fund. The annual pension entitlement upon retirement is the total amount of the accumulated pension modules, including an investment bonus.

Dr. Klaus Schäfer has additionally been granted a vested entitlement to a fixed annual pension of €126,750.

The actual pension entitlement cannot be precisely determined in advance. It depends on the development of the member's compensation, the number of years of service on the Board of Management, and the return on the assets contributed to the Rheinische Pensionskasse VVaG. Certain assets are administered under a pension trust, providing additional insolvency protection for pension entitlements resulting from direct commitments for the members of the Board of Management in Germany. As a rule, future pension payments are adjusted by at least 1% per year. Depending on the pension obligation, an additional adjustment may be made if the investment bonus of the Rheinische Pensionskasse VVaG or the consumer price index exceeds 1% per year.

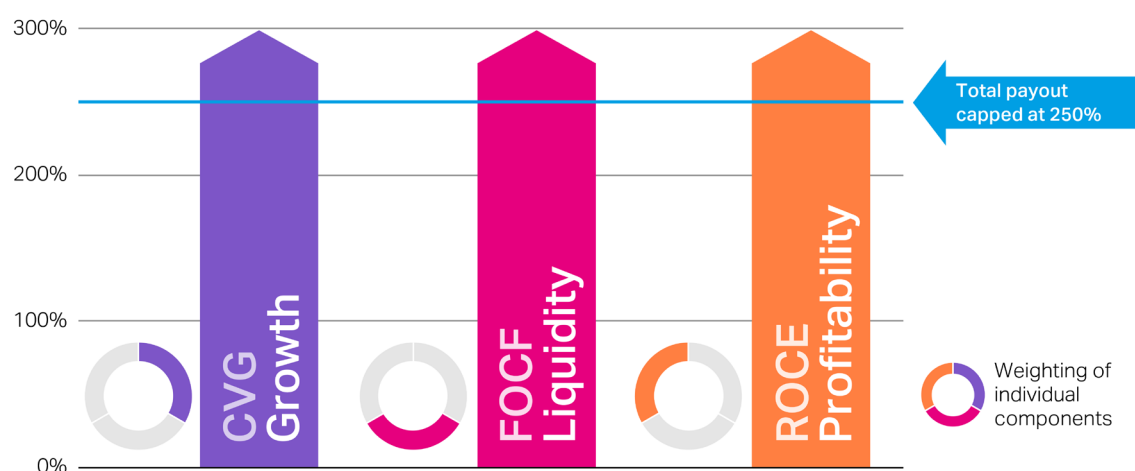
Sucheta Govil and Dr. Thomas Toepfer have agreed to have their company pensions switched to the newly introduced direct commitment to a defined-contribution company pension plan effective April 1, 2021. Covestro and the Board of Management members will each contribute 3% of their fixed annual compensation up to the social security contribution ceiling to a statutory pension plan. For the portion of compensation exceeding the contribution ceiling, Covestro will provide a basic contribution of 6% and a match of up to 30%, three times the Board of Management member's own contribution of 10%. The aforementioned pension arrangement, which continues to apply for Dr. Markus Steilemann and Dr. Klaus Schäfer, applied to these two members from the date they joined Covestro to March 2021.

Short-Term Variable Compensation

The target value of the short-term variable compensation (Covestro PSP) is currently 100% of the fixed annual compensation. The award is based on the performance criteria of growth, liquidity, and profitability, which are used as part of Covestro's management system to plan, manage, control, and report on business performance. This means that short-term variable compensation is directly linked to the company's success.

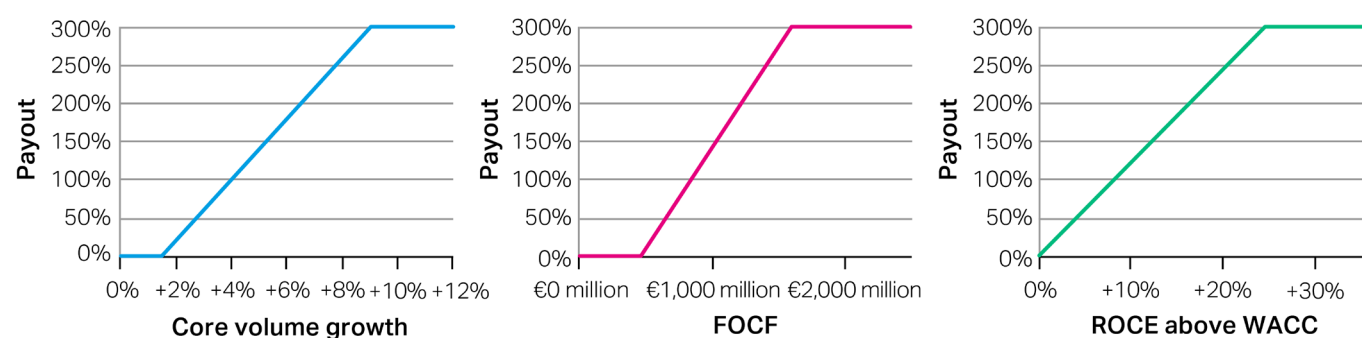
These performance indicators are applied to the Group-wide short-term Covestro Profit Sharing Plan (Covestro PSP). The Covestro PSP was introduced in 2016 and is applicable to all of Covestro's employees worldwide (with a few exceptions due to stipulations in collective bargaining agreements). Board of Management members also currently participate in the Covestro PSP. They receive their short-term variable compensation based on the rules of this compensation program, which equally weights the KPIs of core volume growth (CVG) for growth, free operating cash flow (FOCF) for liquidity, and return on capital employed (ROCE) for profitability:

Components of short-term variable compensation



In fiscal 2018, the Supervisory Board defined the global values for the threshold, 100% payout, and the maximum amount for each performance indicator, which are applied for a multi-year period from 2019 to 2021. Between these values, linear interpolation is used to determine the payout. There will be no adjustment after the fact.

Relation between payout and growth, liquidity, and profitability



For each individual performance indicator, the payout can be between 0% (failure to meet minimum requirements) and 300%. The total payout is the arithmetic mean of the individual payouts for all three components. However, it is limited to 250% of the target value corresponding to a maximum payout of 2.5 times the fixed annual compensation. This wide bandwidth ties the short-term variable compensation to the normally cyclical course of our business and ensures that profitable years result in attractive payouts, while in less profitable ones, it can be lower or even zero.

Components of the Covestro Profit Sharing Plan 2019–2021

	Growth: Core volume growth	Liquidity: FOCF	Profitability: ROCE
Threshold (0%)	+1.5%	Cash inflow of €400 million	ROCE = WACC
100% target attainment	+4.0%	Cash inflow of €800 million	+8% points above WACC
Ceiling (300%)	+9.0%	Cash inflow of €1,600 million	+24% points above WACC

For the 2021 reporting year, short-term variable compensation for all Board of Management members, less the solidarity contribution explained as follows, totaled €7,619 thousand. This was based on a payout of 239.5% whose calculation is presented in the table below. The solidarity contribution is made by all employees of the companies covered by agreements with the employee representatives in Germany to help safeguard jobs at the German sites. For the 2021 reporting period, the contribution amounted to 0.36% of each employee's Covestro PSP award. By resolution of the Supervisory Board, this contribution is also withheld from the Board of Management.

Payout of the Covestro Profit Sharing Plan for the year 2021

	Growth: Core volume growth	Liquidity: FOCF	Profitability: ROCE
Achieved value	+10.0%	Cash inflow of €1.429 million	+12.9% points above WACC
Resulting payout	300.0%	257.3%	161.3%
Total payout (arithmetic mean)	239.5%		

Short-Term Variable Compensation Starting in Fiscal 2022

As of fiscal 2022, the Covestro PSP was expanded and aligned with the Sustainable Future corporate strategy, which focuses – among others – on a circular economy and sustainable growth. On the one hand, core volume growth as a KPI was replaced by EBITDA. On the other hand, a fourth KPI relating to ESG criteria (environment, social, governance) was also introduced. This factor determines the payout based on the greenhouse gas emissions (CO₂ equivalents, CO₂e) of Covestro's own operations and the energy purchased by Covestro (Scope 1 and Scope 2 emissions).

In December 2021, the Supervisory Board decided that Board of Management members should continue to receive their short-term variable compensation based on the rules of the Covestro PSP. A detailed explanation of the compensation system, which has been revised to reflect this change, will be published when the 2022 AGM is convened. It will be presented to the AGM for approval at that time.

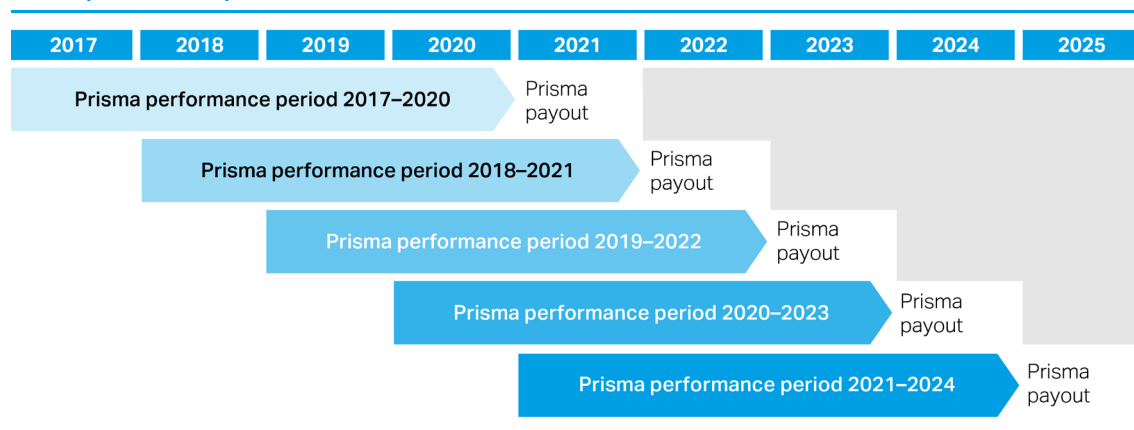
Long-Term Variable Compensation

The Prisma stock-based program for long-term variable compensation takes into account the performance of Covestro shares, including the dividend (total shareholder return) and outperformance against the STOXX Europe 600 Chemicals* index over a period of four years. In fiscal 2021, the LTI plan was expanded to also include a sustainability component. The long-term variable compensation is geared toward the sustained, future-oriented, and continuous growth of the company's value and guarantees the implementation of Covestro's Sustainable Future corporate strategy, particularly since the introduction of the sustainability component. Prisma is applicable to both members of the Board of Management and to Covestro executives. The LTI target value amounts to 130% of fixed annual compensation for members of the Board of Management, and participation requires that they fulfill the share ownership guidelines applicable to them.

A new Prisma tranche with a four-year performance period is issued for each fiscal year. At the beginning of this performance period, the Supervisory Board stipulates the performance criteria for outperformance and sustainability as well as the relative weighting of these two criteria, which are linked to the overall criterion of total shareholder return (TSR) as multipliers.

* STOXX Europe 600 Chemicals: Sector index by index issuer STOXX; the STOXX Europe 600 comprises 600 European companies.

Prisma performance periods



The payout is determined by calculating three factors: the TSR factor, the outperformance factor, and the CO₂ factor.

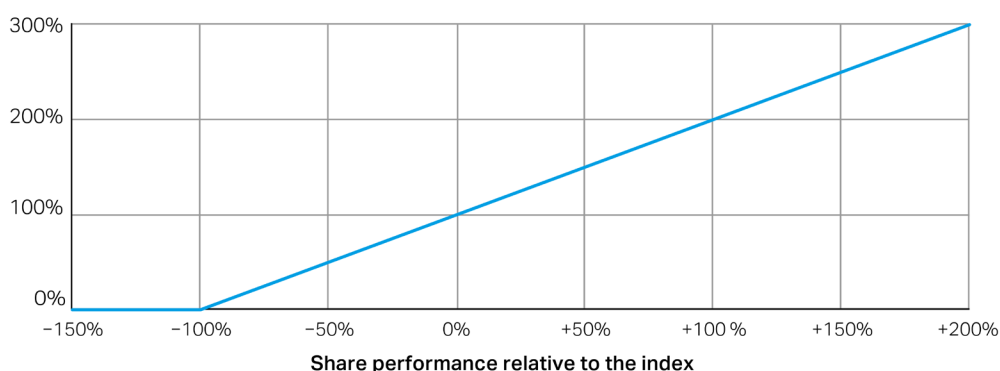
The TSR factor is the return generated by a share expressed as a percentage (total of the final price of the Covestro share and all dividends distributed per share during the four-year performance period divided by the initial price).

The outperformance factor is based on the performance of Covestro shares during the performance period relative to the performance of the STOXX Europe 600 Chemicals index. For the tranche beginning in fiscal year 2021, the following was determined:

- The outperformance factor amounts to 100% if Covestro's share performance (in %) matches the performance of the index (in %).
- The outperformance factor is 0% if the performance of Covestro shares (in %) underperforms the index by 100 percentage points or more.
- The outperformance factor increases in proportion with the deviation if Covestro's share performance falls within ± 100 percentage points of the performance of the index. The same is true if it outperforms the index by more than 100 percentage points.

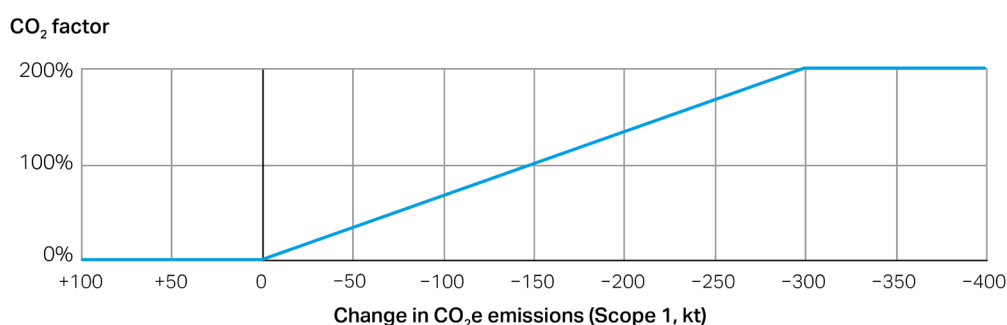
Relation between the outperformance factor and Covestro's share performance

Outperformance factor



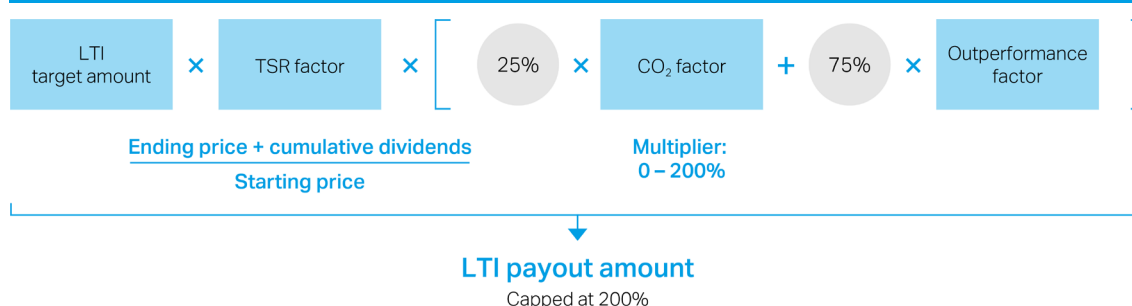
Starting with the tranche issued in fiscal 2021, the sustainability component applied is a reduction target for annual greenhouse gas (GHG) emissions (CO₂e) classified in Scope 1. The CO₂ factor amounts to 100% if these emissions are reduced by 150 kilotons (kt) by the end of fiscal 2024 in relation to the baseline year of 2020. This corresponds to an emissions reduction of 12%. If the annual emissions remain unchanged, the CO₂ factor is 0%. Starting with a reduction of 300 kilotonnes, it reaches the maximum value of 200%. Between these values, linear interpolation is used to determine the factor. The Supervisory Board considers the defined reduction targets as significant in relation to the company's actual Scope 1 emissions.

Relation between emissions and CO₂ factor



In order to calculate the total payout for the tranche beginning in fiscal 2021, the LTI target opportunity is multiplied by the TSR factor, the outperformance factor weighted at 75%, and the CO₂ factor weighted at 25%. The total distribution is limited to no more than 200% of the target opportunity. With the target opportunity being defined as 130% of the fixed compensation, the maximum payout is therefore 260% of the fixed annual compensation.

Components of the long-term variable compensation



In the case of the previous tranches which did not include a sustainability component, the payout factor is determined by multiplying the TSR factor and outperformance factor. The total payout in this case is also capped at a maximum of 200% of the target opportunity.

2017–2020 and 2018–2021 Prisma Tranche Payouts

In January of the year under review, Dr. Markus Steilemann and Dr. Klaus Schäfer, who were appointed to the Board of Management in 2015, received payouts from the 2017–2020 Prisma tranche. The payout factor amounted to 39.9%.

Besides Dr. Markus Steilemann and Dr. Klaus Schäfer, Dr. Thomas Toepfer was also entitled for the first time to participate in the 2018–2021 Prisma tranche, which ended on December 31 of the reporting year with a payout factor of 17.7% and a payout date in January 2022.

The following chart and table illustrate how the aforementioned payout factors are calculated.

Calculation of the 2017–2020¹ Prisma tranche

Ending price	+	Cumulative dividends 2017–2020	=	Total shareholder return (TSR) factor
		Starting price		
€47.05	+	€7.15	=	+89.4%
		€60.66		

100%	+	(	Change in Covestro share price ²	–	Change in index price ³	)	=	Outperformance factor
100%	+	(	–22.4%	–	+33.0%	)	=	+44.6%

TSR factor	X	Outperformance factor	=	Prisma payout
+89.4%	X	+44.6%	=	+39.9%

¹ The relevant prices are calculated as the average of the applicable ending prices during the months of November and December in the years 2016 and 2020.

² Percentage change in the ending price of Covestro share for the year 2020 (€47.05) as compared with the starting price of Covestro share for the year 2017 (€60.66).

³ Percentage change in the ending price of the STOXX Europe 600 Chemicals index for the year 2020 (€1,088.78) as compared with the starting price of the STOXX Europe 600 Chemicals index for the year 2017 (€818.81).

Calculation of the payout factors for the 2017–2020 and 2018–2021 Prisma tranches

	2017–2020 Prisma tranche	2018–2021 Prisma tranche
Starting price, Covestro	€60.66 ¹	€84.34 ²
Ending price, Covestro	€47.05 ³	€53.53 ⁴
Change	–22.4%	–36.5%
Starting price, index	€818.81 ¹	€962.86 ²
Ending price, index	€1,088.78 ³	€1,336.97 ⁴
Change	+33.0%	+38.9%
Cumulative dividend	€7.15	€7.10
TSR factor	+89.4%	+71.9%
Outperformance factor	+44.6%	+24.6%
Payout factor	+39.9%	+17.7%

¹ November/December 2016

² November/December 2017

³ November/December 2020

⁴ November/December 2021

The dividend payments for individual years are available on Covestro's website.

+ Additional information is available at: www.covestro.com/en/investors/stock-performance/dividends

The amounts paid out for these two tranches, including to former Board of Management members Frank H. Lutz and Patrick Thomas, are shown in the following table.

Payout amounts for 2017–2020 and 2018–2021 Prisma tranches¹

€ thousand	2017–2020 Prisma tranche		2018–2021 Prisma tranche	
	Target value ²	Payout in January 2021 (payout factor 39.9%)	Target value ²	Payout in January 2022 (payout factor 17.7%)
Dr. Markus Steilemann ³	718	286	730	129
Dr. Klaus Schäfer	718	286	730	129
Dr. Thomas Toepfer ⁴			930	165
Frank H. Lutz ⁵	370	148		
Patrick Thomas ⁶	1,495	597	1,140	202

¹ Sucheta Govil was appointed to the Board of Management in August 2019, and therefore will not receive a proportional payout from the 2019–2022 Prisma tranche until early fiscal 2023.

² The target value is based on the position and the corresponding fixed compensation of the respective Board Member at the beginning of each tranche.

³ CEO since June 1, 2018; previously Board of Management member for Sales and Marketing.

⁴ Member of the Board of Management since April 1, 2018.

⁵ Member of the Board of Management until June 2, 2017.

⁶ CEO and member of the Board of Management until May 31, 2018.

Overview of Current Prisma Tranches

The three currently running Prisma tranches with their starting prices and fair values calculated as of the reporting date (market value of the relevant tranche determined with a Monte Carlo simulation) are explained below.

Current Prisma tranches

€	2019–2022 Prisma tranche	2020–2023 Prisma tranche	2021–2024 Prisma tranche ¹
Covestro share			
Starting price	50.22	43.36	47.05
As of December 31, 2021	54.20	54.20	54.20
STOXX Europe 600 Chemicals			
Starting price	832.55	1,010.32	1,088.78
As of December 31, 2021	1,366.92	1,366.92	1,366.92
Fair value, December 2021	+54.5%	+101.5%	+116.5%

¹ The fair value was calculated assuming a value of 100% for the CO₂ factor first introduced with the 2021–2024 tranche.

Share Ownership Guidelines and Shareholdings

As a rule, the members of the Board of Management are contractually obligated to acquire Covestro shares equivalent to 100% of the fixed compensation (as set at the start of their term) on their own account within three years of their initial appointment and to hold these shares for the duration of their service on the Board of Management. If their contracts are extended, this obligation is increased to the amount of the new fixed compensation. The Board of Management member in question must acquire Covestro shares equivalent to the difference within four years of starting the new period of service. The aforementioned rule was first applied in fiscal 2021. The previously applied share ownership guidelines are currently still applicable to the Board of Management members Dr. Markus Steilemann and Dr. Klaus Schäfer and stipulate that they purchase a specified number of Covestro shares by a predefined date. They have already fully met this requirement. They have to hold the shares they purchased for the duration of their Board of Management activities.

The following table lists the number of Covestro shares held by currently serving Board of Management members as of the reporting date.

Number of shares held by Board of Management members at reporting date

Board of Management member	Number of Covestro shares held
Dr. Markus Steilemann	23,100
Sucheta Govil	6,251
Dr. Klaus Schäfer	5,415
Dr. Thomas Toepfer	5,500

Malus and Clawback Clauses

According to the malus and clawback rules introduced in the year 2021, the Supervisory Board can withhold short-term and/or long-term variable compensation or request the return of variable compensation already paid out, either in whole or in part, at its discretion in the event of serious breaches of duty or compliance violations. Moreover, a clawback is possible when the calculation and payout was based on incorrect data.

The Supervisory Board has not exercised the right to claw back variable compensation, because no circumstances arose either before or during the reporting year 2021 that would have triggered this provision.

Benefits Associated with Ending Board of Management Service

If the term of Board of Management service is terminated early without good cause, the company fulfills its commitments up to the time the member leaves the company. In this case, payments to the Board of Management member, including fringe benefits, may not exceed two times annual compensation and may not compensate more than the remaining term of the employment contract (severance cap). Outstanding variable compensation components are paid out at the originally agreed times and conditions, i.e., they are not paid out in advance.

In the event of a change of control that results in a material change of status of an individual Board of Management member – e.g., change in company strategy or change in the Board of Management's job responsibilities – the Board of Management member has the right to terminate the employment contract within 12 months of the change of control. When this right of termination is exercised or if the employment relationship is ended by mutual agreement on the company's initiative within 12 months of the change of control, the Board of Management member is entitled to payment of severance of 2.5 times the fixed annual compensation. The amount of the severance payments, including fringe benefits, is limited to the remaining compensation up to the expiration of the employment contract and is subject to the severance cap.

Third-Party Benefits

In the reporting year, the Board of Management members were not promised nor did they receive, any benefits from third parties for their activities on the Board of Management.

Board of Management Compensation in the Fiscal Year**Compensation Awarded and Due**

The compensation for the fiscal year awarded and due is outlined below in accordance with Section 162, Paragraph 1 AktG. The amounts of short-term and long-term variable compensation are given for the fiscal year in which the activity for which the compensation is paid was performed in full.

Compensation awarded and due to individual Board of Management members (AktG)¹

	Dr. Markus Steilemann (Chair)				Sucheta Govil (Sales and Marketing)				Dr. Klaus Schäfer (Technology)				Dr. Thomas Toepfer (Finance and Labor Director)			
	2020		2021		2020		2021		2020		2021		2020		2021	
	€ thou- sand	in %	€ thou- sand	in %	€ thou- sand	in %	€ thou- sand	in %	€ thou- sand	in %	€ thou- sand	in %	€ thou- sand	in %	€ thou- sand	in %
Fixed annual compensation	1,210	73.6	1,219	28.4	609	87.9	614	29.1	609	61.8	614	27.5	740	87.2	746	27.4
Fringe benefits	27	1.6	28	0.7	24	3.5	29	1.4	30	3.0	28	1.3	36	4.2	28	1.0
Total	1,237		1,247		633		643		639		642		776		774	
Short-term variable compensation	–		–		–		–		–		–		–		–	
for fiscal 2020	120	7.3	–		60	8.7	–		60	6.1	–		73	8.6	–	
for fiscal 2021	–		2,909	67.9	–		1,465	69.5	–		1,465	65.5	–		1,780	65.5
Long-term variable compensation	–		–		–		–		–		–		–		–	
2017–2020 Prisma tranche	286	17.4	–		–		–		286	29.0	–		–		–	
2018–2021 Prisma tranche	–		129	3.0	–		–		–		129	5.8	–		165	6.1
Total	1,643		4,285		693		2,108		985		2,236		849		2,719	

¹ Due to rounding, the percentage values do not always add up to 100%.

Disclosures Pursuant to the Recommendations of the German Corporate Governance Code

The GCGC, as amended on December 16, 2019, no longer provides recommendations on reporting Board of Management compensation using the sample tables included in the version dated February 7, 2017. However, for purposes of improved comparability, the following tables continue to show the compensation and fringe benefits as defined in the GCGC paid for the reporting period (2021) and the prior-year period, including the minimum and maximum achievable variable compensation, and the allocation of compensation for the reporting period or the prior-year period.

Compensation and benefits granted for the reporting period (GCGC)

	Dr. Markus Steilemann (Chair)				Sucheta Govil (Sales and Marketing)				Dr. Klaus Schäfer (Technology)				Dr. Thomas Toepfer (Finance and Labor Director)			
	Joined August 20, 2015				Joined August 1, 2019				Joined August 20, 2015				Joined April 1, 2018			
	Target value 2020	Target value 2021	Min. 2021	Max. 2021	Target value 2020	Target value 2021	Min. 2021	Max. 2021	Target value 2020	Target value 2021	Min. 2021	Max. 2021	Target value 2020	Target value 2021	Min. 2021	Max. 2021
€ thousand																
Fixed annual compensation	1,210	1,219	1,219	1,219	609	614	614	614	609	614	614	614	740	746	746	746
Fringe benefits	27	28	28	28	24	29	29	29	30	28	28	28	36	28	28	28
Total	1,237	1,247	1,247	1,247	633	643	643	643	639	642	642	642	776	774	774	774
Short-term variable compensation	1,210	1,219	–	3,048	609	614	–	1,535	609	614	–	1,535	740	746	–	1,865
Long-term variable compensation (2020–2023 Prisma tranche) ¹	1,279	–	–	–	644	–	–	–	644	–	–	–	782	–	–	–
Long-term variable compensation (2021–2024 Prisma tranche) ¹	–	1,594	–	3,169	–	803	–	1,596	–	803	–	1,596	–	976	–	1,940
Total	3,726	4,060	1,247	7,464	1,886	2,060	643	3,774	1,892	2,059	642	3,773	2,298	2,496	774	4,579
Pension expense	700	954	954	954	174	348	348	348	285	381	381	381	284	491	491	491
Total compensation	4,426	5,014	2,201	8,418	2,060	2,408	991	4,122	2,177	2,440	1,023	4,154	2,582	2,987	1,265	5,070

¹ Fair value when granted.

Allocation of compensation for the reporting period (GCGC)

	Dr. Markus Steilemann (Chair)		Sucheta Govil (Sales and Marketing)		Dr. Klaus Schäfer (Technology)		Dr. Thomas Toepfer (Finance and Labor Director)	
	Joined August 20, 2015		Joined August 1, 2019		Joined August 20, 2015		Joined April 1, 2018	
€ thousand	2020	2021	2020	2021	2020	2021	2020	2021
Fixed annual compensation	1,210	1,219	609	614	609	614	740	746
Fringe benefits	27	28	24	29	30	28	36	28
Total	1,237	1,247	633	643	639	642	776	774
Short-term variable compensation	120	2,909	60	1,465	60	1,465	73	1,780
Long-term variable compensation 2016–2019 Prisma tranche	1,707	–	–	–	1,707	–	–	–
Long-term variable compensation 2017–2020 Prisma tranche	–	286	–	–	–	286	–	–
Total	3,064	4,442	693	2,108	2,406	2,393	849	2,554
Pension expense	700	954	174	348	285	381	284	491
Total compensation	3,764	5,396	867	2,456	2,691	2,774	1,133	3,045

Prisma Long-Term Variable Compensation

The fair value when granted of the long-term variable compensation (2021–2024 Prisma tranche) is €4,176 thousand (previous year: €3,349 thousand for the 2020–2023 Prisma tranche).

Provisions amounting to €5,391 thousand (previous year: €4,585 thousand) were recognized as of December 31, 2021, for all current tranches of long-term variable compensation in which active and former Board of Management members participate, €202 thousand of which (previous year: €1,015 thousand) is attributable to former Board of Management members.

Long-term variable compensation (IFRSs)

	Board of Management members serving as of Dec. 31, 2021								Former Board of Management members					
	Dr. Markus Steilemann (Chair)		Sucheta Govil (Sales and Marketing)		Dr. Klaus Schäfer (Technology)		Dr. Thomas Toepfer (Finance and Labor Director)		Frank H. Lutz		Patrick W. Thomas		Total	
€ thousand	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Total expenses/revenues in the reporting period for long-term variable compensation	977	847	293	447	582	405	591	489	20	–	338	(69)	2,801	2,119

Pension Entitlements

The current pension service cost for the members of the Board of Management recognized in the reporting year totaled €2,174 thousand (previous year: €1,443 thousand) according to IFRSs. The respective pension obligations are shown in the following table.

Pension entitlements (IFRSs)

	Service cost for pension entitlements earned in the respective year		Present value of defined pension obligation as of Dec. 31	
€ thousand	2020	2021	2020	2021
Dr. Markus Steilemann	700	954	4,839	5,036
Sucheta Govil	174	348	277	485
Dr. Klaus Schäfer	285	381	6,106	5,997
Dr. Thomas Toepfer	284	491	873	1,076
Total	1,443	2,174	12,095	12,594

Compensation of Former Members of the Board of Management

The compensation awarded and due to former Board of Management members for the fiscal year is outlined below in accordance with Section 162, Paragraph 1 AktG.

Compensation awarded and due to former Board of Management members (AktG)

	Patrick Thomas (until May 31, 2018)				Frank H. Lutz (until June 2, 2017)			
	2020		2021		2020		2021	
	€ thou- sand	in %	€ thou- sand	in %	€ thou- sand	in %	€ thou- sand	in %
Fixed annual compensation								
Fringe benefits								
Total								
Short-term variable compensation								
for fiscal 2020								
for fiscal 2021								
Long-term variable compensation								
2017–2020 Prisma tranche	597	100.0			148	100.0		
2018–2021 Prisma tranche			202	100.0				
Total	597		202		148			

A provision of €7,696 thousand (previous year: €8,270 thousand) is recognized in the consolidated financial statements as of December 31, 2021, for current pensions for former Board of Management members. The settlement value of direct and indirect pension obligations in the financial statements of Covestro AG amounted to €6,921 (previous year: €6,315 thousand).

Compensation of the Supervisory Board

Compensation System of the Supervisory Board

The compensation of the Supervisory Board, which has not been changed since Covestro AG was founded, is in line with the relevant provisions of the Articles of Incorporation.

The members of the Supervisory Board each receive fixed annual compensation of €100 thousand plus reimbursement of their expenses.

In accordance with the recommendations of the GCGC, additional compensation is paid to the Supervisory Board Chair and Vice Chair, and for chairing and membership in committees. The Supervisory Board Chair receives fixed compensation of €300 thousand, while €150 thousand is paid to the Vice Chair. This compensation includes chairmanship of and membership in committees. The other members of the Supervisory Board are entitled to additional compensation for membership in or chairmanship of committees. The Chair of the Audit Committee receives an additional €50 thousand, the other members of the Audit Committee €25 thousand each. The chairs of the remaining committees receive €30 thousand each, the other members of those committees €20 thousand each. No additional compensation is paid for membership in the Nominations Committee. Work on committees is eligible for compensation for no more than two committees. If this cap is exceeded, compensation is paid for the two highest paid positions. If changes are made to the Supervisory Board and/or its committees during the year, members receive compensation on a prorated basis. The members of the Supervisory Board also receive an attendance fee of €1 thousand each time they personally attend a meeting of the Supervisory Board or a committee. The attendance fee is limited to €1 thousand per day. No attendance fees were paid for meetings held virtually due to the coronavirus pandemic.

➕ See "Report of the Supervisory Board."

Compensation of the Supervisory Board for the Fiscal Year

The following table outlines the components of each Covestro AG Supervisory Board member's compensation for the 2021 reporting period and the prior-year period:

Compensation of the members of the Supervisory Board of Covestro AG

€ thousand	Fixed compensation		Attendance fee		Total	
	2020	2021	2020	2021	2020	2021
Ferdinando Falco Beccalli (until April 2021)	100	29	2	–	102	29
Dr. Christine Bortenlänger	111	125	–	1	111	126
Johannes Dietsch (until July 2020)	84	–	2	–	86	–
Lise Kingo (since April 2021)	–	82	–	2	–	84
Petra Kronen (Vice Chair)	150	150	2	2	152	152
Irena Küstner	125	125	2	2	127	127
Dr. Ulrich Liman	120	127	1	2	121	129
Prof. Dr. Rolf Nonnenmacher	150	150	3	3	153	153
Dr. Richard Pott (Chair)	300	300	2	2	302	302
Petra Reinbold-Knape (since January 2020)	139	145	2	2	141	147
Regine Stachelhaus	128	140	1	2	129	142
Marc Stothfang	100	107	1	–	101	107
Patrick Thomas (since July 2020)	53	132	–	–	53	132
Frank Werth	100	100	1	2	101	102
Total	1,660	1,712	19	20	1,679	1,732

In addition to their compensation as members of the Supervisory Board, those employee representatives who are employees of Covestro Group companies receive compensation unrelated to their service on the Supervisory Board. The total amount of such compensation was €667 thousand (previous year: €652 thousand).

No compensation was paid or benefits granted to members of the Supervisory Board for personally performed services such as consulting or agency services. The company has purchased insurance for the members of the Supervisory Board to cover their personal liability arising from their service on the Supervisory Board and which to date has included a deductible. The relevant recommendation has been eliminated from the version of the GCGC dated December 16, 2019, so the Supervisory Board's rules of procedure have been amended accordingly. No deductible will be required going forward.

Proposed Changes from Fiscal 2022 Onward

The amount and structure of Supervisory Board compensation at Covestro AG has remained unchanged since fiscal 2015, when the company was still listed in the MDAX. An adjustment to the compensation system described above will be proposed to the 2022 AGM. This is due to the significant increase in quality and time requirements for the Supervisory Board, its committees, and its members in recent years. For the Audit Committee, for example, this also stems from new statutory requirements such as the Act to Strengthen Financial Market Integrity (FISG).

Taking into account the results of a report by an independent external consulting firm, the Supervisory Board has developed the following proposals:

- The ratios between the compensation of the Supervisory Board Chair and the Vice Chair and of the other Supervisory Board members are currently 3: 1.5: 1, but would be changed to a ratio of 3: 2: 1.
- The compensation of the committees, including their chairs, will be adjusted to reflect the respective qualitative requirements and the associated workload.
- The fixed compensation, which has remained unchanged since fiscal 2015, is to be increased.

A more detailed presentation of these proposals will be published together with the corresponding amendment to the Articles of Association when the 2022 AGM is convened.

Comparative Presentation of Annual Changes in Compensation and Earnings

The following is the presentation of the annual changes in compensation awarded and due to current and former Board of Management and Supervisory Board members compared with the company's earnings performance and the average compensation of employees (FTEs) from fiscal years 2017 to 2021 as required by Section 162, Paragraph 1, Sentence 2, No. 2 AktG.

Five-year comparison of compensation awarded and due to Board of Management members (AktG)¹

	2017	2018		2019		2020		2021	
	€ thou- sand	€ thou- sand	in %	€ thou- sand	in %	€ thou- sand	in %	€ thou- sand	in %
Board of Management members as of December 31, 2021									
Dr. Markus Steilemann (Chair)	2,364	3,458	+46.3	3,168	-8.4	1,643	-48.1	4,285	>100
Sucheta Govil (since August 1, 2019)	-	-		320		693	+116.6	2,108	>200
Dr. Klaus Schäfer	2,284	1,724	-24.5	2,462	+42.8	985	-60.0	2,236	>100
Dr. Thomas Toepfer (since April 1, 2018)	-	3,329	0.0	1,014	-69.5	849	-16.3	2,719	>200
Former Board of Management members									
Patrick Thomas (until May 31, 2018)	4,493	2,266	-49.6	3,260	+43.9	597	-81.7	202	-66.2
Frank H. Lutz (until June 2, 2017)	1,562	-	0.0	2,111	0.0	148	-93.0	-	0.0
Total	10,703	10,777	+0.7	12,335	+14.5	4,915	-60.2	11,550	>100

¹ Percentage changes always refer to the change from the respective previous year.

Five-year comparison of compensation awarded and due to Supervisory Board members (AktG)¹

	2017	2018		2019		2020		2021	
	€ thou- sand	€ thou- sand	in %	€ thou- sand	in %	€ thou- sand	in %	€ thou- sand	in %
Supervisory Board members as of December 31, 2021	-	-	0.0	-	0.0	-	0.0	-	0.0
Dr. Christine Bortenlänger	105	105	0.0	106	+1.0	111	+4.7	126	+13.5
Lise Kingo (since April 2021)	-	-	0.0	-	0.0	-	0.0	84	0.0
Petra Kronen (Vice Chair)	162	160	-1.2	160	0.0	152	-5.0	152	0.0
Irena Küstner	135	134	-0.7	134	0.0	127	-5.2	127	0.0
Dr. Ulrich Liman (since January 2018)	-	127	0.0	128	+0.8	121	-5.5	129	+6.6
Prof. Dr. Rolf Nonnenmacher	159	159	0.0	159	0.0	153	-3.8	153	0.0
Dr. Richard Pott (Chair)	313	310	-1.0	309	-0.3	302	-2.3	302	0.0
Petra Reinbold-Knape (since January 2020)	-	-	0.0	-	0.0	141	0.0	147	+4.3
Regine Stachelhaus	127	125	-1.6	126	+0.8	129	+2.4	142	+10.1
Marc Stothfang	95	105	+10.5	106	+1.0	101	-4.7	107	+5.9
Patrick Thomas (since July 2020)	-	-	0.0	-	0.0	53	0.0	132	+149.1
Frank Werth	106	105	-0.9	106	+1.0	101	-4.7	102	+1.0
Former Supervisory Board members	-	-	0.0	-	0.0	-	0.0	-	0.0
Ferdinando Falco Beccalli (until April 2021)	105	104	-1.0	106	+1.9	102	-3.8	29	-71.6
Johannes Dietsch (until July 2020)	156	155	-0.6	154	-0.6	86	-44.2	-	
Peter Hausmann (until December 2019)	154	153	-0.6	153	0.0	-			
Dr. Thomas Fischer (until December 2017)	128	-							
Sabine Wirtz (until February 2017)	11	-							
Total	1,756	1,742	-0.8	1,747	+0.3	1,679	-3.9	1,732	+3.2

¹ Percentage changes always refer to the change from the respective previous year.

In addition to the net income/net loss of Covestro AG (which is legally required to be reported), earnings performance includes the key figures of the Covestro Group underlying short-term variable compensation (core volume growth, FOCF, and ROCE) as well as EBITDA. The latter will replace core volume growth as a key management indicator for growth starting in fiscal 2022.

Employee compensation was calculated by dividing personnel expenses (wages and salaries plus social expenses and expenses for pensions and other benefits) disclosed in the annual report for the relevant period by the number of employees expressed as full-time equivalents (FTEs) as of the reporting date.

Five-year comparison of earnings figures (AktG)¹

	2017		2018		2019		2020		2021	
	€ million		€ million	in %	€ million	in %	€ million	in %	€ million	in %
Net income/net loss Covestro AG	488		496	+1.6	623	+25.6	-45	-107.2	648	.
Core volume growth ²	+3.4%		+1.5%		+2.0%		-5.6%		+10.0%	
Free operating cash flow ³	1,843		1,669	-9.4	473	-71.7	530	+12.1	1,429	>100
EBITDA ⁴	3,435		3,200	-6.8	1,604	-49.9	1,472	-8.2	3,085	>100
ROCE ⁵	+33.4%		+29.5%		+8.4%		+7.0%		+19.5%	

¹ Percentage changes always refer to the change from the respective previous year.

² Core volume growth refers to the core products in the Performance Materials and Solutions & 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. Retroactive calculation based on the definition of the core business as of March 31 of each subsequent year.

³ Free operating cash flow: cash flows from operating activities less cash outflows for additions to property, plant, equipment, and intangible assets.

⁴ EBITDA: Adjusted operating result (EBIT) plus depreciation, amortization, and impairment losses; less impairment loss reversals on intangible assets and property, plant and equipment.

⁵ ROCE: The return on capital employed is calculated as the ratio of EBIT after taxes to capital employed. The indicator is calculated as a ratio of the adjusted operating result (EBIT) after imputed income taxes to capital employed. Capital employed is the capital used by the company. It is the sum of noncurrent and current assets less noninterest-bearing liabilities such as trade accounts payable.

Five-year comparison of employee compensation (AktG)¹

	2017		2018		2019		2020		2021	
	€ million		€ million	in %	€ million	in %	€ million	in %	€ million	in %
Personnel expenses (in € million)	1,915		1,958	+2.2%	1,762	-10.0%	1,723	-2.2%	2,298	+33.4%
Employees ²	16,176		16,770	+3.7%	17,201	+2.6%	16,501	-4.1%	17,909	+8.5%
Personnel expenses per FTE (€ thousand)	118		117	-1.4%	102	-12.3%	104	+1.9%	128	+22.6%

¹ Percentage changes always refer to the change from the respective previous year.

² The number of permanent or temporary employees is stated in full-time equivalents (FTEs). Part-time employees are included on a pro-rated basis in line with their contractual working hours. The figures do not include employees in vocational training.

Other Information

There were no advances or loans to members of the Board of Management or the Supervisory Board outstanding as of either December 31, 2020, or December 31, 2021.