

# REPORT ON ECONOMIC POSITION

## Economic Environment

### Global Economy

As a whole, 2021 saw a new record high in worldwide economic output, although the impact of the coronavirus pandemic was still evident in some segments of the global economy. In contrast with a weaker year in 2020, the global economy expanded at a rate of 5.6% in the year 2021, with all regions recording strongly positive growth rates.

### Economic environment

|                                                                      | Growth <sup>1</sup> 2020 | Growth <sup>1</sup> 2021 |
|----------------------------------------------------------------------|--------------------------|--------------------------|
|                                                                      | %                        | %                        |
| <b>World</b>                                                         | <b>-3.5</b>              | <b>+5.6</b>              |
| <b>Europe, Middle East, Latin America<sup>2</sup>, Africa (EMLA)</b> | <b>-5.6</b>              | <b>+5.2</b>              |
| of which Europe                                                      | -6.0                     | +5.3                     |
| of which Germany                                                     | -4.9                     | +2.7                     |
| of which Middle East                                                 | -3.5                     | +4.7                     |
| of which Latin America <sup>2</sup>                                  | -7.4                     | +6.2                     |
| of which Africa                                                      | -2.4                     | +3.4                     |
| <b>North America<sup>3</sup> (NA)</b>                                | <b>-3.8</b>              | <b>+5.6</b>              |
| of which United States                                               | -3.4                     | +5.7                     |
| <b>Asia-Pacific (APAC)</b>                                           | <b>-1.1</b>              | <b>+6.0</b>              |
| of which China                                                       | +2.3                     | +8.1                     |

<sup>1</sup> Real growth of gross domestic product; source: IHS (Global Insight), as of January 2022.

<sup>2</sup> Latin America (excluding Mexico).

<sup>3</sup> North America (Canada, Mexico, United States).

### Main Customer Industries

At 2.2%, the global automotive industry returned to positive growth in the year under review after experiencing a strong decline in the year 2020. However, this improvement in the automotive industry trailed other main customer industries due to disruptions in global supply chains. Modest positive growth in the automotive industry in the APAC region stood in contrast to stable performance in the NA region and a slightly negative trend in the EMLA region.

In the year 2021, the global construction industry saw a positive growth rate of 2.5%, recovering from the slight drop in the previous year. The construction industry expanded slightly in all regions. The key drivers of this growth were the EMLA and APAC regions, whereas growth in the NA region was modestly lower.

The 13.9% growth rate in the global electrical, electronics, and household appliances industry in fiscal year 2021 was well above the previous year's level. The increase was mainly driven by the APAC and EMLA regions, whereas growth in the NA region was lower.

The global furniture industry experienced an 8.6% upturn with strongly positive growth rates in all regions in fiscal 2021. The APAC and EMLA regions were the engines behind the growth in the global furniture industry, whereas the pace of growth in the NA region was slower.

**Main customer industries<sup>1</sup>**

|                                                  | Growth 2020 | Growth 2021 |
|--------------------------------------------------|-------------|-------------|
|                                                  | %           | %           |
| Automotive                                       | -15.9       | +2.2        |
| Construction                                     | -1.8        | +2.5        |
| Electrical, electronics and household appliances | +4.5        | +13.9       |
| Furniture                                        | -4.8        | +8.6        |

<sup>1</sup> Covestro's estimate, based on the following sources: LMC Automotive Limited, B+L, CSIL (Centre for Industrial Studies), Oxford Economics. We limited the economic data of our "automotive and transportation" and "furniture and wood processing" main customer industries to the automotive and furniture segments (not the transportation or wood processing segments). As of: January 2022.

# Business Performance at a Glance

## Significant Events

### Coronavirus Pandemic

The coronavirus pandemic continued to leave its mark on the global economy, although the impact is considerably less severe than in the previous year. High vaccination rates and updated measures to combat the pandemic took effect. Compared with the prior year, Covestro also observed a further upturn in demand, although this could not be met fully due to bottlenecks in global supply chains. The health, safety, and hygiene measures implemented by the company at an early stage in the previous year remain in place. Covestro supports employee access to vaccinations against the coronavirus, including through cooperation with company health facilities. Depending on the local situation in each case, some staff, particularly employees in administrative departments, continue to work from home. Production at our sites was not affected by the pandemic in fiscal 2021.

Covestro is monitoring the development of the coronavirus pandemic worldwide on an ongoing basis. Existing measures are modified as required in line with recommendations and instructions issued by the relevant governments and committees of experts. At the end of 2021, we again redoubled our health, safety, and hygiene efforts in reaction to the new Omicron variant of the virus.

### Other Events

On April 1, 2021, Covestro completed the acquisition of the Resins & Functional Materials (RFM) business from Koninklijke DSM N.V., Heerlen (Netherlands). A total of 27 RFM companies were fully consolidated for the first time on that date. Completing the RFM acquisition makes Covestro one of the world's leading suppliers of sustainable coating resins.

 See note 5.1 "Scope of Consolidation and Investments" in the Notes to the Consolidated Financial Statements.

In the year 2021, Covestro unveiled the Group's new Sustainable Future strategy, which has customer centricity and sustainable growth at its core. The guiding principle of the strategy and the Group's long-term objective is to become fully circular. In the interest of this objective, Covestro realigned its organizational and reporting structure effective July 1, 2021. The Group's three reportable segments to date (Polyurethanes, Polycarbonates and Coatings, Adhesives, Specialties) have been replaced with two new reportable segments: Performance Materials and Solutions & Specialties. The Performance Materials segment concentrates on reliably delivering standard products at competitive costs. The focus of the Solutions & Specialties segment is on differentiated products with a high pace of innovation, which Covestro combines with application technology services. Other business activities that cannot be allocated to any of the aforementioned segments are reported under "Other/Consolidation." Intersegment transactions are conducted at arm's length and reported separately as intersegment sales. The Quarterly Statement as of September 30, 2021 marked the first time our reporting reflected the new segment structure; reference information for fiscal 2020 was restated.

 See "Group Strategy" and note 4 "Segment and Regional Reporting" in the Notes to the Consolidated Financial Statements.

On July 7, 2021, the euro bond placed in fiscal 2016 with a total volume of €500 million and maturing in October 2021 was fully repaid at par value ahead of schedule. Moreover, due to the positive liquidity situation, Covestro contributed €500 million to pension plan assets (Metzler Trust e.V., Frankfurt am Main (Germany)) in November 2021 to further fund pension commitments to employees in Germany, while at the same time reducing the volatility of the total assets.

 See "Financial Position" for additional details and other key funding measures.

On July 26, 2021, Covestro successfully wrapped up the sale of the systems house business in the Middle East by selling its interests in the Pearl Polyurethane Systems FZCO and Pearl Polyurethane Systems LLC legal entities to co-shareholder Pearl Industries Overseas Ltd., Dubai (United Arab Emirates). The sale is part of an ongoing effort to optimize the portfolio and represents another step toward refocusing the Polyurethanes segment.

 See note 5.2 "Acquisitions and Divestitures" in the Notes to the Consolidated Financial Statements.

In October 2021, the Supervisory Board of Covestro AG issued an early extension of the contract with Board of Management member Sucheta Govil, which was to expire on July 31, 2022. The new term runs until July 31, 2025. She has been a Covestro's Chief Commercial Officer (CCO) since August 2019.

## Overall Assessment of Business Performance and Target Attainment

### Business Performance

The Covestro Group looks back on a successful fiscal year. In contrast to the previous year, which was overshadowed by the coronavirus pandemic, core volume growth was 10.0% in the year under review, up significantly (previous year: -5.6%). This development is attributable to factors including the acquisition and integration of the RFM business into Covestro. EBITDA increased to €3,085 million (previous year: €1,472 million), mainly due to considerably higher margins. Cash outflows for additions to property, plant, equipment, and intangible assets increased to €764 million (previous year: €704 million). Higher EBITDA increased free operating cash flow to €1,429 million (previous year: €530 million).

### Target Attainment

In the Annual Report 2020, the Covestro Group published a forecast for key management indicators in fiscal 2021. Covestro adjusted the forecast presented in the Annual Report 2020 on April 13, 2021, as a result of business development that had been better than previously expected. An increasingly positive outlook led to the forecast being raised again on July 12, 2021. In view of our business performance in the second half of 2021, we again adjusted our guidance on November 8, 2021.

The Covestro Group most recently anticipated core volume growth between 10% and 12% after originally projecting core volume growth between 10% and 15%. Likewise, we also adjusted the forecasts for free operating cash flow (FOCF) and return on capital employed (ROCE). After initially projecting FOCF of between €900 million and €1,400 million, the Covestro Group changed this range in November 2021 to between €1,400 million and €1,700 million for the full year. The original forecast for ROCE was between 7% and 12%, which was recently lifted to between 19% and 21%.

Covestro met and in some cases exceeded the original forecast issued in the Annual Report 2020. Core volume growth for the 2021 fiscal year was 10.0%, within the range of our original projection. FOCF totaling €1,429 million and ROCE amounting to 19.5% exceed the originally communicated range. In view of the most recently adjusted forecast from November 2021, the performance of all key management indicators was as anticipated.

### Target attainment for fiscal year 2021

|                                   | 2020         | Forecast 2021 <sup>1</sup>              | Adjusted forecast 2021 <sup>2</sup>       | Target attainment 2021 |
|-----------------------------------|--------------|-----------------------------------------|-------------------------------------------|------------------------|
| Core volume growth                | -5.6%        | Between 10% and 15%                     | Between 10% and 12%                       | +10.0%                 |
| Free operating cash flow (FOCF)   | €530 million | Between €900 million and €1,400 million | Between €1,400 million and €1,700 million | €1,429 million         |
| Return on capital employed (ROCE) | +7.0%        | Between 7% and 12%                      | Between 19% and 21%                       | +19.5%                 |

<sup>1</sup> Published on February 23, 2021 (Annual Report 2020).

<sup>2</sup> Published on November 8, 2021 (Quarterly Statement as of September 30, 2021).

# Results of Operations, Financial Position, and Net Assets of the Covestro Group

## Covestro Group key data

|                                                                                 | 4th quarter<br>2020 | 4th quarter<br>2021 | Change      | 2020         | 2021          | Change         |
|---------------------------------------------------------------------------------|---------------------|---------------------|-------------|--------------|---------------|----------------|
|                                                                                 | € million           | € million           | %           | € million    | € million     | %              |
| <b>Core volume growth<sup>1</sup></b>                                           | <b>+1.7%</b>        | <b>+4.6%</b>        |             | <b>-5.6%</b> | <b>+10.0%</b> |                |
| Sales                                                                           | 3,007               | 4,338               | +44.3       | 10,706       | 15,903        | +48.5          |
| Change in sales                                                                 |                     |                     |             |              |               |                |
| Volume                                                                          | +4.7%               | -0.2%               |             | -5.1%        | +6.5%         |                |
| Price                                                                           | +5.4%               | +31.6%              |             | -5.7%        | +34.7%        |                |
| Currency                                                                        | -4.0%               | +3.8%               |             | -1.6%        | -0.8%         |                |
| Portfolio                                                                       | -1.1%               | +9.1%               |             | -1.3%        | +8.1%         |                |
| Sales by region                                                                 |                     |                     |             |              |               |                |
| EMLA                                                                            | 1,288               | 1,822               | +41.5       | 4,600        | 6,876         | +49.5          |
| NA                                                                              | 654                 | 1,049               | +60.4       | 2,554        | 3,553         | +39.1          |
| APAC                                                                            | 1,065               | 1,467               | +37.7       | 3,552        | 5,474         | +54.1          |
| <b>EBITDA</b>                                                                   | <b>637</b>          | <b>663</b>          | <b>+4.1</b> | <b>1,472</b> | <b>3,085</b>  | <b>&gt;100</b> |
| Depreciation and amortization                                                   | 205                 | 218                 | +6.3        | 776          | 823           | +6.1           |
| EBIT                                                                            | 432                 | 445                 | +3.0        | 696          | 2,262         | >200           |
| Financial result                                                                | (13)                | (10)                | -23.1       | (91)         | (77)          | -15.4          |
| Net income                                                                      | 312                 | 302                 | -3.2        | 459          | 1,616         | >200           |
| Operating cash flows                                                            | 635                 | 648                 | +2.0        | 1,234        | 2,193         | +77.7          |
| Cash outflows for additions to property, plant, equipment and intangible assets | 241                 | 292                 | +21.2       | 704          | 764           | +8.5           |
| <b>Free operating cash flow</b>                                                 | <b>394</b>          | <b>356</b>          | <b>-9.6</b> | <b>530</b>   | <b>1,429</b>  | <b>&gt;100</b> |
| Net financial debt <sup>2</sup>                                                 |                     |                     |             | 356          | 1,405         | >200           |
| <b>ROCE</b>                                                                     |                     |                     |             | <b>+7.0%</b> | <b>+19.5%</b> |                |

<sup>1</sup> Calculated on the basis of the definition of the core business effective March 31, 2021.

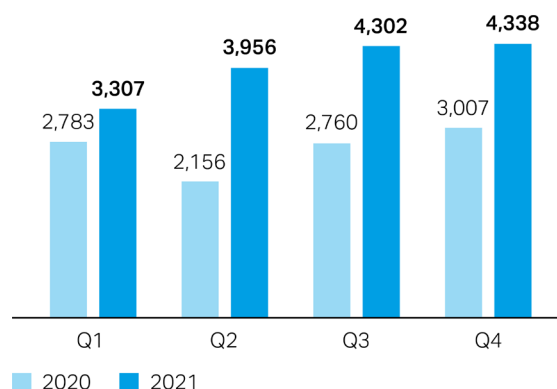
<sup>2</sup> As of December 31, 2021, compared with December 31, 2020.

## Results of Operations

Results of operations in fiscal 2021 improved considerably over the prior year, a development reflected above all in sales and earnings. Over the course of the year as a whole, Covestro saw demand for its products recover in all regions.

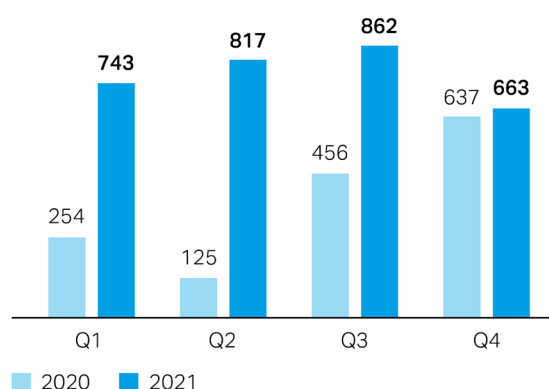
### Covestro Group Quarterly sales

€ million



### Covestro Group Quarterly EBITDA

€ million



### Volume Growth and Sales

Core volumes sold by the Group saw year-over-year growth of 10.0% in full-year 2021. The additional volumes from the Resins & Functional Materials business (RFM) acquired from Koninklijke DSM N.V., Heerlen (Netherlands) was a major contributor to this growth, adding 6.1 percentage points. Our growth opportunities were curtailed by reduced product availability, e.g., due to the impact of unplanned, weather-related production stoppages in the NA region in the first quarter of 2021. Core volumes sold in the Performance Materials segment remained largely stable with an increase of 0.3%, whereas Solutions & Specialties saw core volumes sold jump by 26.0%.

In fiscal 2021, Group sales were up by 48.5% year over year to €15,903 million (previous year: €10,706 million), the highest ever in Covestro's history. This was mainly due to a higher selling price level driven by increased demand, which had a positive impact on sales amounting to 34.7%. Moreover, the portfolio change arising from the RFM acquisition in the second quarter of 2021 had a positive effect on sales of 8.1%, while the development of total volumes sold increased sales by 6.5%. Exchange rate changes had a negative effect on sales of 0.8%.

Sales in both segments were up in fiscal 2021. In the Performance Materials segment, sales rose 48.9% to €8,142 million (previous year: €5,468 million), while the Solutions & Specialties segment's sales increased 49.3% to €7,554 million (previous year: €5,060 million).

## EBIT

## Covestro Group summary income statement

|                                                                       | 2020         | 2021         | Change         |
|-----------------------------------------------------------------------|--------------|--------------|----------------|
|                                                                       | € million    | € million    | %              |
| Sales                                                                 | 10,706       | 15,903       | +48.5          |
| Cost of goods sold                                                    | (8,207)      | (11,475)     | +39.8          |
| <b>Gross profit</b>                                                   | <b>2,499</b> | <b>4,428</b> | <b>+77.2</b>   |
| Selling expenses                                                      | (1,195)      | (1,428)      | +19.5          |
| Research and development expenses                                     | (262)        | (341)        | +30.2          |
| General administration expenses                                       | (310)        | (415)        | +33.9          |
| Other operating expenses (–) and income (+)                           | (36)         | 18           | .              |
| <b>EBIT</b>                                                           | <b>696</b>   | <b>2,262</b> | <b>&gt;200</b> |
| Financial result                                                      | (91)         | (77)         | –15.4          |
| <b>Income before income taxes</b>                                     | <b>605</b>   | <b>2,185</b> | <b>&gt;200</b> |
| Income taxes                                                          | (151)        | (566)        | >200           |
| <b>Income after income taxes</b>                                      | <b>454</b>   | <b>1,619</b> | <b>&gt;200</b> |
| of which attributable to noncontrolling interest                      | (5)          | 3            | .              |
| <b>of which attributable to Covestro AG shareholders (net income)</b> | <b>459</b>   | <b>1,616</b> | <b>&gt;200</b> |

The cost of goods sold was up by 39.8%, amounting to €11,475 million (previous year: €8,207 million), on account of higher raw material prices, while the ratio of the cost of goods sold to sales decreased to 72.2% (previous year: 76.7%).

The gross profit rose 77.2% to €4,428 million (previous year: €2,499 million). The driver of this trend was the higher selling price level, which significantly exceeded the increase in raw material prices. Furthermore, growth in volumes sold gave earnings a boost.

Selling expenses rose by 19.5% to €1,428 million (previous year: €1,195 million). Due to higher sales, however, the ratio of selling expenses to sales was lower at 9.0% (previous year: 11.2%). Research and development (R&D) expenses were up 30.2% to €341 million (previous year: €262 million). As a share of sales, this produced an R&D ratio of 2.1% (previous year: 2.4%). General administration expenses increased by 33.9% to €415 million (previous year: €310 million), for a ratio of administration expenses to sales of 2.6% (previous year: 2.9%).

Higher provisions for short-term variable compensation reduced earnings. Nonrecurring expenses related to the RFM acquisition also had a negative effect on earnings in the mid-double-digit million euro range. In contrast, positive synergy effects from the RFM acquisition were in the low double-digit million euro range thanks in particular to an efficiency boost in sales, administration, and procurement activities.

Other operating income exceeded other operating expenses by €18 million (previous year: €–36 million).

EBIT amounted to €2,262 million, more than tripling in the reporting period (previous year: €696 million). The EBIT margin rose to 14.2% (previous year: 6.5%).

## EBITDA

### Calculation of EBITDA

|                                                                             | 2020         | 2021         |
|-----------------------------------------------------------------------------|--------------|--------------|
|                                                                             | € million    | € million    |
| <b>EBIT</b>                                                                 | <b>696</b>   | <b>2,262</b> |
| Depreciation, amortization, impairment losses and impairment loss reversals | 776          | 823          |
| <b>EBITDA</b>                                                               | <b>1,472</b> | <b>3,085</b> |

In fiscal 2021, depreciation, amortization, impairment losses and impairment loss reversals rose by 6.1% to €823 million (previous year: €776 million). They comprised €760 million (previous year: €754 million) in depreciation and impairments of property, plant, and equipment and €63 million (previous year: €22 million) in amortization and impairments of intangible assets. This included €5 million (previous year: €20 million) in impairment losses and €3 million (previous year: €0 million) in reversals of impairment losses.

The Group's EBITDA in the year as a whole more than doubled over the prior-year period to €3,085 million (previous year: €1,472 million). The Performance Materials segment made a particularly strong contribution to this growth, increasing EBITDA to €2,572 million (previous year: €896 million). The Solutions & Specialties segment's EBITDA rose by 1.1% to €751 million (previous year: €743 million).

## Net Income

In the fiscal year, the financial result stood at €–77 million (previous year: €–91 million) and largely consisted of net interest expense of €41 million (previous year: €47 million). In view of the financial result, income before income taxes rose to €2,185 million (previous year: €605 million). The change in income resulted in the income tax expense increasing to €566 million (previous year: €151 million). After taxes and noncontrolling interests, net income more than tripled over the prior year to €1,616 million (previous year: €459 million).

## Return on Capital Employed (ROCE) and Value Contribution

### Calculation of the ROCE and the value contribution

|                                                 | 2020                | 2021                 |
|-------------------------------------------------|---------------------|----------------------|
|                                                 | € million           | € million            |
| EBIT                                            | 696                 | 2,262                |
| Effective tax rate <sup>1</sup>                 | +25.0%              | +25.9%               |
| Taxes <sup>2</sup>                              | 174                 | 586                  |
| <b>Net operating profit after taxes (NOPAT)</b> | <b>522</b>          | <b>1,676</b>         |
| Average capital employed                        | 7,475               | 8,598                |
| <b>ROCE</b>                                     | <b>+7.0%</b>        | <b>+19.5%</b>        |
| Weighted average cost of capital (WACC)         | +7.3%               | +6.6%                |
| <b>ROCE above WACC</b>                          | <b>–0.3% points</b> | <b>+12.9% points</b> |
| <b>Cost of capital<sup>3</sup></b>              | <b>546</b>          | <b>567</b>           |
| <b>Value contribution<sup>4</sup></b>           | <b>(24)</b>         | <b>1,109</b>         |

<sup>1</sup> The calculation of the effective tax rate is presented in note 11 "Taxes" in the Notes to the Consolidated Financial Statements.

<sup>2</sup> The imputed income taxes used in the calculation of NOPAT are determined by multiplying EBIT by the effective tax rate.

<sup>3</sup> WACC multiplied by average capital employed.

<sup>4</sup> NOPAT less cost of capital.

The Covestro Group's NOPAT totaled €1,676 million (previous year: €522 million), and average capital employed amounted to €8,598 million (previous year: €7,475 million). This triggered an increase in ROCE to 19.5% (previous year: 7.0%). Despite a lower WACC of 6.6% (previous year: 7.3%), the cost of capital rose slightly to €567 million (previous year: €546 million) on account of the increase in average capital employed. Since ROCE was well above the lower WACC, Covestro earned a significant premium over capital costs. The value contribution therefore increased to €1,109 million (previous year: €–24 million).

[Additional information on the calculation of indicators is available in "Key Management Indicators."](#)

## Calculation of average capital employed

|                                                                   | Dec. 31,<br>2019 | Dec. 31,<br>2020 | Dec. 31,<br>2021 |
|-------------------------------------------------------------------|------------------|------------------|------------------|
|                                                                   | € million        | € million        | € million        |
| Goodwill                                                          | 264              | 255              | 757              |
| Other intangible assets                                           | 114              | 109              | 706              |
| Property, plant and equipment                                     | 5,286            | 5,175            | 6,032            |
| Investments accounted for using the equity method                 | 192              | 173              | 172              |
| Other noncurrent financial assets <sup>1</sup>                    | 7                | 5                | 6                |
| Other receivables <sup>2</sup>                                    | 376              | 309              | 447              |
| Deferred taxes <sup>3</sup>                                       | 221              | 253              | 301              |
| Inventories                                                       | 1,916            | 1,663            | 2,914            |
| Trade accounts receivable                                         | 1,561            | 1,593            | 2,343            |
| Claims for income tax refunds                                     | 104              | 55               | 128              |
| Assets held for sale <sup>4</sup>                                 | 12               | 36               | –                |
| <b>Gross capital employed</b>                                     | <b>10,053</b>    | <b>9,626</b>     | <b>13,806</b>    |
| Other provisions <sup>5</sup>                                     | (422)            | (360)            | (843)            |
| Other liabilities <sup>6, 7</sup>                                 | (284)            | (269)            | (333)            |
| Deferred tax liabilities <sup>8</sup>                             | (204)            | (177)            | (293)            |
| Trade accounts payable <sup>7</sup>                               | (1,431)          | (1,241)          | (2,214)          |
| Income tax liabilities                                            | (164)            | (162)            | (337)            |
| Liabilities directly related to assets held for sale <sup>9</sup> | (8)              | (7)              | –                |
| <b>Capital employed</b>                                           | <b>7,540</b>     | <b>7,410</b>     | <b>9,786</b>     |
| <b>Average capital employed</b>                                   |                  | <b>7,475</b>     | <b>8,598</b>     |

<sup>1</sup> Other noncurrent financial assets were adjusted for nonoperating assets.

<sup>2</sup> Other receivables were adjusted for nonoperating and financial receivables.

<sup>3</sup> Deferred taxes were adjusted for deferred taxes from defined benefit plans and similar obligations.

<sup>4</sup> Assets held for sale were adjusted for nonoperating and financial assets.

<sup>5</sup> Other provisions were adjusted for provisions for interest payments.

<sup>6</sup> Other liabilities were adjusted for nonoperating and financial liabilities.

<sup>7</sup> Reference information was restated accordingly, see note 4.1 "Change in Presentation of Rebates Granted to Customers" in the Annual Report 2020.

<sup>8</sup> Deferred tax liabilities were adjusted for deferred tax liabilities from defined benefit plans and similar obligations.

<sup>9</sup> Liabilities directly related to assets held for sale were adjusted for nonoperating and financial liabilities.

## Financial Position

### Statement of Cash Flows

#### Covestro Group summary statement of cash flows

|                                                                                 | 4th quarter<br>2020 | 4th quarter<br>2021 | 2020           | 2021           |
|---------------------------------------------------------------------------------|---------------------|---------------------|----------------|----------------|
|                                                                                 | € million           | € million           | € million      | € million      |
| <b>EBITDA</b>                                                                   | <b>637</b>          | <b>663</b>          | <b>1,472</b>   | <b>3,085</b>   |
| Income taxes paid                                                               | (40)                | (237)               | (155)          | (546)          |
| Change in pension provisions                                                    | (1)                 | 1                   | 25             | 31             |
| (Gains) losses on retirements of noncurrent assets                              | 6                   | 1                   | 8              | (3)            |
| Change in working capital/other noncash items                                   | 33                  | 220                 | (116)          | (374)          |
| <b>Cash flows from operating activities</b>                                     | <b>635</b>          | <b>648</b>          | <b>1,234</b>   | <b>2,193</b>   |
| Cash outflows for additions to property, plant, equipment and intangible assets | (241)               | (292)               | (704)          | (764)          |
| <b>Free operating cash flow</b>                                                 | <b>394</b>          | <b>356</b>          | <b>530</b>     | <b>1,429</b>   |
| <b>Cash flows from investing activities</b>                                     | <b>(764)</b>        | <b>(498)</b>        | <b>(1,769)</b> | <b>(1,995)</b> |
| <b>Cash flows from financing activities</b>                                     | <b>377</b>          | <b>(2)</b>          | <b>1,204</b>   | <b>(965)</b>   |
| <b>Change in cash and cash equivalents due to business activities</b>           | <b>248</b>          | <b>148</b>          | <b>669</b>     | <b>(767)</b>   |
| <b>Cash and cash equivalents at beginning of period</b>                         | <b>1,157</b>        | <b>496</b>          | <b>748</b>     | <b>1,404</b>   |
| Change in cash and cash equivalents due to changes in scope of consolidation    | –                   | –                   | 1              | –              |
| Change in cash and cash equivalents due to exchange rate movements              | (1)                 | 5                   | (14)           | 12             |
| <b>Cash and cash equivalents at end of period</b>                               | <b>1,404</b>        | <b>649</b>          | <b>1,404</b>   | <b>649</b>     |

#### Cash Flows from Operating Activities/Free Operating Cash Flow

Cash flows from operating activities grew to €2,193 million (previous year: €1,234 million), chiefly due to the increase in EBITDA. This stood in contrast to higher cash tied up in working capital and an increase in income tax payments. Higher cash flows from operating activities less cash outflows for additions to property, plant, equipment, and intangible assets of €764 million (previous year: €704 million) led to an increase in free operating cash flow to €1,429 million (previous year: €530 million).

 Additional information on the calculation of indicators is available in "Management."

#### Cash Flows from Investing Activities

In fiscal 2021, net cash used in investing activities totaled €1,995 million (previous year: €1,769 million). The cash outflows mainly comprise net purchase price payments of €1,469 million for the RFM acquisition and additions to property, plant, equipment and intangible assets of €764 million (previous year: €704 million). In contrast, cash inflows stemmed from the net sale of money market fund units and totaled €207 million.

Capital expenditures in fiscal 2021 were targeted at maintenance and improvement of existing plants as well as new capacity in both segments. In the Performance Materials segment, construction of Covestro's own chlorine production facility at the site in Tarragona (Spain) continued. The plant will promote the use of energy-conserving technologies and aims to lower production costs at the site. As in fiscal 2020, water treatment was invested in further at the Rotterdam (Netherlands) site. Additional investments were also made at the Shanghai (China) site to secure and optimize the chlorine supply. Strategic capital expenditure in the Solutions & Specialties segment was aimed at capacity expansion, e.g., for compounding, at the Map Ta Phut (Thailand), Shanghai (China), and Krefeld-Uerdingen (Germany) sites.

### Cash outflows for additions to property, plant, equipment and intangible assets

|                         | 2020       | 2021       |
|-------------------------|------------|------------|
|                         | € million  | € million  |
| Performance Materials   | 498        | 488        |
| Solutions & Specialties | 203        | 273        |
| Others/Consolidation    | 3          | 3          |
| <b>Covestro Group</b>   | <b>704</b> | <b>764</b> |

### Cash Flows from Financing Activities

Net cash outflow from the Covestro Group's financing activities amounted to €965 million in fiscal 2021 (previous year: net cash inflow of €1,204 million). This was largely due to the full, early repayment at par value of the €500 million euro bond on July 7, 2021. The bond had been placed in fiscal 2016 and was set to mature in October 2021. Cash outflows additionally included dividend payments of €262 million. Of this amount, €251 million was attributable to Covestro AG shareholders (previous year: €219 million).

### Net Financial Debt

The Covestro Group's financial debt decreased by €379 million from €2,886 million as of December 31, 2020, to €2,507 million as of December 31, 2021. This was mainly due to the repayment of the €500 million euro bond maturing in October 2021. In contrast, lease liabilities grew by €89 million and bank loans by €50 million.

Cash and cash equivalents decreased in comparison with the figure on December 31, 2020, by €755 million to €649 million. This change was mainly driven by the net purchase price payments for the RFM acquisition amounting to €1,469 million. Moreover, cash and cash equivalents declined on account of cash outflows for additions to property, plant, equipment and intangible assets of €764 million, the repayment of the euro bond in the amount of €500 million, and dividend payments of €262 million. Conversely, higher cash flows from operating activities of €2,193 million increased cash and cash equivalents.

The contribution of money market fund units totaling €500 million to pension plan assets (Metzler Trust e.V.) and the net sale of other money market fund units amounting to €207 million led to a €673 million decrease in current financial assets to €453 million.

In fiscal 2021, net financial debt increased by €1,049 million to €1,405 million (previous year: €356 million).

### Net financial debt

|                              | Dec. 31, 2020 | Dec. 31, 2021 |
|------------------------------|---------------|---------------|
|                              | € million     | € million     |
| Bonds                        | 1,990         | 1,492         |
| Liabilities to banks         | 227           | 275           |
| Lease liabilities            | 672           | 761           |
| Liabilities from derivatives | 9             | 11            |
| Other financial liabilities  | 1             | 2             |
| Receivables from derivatives | (13)          | (34)          |
| <b>Financial debt</b>        | <b>2,886</b>  | <b>2,507</b>  |
| Cash and cash equivalents    | (1,404)       | (649)         |
| Current financial assets     | (1,126)       | (453)         |
| <b>Net financial debt</b>    | <b>356</b>    | <b>1,405</b>  |

## Financial Management

The main purpose of financial management is to ensure solvency at all times, continuously optimize capital costs, and reduce the risks of financing measures. Financial management for the Covestro Group is performed centrally by Covestro AG.

Covestro AG operates a Debt Issuance Program with a total volume of €5.0 billion to facilitate obtaining flexible financing from the capital market. The company is thus in the position to issue fixed- and variable-rate bonds as well as to undertake private placements. Covestro AG successfully placed several bonds from its Debt Issuance Program. The €500 million euro bond placed in March 2016 carries a fixed coupon of 1.75% and matures in September 2024. The €500 million euro bond also placed in March 2016 carrying a fixed coupon of 1.00% and maturing in October 2021 was repaid in full at par value on July 7, 2021. The additional €1.0 billion in euro bonds placed on June 5, 2020 consist of one €500 million euro bond with a fixed coupon of 0.875% maturing in February 2026, and another €500 million euro bond with a fixed coupon of 1.375% maturing in June 2030. All outstanding bonds have been assigned a Baa2 rating with stable outlook by Moody's Investors Service, London (United Kingdom).

In fiscal 2020, Covestro AG obtained a syndicated revolving credit facility totaling €2.5 billion with a term of five years. It includes two options to extend the term by one year in each case and represents a back-up liquidity reserve. One option to extend was exercised in March 2021 to extend the term of the syndicated revolving credit facility to March 2026. An important new feature of the credit line is its link to an environmental, social, governance (ESG) rating: The better (worse) the externally calculated ESG score is, the lower (higher) the interest component of the credit facility. The syndicated credit facility was unused as of December 31, 2021. On September 30, 2020, Covestro arranged another syndicated credit facility in the original amount of €1.7 billion. This second credit facility was reduced to €1.2 billion on October 26, 2020, and was terminated as of January 29, 2021. It originally served as bridge financing for the net purchase price payments for the RFM acquisition.

On March 31, 2021, Moody's Investors Service, London (United Kingdom), confirmed Covestro AG's Baa2 investment-grade rating to date and lifted the outlook from negative to stable. Covestro intends to continue to maintain financing structures and financial ratios that support a solid investment-grade rating in the future.

The Covestro Group pursues a prudent debt management strategy to ensure flexibility, drawing on a balanced financing portfolio. This is based for the most part on bonds, syndicated credit facilities, and bilateral loan agreements.

As a company with international operations, Covestro is exposed to financial opportunities and risks. These are continuously monitored within the context of Covestro's financial management activities. Instruments including derivatives are used to minimize risks.

For a detailed presentation of financial opportunities and risks as well as further explanations, please see Covestro's opportunities and risks report.

 See "Opportunities and Risks Report" and note 24.2 "Financial Risk Management and Information on Derivatives" in the Notes to the Consolidated Financial Statements.

## Net Assets

### Covestro Group summary statement of financial position

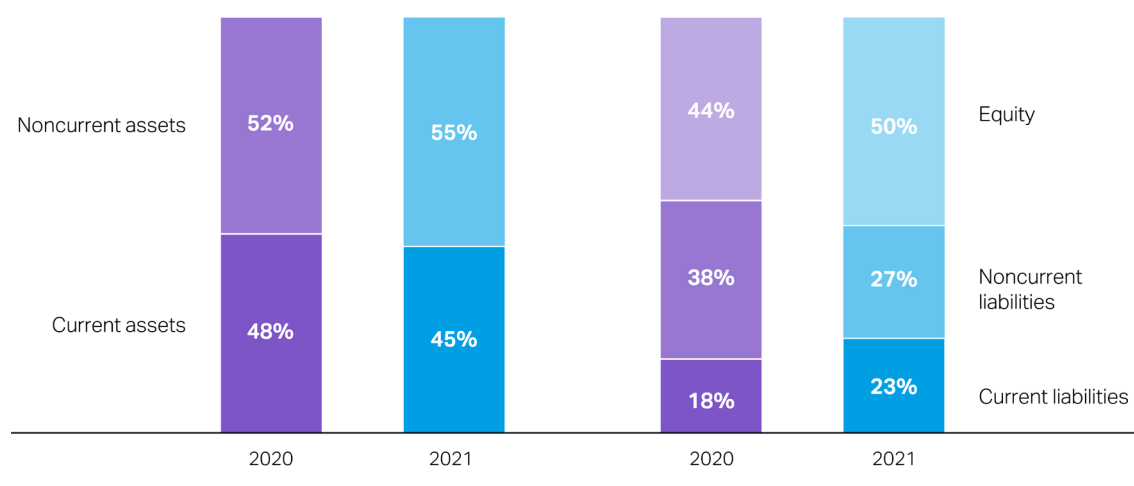
|                                     | Dec. 31, 2020 | Dec. 31, 2021 |
|-------------------------------------|---------------|---------------|
|                                     | € million     | € million     |
| Noncurrent assets                   | 6,734         | 8,610         |
| Current assets                      | 6,190         | 6,961         |
| <b>Total assets</b>                 | <b>12,924</b> | <b>15,571</b> |
| <b>Equity</b>                       | <b>5,644</b>  | <b>7,762</b>  |
| Noncurrent liabilities              | 4,916         | 4,203         |
| Current liabilities                 | 2,364         | 3,606         |
| <b>Liabilities</b>                  | <b>7,280</b>  | <b>7,809</b>  |
| <b>Total equity and liabilities</b> | <b>12,924</b> | <b>15,571</b> |

Total assets increased by €2,647 million to €15,571 million as of December 31, 2021 (December 31, 2020: €12,924 million).

Noncurrent assets were up by €1,876 million to €8,610 million (previous year: €6,734 million) and accounted for 55% (previous year: 52%) of total assets. This increase is largely attributable to the property, plant, equipment, and intangible assets acquired as part of the RFM business and recognized at fair value along with the resulting goodwill recognized in this process.

Current assets were up €771 million to €6,961 million (previous year: €6,190 million), and their ratio to total assets was 45% (previous year: 48%). This change occurred as a result of the increase in inventories and trade accounts receivable, whereas current financial assets and cash and cash equivalents declined year over year.

### Covestro Group's balance sheet structure



Equity increased by €2,118 million to €7,762 million as of December 31, 2021 (previous year: €5,644 million). The equity ratio at the reporting date was 50% (previous year: 44%). The growth in equity is mainly attributable to income after income taxes for fiscal 2021, the remeasurement of pension obligations, and positive foreign exchange differences. The dividend distribution for fiscal 2020 had the opposite effect.

Noncurrent liabilities decreased by €713 million to €4,203 million as of the reporting date (previous year: €4,916 million) and accounted for 27% (previous year: 38%) of total capital and 54% (previous year: 68%) of liabilities. This is primarily due to lower provisions for pensions and other post-employment benefits.

**Net defined benefit liability for post-employment benefits**

|                                                                   | <b>Dec. 31, 2020</b> | <b>Dec. 31, 2021</b> |
|-------------------------------------------------------------------|----------------------|----------------------|
|                                                                   | € million            | € million            |
| Provisions for pensions and other post-employment benefits        | 2,123                | 1,199                |
| Net defined benefit asset                                         | (2)                  | (4)                  |
| <b>Net defined benefit liability for post-employment benefits</b> | <b>2,121</b>         | <b>1,195</b>         |

The net defined benefit liability for post-employment benefits (pension obligations less plan assets) was down by €926 million in the reporting year to €1,195 million (previous year: €2,121 million). This was due to actuarial gains, especially those attributable to the increase in the discount rate in Germany and the United States as well as the November 2021 contribution of money market fund units totaling €500 million to pension plan assets.

Current liabilities increased by €1,242 million to €3,606 million (previous year: €2,364 million) and accounted for 23% (previous year: 18%) of total equity and liabilities and 46% (previous year: 32%) of liabilities. This increase was attributable chiefly to trade accounts payable and other provisions. The early repayment of the €500 million euro bond placed in fiscal 2016 had the opposite effect.

# Performance of the Segments

## Performance Materials

### Performance Materials key data<sup>1</sup>

|                                                                                 | 4th quarter<br>2020 <sup>2</sup> | 4th quarter<br>2021 | Change         | 2020 <sup>2,3</sup> | 2021 <sup>3</sup> | Change         |
|---------------------------------------------------------------------------------|----------------------------------|---------------------|----------------|---------------------|-------------------|----------------|
|                                                                                 | € million                        | € million           | %              | € million           | € million         | %              |
| <b>Core volume growth<sup>4</sup></b>                                           |                                  | <b>-0.8%</b>        |                |                     | <b>+0.3%</b>      |                |
| Sales (external)                                                                | 1,594                            | 2,259               | +41.7          | 5,468               | 8,142             | +48.9          |
| Intersegment sales                                                              | 257                              | 596                 | >100           | 947                 | 2,195             | >100           |
| Sales (total)                                                                   | 1,851                            | 2,855               | +54.2          | 6,415               | 10,337            | +61.1          |
| Change in sales (external)                                                      |                                  |                     |                |                     |                   |                |
| Volume                                                                          |                                  | +0.5%               |                |                     | +1.6%             |                |
| Price                                                                           |                                  | +37.6%              |                |                     | +48.1%            |                |
| Currency                                                                        |                                  | +3.6%               |                |                     | -0.8%             |                |
| Portfolio                                                                       |                                  | 0.0%                |                |                     | 0.0%              |                |
| Sales by region (external)                                                      |                                  |                     |                |                     |                   |                |
| EMLA                                                                            | 759                              | 1,039               | +36.9          | 2,572               | 3,878             | +50.8          |
| NA                                                                              | 340                              | 582                 | +71.2          | 1,347               | 1,926             | +43.0          |
| APAC                                                                            | 495                              | 638                 | +28.9          | 1,549               | 2,338             | +50.9          |
| <b>EBITDA<sup>5</sup></b>                                                       | <b>465</b>                       | <b>590</b>          | <b>+26.9</b>   | <b>896</b>          | <b>2,572</b>      | <b>&gt;100</b> |
| EBIT <sup>5</sup>                                                               | 321                              | 445                 | +38.6          | 323                 | 2,003             | >500           |
| Cash flows from operating activities                                            | 327                              | 665                 | >100           | 674                 | 1,875             | >100           |
| Cash outflows for additions to property, plant, equipment and intangible assets | 169                              | 168                 | -0.6           | 498                 | 488               | -2.0           |
| <b>Free operating cash flow</b>                                                 | <b>158</b>                       | <b>497</b>          | <b>&gt;200</b> | <b>176</b>          | <b>1,387</b>      | <b>&gt;600</b> |

<sup>1</sup> Reference information calculated based on the organizational and reporting structure as of July 1, 2021.

<sup>2</sup> Reference information based on fiscal 2019 is not presented here due to the new organizational structure.

<sup>3</sup> Values calculated retroactively due to a change in market-rate compensation for transactions between the Performance Materials and Solutions & Specialties segments as of October 1, 2021; reference information restated accordingly.

<sup>4</sup> Calculated on the basis of the definition of the core business effective March 31, 2021.

<sup>5</sup> EBITDA and EBIT include the effect on earnings of intersegment sales.

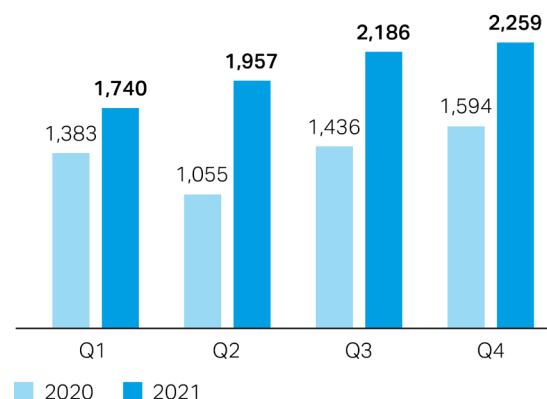
The Performance Materials segment generated year-over-year core volume growth of 0.3% in fiscal 2021. Volumes were positively affected mainly by the electrical, electronics and household appliances industry, particularly in the APAC region. In the furniture and wood processing industry, however, core volumes sold were down across all regions. Solid global demand was offset by limited product availability, e.g., due to the impact of unplanned, weather-related production stoppages in the NA region in the first quarter of 2021. This limited the growth potential of the segment.

Sales in the Performance Materials segment were up 48.9% to €8,142 million in fiscal 2021 (previous year: €5,468 million). Driven by a still advantageous competitive situation, average selling prices increased sales by 48.1%. An increase in total volumes sold also had a positive effect on sales amounting to 1.6%. Exchange rate movements reduced sales by 0.8% in contrast.

In the EMLA region, sales grew by 50.8% to €3,878 million (previous year: €2,572 million) on account of a substantial increase in average selling prices. Sales were not noticeably affected by the changes in total volumes sold or in exchange rates. In the NA region, sales rose by 43.0% to €1,926 million (previous year: €1,347 million), with average selling prices exerting a strong positive effect. However, exchange rate movements had a slightly negative impact on sales. Total volumes sold had a neutral effect on sales overall. In the APAC region, sales climbed by 50.9% to €2,338 million (previous year: €1,549 million). Higher selling prices also gave sales a substantial boost in this case. At the same time, the expansion of total volumes sold had a significant positive effect on sales. In addition, changes in exchange rates increased sales slightly.

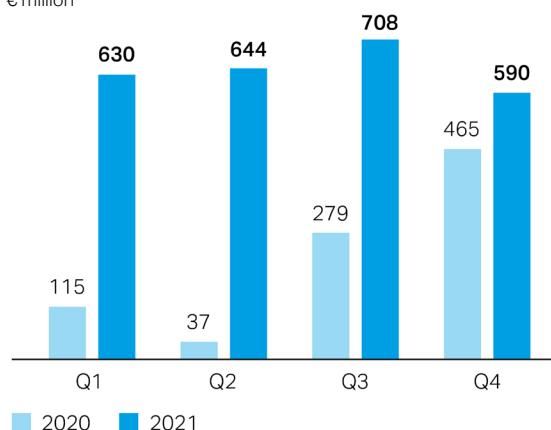
### Performance Materials Quarterly sales

€ million



### Performance Materials Quarterly EBITDA

€ million



EBITDA in the Performance Materials segment grew over the prior-year period to €2,572 million (previous year: €896 million). The key driver of this trend was the significant increase in margins due to an advantageous competitive situation. The higher margins were the result of a higher selling price level, which more than offset the rise in raw material prices. However, higher provisions for short-term variable compensation had a negative effect on earnings.

EBIT increased more than sixfold, amounting to €2,003 million (previous year: €323 million).

Free operating cash flow grew to €1,387 million (previous year: €176 million). This is due mainly to higher EBITDA. In contrast, an increase in funds tied up in working capital had a negative effect.

## Solutions & Specialties

### Solutions & Specialties key data<sup>1</sup>

|                                                                                 | 4th quarter<br>2020 <sup>2</sup> | 4th quarter<br>2021 | Change       | 2020 <sup>2,3</sup> | 2021 <sup>3</sup> | Change       |
|---------------------------------------------------------------------------------|----------------------------------|---------------------|--------------|---------------------|-------------------|--------------|
|                                                                                 | € million                        | € million           | %            | € million           | € million         | %            |
| <b>Core volume growth<sup>4</sup></b>                                           |                                  | <b>+13.0%</b>       |              |                     | <b>+26.0%</b>     |              |
| Sales (external)                                                                | 1,371                            | 2,005               | +46.2        | 5,060               | 7,554             | +49.3        |
| Intersegment sales                                                              | 6                                | 8                   | +33.3        | 23                  | 27                | +17.4        |
| Sales (total)                                                                   | 1,377                            | 2,013               | +46.2        | 5,083               | 7,581             | +49.1        |
| Change in sales (external)                                                      |                                  |                     |              |                     |                   |              |
| Volume                                                                          |                                  | -3.4%               |              |                     | +11.8%            |              |
| Price                                                                           |                                  | +25.6%              |              |                     | +21.3%            |              |
| Currency                                                                        |                                  | +4.1%               |              |                     | -0.9%             |              |
| Portfolio                                                                       |                                  | +19.9%              |              |                     | +17.1%            |              |
| Sales by region (external)                                                      |                                  |                     |              |                     |                   |              |
| EMLA                                                                            | 499                              | 722                 | +44.7        | 1,894               | 2,835             | +49.7        |
| NA                                                                              | 305                              | 457                 | +49.8        | 1,175               | 1,594             | +35.7        |
| APAC                                                                            | 567                              | 826                 | +45.7        | 1,991               | 3,125             | +57.0        |
| <b>EBITDA<sup>5</sup></b>                                                       | <b>194</b>                       | <b>112</b>          | <b>-42.3</b> | <b>743</b>          | <b>751</b>        | <b>+1.1</b>  |
| EBIT <sup>5</sup>                                                               | 133                              | 41                  | -69.2        | 545                 | 503               | -7.7         |
| Cash flows from operating activities                                            | 284                              | 175                 | -38.4        | 649                 | 418               | -35.6        |
| Cash outflows for additions to property, plant, equipment and intangible assets | 70                               | 122                 | +74.3        | 203                 | 273               | +34.5        |
| <b>Free operating cash flow</b>                                                 | <b>214</b>                       | <b>53</b>           | <b>-75.2</b> | <b>446</b>          | <b>145</b>        | <b>-67.5</b> |

<sup>1</sup> Reference information calculated based on the organizational and reporting structure as of July 1, 2021.

<sup>2</sup> Reference information based on fiscal 2019 is not presented here due to the new organizational structure.

<sup>3</sup> Values calculated retroactively due to a change in market-rate compensation for transactions between the Performance Materials and Solutions & Specialties segments as of October 1, 2021; reference information restated accordingly.

<sup>4</sup> Calculated on the basis of the definition of the core business effective March 31, 2021.

<sup>5</sup> EBITDA and EBIT include the effect on earnings of intersegment sales.

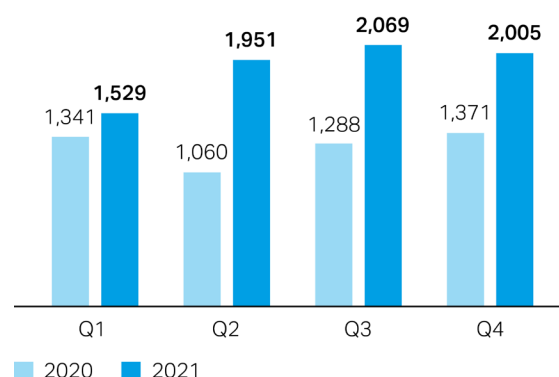
In fiscal 2021, core volumes sold in the Solutions & Specialties segment grew by 26.0% over the prior-year period. This was mainly due to additional volumes from the Resins & Functional Materials (RFM) business acquired and growth in core volumes sold in the automotive and transportation industry and the electrical, electronics and household appliances industry, especially in the EMLA and APAC regions. At the same time, reduced product availability, for instance due to raw material bottlenecks, had a negative impact on core volumes sold and therefore limited our further organic growth opportunities.

The Solutions & Specialties segment's sales were up by 49.3% to €7,554 million in fiscal 2021 (previous year: €5,060 million). A higher selling price level on account of an advantageous competitive situation increased sales by 21.3%. At the same time, the portfolio effect from the acquisition of the RFM business contributed 17.1% and the higher total volumes sold 11.8% to sales. In contrast, exchange rate developments reduced sales by 0.9%.

Sales in the EMLA region climbed by 49.7% to €2,835 million (previous year: €1,894 million). This was largely due to the aforementioned portfolio effect, which increased sales substantially. At the same time, higher selling prices and growth in total volumes sold each had a considerably positive effect on sales. Exchange rate movements had no notable effect on sales overall. The NA region grew sales by 35.7% to €1,594 million (previous year: €1,175 million). The previously mentioned portfolio effect, an increase in average selling prices, as well as higher total volumes sold all had a significant positive impact on sales. Exchange rate changes pushed sales slightly down. Sales in the APAC region were up by 57.0% to €3,125 million (previous year: €1,991 million). Higher selling price levels caused sales to increase strongly. Changes in total volumes sold and the aforementioned portfolio effect each had a significant positive effect on sales. At the same time, exchange rate movements were neutral overall in terms of sales.

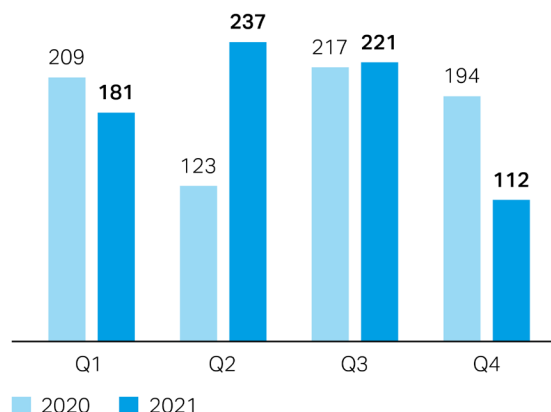
### Solutions & Specialties Quarterly sales

€ million



### Solutions & Specialties Quarterly EBITDA

€ million



EBITDA in the Solutions & Specialties segment increased 1.1% over the prior-year period, growing to €751 million in fiscal 2021 (previous year: €743 million). Higher provisions for short-term variable compensation had a negative effect on EBITDA. Increased raw material prices outpaced higher selling prices and led to lower margins, which reduced earnings. Nonrecurring expenses related to the RFM acquisition also had a negative effect on earnings in the mid-double-digit million euro range. In contrast, positive synergy effects from the RFM acquisition were in the low double-digit million euro range thanks in particular to an efficiency boost in sales, administration, and procurement activities. An increase in total volumes sold also increased earnings.

EBIT declined 7.7% to €503 million (previous year: €545 million).

Year over year, free operating cash flow dropped by 67.5% to €145 million (previous year: €446 million). This was largely due to an increase in funds tied up in working capital, whereas in the prior-year period funds had been freed up from working capital, and to outflows for additions to property, plant, equipment and intangible assets.

# Results of Operations, Financial Position, and Net Assets of Covestro AG

Covestro AG is the parent company and strategic management holding company of the Covestro Group. The principal management functions for the entire Group are performed by the Board of Management. These include strategic planning for the Group, resource allocation, and executive and financial management. Covestro AG's results of operations, financial position, and net assets are largely determined by the business performance of its subsidiaries.

The financial statements of Covestro AG are prepared in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The company, headquartered in Leverkusen (Germany), is registered in the commercial register of the Local Court of Cologne under No. HRB 85281.

Covestro AG performs energy-specific services for Covestro Brunsbüttel Energie GmbH, Brunsbüttel, (affiliated power and gas grid operator) and therefore prepares activity reports in the areas of electricity supply and gas supply pursuant to Section 6b (3) Sentence 1 Nos. 2 and 4 of the German Energy Industry Act (EnWG).

There is a control and profit and loss transfer agreement between Covestro AG and Covestro Deutschland AG, Leverkusen (Germany). All profit not subject to a prohibition on transfer is transferred in full to Covestro AG at the end of the year. Losses are absorbed in full. Other retained earnings recognized during the term of the agreement must be released upon request by Covestro AG and used to compensate a net loss for the year or transferred as profit.

## Results of Operations

### Covestro AG income statement according to the German Commercial Code

|                                                       | 2020        | 2021       |
|-------------------------------------------------------|-------------|------------|
|                                                       | € million   | € million  |
| Income from investments in affiliated companies – net | 77          | 757        |
| Interest expense – net                                | (23)        | (23)       |
| Other financial income – net                          | (16)        | (7)        |
| Net sales                                             | 22          | 22         |
| Cost of services provided                             | (18)        | (22)       |
| General administration expenses                       | (46)        | (80)       |
| Other operating income                                | 19          | 33         |
| Other operating expenses                              | (31)        | (3)        |
| <b>Income before income taxes</b>                     | <b>(16)</b> | <b>677</b> |
| Income taxes                                          | (29)        | (29)       |
| <b>Net income/net loss</b>                            | <b>(45)</b> | <b>648</b> |
| Retained earnings brought forward from prior year     | 220         | –          |
| Allocation to/withdrawal from other retained earnings | 76          | 9          |
| <b>Distributable profit</b>                           | <b>251</b>  | <b>657</b> |

In fiscal 2021, Covestro AG generated net income of €648 million (previous year: net loss of €45 million). The increase over the prior year was largely based on the higher income from investments in affiliated companies of €757 million (previous year: €77 million). Income from investments in affiliated companies was solely attributable to income from the control and profit and loss transfer agreement with Covestro Deutschland AG.

General administration expenses totaling €80 million (previous year: €46 million) mainly consisted of personnel expenses for the employees of the Group holding company and members of the Board of Management. This figure was higher in fiscal 2021 mainly on account of the increase in provisions for short-term variable compensation and costs associated with setting up the new organizational structure as of July 1, 2021 and the integration of the Resins & Functional Materials (RFM) business acquired from Koninklijke DSM N.V., Heerlen (Netherlands). The interest result included interest expense of €23 million (previous year: €20 million) for the euro bonds issued. Interest income mainly for loans extended to Covestro Deutschland AG had the opposite effect.

Other financial income and expenses mainly comprised bank fees totaling €7 million (previous year: €15 million). These included fees for the provision of credit lines and the pro rata reversal of the discount on the euro bonds issued. Other operating income mainly related to a one-time transfer of costs amounting to €33 million in connection with the acquisition of the RFM business to Group company Covestro (Netherlands) B.V., Nieuwegein (Netherlands). In the previous year, this figure included €19 million from the reversal of provisions for settling possible tax claims by Bayer AG in connection with the contribution, indemnification, and post-formation agreement. Other operating expenses mainly resulted from expenses associated with the acquisition of the RFM business in the amount of €3 million (previous year: €30 million).

The result of operations was €677 million (previous year: €-16 million) and led to income taxes of €29 million (previous year: €29 million). After adding retained earnings brought forward from prior year of €0 million (previous year: €220 million) and withdrawing an amount of €9 million from other retained earnings (previous year: €76 million), distributable profit amounted to €657 million (previous year: €251 million).

For fiscal 2021, net income was expected to far exceed the level in fiscal 2020 in line with our forecast from the Annual Report 2020. With a net profit of €648 million this forecast was met. The Board of Management and the Supervisory Board are proposing a dividend of €3.40 per share carrying dividend rights for the 2021 fiscal year to the Annual General Meeting.

## Net Assets and Financial Position

### Covestro AG statement of financial position according to the German Commercial Code

|                                                     | Dec. 31,2020 | Dec. 31,2021 |
|-----------------------------------------------------|--------------|--------------|
|                                                     | € million    | € million    |
| <b>ASSETS</b>                                       |              |              |
| <b>Noncurrent assets</b>                            | <b>1,767</b> | <b>1,767</b> |
| Intangible assets, property, plant and equipment    | 1            | 1            |
| Financial assets                                    | 1,766        | 1,766        |
| <b>Current assets</b>                               | <b>5,401</b> | <b>5,371</b> |
| Trade accounts receivable                           | 30           | 67           |
| Receivables from affiliated companies               | 5,337        | 5,219        |
| Other assets                                        | 34           | 85           |
| <b>Deferred charges</b>                             | <b>12</b>    | <b>12</b>    |
| <b>Excess of plan assets over pension liability</b> | <b>9</b>     | <b>5</b>     |
| <b>Total assets</b>                                 | <b>7,189</b> | <b>7,155</b> |
| <b>EQUITY AND LIABILITIES</b>                       |              |              |
| <b>Equity</b>                                       | <b>4,823</b> | <b>5,222</b> |
| Capital stock                                       | 193          | 193          |
| Own shares                                          | –            | –            |
| Issued capital                                      | 193          | 193          |
| Capital reserves                                    | 3,942        | 3,944        |
| Other retained earnings                             | 437          | 428          |
| Distributable profit                                | 251          | 657          |
| <b>Provisions</b>                                   | <b>90</b>    | <b>129</b>   |
| Provisions for pensions                             | 4            | 9            |
| Provisions for taxes                                | 77           | 92           |
| Other provisions                                    | 9            | 28           |
| <b>Liabilities</b>                                  | <b>2,276</b> | <b>1,804</b> |
| Bonds                                               | 2,000        | 1,500        |
| Liabilities to banks                                | 225          | 275          |
| Trade accounts payable                              | 17           | 12           |
| Payables to affiliated companies                    | 1            | 4            |
| Other liabilities                                   | 33           | 13           |
| <b>Total equity and liabilities</b>                 | <b>7,189</b> | <b>7,155</b> |

Covestro AG had total assets of €7,155 million as of December 31, 2021 (previous year: €7,189 million). The net assets and financial position of Covestro AG are dominated by its role as a holding company in managing subsidiaries and financing corporate activities. This is primarily reflected in the levels of financial assets (24.7% of total assets), receivables from affiliated companies (72.9% of total assets), and bonds and liabilities to banks.

Receivables from affiliated companies declined by €118 million to €5,219 million (previous year: €5,337 million). This was mainly attributable to a decrease in the intercompany loan to Covestro Deutschland AG. The increase in receivables from the control and profit and loss transfer agreement had the opposite effect.

All receivables and other assets have maturities of less than one year.

Intangible assets and property, plant and equipment were immaterial. Trade accounts receivable of €67 million (previous year: €30 million) and deferred income of €12 million (previous year: €12 million) were also immaterial in relation to total assets. Other assets of €85 million (previous year: €34 million) mainly included income tax and VAT receivables.

Covestro AG's equity amounted to €5,222 million (previous year: €4,823 million). This corresponds to an equity ratio of 73.0% (previous year: 67.1%). Capital reserves increased by €2 million due to the issue of treasury shares

to employees as part of the Covestment share participation program. Net income of €648 million increased equity. Moreover, the payment of dividends for fiscal 2020 in the amount of €251 million reduced equity.

In contrast to equity, provisions amounted to €129 million (previous year: €90 million) and liabilities totaled €1,804 million (previous year: €2,276 million).

Provisions comprised provisions for pensions and other post-employment benefits of €9 million (previous year: €4 million), tax provisions of €92 million (previous year: €77 million), and other provisions of €28 million (previous year: €9 million).

The decline in liabilities was largely due to the full, early repayment at par value of the €500 million euro bond on July 7, 2021. The bond had been placed in fiscal 2016 and was scheduled to mature in October 2021. The euro bonds totaling €1.5 billion have the following maturities: €1.0 billion mature in one to five years and €500 million mature in 2027 or later. Moreover, liabilities to banks totaling €50 million are due in 2022, and €225 million are due in one to five years. Other liabilities amounting to €12 million are due in 2022, and €1 million are due in one to five years. All other liabilities are due within one year.