REPORT ON ECONOMIC POSITION

Economic Environment

Global Economy

In the year 2024, the global economy expanded by 2.7%, slightly more slowly than in the previous year, with all regions recording positive growth rates. The weak growth momentum of the global economy was driven by higher inflation and persistently sluggish growth in North America and China. The EMLA region once again expanded more slowly than the global economy. Weak investing activities and poor demand for exports were the main causes of the continuing slow growth. Growth in the NA region was virtually on a level with global expansion in the year 2024. Inflationary pressure and volatile labor market in the United States had a negative impact on consumption. In the APAC region, weak consumption and the difficult situation in the real estate sector meant that economic growth was down on the previous year, although it was still above global economic growth.

Economic environment[1]

	Growth 2023	Growth 2024
	%	%
World	**2.8**	**2.7**
Europe, Middle East, Latin America[2], Africa (EMLA)	**1.3**	**1.5**
of which Europe	1.0	1.2
of which Germany	–0.1	–0.2
of which Middle East	1.2	1.7
of which Latin America[2]	2.3	2.1
of which Africa	3.1	3.1
North America[3] (NA)	**2.8**	**2.6**
of which United States	2.9	2.8
Asia-Pacific (APAC)	**4.3**	**3.9**
of which China	5.2	4.8

[1] Real growth of gross domestic product; source: Oxford Economics, as of February 2025.
[2] Latin America (excluding Mexico).
[3] North America (Canada, Mexico, United States).

Main Customer Industries

The weak but robust global economic growth performance in the year 2024 is not reflected in all of Covestro's main customer industries.

Growth in the global automotive industry was significantly worse than in the previous year, with negative growth of 0.7% in fiscal 2024. Persistent problems in reducing inventories as well as significantly more sluggish growth in the area of electric vehicles had a negative impact on the sector. The APAC and NA regions recorded slight positive growth, while growth in the NA and EMLA regions was negative.

In the year 2024, the growth rate in the construction industry was negative at 2.5% and therefore similar to the previous year. Falling interest rates have so far failed to halt the decline in residential construction around the world. High levels of uncertainty in the real estate sector continued to have a negative impact in the year 2024, leading to a slight decline in the construction industry in the APAC and EMLA regions. The rate of growth in the NA region, on the other hand, was slightly positive.

In the year 2024, the growth rate achieved in the electrical, electronics, and household appliances industry was 4.1% and therefore significantly up on the previous year. Demand for entertainment electronics and computers as well as general structural change driven by artificial intelligence and industrial automation had a beneficial impact on the industry. All regions recorded positive growth in the reporting year.

In the year 2024, the global furniture industry saw negative growth of 0.5%, although this was significantly better than in the previous year. As in the previous year, high prices and declining residential construction continued to weigh on the industry's expansion, leading to negative growth in the EMLA and NA regions. The APAC region's growth was positive, on the other hand.

Main customer industries[1]

	Growth 2023	Growth 2024
	%	%
Automotive	10.3	–0.7
Construction	–2.1	–2.5
Electrical, electronics and household appliances	–1.8	4.1
Furniture	–4.7	–0.5

[1] Covestro's estimate, based on the following sources: GlobalData Plc, 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 (excluding the transportation or wood processing segments). As of: February 2025.

Business Performance at a Glance

Significant Events

Negotiations with ADNOC and Successful Takeover Offer

Based on the open-ended talks with the Abu Dhabi National Oil Company (ADNOC), the Board of Management of Covestro AG resolved on June 24, 2024, following consultation with the Supervisory Board, to enter into concrete negotiations about a possible transaction and the possible conclusion of an investment agreement and to enable an adequate exchange of corporate information to confirm assumptions (confirmatory due diligence).

On October 1, 2024, Covestro AG signed an investment agreement with certain companies of the ADNOC Group, including XRG P.J.S.C. (XRG), Abu Dhabi (United Arab Emirates), (formerly: ADNOC International Limited, Abu Dhabi (United Arab Emirates)) and its subsidiary ADNOC International Germany Holding AG ("Bidder"). The investment agreement specifies, among other things, that the Bidder will submit to the shareholders of Covestro AG a public takeover offer for all outstanding shares of Covestro at a price of €62.00 per share. At the same time, the Board of Management and Supervisory Board of Covestro AG resolved that, on completion of the transaction, the capital stock of the company is to be increased by 10% (18,900,000 shares). Subject to completion, the new shares are to be issued to the Bidder against payment of a price per share in the amount of the offer price, i.e., based on the offer price of €62.00, for a total amount of €1.17 billion, with simplified disapplication of subscription rights. In addition, in this agreement, XRG commits itself to supporting without limitations the Sustainable Future corporate strategy.

The offer was subject to a minimum acceptance ratio of 50% plus one share and the normal conditions of completion, including antitrust and foreign trade clearance, and clearance under EU law on foreign subsidies. In accordance with the German Securities Acquisition and Takeover Act (WpÜG), the offer document and other information relevant to the public takeover offer by the Bidder were made available after approval by the German Federal Financial Supervisory Authority (BaFin) on October 25, 2024 on the following website: **www.covestro-offer.com**.

As of December 31, 2024, the total number of shares tendered and already acquired by XRG accounted for 91.58% of Covestro's share capital. Subject to regulatory approvals still outstanding, XRG has therefore become the new majority shareholder of Covestro. Since this means that the number of shares in freefloat adds up to less than 10%, Covestro no longer meets the requirements for inclusion in the DAX and was excluded from this index as of December 27, 2024.

Depending on the normal conditions of completion, the transaction is not expected to be completed before the second half of 2025.

Global Transformation Program

In view of a rapidly changing market environment, Covestro launched the global transformation program STRONG. STRONG is aimed at making the company even more effective and efficient and driving digitalization. The Group is planning to realize global annual savings in non-labor and personnel costs of €400 million by the year 2028; of that total, €190 million will be in Germany. In this context, the implementation of the transformation program gave rise to expenses in the low double-digit million euro range in the year 2024. By the year 2028, we anticipate implementation costs of around €300 million in connection with the transformation program, most of which is expected in the year 2025.

Another step taken as part of the transformation program was the decision by the Board of Management to discontinue the operations of the production site in Augusta, Georgia (United States). In this context, impairment losses of €21 million, mainly on technical equipment and machinery, were recognized in the Solutions & Specialties segment in the second quarter of 2024. Until its closure, the production site in Augusta, Georgia (United States), manufactured products for the powder coatings business. The customer business with powder coatings in the NA region continues, regardless of the closure of the production site.

Overall Assessment of Business Performance and Target Attainment

The economic conditions made fiscal year 2024 challenging for Covestro. Sales decreased by 1.4% to €14,179 million (previous year: 14,377 million), predominantly due to the lower selling price level. The decline in the selling price level, which was only partially offset by lower raw material prices, contrasted with a rise in volumes sold. Overall, the adverse factors carried slightly more weight, leading to a decrease of 0.8% in EBITDA to €1,071 million (previous year: €1,080 million). Free operating cash flow went down to €89 million (previous year: €232 million). The year-on-year drop was mainly due to lower cash flows from operating activities. In addition, ROCE above WACC was –7.4% points (previous year: –6.1% points). The decline compared with the previous year was driven by a significant drop in net operating profit after taxes (NOPAT) and higher WACC. GHG emissions amounted to 4.7 million metric tons of CO_2 equivalents (previous year: 4.9 million metric tons of CO_2 equivalents); the decline from the prior-year value was mainly due to lower emission factors* at our largest sites in Germany and in Baytown, Texas (United States).

In the Annual Report 2023, the Covestro Group published a forecast for key management indicators in fiscal 2024. On July 30, 2024, this guidance was narrowed for EBITDA and ROCE above WACC and the forecast for free operating cash flow was adjusted. On October 29, 2024, the guidance for EBITDA and ROCE above WACC was narrowed further.

The forecast for all key management indicators for full-year 2024 in the Annual Report 2023 was last updated in October 2024. The Covestro Group most recently anticipated full-year EBITDA between €1,000 million and €1,250 million after originally projecting EBITDA between €1,000 million and €1,600 million. After initially expecting FOCF of between €0 million and €300 million, the Covestro Group most recently forecast a figure between €–100 million and €100 million. For ROCE above WACC, the original expectation had been a figure between –7% points and –2% points; this was most recently narrowed to between –7% points and –5% points. For GHG emissions, the Covestro Group originally and most recently anticipated a figure between 4.4 million metric tons of CO_2 equivalents and 5.0 million metric tons of CO_2 equivalents.

The actual figures recorded by Covestro for EBITDA, FOCF, ROCE above WACC, and GHG emissions corresponded to the forecast originally published in the Annual Report 2023.

Compared to the forecast updated in October 2024, EBITDA, FOCF, ROCE above WACC, and GHG emissions were in the ranges communicated.

Forecast-actuals-comparison for fiscal year 2024

	2023	Forecast 2024 (Annual Report 2023)	Forecast 2024 (October 29, 2024)	2024
EBITDA[1]	€1,080 million	Between €1,000 million and €1,600 million	Between €1,000 million and €1,250 million	€1,071 million
Free operating cash flow[2]	€232 million	Between €0 million and €300 million	Between €–100 million and €100 million	€89 million
ROCE above WACC[3, 4]	–6% points	Between –7% points and –2% points	Between –7% points and –5% points	–7% points
Greenhouse gas emissions[5] (CO_2 equivalents)	4.9 million metric tons	Between 4.4 million metric tons and 5.0 million metric tons	Between 4.4 million metric tons and 5.0 million metric tons	4.7 million metric tons

1 Earnings before interest, taxes, depreciation and amortization (EBITDA): EBIT plus depreciation, amortization, and impairment losses; less impairment loss reversals on property, plant and equipment and intangible assets.
2 Free operating cash flow (FOCF): cash flows from operating activities less cash outflows for additions to property, plant and equipment and intangible assets.
3 Return on capital employed (ROCE): ratio of EBIT after imputed income taxes to capital employed. Imputed income taxes are calculated by multiplying an imputed tax rate of 25% by EBIT.
4 Weighted average cost of capital (WACC): weighted average cost of capital reflecting the expected return on the company's equity and debt capital. A figure of 8.1% has been taken into account for the year 2024 (2023: 7.6%).
5 GHG emissions (Scope 1 and Scope 2, GHG Protocol) at main production sites (responsible for more than 95% of our energy usage).

* Emission factors are values used to convert energy consumption into greenhouse gas emissions (e.g., kg CO_2 equivalents per MWh)

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

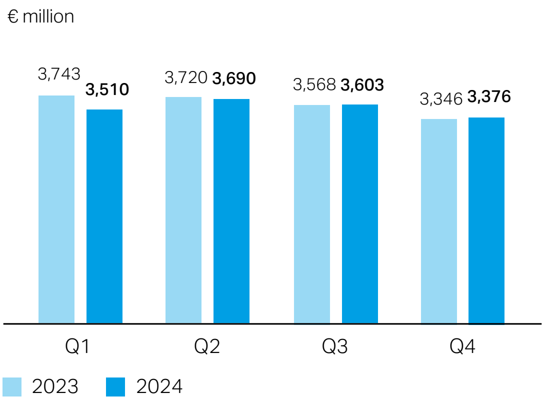
Key data

	4th quarter 2023	4th quarter 2024	Change	2023	2024	Change
Sales	**€3,346 million**	**€3,376 million**	**0.9%**	**€14,377 million**	**€14,179 million**	**–1.4%**
Change in sales						
Volume	3.1%	3.2%		–6.8%	7.4%	
Price	–15.7%	–2.1%		–11.0%	–8.0%	
Currency	–3.0%	–0.2%		–2.2%	–0.8%	
Sales by region						
EMLA	€1,307 million	€1,335 million	2.1%	€5,941 million	€5,848 million	–1.6%
NA	€846 million	€829 million	–2.0%	€3,735 million	€3,507 million	–6.1%
APAC	€1,193 million	€1,212 million	1.6%	€4,701 million	€4,824 million	2.6%
EBITDA[1]	**€132 million**	**€191 million**	**44.7%**	**€1,080 million**	**€1,071 million**	**–0.8%**
Depreciation, amortization and impairment losses and impairment loss reversals	€222 million	€322 million	45.0%	€894 million	€984 million	10.1%
EBIT[2]	(€90 million)	(€131 million)	45.6%	€186 million	€87 million	–53.2%
Financial result	(€13 million)	(€31 million)	138.5%	(€113 million)	(€114 million)	0.9%
Net income[3]	**(€187 million)**	**(€192 million)**	**2.7%**	**(€198 million)**	**(€266 million)**	**34.3%**
Operating cash flows[4]	€377 million	€612 million	62.3%	€997 million	€870 million	–12.7%
Cash outflows for additions to property, plant, equipment and intangible assets	€304 million	€359 million	18.1%	€765 million	€781 million	2.1%
Free operating cash flow[5]	**€73 million**	**€253 million**	**246.6%**	**€232 million**	**€89 million**	**–61.6%**
Net financial debt[6]				€2,487 million	€2,618 million	5.3%
Return on capital employed (ROCE)[7]				1.5%	0.7%	
Weighted average cost of capital (WACC)[8]				7.6%	8.1%	
ROCE above WACC[7, 8]				**–6.1% points**	**–7.4% points**	

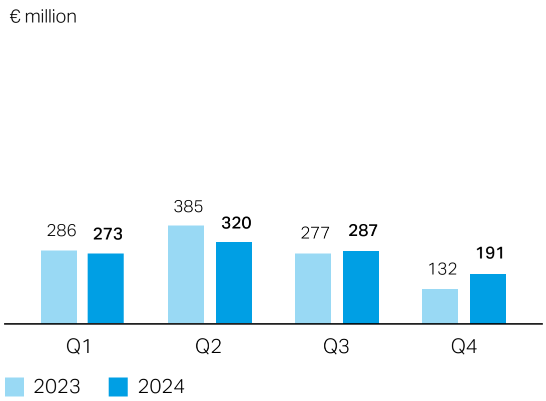
[1] Earnings before interest, taxes, depreciation and amortization (EBITDA): EBIT plus depreciation, amortization, and impairment losses; less impairment loss reversals on property, plant and equipment and intangible assets.
[2] Earnings before interest and taxes (EBIT): income after income taxes plus financial result and income taxes.
[3] Net income: income after income taxes attributable to the shareholders of Covestro AG.
[4] Cash flows from operating activities according to IAS 7 (Statement of Cash Flows).
[5] Free operating cash flow (FOCF): cash flows from operating activities less cash outflows for additions to property, plant, equipment and intangible assets.
[6] As of December 31 in each case.
[7] Return on capital employed (ROCE): ratio of EBIT after imputed income taxes to capital employed. Imputed income taxes are calculated by multiplying an imputed tax rate of 25% by EBIT.
[8] Weighted average cost of capital (WACC): weighted average cost of capital reflecting the expected return on the company's equity and debt capital.

Results of Operations

Quarterly sales



Quarterly EBITDA



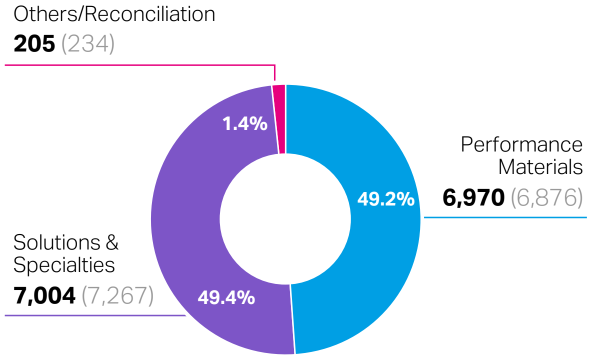
Sales

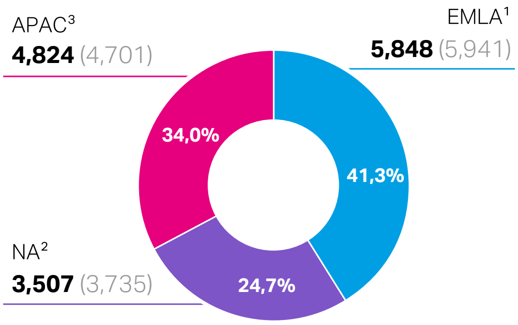
Group sales declined by 1.4% in fiscal 2024, to €14,179 million (previous year: €14,377 million). The decrease in sales was primarily attributable to a demand-related drop in the selling price level, accompanied by the decline in raw material prices being passed on to customers; these factors had a diminishing effect on sales of 8.0%. This was set against an increase in volumes sold, especially in the APAC and EMLA regions, which had a positive effect on sales of 7.4%. Furthermore, exchange rate movements had a decreasing effect on sales of 0.8%.

Sales in the Performance Materials segment were up 1.4% to €6,970 million in fiscal 2024 (previous year: €6,876 million). Sales in the Solutions & Specialties segment were down 3.6% to €7,004 million (previous year: €7,267 million).

In the EMLA region, sales were 1.6% lower, at €5,848 million (previous year: €5,941 million), while sales in the NA region were down 6.1% to €3,507 million (previous year: €3,735 million). Sales in the APAC region were up by 2.6% to €4,824 million (previous year: €4,701 million).

Sales by segment and region





[1] EMLA: Europe, Middle East, Latin America (excluding Mexico), Africa region.
[2] NA: North America region (Canada, Mexico, United States).
[3] APAC: Asia and Pacific region.

EBIT

Summary consolidated income statement

	2023	2024	Change
	€ million	€ million	%
Sales	14,377	14,179	–1.4
Cost of goods sold	(12,071)	(12,002)	–0.6
Gross profit	**2,306**	**2,177**	**–5.6**
Selling expenses	(1,489)	(1,513)	1.6
Research and development expenses	(374)	(392)	4.8
General administration expenses	(360)	(343)	–4.7
Other operating expenses (–) and income (+)	103	158	53.4
EBIT	**186**	**87**	**–53.2**
Financial result	(113)	(114)	0.9
Income before income taxes	**73**	**(27)**	**.**
Income taxes	(275)	(245)	–10.9
Income after income taxes	**(202)**	**(272)**	**34.7**
attributable to noncontrolling interest	(4)	(6)	50.0
attributable to Covestro AG shareholders (net income)	**(198)**	**(266)**	**34.3**

Cost of goods sold was down 0.6% to €12,002 million (previous year: €12,071 million), driven mainly by lower raw material and energy costs. Here, additional state subsidies of €55 million to compensate for electricity prices in Germany had a beneficial impact on energy costs. The ratio of the cost of goods sold to sales increased to 84.6% (previous year: 84.0%).

Gross profit fell 5.6% to €2,177 million (previous year: €2,306 million), This was primarily driven by a decline in selling prices, which was only partially offset by the drop in raw material and energy costs. In addition, impairment losses on property, plant and equipment and negative effects from exchange rate movements reduced earnings. On the other hand, the rise in volumes sold had a beneficial effect on earnings.

Selling expenses increased by 1.6% to €1,513 million (previous year: €1,489 million). The ratio of selling expenses to sales was 10.7% (previous year: 10.4%). Research and development (R&D) expenses were up 4.8% to €392 million (previous year: €374 million). As a share of sales, this produced an R&D ratio of 2.8% (previous year: 2.6%). General administration expenses declined 4.7% to €343 million (previous year: €360 million), for a ratio of administration expenses to sales of 2.4% (previous year: 2.5%).

The implementation of the transformation program STRONG gave rise to expenses in the low double-digit million euro range in the reporting year.

Other operating income exceeded other operating expenses by €158 million (previous year: €103 million). Within this item, insurance compensation of €55 million and the gain of €46 million on the sale of intangible assets had a positive effect on EBIT. In contrast, EBIT was down year-on-year as a non-recurring positive effect from the sale of the additive manufacturing business in the second quarter of 2023 had increased earnings by €35 million.

EBIT declined 53.2% to €87 million (previous year: €186 million). The EBIT margin retreated to 0.6% (previous year: 1.3%).

EBITDA

Calculation of EBITDA

	2023	2024
	€ million	€ million
EBIT	**186**	**87**
Depreciation, amortization, impairment losses, and impairment loss reversals	894	984
EBITDA	**1,080**	**1,071**

Depreciation, amortization, impairment losses, and impairment loss reversals rose by 10.1% to €984 million in fiscal 2024 (previous year: €894 million), of which €882 million (previous year: €801 million) was attributable to property, plant and equipment and €102 million (previous year: €93 million) to intangible assets. A significant driver of this increase was a rise in impairment losses to €142 million (previous year: €45 million), of which €106 million was recognized as a result of central impairment tests. There were no reversals of impairment losses (previous year: €0 million).

→ For further information, please refer to note 13.3 “Impairment Testing” in the Notes to the Consolidated Financial Statements.

EBITDA decreased 0.8% year-over-year in the full-year period, declining to €1,071 million (previous year: €1,080 million). This was primarily attributable to the 9.4% drop in EBITDA, to €740 million (previous year: €817 million), in the Solutions & Specialties segment. The Performance Materials segment’s EBITDA was down 1.2% to €569 million (previous year: €576 million).

Net Income

In the fiscal year, the financial result stood at €–114 million (previous year: €–113 million) and largely consisted of net interest expense of €89 million (previous year: €90 million). In view of the financial result, income before income taxes went down to €–27 million (previous year: €73 million). Income tax expense amounted to €245 million in the reporting year (previous year: €275 million). It includes impairment losses of €46 million (previous year: €42 million) on deferred tax assets arising from loss carryforwards and temporary differences. Furthermore, deferred tax assets arising from loss carryforwards and temporary differences of €176 million (previous year: €197 million) could not be recognized in the fiscal year. After income taxes and noncontrolling interests, the net loss amounted to €266 million (previous year: €198 million).

Return on Capital Employed (ROCE) above Weighted Average Cost of Capital (WACC)

Calculation of the ROCE above WACC

		2023	2024
EBIT	€ million	186	87
Imputed tax rate	%	25.0	25.0
Imputed taxes[1]	€ million	47	22
Net operating profit after taxes (NOPAT)	**€ million**	**139**	**65**
Average capital employed	€ million	9,550	9,370
ROCE	**%**	**1.5**	**0.7**
Weighted average cost of capital (WACC)	%	7.6	8.1
ROCE above WACC	**% points**	**–6.1**	**–7.4**

[1] The imputed income taxes used in the calculation of NOPAT are determined by multiplying EBIT by the imputed tax rate.

The Covestro Group’s NOPAT totaled €65 million (previous year: €139 million), and average capital employed amounted to €9,370 million (previous year: €9,550 million). The resulting ROCE was 0.7% (previous year: 1.5%), significantly lower than the increased WACC of 8.1% (previous year: 7.6%).

→ Additional information on the calculation of indicators is available in “Management System.”

Calculation of average capital employed

	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2024
	€ million	€ million	€ million
Goodwill	729	711	719
Other intangible assets	603	519	471
Property, plant and equipment	5,801	5,795	5,898
Investments accounted for using the equity method	185	182	269
Other financial assets[1, 2]	21	14	17
Other receivables[2, 3]	452	501	523
Deferred tax assets[4]	277	248	209
Inventories	2,814	2,459	2,851
Trade accounts receivable	2,011	1,898	1,749
Claims for income tax refunds	115	102	92
Assets held for sale[5]	18	–	–
Gross capital employed	**13,026**	**12,429**	**12,798**
Other provisions[6]	(349)	(548)	(599)
Other financial liabilities[2, 7]	(136)	(114)	(118)
Other nonfinancial liabilities[2, 8]	(258)	(228)	(247)
Deferred tax liabilities[9]	(307)	(251)	(199)
Trade accounts payable	(2,016)	(1,895)	(2,101)
Income tax liabilities	(175)	(77)	(110)
Liabilities directly related to assets held for sale[10]	(2)	–	–
Capital employed	**9,783**	**9,316**	**9,424**
Average capital employed	**9,785**	**9,550**	**9,370**

[1] Other financial assets were adjusted for nonoperating assets.
[2] Prior-year figures adjusted. See the appropriate disclosures in the Notes to the Consolidated Financial Statements for further details.
[3] Other receivables were adjusted for nonoperating receivables.
[4] Deferred tax assets were adjusted for deferred taxes from defined benefit plans and similar obligations recognized in other comprehensive income.
[5] Assets held for sale were adjusted for nonoperating and financial assets.
[6] Other provisions were adjusted for provisions for interest payments.
[7] Other financial liabilities were adjusted for nonoperating liabilities.
[8] Other nonfinancial liabilities were adjusted for nonoperating liabilities.
[9] Deferred tax liabilities were adjusted for deferred tax liabilities from defined benefit plans and similar obligations recognized in other comprehensive income.
[10] Liabilities directly related to assets held for sale were adjusted for nonoperating and financial debt.

Financial Position

Statement of Cash Flows

Summary statement of cash flows

	4th quarter 2023	4th quarter 2024	2023	2024
	€ million	€ million	€ million	€ million
EBITDA	**132**	**191**	**1,080**	**1,071**
Income taxes paid	(136)	(66)	(383)	(219)
Change in pension provisions	(9)	74	(33)	47
(Gains)/losses on retirements of noncurrent assets	–	(52)	(33)	(65)
Change in working capital/other noncash items	390	465	366	36
Cash flows from operating activities	**377**	**612**	**997**	**870**
Cash outflows for additions to property, plant, equipment and intangible assets	(304)	(359)	(765)	(781)
Free operating cash flow	**73**	**253**	**232**	**89**
Cash flows from investing activities	**(437)**	**(111)**	**(925)**	**(423)**
Cash flows from financing activities	**(363)**	**(542)**	**(639)**	**(565)**
Change in cash and cash equivalents due to business activities	**(423)**	**(41)**	**(567)**	**(118)**
Cash and cash equivalents at beginning of period	**1,052**	**539**	**1,198**	**625**
Change in cash and cash equivalents due to exchange rate movements	(4)	11	(6)	2
Cash and cash equivalents at end of period	**625**	**509**	**625**	**509**

Cash Flows from Operating Activities/Free Operating Cash Flow

Net cash flows from operating activities amounted to €870 million (previous year: €997 million). A decline in funds freed up from working capital and a drop in EBITDA were only partially offset by lower income tax payments. The change in working capital was predominantly driven by a rise in inventories, which was partially offset by lower trade accounts receivable. Lower cash inflows from operating activities and higher cash outflows for additions to property, plant, equipment, and intangible assets of €781 million (previous year: €765 million) led to a decrease in free operating cash flow to €89 million (previous year: €232 million).

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

Cash Flows from Investing Activities

Net cash outflows for investing activities in fiscal 2024 totaled €423 million (previous year: €925 million). This was above all due to cash outflows for additions to property, plant, equipment, and intangible assets of €781 million (previous year: €765 million). Offsetting cash flows included in particular net proceeds of €252 million from short-term bank deposits (previous year: net outflows of €261 million) as well as cash inflows from sales of property, plant, equipment and other assets of €76 million (previous year: €2 million).

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

	2023	2024
	€ million	€ million
Performance Materials	490	496
Solutions & Specialties	270	254
Others/Reconciliation	5	31
Covestro Group	**765**	**781**

Capital expenditures in fiscal 2024 were targeted at maintenance and improvement of existing plants as well as new capacity in both segments. In the Performance Materials segment, capital expenditure was targeted primarily at maintenance at the sites in Baytown (United States), Shanghai (China), and Tarragona (Spain). Investments were also made in the circular economy and in energy efficiency such as hot phosgene generation at our site in Dormagen (Germany). In the Solutions & Specialties segment, capital expenditures were targeted at new capacity, in particular at the Map Ta Phut site (Thailand). Strategically relevant capital expenditures also involved the construction of the company's largest plant for thermoplastic polyurethane (TPU) in Zhuhai (China), which is planned to reach an annual capacity of 120,000 metric tons of TPU per year in the future.

Cash Flows from Financing Activities

Net cash outflows for the Covestro Group's financing activities in fiscal 2024 amounted to €565 million (previous year: €639 million). They were mainly attributable to the repayment of a bond of €500 million issued under the Debt Issuance Program in March 2016. Other cash outflows resulted from payments of €355 million for current liabilities to banks and the repayment of loans of €351 million in China. In addition, the settlement of lease liabilities of €155 million (previous year: €156 million), interest payments of €150 million (previous year: €169 million), and the repayment of commercial paper of €124 million under the European Commercial Paper Program (ECCP) triggered further cash outflows. Cash inflows related mainly to proceeds of €354 million from current liabilities to banks and the issuance of loans of €351 million raised in China. Other factors driving up cash flows from financing activities were a loan of €200 million from the European Investment Bank (EIB) and the issuance of commercial paper of €164 million.

Net Financial Debt

	Dec. 31, 2023	Dec. 31, 2024
	€ million	€ million
Bonds	1,990	1,492
Liabilities to banks	657	870
Lease liabilities	743	736
Liabilities from forward exchange contracts	15	17
Other financial debt	2	41
Receivables from forward exchange contracts	(19)	(6)
Gross financial debt	**3,388**	**3,150**
Cash and cash equivalents	(625)	(509)
Current financial assets	(276)	(23)
Net financial debt	**2,487**	**2,618**

In comparison with December 31, 2023, the Covestro Group's gross financial debt declined by €238 million to €3,150 million as of December 31, 2024 (previous year: €3,388 million), mainly because of the €500 million bond repayment described above. In particular, the increase in liabilities to banks of €213 million, which was mainly attributable to the loan raised from the EIB, had an offsetting effect. Other financial debt also rose by €39 million, primarily because of the issuance and repayment of commercial paper described in "Cash Flows from Financing Activities."

Cash and cash equivalents decreased in comparison with the figure on December 31, 2023, by €116 million to €509 million. This decline was mainly due to cash outflows for additions to property, plant and equipment and intangible assets of €781 million and negative cash flows from financing activities of €565 million. In contrast, cash flows from operating activities of €870 million and net proceeds of €252 million from short-term bank deposits drove cash and cash equivalents higher. The abovementioned net cash inflows from short-term bank deposits were the main contributors to the reduction in current financial assets to €23 million.

As a result, net financial debt increased by €131 million to €2,618 million in fiscal 2024 (previous year: €2,487 million).

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 with different maturities 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, which carried a fixed coupon of 1.75% and matured in September 2024, was repaid as scheduled. The additional €1.0 billion in euro bonds placed in June 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 addition, Covestro published a Green Financing Framework in May 2022, which enables green bonds or other debt instruments to be issued where the funds raised are tied to sustainable investments that we can use, e.g., to (re)finance products or projects with a clear benefit for the environment. The framework's conformity to the Green Bond Principles of the International Capital Markets Association (ICMA) has been confirmed by the independent ESG rating agency ISS ESG. The first green euro bond was issued in November 2022 under the Green Finance Framework with a fixed coupon of 4.75% and a volume of €500 million, maturing in November 2028. All the proceeds from the bond issue were used to fund sustainable projects that contribute to the circular economy and originate in areas such as renewable energy, energy efficiency, and sustainable building.

→ For further information, please refer to: www.covestro.com/en/investors/debt/bonds

On October 7, 2022, Covestro for the first time issued Schuldschein loans with a total volume equivalent to around €650 million. The issue was denominated in U.S. dollars and euros. Linked to an environmental, social, governance (ESG) rating, these Schuldschein loans were issued in tranches comprising fixed and variable interest rates with terms of three, five, and seven years. In October 2023, Covestro prematurely repaid Schuldschein loans in an amount equivalent to around €260 million.

In fiscal 2020, Covestro AG obtained a syndicated revolving credit facility totaling €2.5 billion with a term of five years. It included 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. Using the second of two agreed options, the term was extended in March 2022 by another year to March 2027. One feature of the credit line is its link to an 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, 2024.

On August 26, 2022, Covestro additionally established a Euro Commercial Paper Programme (ECPP) with a potential total volume of €1.5 billion in order to allow the company to issue notes in different currencies and tenors of up to one year on a flexible basis. Commercial papers of €40 million under the ECPP were outstanding as of December 31, 2024.

On May 3, 2024, Moody's Investors Service, London (United Kingdom), confirmed Covestro's Baa2 investment-grade rating with a stable outlook. 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.

→ For further information, please refer to "Opportunities and Risks Report."

→ For further information, please refer to note 24.2 "Financial Risk Management and Information on Derivatives" in the Notes to the Consolidated Financial Statements.

Net Assets

Summary statement of financial position

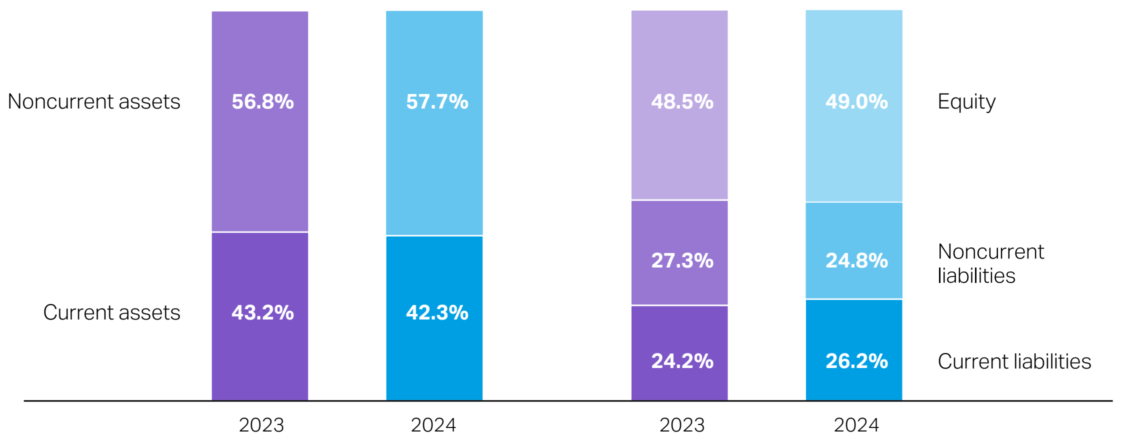
	Dec. 31, 2023	Dec. 31, 2024
	€ million	€ million
Noncurrent assets	7,746	7,865
Current assets	5,891	5,766
Total assets	**13,637**	**13,631**
Equity	**6,618**	**6,679**
Noncurrent liabilities	3,721	3,376
Current liabilities	3,298	3,576
Liabilities	**7,019**	**6,952**
Total equity and liabilities	**13,637**	**13,631**

Total assets were almost unchanged from December 31, 2023 and amounted to €13,631 million as of December 31, 2024 (previous year: €13,637 million).

Noncurrent assets increased by €119 million to €7,865 million (previous year: €7,746 million) and accounted for 57.7% (previous year: 56.8%) of total assets. The rise was mainly due to higher property, plant and equipment.

Current assets were down €125 million to €5,766 million (previous year: €5,891 million), and their ratio to total assets was 42.3% (previous year: 43.2%). This change was predominantly due to year-on-year declines in current other financial assets, trade accounts receivable, and cash and cash equivalents. It was partially offset by a rise in inventories.

Structure of the statement of financial position



Equity as of December 31, 2024, increased by €61 million to €6,679 million (previous year: €6,618 million). The equity ratio at the reporting date was 49.0% (previous year: 48.5%). Positive effects of exchange differences as well as gains on the remeasurement of the net defined benefit liability for post-employment benefit plans exceeded the net loss after income taxes for fiscal 2024.

Noncurrent liabilities went down by €345 million to €3,376 million as of the reporting date (previous year: €3,721 million); they accounted for 24.8% (previous year: 27.3%) of total equity and liabilities and 48.6% (previous year: 53.0%) of liabilities. This was predominantly due to a reduction in noncurrent financial debt and lower provisions for pensions and other post-employment benefits.

Net defined benefit liability for post-employment benefit plans

	Dec. 31, 2023	Dec. 31, 2024
	€ million	€ million
Provisions for pensions and other post-employment benefits	464	387
Net defined benefit asset	(66)	(72)
Net defined benefit liability	**398**	**315**

The net defined benefit liability for post-employment benefits (provisions for pensions and other post-employment benefits less net defined benefit asset) was down by €83 million in the reporting year to €315 million (previous year: €398 million). This was especially due to actuarial gains attributable to the increase in the discount rates in Germany and the United States as well as the actual return on plan assets.

Current liabilities went up by €278 million to €3,576 million (previous year: €3,298 million) and therefore accounted for 26.2% (previous year: 24.2%) of total equity and liabilities and 51.4% (previous year: 47.0%) of liabilities. This increase was mainly attributable to higher trade accounts payable.

Performance of the Segments

Performance Materials

Performance Materials key data

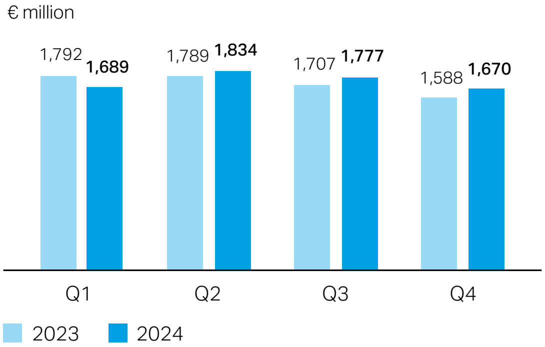
	4th quarter 2023	4th quarter 2024	Change	2023	2024	Change
Sales (external)	**€1,588 million**	**€1,670 million**	**5.2%**	**€6,876 million**	**€6,970 million**	**1.4%**
Intersegment sales	€488 million	€510 million	4.5%	€2,194 million	€2,228 million	1.5%
Sales (total)	**€2,076 million**	**€2,180 million**	**5.0%**	**€9,070 million**	**€9,198 million**	**1.4%**
Change in sales (external)						
Volume	7.7%	5.6%		–6.7%	11.9%	
Price	–22.0%	–0.1%		–15.7%	–9.6%	
Currency	–2.8%	–0.3%		–2.0%	–0.9%	
Sales by region (external)						
EMLA	€674 million	€739 million	9.6%	€3,021 million	€3,102 million	2.7%
NA	€414 million	€400 million	–3.4%	€1,844 million	€1,720 million	–6.7%
APAC	€500 million	€531 million	6.2%	€2,011 million	€2,148 million	6.8%
EBITDA[1]	**€16 million**	**€145 million**	**806.3%**	**€576 million**	**€569 million**	**–1.2%**
EBIT[1]	(€126 million)	(€55 million)	–56.3%	€9 million	(€42 million)	.
Cash flows from operating activities	€169 million	€355 million	110.1%	€652 million	€574 million	–12.0%
Cash outflows for additions to property, plant, equipment and intangible assets	€190 million	€226 million	18.9%	€490 million	€496 million	1.2%
Free operating cash flow	**(€21 million)**	**€129 million**	**.**	**€162 million**	**€78 million**	**–51.9%**

[1] EBITDA and EBIT include the effect on earnings of intersegment sales.

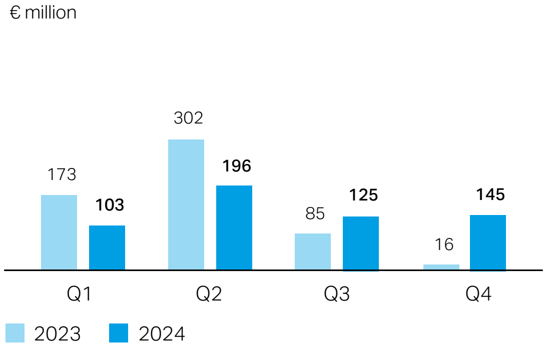
Sales in the Performance Materials segment were up 1.4% to €6,970 million in fiscal 2024 (previous year: €6,876 million). This was mainly driven by an 11.9% rise in volumes sold. In contrast, a demand-related 9.6% decrease in average selling prices had the effect of reducing sales. In addition, changes in exchange rates had an adverse effect of 0.9% on sales.

In the EMLA region, sales increased by 2.7% to €3,102 million (previous year: €3,021 million). This is predominantly thanks to a significant uptick in volumes sold, driven by availability factors, although this was largely offset by a substantially lower selling price level. Exchange rate movements had no notable effect on sales. The NA region's sales dropped by 6.7% to €1,720 million (previous year: €1,844 million), principally because of a considerable decline in average selling prices, which could only partially be offset by a slight rise in volumes sold. Exchange rate changes had a neutral effect on sales. The APAC region's sales climbed 6.8% to €2,148 million (previous year: €2,011 million), principally because of a significant rise in volumes sold. In contrast, a lower selling price level and exchange rate movements had a slightly diminishing effect on sales.

Performance Materials
Quarterly sales



Performance Materials
Quarterly EBITDA



EBITDA in the Performance Materials segment fell by 1.2% over the previous year to €569 million (previous year: €576 million). This was mainly driven by reduced margins, as lower raw material and energy costs were unable to offset the demand-related decline in selling prices. In addition, a decline in insurance compensation due to production stoppages had a negative effect on earnings. In this context, insurance compensation of €55 million in the reporting year was compared to a compensation of €75 million in the previous year, which had a neutral effect at the Group level. In addition, exchange rate movements had a decreasing effect on earnings. In contrast, EBITDA went up, mainly due to a rise in volumes sold. Earnings were also boosted by additional state subsidies of €55 million to compensate for electricity prices. Gains on the sale of intangible assets of €46 million had an additional positive effect on the Performance Materials segment's earnings.

EBIT declined to €–42 million (previous year: €9 million).

Free operating cash flow decreased by 51.9% to €78 million (previous year: €162 million), mainly because of a year-on-year decline in funds freed up from working capital and lower EBITDA. The change in working capital was predominantly due to a rise in inventories, which was partially offset by higher trade accounts payable.

Solutions & Specialties

Solutions & Specialties key data

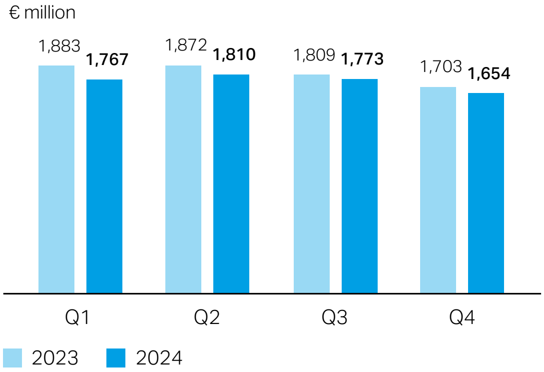
	4th quarter 2023	4th quarter 2024	Change	2023	2024	Change
Sales (external)	**€1,703 million**	**€1,654 million**	**–2.9%**	**€7,267 million**	**€7,004 million**	**–3.6%**
Intersegment sales	€6 million	€7 million	16.7%	€27 million	€27 million	0.0%
Sales (total)	**€1,709 million**	**€1,661 million**	**–2.8%**	**€7,294 million**	**€7,031 million**	**–3.6%**
Change in sales (external)						
Volume	–0.3%	1.3%		–6.2%	4.0%	
Price	–10.2%	–4.0%		–6.4%	–6.8%	
Currency	–3.3%	–0.2%		–2.5%	–0.8%	
Sales by region (external)						
EMLA	€586 million	€556 million	–5.1%	€2,730 million	€2,585 million	–5.3%
NA	€427 million	€420 million	–1.6%	€1,860 million	€1,755 million	–5.6%
APAC	€690 million	€678 million	–1.7%	€2,677 million	€2,664 million	–0.5%
EBITDA[1]	**€185 million**	**€150 million**	**–18.9%**	**€817 million**	**€740 million**	**–9.4%**
EBIT[1]	€107 million	€30 million	–72.0%	€497 million	€374 million	–24.7%
Cash flows from operating activities	€374 million	€368 million	–1.6%	€821 million	€671 million	–18.3%
Cash outflows for additions to property, plant, equipment and intangible assets	€110 million	€110 million	0.0%	€270 million	€254 million	–5.9%
Free operating cash flow	**€264 million**	**€258 million**	**–2.3%**	**€551 million**	**€417 million**	**–24.3%**

[1] EBITDA and EBIT include the effect on earnings of intersegment sales.

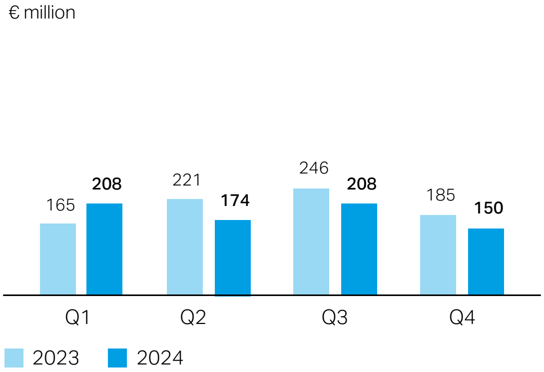
Sales in the Solutions & Specialties segment were down 3.6% to €7,004 million in fiscal 2024 (previous year: €7,267 million). The main drivers of this trend were a 6.8% drop in average selling prices and negative changes in exchange rates of 0.8%. In contrast, an increase in volumes sold had a beneficial effect on sales of 4.0%.

The EMLA region's sales went down by 5.3% to €2,585 million (previous year: €2,730 million), principally because of a considerable decline in average selling prices, which could only partially be offset by a slight rise in volumes sold. Exchange rate movements had no notable effect on sales. In the NA region, sales were down 5.6% to €1,755 million (previous year: €1,860 million), mainly on account of a slight decline in the selling price level. Exchange rate movements and changes in volumes sold had no notable effects on sales. Sales in the APAC region were down by 0.5% to €2,664 million (previous year: €2,677 million). This is mainly due to a significant drop in average selling prices and exchange rate movements that resulted in a slight decline in sales. These factors were, however, largely offset by a significant rise in volumes sold with a concomitant positive effect on sales.

Solutions & Specialties
Quarterly sales



Solutions & Specialties
Quarterly EBITDA



The Solutions & Specialties segment's EBITDA was down 9.4% to €740 million in fiscal 2024 (previous year: €817 million). This was mainly driven by reduced margins, as lower raw material and energy costs were unable to fully offset the demand-related decline in selling prices. In addition, higher fixed costs had a negative effect on EBITDA. The previous year had also included a non-recurring positive effect from the sale of the additive manufacturing business, which had increased prior-year earnings by €35 million. The implementation of the transformation program STRONG gave rise to expenses in the low double-digit million euro range in the reporting year. Furthermore, a decline in the amount of business development subsidies received in China attributable to the segment as well as exchange rate movements had a decreasing effect on earnings. In contrast, a rise in volumes sold in particular had a positive impact on the Solutions & Specialties segment's earnings.

EBIT dropped by 24.7% to €374 million (previous year: €497 million).

Free operating cash flow was down 24.3% to €417 million (previous year: €551 million), mainly because of a year-on-year decline in funds freed up from working capital and lower EBITDA. The change in working capital was predominantly due to a rise in inventories.

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 (Germany), (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.

In addition, on February 27, 2024, another profit and loss transfer agreement was entered into between Covestro First Real Estate GmbH, Leverkusen (Germany), and Covestro AG. It was registered in the commercial register on May 31, 2024 and applies retrospectively for fiscal 2024. The contractual arrangements are identical to those in the existing agreement with Covestro Deutschland AG.

Results of Operations

Covestro AG income statement according to the German Commercial Code

	2023	2024
	€ million	€ million
Income from investments in affiliated companies – net	(70)	(28)
Interest expense – net	107	108
Other financial income – net	(5)	(5)
Net sales	26	22
Cost of services provided	(22)	(22)
General administration expenses	(87)	(103)
Other operating income	–	2
Other operating expenses	(2)	(1)
Income before income taxes	**(53)**	**(27)**
Income taxes	(71)	(28)
Net loss	**(124)**	**(55)**
Retained earnings brought forward from prior year	–	(124)
Withdrawal from other retained earnings	–	–
Net accumulated losses	**(124)**	**(179)**

In fiscal 2024, Covestro AG generated a net loss of €55 million (previous year: €124 million). The change compared with the prior year was largely attributable to the net loss from investments in affiliated companies of €28 million (previous year: €70 million). The net loss from investments included the loss absorbed under the control and profit and loss transfer agreement with Covestro Deutschland AG of €78 million, which was partially offset by gains from the control and profit and loss transfer agreement with Covestro First Real Estate GmbH of €50 million.

In addition to interest expense of €41 million (previous year: €44 million) for the euro bonds issued, the interest result included mainly interest income of €178 million (previous year: €176 million) on loans extended to Covestro Deutschland AG. Interest expense of €28 million (previous year: €31 million) was incurred in the reporting year on external loans from third parties. Other financial income and expenses mainly comprised bank fees totaling €5 million (previous year: €5 million). These included fees for providing the company lines of credit, the prorated reversal of the discount on the bonds issued, and one-time fees associated with raising a loan.

General administration expenses totaling €103 million (previous year: €87 million) mainly consisted of personnel expenses for the employees of the Group holding company and members of the Board of Management. The rise in general administration expenses in fiscal 2024 was primarily due to higher expenses for consultancy services. This was set against reduced expenses for short-term variable compensation.

The result of operations was €–27 million (previous year: €–53 million) and led to income taxes of €28 million (previous year: €71 million). This led to a net loss for the year of €55 million (previous year: €124 million), which also represents the net accumulated losses for the reporting year. This amount is carried forward to new account.

Based on the forecast from the Annual Report 2023, the net loss for fiscal 2024 was expected to be significantly higher than the figure recorded in the previous year. In contrast, the net loss of €55 million for fiscal 2024 means that the business performed considerably better than expected in the forecast. The was due primarily to a better result from investments and lower income taxes. The improvement in the result from investments was mainly attributable to income from the control and profit and loss transfer agreement concluded with Covestro First Real Estate GmbH in fiscal 2024.

Net Assets and Financial Position

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

	Dec. 31,2023	Dec. 31,2024
	€ million	€ million
ASSETS		
Noncurrent assets	**1,830**	**1,830**
Property, plant and equipment	–	–
Financial assets	1,830	1,830
Current assets	**4,953**	**4,668**
Trade accounts receivable	38	1
Receivables from affiliated companies	4,858	4,591
Other assets	57	76
Deferred charges	**10**	**8**
Excess of plan assets over pension liability	**1**	**2**
Total assets	**6,794**	**6,508**
EQUITY AND LIABILITIES		
Equity	**3,939**	**3,884**
Capital stock	189	189
Own shares	–	–
Issued capital	189	189
Capital reserve	3,757	3,757
Other retained earnings	117	117
Net accumulated losses	(124)	(179)
Provisions	**97**	**145**
Provisions for pensions	21	24
Provisions for taxes	34	50
Other provisions	42	71
Liabilities	**2,758**	**2,479**
Bonds	2,000	1,500
Liabilities to banks	621	821
Trade accounts payable	11	23
Payables to affiliated companies	109	81
Other liabilities	17	54
Total equity and liabilities	**6,794**	**6,508**

Covestro AG had total assets of €6,508 million as of December 31, 2024 (previous year: €6,794 million). The net assets and financial position of Covestro AG was dominated by its role as a holding company in managing subsidiaries and financing corporate activities. This was primarily reflected in the levels of financial assets (28.1% of total assets), receivables from affiliated companies (70.5% of total assets), and bonds and liabilities to banks.

Receivables from affiliated companies were down €267 million to €4,591 million (previous year: €4,858 million). This change was primarily attributable to a reduction in the intercompany loan to Covestro Deutschland AG, set against receivables from Covestro First Real Estate GmbH under the profit and loss transfer agreement.

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

Property, plant and equipment was immaterial. Trade accounts receivable of €1 million (previous year: €38 million) and prepaid expenses of €8 million (previous year: €10 million) were also immaterial in relation to total assets. Other assets of €76 million (previous year: €57 million) mainly included income tax and VAT receivables.

Covestro AG's equity amounted to €3,884 million (previous year: €3,939 million). This corresponded to an equity ratio of 59.7% (previous year: 58.0%). The capital stock and capital reserves was unchanged in fiscal 2024. The net loss for the year of €55 million led to a decline in equity.

Equity was set against provisions of €145 million (previous year: €97 million) and liabilities of €2,478 million (previous year: €2,758 million).

Provisions comprised provisions for pensions of €24 million (previous year: €21 million), tax provisions of €50 million (previous year: €34 million), and other provisions of €71 million (previous year: €42 million). The increase in provisions for taxes was largely attributable to the rise in provisions for settling possible tax claims. The rise in other provisions included a year-over-year increase in provisions for long-term variable compensation as well as provisions for consultancy services.

The decline in liabilities was mainly attributable to the repayment of the euro bond issued in the year 2016. This bond, which had a face value of €500 million, was repaid as scheduled in September 2024. Liabilities to banks rose at the same time, mainly due to a loan raised in the amount of €200 million. Moreover, commercial paper amounting to €40 million in the portfolio as of the reporting date led to an increase in other liabilities. The remaining euro bonds totaling €1.5 billion have the following maturities: €1.0 billion matures in one to five years, and another €500 million matures in or after the year 2030. Moreover, liabilities to banks totaling €469 million are due in the year 2025, another €152 million is due in one to five years, and €200 million in or after the year 2030. All other liabilities are due within one year.