REPORT ON FUTURE PERSPECTIVES AND ON OPPORTUNITIES AND RISKS

Report on Future Perspectives

Economic Outlook

Global Economy

For fiscal 2025, we expect positive global economic growth of 2.8%. We anticipate solid consumer spending and rising corporate investments to be the most important growth drivers. However, potential trade restrictions are a risk factor for global trade.

We believe growth in the EMLA region will slightly underperform the global pace. Persistently weak consumption and low demand for exports as well as the possibility of U.S. tariffs are having a negative impact on the growth prospects for the region. For Germany's export-oriented economy, we predict growth in economic output of 0.4% in the year 2025. For the Middle East, we believe that slight growth will likely outperform the global economic expansion. The oil industry will continue to be the driver of this development, since cuts in oil production in Saudi Arabia are expected to be gradually reversed. We anticipate that growth in Latin America will be below the global level. For Africa, we forecast slight economic growth, outpacing the global growth rate.

For the NA region we expect to see positive growth, slightly below the global level, in the year 2025. In the United States, the extension of expiring tax reductions and potential reforms expected to be implemented by the incoming administration are likely to provide fiscal stimulus. We anticipate that expansionary fiscal policy and lower immigration will cause further shortages in the labor market and drive down the unemployment rate. Against this backdrop, we expect the United States to generate economic growth of 2.6% in the year 2025.

Economic growth in the APAC region will likely outperform the global economy. We anticipate economic growth of 4.4% for China in fiscal 2025. Given its solid balance sheet and low debt, we expect the Chinese government to announce fiscal support measures in the first quarter of 2025, with the real estate sector and consumer support programs for private households the likely focus.

Economic growth[1]

	Growth 2024	Growth forecast 2025
	%	%
World	**2.7**	**2.8**
Europe, Middle East, Latin America[2], Africa (EMLA)	**1.5**	**1.8**
of which Europe	1.2	1.4
of which Germany	–0.2	0.4
of which Middle East	1.7	3.2
of which Latin America[2]	2.1	2.3
of which Africa	3.1	3.9
North America[3] (NA)	**2.6**	**2.5**
of which United States	2.8	2.6
Asia-Pacific (APAC)	**3.9**	**3.9**
of which China	4.8	4.4

[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

For the year 2025, we forecast positive growth of 2.7% for the global automotive industry. We anticipate a slight boost in demand for automobiles in China, driven by extensive support from the Chinese government, especially for electromobility. In contrast, we anticipate continuing weak demand in Europe and the United States. Although global growth is expected to be driven by the performance of the APAC and EMLA regions, we forecast slower but positive growth in the NA region.

For the year 2025, we anticipate positive growth of 0.2% for the global construction industry. The decline in residential construction, the lack of new plans for social housing, and persistent high inflation will probably continue to weigh on the performance of the construction industry in 2025. We anticipate slightly positive growth in the EMLA and NA regions, while growth in the APAC region is expected to be slightly negative.

For the year 2025, we anticipate growth of 5.2% for the electrical, electronics, and household appliances industry. Growth in the industry is expected to be fueled in 2025 by rising corporate expenditure on electronics in connection with increasing digitalization, industrial automation, and the growing use of artificial intelligence. We therefore forecast a positive growth trend for all regions.

For the year 2025, we anticipate positive growth of 1.5% for the global furniture industry. Despite the positive growth outlook for 2025, the industry and demand for furniture continue to be weighed down by the poor performance of residential construction and weak consumption, especially in China and Europe. We forecast a positive growth trend for all regions.

Growth in main customer industries[1]

	Growth 2024	Growth forecast 2025
	%	%
Automotive	–0.7	2.7
Construction	–2.5	0.2
Electrical, electronics and household appliances	4.1	5.2
Furniture	–0.5	1.5

[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.

Forecast for the Covestro Group and Covestro AG

Covestro Group

The following forecast for the 2025 fiscal year is based on the business development described in this Annual Report and takes into account the potential opportunities and risks.

In view of the continuing challenging economic conditions, the Board of Management of Covestro AG expects the key management indicators to change as presented below.

Forecast for key management indicators

	2024	Forecast 2025
EBITDA[1]	€1,071 million	Between €1,000 million and €1,600 million
Free operating cash flow[2]	€89 million	Between 0 million and €300 million
ROCE above WACC[3, 4]	–7% points	Between –6% points and –2% points
Greenhouse gas emissions[5] (CO_2 equivalents)	4.9 million metric tons	Between 4.2 million metric tons and 4.8 million metric tons

1 EBITDA: EBIT plus depreciation, amortization, and impairment losses; less impairment loss reversals on intangible assets and property, plant and equipment.
2 Free operating cash flow (FOCF): cash flows from operating activities less cash outflows for additions to property, plant, equipment and intangible assets.
3 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 WACC: weighted average cost of capital reflecting the expected return on the company's equity and debt capital. A figure of 7.3% has been taken into account for the year 2025 (2024: 8.1%).
5 Greenhouse gas (GHG) emissions (Scope 1 and Scope 2, GHG Protocol) of all Covestro's environmentally relevant sites. Until the year 2024, the GHG emissions at main production sites (responsible for more than 95% of our energy usage) were projected.

For the Covestro Group's EBITDA, we project a figure between €1,000 million and €1,600 million. Covestro anticipates that the Performance Materials segment's EBITDA will be €400 million to €800 million. In the Solutions & Specialties segment, we expect EBITDA to be sligthly higher than the amount of the year 2024 (€740 million).

The Covestro Group's FOCF is forecast between €0 million and €300 million.

ROCE above WACC is anticipated in a range between –6% points and –2% points.

The GHG emissions of all the Covestro Group's environmentally relevant sites, measured as CO_2 equivalents, are projected to be between 4.2 million metric tons and 4.8 million metric tons.

Covestro AG

The earnings of Covestro AG, as the parent company of the Covestro Group, largely comprise the earnings of that company's subsidiaries. As a result of the profit and loss transfer agreement with Covestro Deutschland AG, net income of Covestro AG is particularly impacted by that company's income from equity investments in Germany and abroad. Since we anticipate that income from investments in affiliated companies will be substantially up on the year 2025 compared with the previous year, we assume that Covestro AG will generate significantly higher net income (previous year: net loss) than in fiscal 2024.

Opportunities and Risks Report

Conscientious management of opportunities and risks is part of responsible corporate governance and is the foundation of sustainable growth and financial success. This includes the ability to systematically identify and take advantage of opportunities while managing risks at the same time. We regard an opportunity as an internal or external development or event that could cause a positive deviation from forecasts or targets. A development or event within or outside the company that could lead to a negative deviation is considered a risk.

Group-Wide Opportunities and Risk Management

The business decisions we make daily in the course of business processes are based on balancing opportunities and risks. We therefore regard the management of our opportunities and risks as an integral part of our overall business management system rather than as the task of a specific corporate function. Risk management at Covestro also includes nonfinancial risks.

Our opportunity and risk management begins with strategy and planning processes, from which relevant external and internal opportunities and risks of an economic, ecological, or social nature are derived. Financial and nonfinancial opportunities and risks are identified by observing and analyzing trends along with macroeconomic, industry-specific, regional, and local developments.

The identified opportunities and risks are subsequently evaluated and incorporated into our strategic and operational processes. We aim to avoid or mitigate risks by taking appropriate countermeasures, or to transfer them to third parties (such as insurers) to the extent possible and economically acceptable. At the same time, we strive to take maximum advantage of opportunities by incorporating them into our business decisions. We consciously accept and bear manageable and controllable risks that are in reasonable proportion to the anticipated opportunities. Covestro regards these as the general risks of doing business. Where we expect any opportunities and risks to materialize within the next 12 months, they will be included in the statements in the Report on Future Perspectives. Opportunities and risks are continuously monitored so that, for example, changes in the economic or legal environment can be identified at an early stage and suitable countermeasures can be initiated, if necessary.

To enable the Board of Management and the Supervisory Board to monitor material business risks as legally required, the following systems are in place:

- an internal control system,
- a compliance management system, and
- a risk management system with suitable measures for early detection of developments that could endanger the company's continued existence.

The various management systems are based on different risk types, risk characteristics, and timelines. Different processes, methods, and IT systems are therefore applied to identify, evaluate, manage, and monitor risks. The principles underlying the various systems are documented in local procedures that are integrated into our central document control processes and are accessible to all employees via the intranet. Covestro's Board of Management is primarily responsible for supervising the Group's internal control system, the compliance management system, and risk management.

The effectiveness of the above management systems is evaluated at regular intervals by the Corporate Audit function, which performs an independent and objective audit focused on verifying compliance with laws and policies. Corporate Audit systematically evaluates the efficiency and effectiveness of governance, risk management, and control processes and helps to improve them. This includes internal monitoring of the appropriateness and effectiveness of the internal control system and the risk management system. The selection of audit targets follows a risk-based approach. Corporate Audit performs its duties according to internationally recognized standards. The Supervisory Board's Audit Committee is regularly informed about the results of audits and also receives an annual report on the internal control system and its effectiveness.

The statement on the appropriateness and effectiveness of the internal control system, the risk management system, and the compliance management system, which is aligned with the company's risk situation, can be found in the Declaration on Corporate Governance.

→ For further information, please refer to "Declaration on Corporate Governance."

Internal Control System

»ESRS 2.36 (a), AR11 An appropriate, effective internal control system (ICS) is essential for successfully mitigating risk in business processes. Covestro's ICS takes account of all business processes with a significant impact on financial and nonfinancial indicators, which also include metrics related to sustainability. The ICS controls for nonfinancial indicators are applied using the same method and with the same care as for the financial indicators. The ICS scope is defined by a risk-based control approach that takes account of both materiality and risk aspects.

The implementation of the ICS at Covestro is based on the internationally recognized model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the currently applicable 2013 version, and on the Control Objectives for Information and Related Technology (COBIT) for IT controls.«

»ESRS 2.36 (b) – (d) A network of ICS and process owners has been established in the Group to identify and evaluate risk in a consistent and coordinated way and to develop and implement appropriate countermeasures. Risks are classified into different risk categories: risks of financial and nonfinancial reporting, operating risks, and risks relating to fraud and corruption. Risks of nonfinancial reporting can especially be seen in sustainability reporting, where there are, for example, controls on metrics relating to energy consumption, greenhouse gas emissions, and production waste. Process owners identify risks in their processes in terms of the potential scale of their impact and their likelihood and define appropriate mitigating controls to ensure that the data gathered are complete, correct, available, and timely. The ICS network, which consists of local and regional ICS specialists and process owners from all corporate functions, is managed centrally by a team of global ICS managers. Binding ICS standards have also been established throughout the Group. The management of each Covestro Group company is responsible for implementing these standards at the local level. If any issues such as process or control weaknesses are identified during the ICS cycle, they are discussed with the corporate function/responsible owners so that appropriate measures can be taken to eliminate or safeguard against these weaknesses.«

»ESRS 2.36 (e) In addition to controls that have to be regularly performed, the control environment also includes self-assessments relating to the controls and the underlying process. To ensure the effectiveness of the controls, the self-assessments are conducted at different levels – from the persons directly involved in the processes, through the principal managers responsible for the various operating processes, down to the Board of Management. Both CEO and CFO and the Audit Committee of the Supervisory Board are kept up to date with the status and results of the self-assessments, at least once yearly.«

Continuous reviews and, where necessary, adjustments to the control environment ensure in this process that our ICS is consistently effective and appropriate, even when business models change, acquisitions or divestments are made, or technical specifications/IT systems are adapted.

Internal Control System Related to the Group Accounting and Financial Reporting Process

(Group) accounting and financial reporting, which include the preparation of the Financial Statements and Consolidated Financial Statements of Covestro AG, are the responsibility of the corporate Accounting function. This function is also responsible for ensuring that all consolidated subsidiaries apply consistent accounting rules and for creating an ICS.

Accounting and financial reporting are based on a structured process with a corresponding organization and workflows and associated work instructions. In addition to the segregation of functions, the dual control principle and continuous plausibility checks are fundamental control and monitoring measures in the process of preparing financial statements.

The preparation of the Consolidated Financial Statements under the International Financial Reporting Standards (IFRSs) is governed by the Covestro Directive on Consolidated Financial Statements. It specifies how the consolidated companies have to apply accounting policies in accordance with IFRSs and submit the data to the standard consolidation system.

Once submitted, this data runs through various checks to verify plausibility and accuracy. For example, system-integrated validation rules ensure on submission that the companies' data is consistent.

Appropriate controls have been implemented in the ICS to ensure proper accounting and reporting. The control environment has been designed to ensure that the requirements for reliable reporting can be met, i.e., that all relevant business processes and transactions are recorded in a correct, timely, and consistent manner. It is intended as a way to prevent material misrepresentations with reasonable assurance.

Internal Control System to Ensure Compliance

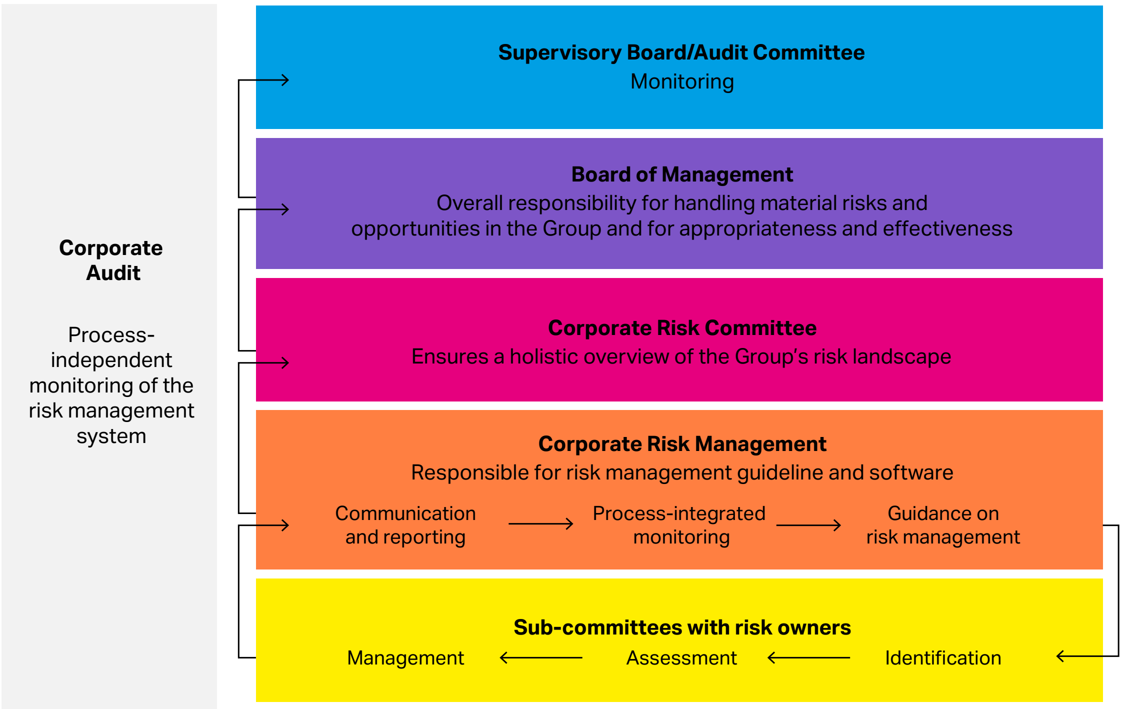
Compliance risks are systematically identified and assessed as part of Covestro's Group-wide risk management. Risk owners assess the compliance risks that have been identified. A risk matrix is used to define focal points of compliance tasks at Covestro. If the risk profile changes, new controls are implemented if needed.

Many controls have been implemented at both the global and local levels to reduce the number of compliance risks. To the extent possible, we integrate the compliance controls into our internal control system. The effectiveness of the compliance controls is evaluated on the basis of a cascaded self-assessment system, as are the other ICS processes. The results of the effectiveness evaluations are documented in the global system for the ICS processes. The Corporate Audit function regularly reviews the compliance activities in independent, objective audits as part of dedicated compliance checks in the larger companies. In the smaller companies, compliance aspects are part of a general review.

Risk Management System

»ESRS 2.36 (a) – (d) Covestro has implemented a structured risk management process for the early identification of any potentially disadvantageous developments that could have a material impact on our business or endanger the continued existence of the company. This process complies with the legal requirements regarding an early warning system for risks pursuant to Section 91, Paragraph 2 of the German Stock Corporation Act, and is aligned with the international risk management standard COSO II Enterprise Risk Management – Integrated Framework (2004).

Risk management system



Corporate Risk Management defines, coordinates, and monitors the framework and standards for this risk management system, ensuring adequate risk communication and reporting to both management and the responsible risk managers. Covestro uses risk management software that simplifies the aggregation of risks, provides displays of various interdependencies, and compares the risk exposure in relation to the risk bearing capacity.«

»ESRS 2.36 (e) Risks are identified, evaluated, and handled in the operating business entities and corporate functions by the respective risk managers, who are organized in various global sub-committees. The Covestro Corporate Risk Committee met three times in fiscal 2024 to review the risk landscape as well as the various risk management and monitoring mechanisms that are in place, and to take any necessary measures. Additionally, we conduct an ad-hoc process for newly identified risks throughout the year so that these are immediately incorporated into the risk management system. These ad-hoc risks are identified and their handling is determined based on risk assessments and depending on the defined thresholds. In addition, the Corporate Audit function complements the monitoring process with process-independent monitoring.«

»ESRS 2.53 (e) Risks are evaluated using estimates of the potential impact after taking into account countermeasures and the likelihood of their occurrence. The potential economic losses are projected using the expected EBITDA loss and, in some individual cases, the FOCF loss. If the financial impact cannot be estimated, a qualitative assessment is made of the extent of the damage on the basis of criteria such as strategic effect, influence on our reputation, or possible loss of confidence among groups of stakeholders. All material risks and the respective countermeasures are documented in the risk management software, which is used throughout the Group. The risk management system is reviewed regularly by Corporate Risk Management over the course of the year. Significant changes must be promptly entered in the software and reported to the Board of Management. In addition, a report on the risk portfolio is submitted to the Audit Committee several times a year and to the Supervisory Board at least once a year.«

»ESRS 2.36 (b), ESRS 2.53 (c) iii Risks in connection with material sustainability topics and in relation to our operating activities, business relationships, or products are taken into account as part of our Group-wide risk management with the same care as financial types of risks. We report in our Group Sustainability Statement on how these risks are taken into account during the double materiality assessment.«

→ For further information, please refer to "Impact, Risk and Opportunity Management."

The following matrix illustrates the quantitative and qualitative criteria for rating a risk as low, medium, or high. The same applies to the classification of nonfinancial risks.

Rating matrix

Potential accumulated impact (qualitative or quantitative in € million)[1]	**Likelihood of occurrence within 1 year**				
	Very low	Low	Medium	High	Very high
Critical/ >1,000	Moderate	Moderate	High	High	High
Significant/ >300–1,000	Moderate	Moderate	Moderate	High	High
High/ >150–300	Low	Moderate	Moderate	Moderate	High
Moderate/ ≥50–150	Low	Low	Moderate	Moderate	Moderate

Weighted risk occurrence: Low · Moderate · High

[1] An individual risk that could have both a direct financial and an indirect financial impact of different severities is always classified based on the higher level of risk.

Opportunities and Risks

Overall Assessment of Opportunities and Risks

Overall, Covestro was again exposed to a tense risk situation in the year 2024. The effects of geopolitical conflicts on the value chain continued to cause uncertainty. The overall opportunity and risk position of the Group has not changed significantly compared to the previous year. The latest assessment of financial and nonfinancial risks shows that none of the risks reported below endanger the company's continued existence. Nor could we identify any risk interdependencies that could combine to endanger the company's continued existence.

Based on our product portfolio, our know-how, and our innovation capability, we are confident that we can use the opportunities resulting from our business practices and successfully master the challenges resulting from the risks stated below.

Opportunities and Risks in General and in the Entity's Business Environment

»ESRS 2.53 (e) The risks outlined below may have material effects on EBITDA and, in individual cases, the FOCF of our Group within the one-year forecast period. In this context, risks are deemed material if the potential loss to Covestro is estimated at €50 million or more and/or they have at least a moderate potential qualitative impact. The likelihood of occurrence of the risks is used for internal management purposes to define focus areas for the Corporate Risk Committee. The risks are more highly aggregated in this report than in our internal documentation. Various individual risks are combined into risk categories we have defined for this purpose. The following overview shows the levels of risk allocated to the individual risks within each category. A risk category can therefore include more than one weighted risk occurrence level. The order in which the risk categories are listed does not reflect their significance. Unless explicit information to the contrary is provided, the opportunities and risks described below always refer to both segments of Covestro.

Financial opportunities and risks that affect neither EBITDA nor FOCF are presented separately at the end of the chapter.

Risk management considers risks that could threaten the attainment of the Group's objectives by having a negative impact on the existing business or strategic goals. They are included in our risk portfolio, which is in turn linked to the material sustainability topics.«

»ESRS 2.36 (c) We report on the impacts, risks, and opportunities identified as material for Covestro during the double materiality assessment in tabular format at the beginning of the relevant section of the Group Sustainability Statement. The tables also show the policies and actions we use to deal with these impacts, risks, and opportunities.«

→ For further information, please refer to "Group Sustainability Statement."

Risk categories by weighted risk occurrence

	Weighted risk occurrence		
Risk categories…	**Low**	**Medium**	**High**
…in the business environment			
Geopolitical tensions and social upheavals		●	
Market development	●	●	
Laws and regulations		●	
…in the company-specific environment			
Procurement		●	
Information security, data protection, and information technology (IT)	●		
Employees	●		
Production, value creation, and safety	●	●	
Product stewardship	●	●	
Law and compliance	●	●	

● The risk category includes at least one individual risk with this weighted risk occurrence.

Business Environment

Geopolitical Tensions and Social Upheavals

In the year 2024, we continued to see geopolitical tensions between regional powers. There is great general uncertainty about how existing trade conflicts and tensions will develop, including the associated macroeconomic implications, which could also have an impact on Covestro's business situation.

Market Development

General economic conditions worldwide and, in particular, in the geographic regions in which Covestro operates are a significant factor affecting the company's earnings, since their effect on the industries in which Covestro's direct and indirect customers operate affects demand for our company's products.

Negative economic developments triggered by a variety of events may have a negative impact on the global economy and international financial markets in general. As a rule, this also adversely affects the sales markets for our products, which then usually decreases Covestro's sales volumes and earnings. However, the extent of the impact of economic developments on sales volumes and earnings also depends on capacity utilization rates in the industry, which in turn depend on the balance between supply and demand for the industry's products. Downturns in demand lead to reduced sales volumes and, ultimately, to reduced capacity utilization, which negatively impacts margins.

Covestro operates in markets in which the long-term trend is toward a balance between supply and demand. However, in the event of planned or unplanned closures, interruptions, or even the elimination of one of our competitors, Covestro may have the opportunity to capture more of the market in terms of profitability and growth in the short to medium term.

Laws and Regulations

The international nature of Covestro's business exposes it to substantial changes in economic, political, and social conditions and the resulting statutory requirements of the countries in which Covestro operates. The associated risks can have both a negative effect on the company's business and significantly influence its prospects.

Company-Specific Environment

Procurement

Our Supplier Code of Conduct sets forth our sustainability principles and explains what we expect from our partners along the value chain. Covestro's overarching management approach to respecting human rights, and primarily the risk analysis conducted as part of the human rights due diligence, takes account of relevant laws such as the German Act on Corporate Due Diligence Obligations for the Prevention of Human Rights Violations in Supply Chains.

→ For further information, please refer to "ESRS S2: Workers in the Value Chain."

Covestro requires significant quantities of petrochemical raw materials for its production processes. Procurement prices for these forms of raw materials may fluctuate significantly due to market conditions or legislation. Experience from the past has shown that higher production costs cannot always be passed on to our customers through price adjustments. Conversely, lower raw materials prices that do not directly reduce the selling price by the full amount can lead to improved margins.

We purchase important raw materials based on long-term supply agreements and pursue active supplier management to minimize procurement-related risks such as supply shortages or substantial price fluctuations.

Covestro makes sure that it is adequately protected from power failures. Potential incidents could force energy utilities to power down their grids, which could lead to power failures at our production sites and infrastructure facilities at short notice.

Information Security, Data Protection, and Information Technology (IT)

Business and production processes as well as the internal and external communications of the Covestro Group are increasingly dependent on global IT systems.

Technical precautions such as data recovery and continuity plans are defined and continuously updated in close cooperation with our internal IT organization.

Confidentiality during data processing is of fundamental importance for Covestro. A loss of data and information confidentiality, integrity, or authenticity could lead to manipulation and/or the uncontrolled outflow of data and expertise. We have measures in place to counter these, including a sophisticated authorization system.

Covestro's Chief Information Security Officer (CISO) and the department specially focused on this issue promote the IT security strategy and its implementation throughout the Group. These measures are designed to guarantee optimum protection based on state-of-the-art technology.

The digital transformation, which is an enabler and key element of our updated Group strategy and which Covestro is driving in all business entities and functions, is producing many different ways to unlock potential. For example, Covestro regards this as an opportunity to optimize its portfolio, safeguard growth through better links with customers, and to tap into new and profitable business models.

Innovation

We continually analyze global trends and develop innovative solutions to address them, thereby mastering the challenges and taking advantage of the opportunities that arise from these trends.

→ For further information, please refer to "Innovation."

A key focus of Covestro’s strategy is sustainability and efficient production with the goal of making Covestro fully circular. To this end, we are developing new technologies, products, and business models that reduce energy usage and greenhouse gas emissions. Customers are, moreover, increasingly choosing sustainable products as a result of a growing environmental awareness and interest in environmental protection as well as increasing demands for fair working conditions. Our product portfolio offers such solutions for different areas of everyday life.

The finite nature of natural resources and efforts to protect the climate are boosting the demand for innovative products and technologies that reduce resource consumption and lead to lower emissions. This trend is being reinforced by increasingly stringent regulatory requirements and growing consumer awareness of the need to use resources sustainably. Covestro is therefore developing new materials that help to further increase energy efficiency and lower emissions. For example, the polyurethane we manufacture is used in the construction industry for thermal insulation, thus improving its positive energy balance, while our polycarbonate is used in the automotive industry to reduce vehicle weight and thus fuel consumption.

Ongoing technological advancements are changing the world we live in and the way we do business. The use of cutting-edge digital technologies will help us add value along the entire value chain by optimizing the supply chain, promoting growth, and developing new business models.

Employees

Skilled and dedicated employees are essential for the company’s success. In countries with full employment, there is keen competition among companies for highly qualified personnel and employees in key positions in particular.

Covestro has introduced appropriate employee recruitment and development measures based on the analysis of future requirements. We aim to convince our target groups of the advantages of working for Covestro, among other things, through comprehensive human resources marketing. Our human resources policies are based on the principles enshrined in our position on human rights, the Corporate Compliance Policy, and our corporate values. Essential elements include competitive compensation containing performance-related components as well as an extensive range of training and development opportunities. In addition, our focus on diversity enables us to tap the full potential of the employment market.

Covestro cultivates good relationships with its employees, employee representatives, and unions so that all issues concerning HR policy, working conditions, and change processes can always be resolved by management and labor in a collaborative manner.

Production, Value Creation, and Safety

We place great importance not only on product safety but also on protecting our own workforce and the environment. Risks associated with the production, filling, storage, or shipping of products are mitigated using an integrated health, safety, environmental, energy, and quality management system.

→ For further information, please refer to “ESRS E2: Pollution.”
→ For further information, please refer to “ESRS S1: Own Workforce.”

Covestro uses large quantities of hazardous substances in its production operations, generating hazardous wastes and emitting wastewater and air pollutants

→ For further information, please refer to “ESRS E2: Pollution.”
→ For further information, please refer to “ESRS E5: Resource Use and Circular Economy.”

Covestro’s operations are subject to extensive health, safety, and environmental (HSE) laws, regulations, rules, and ordinances at the international, national, and local levels in multiple jurisdictions. The company must dedicate substantial resources to complying with these HSE regulations and the additional voluntary commitments. Costs relating to the implementation of and compliance with HSE requirements are part of Covestro’s operating costs and must therefore be covered by the prices at which the company is able to sell its products. Competitors of Covestro that are not affected by equally strict HSE requirements may have lower operating costs and, as a consequence, their products may be priced lower than those of Covestro.

Operations at our sites may be disrupted by external influences such as fires/explosions, sabotage, or supply shortages for our principal raw materials or intermediates. We mitigate this risk to the extent possible and economically feasible by distributing production of certain products among multiple sites and by building up safety stocks. Furthermore, a security and crisis management system has been implemented for all our production sites as a mandatory component of our HSEQ management activities. It is aimed at protecting own workers, neighbors, the environment, and production facilities from the risks described. The "Corporate Security" and "Crisis Management" Group Regulations forms the foundation for this.

Organic growth through investment projects may involve risks in relation to the overall project scope, location, and timing. These risks are addressed through established processes that involve a variety of internal and external stakeholders. A robust investment assessment process helps to ensure that we are capitalizing on organic growth opportunities at the right time. These projects are reviewed throughout the project timeline so that any potential changes in the market situation are considered, enabling us to react in a timely manner, if necessary.

Product Stewardship

Concerns about product safety and environmental protection could influence public perceptions of Covestro's products and operations, the viability of certain products, its reputation, and its ability to attract and retain employees. Due to the technical expertise required to fully understand the possible effects of the chemical constituents of our products, the company's reputation may suffer due to claims that such compounds are of a harmful nature, even if these claims can be disproved by experts. Such statements may lead to changes in consumer preferences or additional governmental regulations even before any harm is scientifically substantiated and possibly despite scientific evidence to the contrary.

→ For further information, please refer to "ESRS E2: Pollution."
→ For further information, please refer to "ESRS S2: Workers in the Value Chain."

Law and Compliance

The Covestro Group is exposed to risks from legal disputes or proceedings to which we are currently a party or that could arise in the future. This may affect, for example, the areas of product liability, competition law, tax law, and environmental law.

Investigations of possible legal or regulatory violations may result in the imposition of criminal, civil, and/or tax law penalties. These sanctions carry the risk of entailing substantial monetary fines and other adverse financial consequences. They can also harm Covestro's reputation and ultimately hamper our commercial success.

Legal proceedings currently considered to involve material risks are described in the Notes to the Consolidated Financial Statements.

→ For further information, please refer to note 26 "Legal Risks" in the Notes to the Consolidated Financial Statements.

Financial Opportunities and Risks

The Covestro Group is exposed to liquidity risks, foreign currency and interest-rate opportunities and risks, credit risks, and risks resulting from obligations for pensions and other post-employment benefits. Appropriate processes to manage financial opportunities and risks have been established and documented. One component of this is financial planning, which serves as the basis for establishing liquidity needs and foreign currency risk. Financial planning comprises a planning horizon of 12 months and is regularly updated.

The section below and the Notes to the Consolidated Financial Statements present the financial opportunities and risks material to the Covestro Group – independent of their likelihood of occurrence.

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

Liquidity Risk

Liquidity risk is the risk of not being able to meet existing or future payment obligations. The liquidity status of all material Group companies is continuously planned and monitored. Liquidity is secured by cash pooling agreements as well as internal and external financing. A syndicated revolving credit facility totaling €2.5 billion, increased and renewed with a maturity to March 2027 in fiscal 2020 offers additional financial flexibility.

Foreign Currency Opportunities and Risks

For the Covestro Group, foreign currency opportunities and risks result from changes in exchange rates and the related changes in value.

Material foreign currency exposures from operating and financial activities are fully hedged through forward exchange contracts.

Anticipated foreign currency exposures were not hedged in the reporting year. These exposures are also hedged using forward exchange contracts if the foreign currency risk increases significantly.

Interest Rate Opportunities and Risks

Interest rate opportunities and risks for the Covestro Group result from changes in capital market interest rates, which could lead to changes in the fair value of fixed-rate financial instruments and in interest payments in the case of floating-rate instruments. To minimize adverse effects, interest rate risk is managed centrally based on an optimized debt maturity structure.

Credit Risks

Credit risks arise from the possibility that the value of receivables or other financial assets of the Covestro Group may be impaired because counterparties cannot meet their payment or other performance obligations. To manage credit risks from receivables, credit managers are appointed who regularly analyze customers' creditworthiness and set credit limits.

Risk to Pension Obligations from Capital Market Developments

The Covestro Group has obligations to current and former employees related to pensions and other post-employment benefits. Changes in relevant measurement parameters such as interest rates, mortality rates, and salary increase rates may raise the present value of these obligations, resulting in increased costs for pension plans. A proportion of the Covestro Group's pension obligations is covered by plan assets. Declining or even negative returns on the investment of the plan assets may adversely affect their future fair value. Both these effects may negatively impact the company's earnings and may necessitate additional payments by the company.

We address the risk of market-related fluctuations in the value of plan assets through balanced strategic investments and by constantly monitoring investment risks with regard to pension obligations. In addition, funding measures for pension obligations are regularly reviewed, taking into account country-specific regulatory requirements and liquidity to reduce funding gaps and thereby limit this risk.

→ For further information, please refer to note 19 "Provisions for Pensions and Other Post-Employment Benefits" in the Notes to the Consolidated Financial Statements.