

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Green Financing Framework

Covestro
11 May 2022

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none">Green Bonds and Other Green Debt Instruments (green financing instruments)
Relevant standards	<ul style="list-style-type: none">Green Bond Principles, as administered by ICMA (June 2021)
Scope of verification	<ul style="list-style-type: none">Covestro Green Financing Framework (as of 11.05.2022)Covestro Selection Criteria (as of 11.05.2022)
Lifecycle	<ul style="list-style-type: none">Pre-issuance verification
Validity	<ul style="list-style-type: none">As long as no material changes to the Framework are undertaken

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SCOPE OF WORK¹

Covestro (“the Issuer”) commissioned ISS ESG to assist with its Green Financing Instruments by assessing three core elements to determine the sustainability quality of the instrument:

1. Green Financing Instruments link to Covestro’s sustainability strategy – drawing on Covestro’s overall sustainability profile and issuance-specific Use of Proceeds categories.
2. Covestro’s Green Financing Framework (11.05.2022 version) – benchmarked against the International Capital Market Association’s (ICMA) Green Bond Principles (GBP).
3. The Selection Criteria – whether the projects contribute positively to the UN SDGs and perform against ISS ESG’s issue-specific key performance indicators (KPIs) (See Annex 1).

COVESTRO BUSINESS OVERVIEW²

Covestro is a global suppliers of polymer materials and application solutions developed for these materials. Covestro AG, the parent company of the Covestro Group, is headquartered in Leverkusen (Germany). It is listed on the stock exchange in Germany and is included in the DAX, Germany’s leading index.

The Group reports on two segments “Performance Materials” and “Solutions & Specialties” which comprise seven business entities:

Performance Materials (c. 51% of the 2021 external Sales): The Performance Materials segment focuses on developing, producing, and supplying performance materials such as standard polyurethanes and polycarbonates, as well as base chemicals. These include i.a. diphenylmethane diisocyanate (MDI), toluene diisocyanate (TDI), long-chain polyols, and polycarbonate resins. Those materials are used in sectors such as the furniture and wood processing industry, the construction industry as well as the automotive and transportation industry. These materials are used in roof structures, insulation for buildings and refrigerators, mattresses, and car seats, among other applications.

Solutions & Specialties (c. 48% of the 2021 external Sales): The Solutions & Specialties segment consolidates Covestro’s solutions & specialties businesses and combines chemical products with application technology services. Covestro’s Solutions & Specialties business comprises a variety of polymer products including polycarbonates, precursors for coatings and adhesives, MDI specialties and polyols, thermoplastic polyurethanes, specialty films, and elastomers. They are used in sectors such as the automotive and transportation industry; the electrical, electronics and household appliances industry; the construction industry; and the healthcare industry. These materials include composite resins for wind turbine rotor blades; precursors for coatings and adhesives; laptop cases; floodlights; and high-quality specialty films.

¹The SPO assessment was completed between February and May 2022

² Covestro, 2021, Annual report, <https://report.covestro.com/annual-report-2021/servicepages/downloads/files/entire-covestro-ar21.pdf>

ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ³
<p>Part 1:</p> <p>Green Financing Instruments link to issuer's sustainability strategy</p>	<p>According to the ISS ESG Corporate Rating published on 05.04.2022, the issuer shows a high sustainability performance against the industry peer group on key ESG issues faced by the Chemicals sector. The issuer ranks 13th out of 198 companies within its sector.</p> <p>The Use of Proceeds financed through this Green Financing Instruments are consistent with the issuer's sustainability strategy and material ESG topics for the issuer's industry. The rationale for issuing Green Financing Instruments is clearly described by the issuer.</p>	<p>Consistent with issuer's sustainability strategy</p>
<p>Part 2:</p> <p>Alignment with GBP</p>	<p>The issuer has defined a formal concept for its Green Financing Instruments regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the ICMA's Green Bond Principles.</p>	<p>Aligned</p>
<p>Part 3:</p> <p>Sustainability quality of the Selection Criteria</p>	<p>The overall sustainability quality of the Selection Criteria in terms of sustainability contributions, risk avoidance and minimization is good based upon the ISS ESG assessment. The Green Finance Instruments will (re-)finance eligible asset categories which include: circular economy adapted products, production technologies and processes; and /or certified efficient products, energy efficiency, renewable energy, sustainable water and wastewater management, pollution prevention and control and green buildings.</p> <p>Those use of proceeds categories have a significant contribution to SDGs 7 'Affordable and clean energy', 11 'Sustainable cities and communities', 12 'Responsible Consumption & Production' and 13 'Climate action' and a limited contribution to SDG 6 'Clean Water & Sanitation'. The issuer sustainability risk management is in place, but further measures to assure a holistic management of all key sustainability risks could be implemented.</p>	<p>Positive</p>

³ ISS ESG's evaluation is based on the Covestro's Green Financing Framework (11.05.2022 version), on the analysed Selection Criteria as received on the 11.05.2022, and on the ISS ESG Corporate Rating updated on the 05.04.2022 and applicable at the SPO delivery date.

ISS ESG SPO ASSESSMENT

PART I: GREEN FINANCING INSTRUMENTS LINK TO COVESTRO'S SUSTAINABILITY STRATEGY

A. ASSESSMENT OF COVESTRO'S ESG PERFORMANCE

The ISS ESG Corporate Rating provides material and forward-looking environmental, social and governance (ESG) data and performance assessments.

COMPANY	INDUSTRY	DECILE RANK	TRANSPARENCY LEVEL
COVESTRO	CHEMICALS	1	VERY HIGH

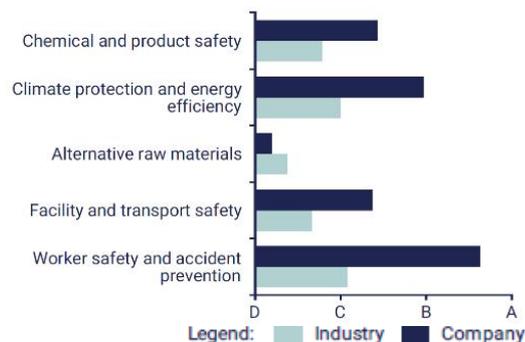
This means that the company currently shows a high sustainability performance against peers on key ESG issues faced by the Chemicals industry as it obtains a Decile Rank relative to its industry group of 1, given that a decile rank of 1 indicates highest relative ESG performance out of 10.

ESG performance

As of 05.04.2022, this rating places Covestro 13th out of 198 companies rated by ISS ESG in the Chemicals industry.

Key challenges faced by companies in this industry in terms of sustainability management are displayed in the chart on the right, as well as the issuer's performance against those key challenges in comparison to the average industry peers' performance.

Key Issue Performance



Sustainability Opportunities

Covestro is mainly engaged in the manufacturing and supply of polymers (polyurethanes, polycarbonates) for a wide range of industrial applications. For chemical companies such as Covestro, potential opportunities lie in the use of alternative resources to generate products used by downstream industries. The company is committed to reducing its dependency on fossil-based feedstock (e.g., through initiatives on CO₂ conversion), but it does not demonstrate that a significant share of raw materials is sourced from renewable and sustainable sources. Yet, Covestro already started commercial utilization of CO₂ at one of its German sites and is committed to further spending some of its R&D budget on developing procedures to enable the use of CO₂ as a raw material. Thus, the company may in the future exploit its potential in the area if it can guarantee that CO₂ conversion is based on energy from renewable sources.

Sustainability Risks

Covestro’s sustainability risks are mainly associated with the handling of chemicals, greenhouse gas emissions, raw material supply chain, and the safety of its workers and neighboring communities. Regarding environmental risks, the company has set a clear GHG reduction target and related action plans to achieve greenhouse gas emission reduction. The targets are not approved by the Science Based Targets initiative. As concerns chemicals management, the company utilizes and conducts further research on the use of alternative raw materials such as carbon dioxide derived from plants. However, it seems that limited measures to ensure sustainable substance management are in place. Regarding transport safety, the company implements some measures to ensure proper handling of its products by implementing measures such as transport training and audits. From a social perspective, Covestro adequately manages its workers’ health and safety with the majority of its health and safety management system certified to ISO 45001. Furthermore, the company regularly engages with surrounding communities regarding its operations.

Governance opinion

With regard to economic governance, Covestro has a supervisory board structure that comprises of predominantly independent members. Furthermore, the chairperson of the supervisory board is classified as independent as well. The company has established a fully independent nomination committee. However, Covestro's audit committee is composed predominantly of non-independent members, while half of the remuneration committee is composed of non-independent members (all information as at August 05, 2021). The company discloses its remuneration policy for executives, including long-term components, which may promote sustainable value creation.

In terms of the company's governance of sustainability, the group has established a sustainability committee; however, it is predominantly made of non-independent members. Furthermore, some sustainability performance objectives are included in the compensation plan of the members of the executive management team. The company has established a group-wide code of conduct that covers relevant issues such as corruption, antitrust, and conflicts of interest in varying degrees of detail. This code is supported by various compliance measures such as compliance training, compliance audits, third-party due diligence, and reporting channels in cases of non-compliance.

Sustainability impact of products and services portfolio

Using a proprietary methodology, ISS ESG assessed the contribution of Covestro’s current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along Covestro’s production process.

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE	DIRECTION OF IMPACT	UN SDGS
Building insulation materials	8%	CONTRIBUTION	

Products made from recycled materials	1%	CONTRIBUTION	
Others	N/A	NO NET IMPACT	N/A

Breaches of international norms and ESG controversies

As of 05.04.2022, the company is not facing any severe or very severe controversy.

B. CONSISTENCY OF GREEN FINANCING INSTRUMENTS WITH COVESTRO'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the issuer

Covestro as centered the sustainability strategy on becoming fully circular. This set the path for the Group's Sustainable Future strategy, which entails components like "Drive sustainable growth" and "become fully circular", setting sustainability goals in 2016 with a view to achieve by 2025:

- Align the R&D project portfolio with the UN SDGs (54% in 2021)
- All relevant suppliers compliant with the code of conduct and meeting the sustainability requirements set by Covestro (93% of Covestro's total purchasing value in 2021)
- Reduce specific greenhouse gas emissions by 50% compared with base year 2005 (54% in 2021)
- Ten million people in underserved markets to benefit from Covestro's business solutions by the year 2025 (3.2 million people in 2021)
- Getting the most out of carbon through reusing carbon along their value chain (quantitative target to be set)

Covestro has developed a 'Sustainability Formula' that addresses different components of Covestro's value chain and outlines the outcomes expected, focusing on the reduction of the impact in the usage of raw materials, productions processes and logistics and also promoting initiatives to improve products and materials' life-cycle.

Rationale for issuance

Covestro intends to finance or refinance new or existing projects (assets, capital expenditures, operational expenditures including R&D) with the Green Finance Instruments issuance, supporting Covestro's strategy to move towards a circular economy business strategy. By investing in transforming their existing manufacturing activities, targeting a reduction on carbon consumption, waste prevention, reduction and recycling or energy efficiency.

Contribution of Use of Proceeds categories to sustainability objectives and challenges

ISS ESG mapped the Use of Proceeds categories financed under this Green Financing Instrument with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Chemicals sector. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g. climate change and energy efficiency in the buildings sector. From this mapping, ISS ESG derived a level of contribution to the strategy of each Use of Proceeds categories.

USE OF PROCEEDS CATEGORY	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
Circular economy adapted products, production technologies and processes; and/or certified eco-efficient products	✓	✓	Contribution to a material objective
Energy efficiency	✓	✓	Contribution to a material objective
Renewable energy	✓	✓	Contribution to a material objective
Sustainable water and wastewater management	✓	✓	Contribution to a material objective
Pollution prevention and control	✓	✓	Contribution to a material objective
Green buildings	✓	✓	Contribution to a material objective

Opinion: *ISS ESG finds that the Use of Proceeds financed through this bond are broadly consistent with the issuer’s sustainability strategy and material ESG topics for the issuer’s industry. The rationale for issuing Green Instruments is clearly described by the issuer.*

PART II: ALIGNMENT WITH ICMA’S GREEN BOND PRINCIPLES

1. Use of Proceeds

FROM ISSUER’S FRAMEWORK

The net proceeds of Covestro’s Green financing instruments will be used to finance and/or refinance, in whole or in part, new or existing projects (assets, capital expenditures, operational expenditures including R&D) that meet the eligibility criteria defined below (“Eligible Green Projects”).

ICMA GBP Categories	Eligible Green Projects
Circular economy adapted products, production technologies and processes; and /or certified eco-efficient products	<p>Manufacturing activities, investments and R&D expenses related to products / solutions:</p> <ul style="list-style-type: none"> ▪ based on or including alternative raw materials, enabling a reduction of CO2 impact, incl. bio- and bio-circular-attributed raw materials, CO2-based and waste-based raw materials, ▪ for the manufacture and charging of electric vehicles, incl. battery casings, EV supply equipment and loading stations, ▪ for the production of clean energy, incl. polyurethane components of wind turbine blades, or ▪ enhancing energy efficiency, incl. insulation products, ▪ Innovative recycling solutions, incl. mechanical recycling, chemical recycling
Energy efficiency	<p>Projects or activities related to:</p> <ul style="list-style-type: none"> ▪ Heat Integration e.g. projects to re-use condensate or waste heat ▪ Process optimization for energy efficiency (e.g. Adiabatic Isocyanate production technology or gas-phase technology) ▪ Technology with improved energy efficiency (e.g. frequency converter, compressors, electrolysis membranes)
Renewable energy	<p>Projects or activities related to:</p> <ul style="list-style-type: none"> ▪ purchase of renewable energy pursuant to long-term power purchase agreements (“PPA”) or virtual power Purchase agreements (“VPPA”) entered into prior to the commencement of commercial operation of the renewable project that contribute to the expansion of renewable energy sources to the grids ▪ replacement of natural gas by biogas in power and incineration plants

	<p>In addition, any projects or activities aligned with the technical screening criteria in the EU Taxonomy Climate Delegated Act⁴, including projects such as:</p> <ul style="list-style-type: none"> ▪ wind power generation units ▪ solar power generations units ▪ wind/solar related installation and maintenance ▪ cogeneration of heat/cool and power from renewable non-fossil gaseous and liquid fuels ▪ cogeneration of heat/cool and power from bioenergy
<p>Sustainable water and wastewater management</p>	<p>Projects or activities related to:</p> <ul style="list-style-type: none"> ▪ water efficiency (e.g. multiple use of closed loop cooling systems, reduction of water losses through evaporation) ▪ water treatment installations e.g. decreased salt contamination or “Re-Salt” Technology: A Pioneering Treatment for Wastewater <p>In addition, any project or activities aligned with the technical screening criteria in a future EU Taxonomy Delegated Act⁵ related to “sustainable use and protection of water and marine resources”</p>
<p>Pollution prevention and control</p>	<p>Projects or activities related to:</p> <ul style="list-style-type: none"> ▪ reduction of the release of GHGs and other hazardous substances, e.g. reduce emissions of N2O ▪ waste prevention, reduction and recycling, e.g. improved resource efficiency to turn residue into products <p>In addition, any project or activities aligned with the technical screening criteria in a future EU Taxonomy Delegated Act related to “pollution prevention and control” as applicable.</p>

⁴ Where referenced, the “EU Taxonomy Climate Delegated Act” designates the Commission Delegated Regulation of 4.6.2021 supplementing Regulation 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives. The text is available [here](#).

⁵ Where referenced, „future EU Taxonomy Delegated Act” refer to delegated acts expected to be released regarding the remaining four EU environmental objectives, but which have not been published and approved in final form as of the date of publication of this framework. See [here](#).

<p>Green Buildings</p>	<p>Buildings that have received green building labels, including but not limited to:</p> <ul style="list-style-type: none"> ▪ BREEAM “Very Good” or above certification ▪ LEED “Gold” or above certification ▪ DGNB certification “Gold” and/or above ▪ NF HQE Bâtiment Tertiaire en Exploitation “Excellent” and/or above ▪ Nordic Swan Ecolabel <p>In addition, any projects related to the acquisition, ownership, construction or refurbishment of buildings aligned with the technical screening criteria in the EU Taxonomy Climate Delegated Act (paragraphs 7.1, 7.2, or 7.7 of the Delegated Act):</p> <ul style="list-style-type: none"> ▪ buildings built before 31 December 2020 either with an EPC label \geq “A” or belonging to the top 15% of the national building stock in terms of Primary Energy Demand (PED) ▪ buildings built after 31 December 2020 with energy performance lower of at least 10% than the threshold set for nearly zero-building (NZEB) requirements ▪ renovated buildings that comply with the applicable requirements for major renovations ▪ renovated buildings with energy savings of at least 30% in comparison to the baseline performance before the building renovation
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Opinion: ISS ESG considers the Use of Proceeds description provided by Covestro’s Green Financing Framework as aligned with the ICMA’s Green Bond Principles. Environmental benefits are described and quantified.

2. Process for Project Evaluation and Selection

FROM ISSUER’S FRAMEWORK

Sustainable Finance Committee

Covestro has established a Sustainable Finance Committee. The Sustainable Finance Committee is composed of representatives from Finance & Insurance and Sustainability & Public Affairs. Additional departments and subject matter experts will be invited as deemed appropriate. The Sustainable Finance Committee is responsible for:

- Reviewing the content of the Framework and potentially updating it to reflect changes in corporate strategy, technology, market, or regulatory developments on a best effort basis
- Initiating the update of non-Covestro documents such as Second Party Opinion (SPO) and related documents from external auditors as far as required
- Overseeing the allocation of the proceeds from green financing instruments to Eligible Green Projects, to ensure that the amount of Green Projects equals or exceeds the amount

of green financing instruments, replacing those projects that no longer comply with the eligibility criteria

- Overseeing, approving and publishing the allocation and impact reporting, including external assurance statements.⁶
- Considering the applicability of sustainable finance regulation such as the EU Taxonomy Regulation (including the EU environmental objectives, the technical screening criteria (TSC), the Do No Significant Harm criteria and minimum safeguards) and the proposed EU Green Bond Standard and introducing alignment on a best effort basis and as far as required.

The committee will meet at least on an annual basis.

Covestro's sustainability guidelines and policies

Covestro's sustainability commitments, guidelines and policies are considered as minimum standards for business conducted by Covestro, including any projects financed with the proceeds of green financing instruments issued under this Framework. They ensure that the environmental and social risks potentially associated with the Eligible Green Projects are properly mitigated via the due-diligence processes conducted by Covestro and comply with national & international environmental and social standards, local laws and regulations.

Examples of commitments, internal policies, and guidelines, which mitigate environmental/social/legal risks potentially associated with Eligible Green Projects, are⁷:

- UN Sustainable Development Goals
- Ten Principles of UN Global Compact
- Responsible Care® - the chemical industry commitment to sustainability
- Human Rights
- Slavery and Human Trafficking (UK Modern Slavery Act Statement)
- Water
- Handling Products Responsibly
- Corporate Compliance
- Responsible Lobbying
- Responsible Marketing & Sales
- Tax Transparency
- Conflict Minerals - Dodd-Frank Act, EU 2017/821

Opinion: ISS ESG considers the Process for Project Evaluation and Selection described by Covestro's Green Financing Framework as aligned with ICMA's Green Bond Principles. Moreover, the projects selected show alignment with the sustainability strategy of the Company. The Company provides transparency, clearly defined responsibilities and makes use of both internal and external expertise in its evaluation and selection process. ESG risks related to the project categories are managed by company commitments, internal policies, and guidelines.

⁶ Covestro may rely on external consultants and their data sources, in addition to its own assessment.

⁷ Covestro commitments, policies and guidelines can be found [here](#)

3. Management of Proceeds

FROM ISSUER'S FRAMEWORK

Covestro intends to allocate the net proceeds from issued green financing instruments to Eligible Green Projects that meet the use of proceeds eligibility criteria defined in the Green Financing Framework and in accordance with the evaluation and selection process presented above.

Covestro will strive, over time, to achieve a level of allocation to the Eligible Green Projects that matches or exceeds the balance of net proceeds from its outstanding green financing instruments. Additional projects may be added or removed to the extent required.

Eligible green assets and green capital expenditures shall qualify for refinancing without a specific look-back period, provided that at the time of issuance they follow the relevant eligibility criteria. Eligible green operating expenditures shall qualify for refinancing with a maximum three-year look-back period.

Pending the full allocation of an amount equivalent to the net proceeds, the unallocated amount will be managed within Covestro's regular treasury operations.

Opinion: ISS ESG finds that Management of Proceeds proposed by Covestro's Green Financing Framework is aligned with ICMA's Green Bond Principles. The Company will ensure that the total level of allocation to the Eligible Green Projects matches or exceeds the balance of net proceeds from its outstanding green financing instruments and that eligibility criteria are met.

Reporting

FROM ISSUER'S FRAMEWORK

Covestro will publish annually an allocation and impact report until full allocation of the proceeds and on a timely basis in case of material development.

Allocation report

The allocation report may provide:

- the total amount of green financing instruments issued
- the total amount of Eligible Green Projects by eligible project category
- the balance of unallocated proceeds
- the amount or the percentage of new financing and refinancing

Impact report

The impact report may provide:

- a description of the Eligible Green Projects by category
- the share of financing and refinancing, showing the percentage of the total Eligible Green Projects corresponding respectively to Projects financed during the reporting year and to Projects financed during previous reporting years
- metrics regarding the environmental impacts such as the indicators below and associated methodology calculation will be described

Covestro intends to align, on a best effort basis, the reporting with ICMA’s “Handbook – Harmonized Framework for Impact Reporting (June 2021)”⁶. The Allocation and Impact reporting will be made available on Covestro’s website.

ICMA GBP Categories	Potential Impact Indicators
Circular economy adapted products, production technologies and processes; and/or certified eco-efficient products	<ul style="list-style-type: none"> • Amount or percentage of sales of enabling products • GHG emissions avoided/reduced (tons of CO2e) through the use of Covestro products • Tons of alternative raw materials
Energy efficiency	<ul style="list-style-type: none"> • GHG emissions avoided/reduced (tons of CO2e) • Energy savings of electricity (MWh/GWh)
Renewable energy	<ul style="list-style-type: none"> • Capacity of renewable energy constructed (MWh/GWh)
Sustainable water and wastewater management	<ul style="list-style-type: none"> • Annual water savings
Pollution prevention and control	<ul style="list-style-type: none"> ▪ Pollutant emissions or release to air or water reduced
Green buildings	<ul style="list-style-type: none"> • Number of green buildings labels • GHG emissions avoided/reduced (tons of CO2e)

Opinion: ISS ESG finds that the reporting proposed by Covestro’s Green Financing Framework is aligned with ICMA’s Green Bond Principles. The Company commits transparently on the level of expected reporting, project categories and reporting metrics, reporting scope, covering period, and reporting frequency, referring to ICMA’s Harmonized Frameworks of Impact Reporting. The Company provides the location where the report will be publicly available, reflecting best market practices.

External review

FROM ISSUER’S FRAMEWORK

Covestro intends to engage an external auditor or other independent third party to verify the allocation of proceeds in accordance with this Framework.

PART III: SUSTAINABILITY QUALITY OF THE ISSUANCE

A. CONTRIBUTION OF THE GREEN FINANCING INSTRUMENTS TO THE UN SDGs

Based on the assessment of the sustainability quality of the Green Financing Instruments' Selection Criteria and using a proprietary methodology, ISS ESG assessed the contribution of the Covestro's Green Financing Instruments to the Sustainable Development Goals defined by the United Nations (UN SDGs).

This assessment is displayed on 5-point scale (see Annex 1 for methodology):

Significant Obstruction	Limited Obstruction	No Net Impact	Limited Contribution	Significant Contribution
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Each of the Green Financing Instruments Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p>Circular Economy adapted products, production technologies and processes; and /or certified efficient products Manufacturing activities, investments and R&D expenses related to products / solutions:</p> <ul style="list-style-type: none"> based on or including alternative raw materials, enabling a reduction of CO2 impact, incl. bio- and bio-circular-attributed raw materials, CO2-based and waste-based raw materials 	Limited contribution ⁸	 
<p>Circular Economy adapted products, production technologies and processes; and /or certified efficient products Manufacturing activities, investments and R&D expenses related to products / solutions:</p> <ul style="list-style-type: none"> for the manufacture and charging of electric vehicles, incl. battery casings, EV supply equipment and loading stations 	Limited contribution	 
<p>Circular Economy adapted products, production technologies and processes; and /or certified efficient products Manufacturing activities, investments and R&D expenses related to products / solutions:</p> <ul style="list-style-type: none"> for the production of clean energy, incl. polyurethane components of wind turbine blades enhancing energy efficiency, incl. insulation products 	Significant contribution	 
<p>Circular Economy adapted products, production technologies and processes; and /or certified efficient products Manufacturing activities, investments and R&D expenses related to products / solutions:</p> <ul style="list-style-type: none"> Innovative recycling solutions, incl. mechanical recycling and chemical recycling 	Significant Contribution	

⁸ This assessment differs from the ISS ESG SDG Solutions Assessment (SDGA) proprietary methodology

<p>Energy Efficiency</p> <p>Projects or activities related to:</p> <ul style="list-style-type: none"> Heat Integration e.g. projects to re-use condensate or waste heat Process optimization for energy efficiency (e.g. Adiabatic Isocyanate production technology or gas-phase technology) Technology with improved energy efficiency (e.g. frequency converter, compressors, electrolysis membranes) 	<p>Limited contribution ⁹</p>	
<p>Renewable Energy</p> <ul style="list-style-type: none"> Purchase of renewable energy pursuant to long-term power purchase agreements (“PPA”) or virtual power Purchase agreements (“VPPA”) entered into prior to the commencement of commercial operation of the renewable project that contribute to the expansion of renewable energy sources to the grids ¹⁰ Replacement of natural gas by biogas in power and incineration plants 		<p>Limited contribution ⁹</p>
<p>Renewable Energy</p> <p>Projects or activities aligned with the technical screening criteria in the EU Taxonomy Climate Delegated Act, including projects such as:</p> <ul style="list-style-type: none"> wind power generation units solar power generations units wind/solar related installation and maintenance cogeneration of heat/cool and power from renewable non-fossil gaseous and liquid fuels cogeneration of heat/cool and power from bioenergy 	<p>Significant contribution ¹¹</p>	
<p>Sustainable water and wastewater management</p> <p>Projects or activities related to:</p> <ul style="list-style-type: none"> water efficiency (e.g. multiple use of closed loop cooling systems, reduction of water losses through evaporation) water treatment installations (e.g. decreased salt contamination or “Re-Salt” Technology: A Pioneering Treatment for Wastewater) 	<p>Limited contribution</p>	
<p>Pollution prevention and control</p> <p>Projects or activities related to:</p> <ul style="list-style-type: none"> reduction of the release of GHGs and other hazardous substances (e.g. reduce emissions of N2O) 	<p>Limited contribution ⁹</p>	
<p>Pollution prevention and control</p> <p>Projects or activities related to:</p>	<p>Limited contribution</p>	

⁹ This assessment is built upon the ISS ESG SDG Solutions Assessment (SDGA) proprietary methodology designed to assess the impact of an Issuer's product and service portfolio on the SDGs. However, as this is an operational-related aspect, the assessment is adapted to the specific case.

¹⁰ Examples of recently closed PPAs with different providers: Ørsted, ENGIE, EnBW and Fortescue Future Industries.

¹¹ This assessment differs from the ISS ESG SDG Solutions Assessment (SDGA) proprietary methodology designed to assess the impact of an Issuer's product and service portfolio on the SDGs. For the projects to be financed under Use of Proceeds categories that are based on the Technical Screening Criteria defined by the EU Taxonomy Technical Annex, a significant contribution to climate change mitigation is attested. Assets compliance with EU taxonomy is not evaluated under the SPO.

- waste prevention, reduction and recycling (e.g. improved resource efficiency to turn residue into products)

Green Buildings

Buildings that have received green building labels, including but not limited to [indicative]:

- BREEAM “Very Good” or above certification
- LEED “Gold” or above certification
- DGNB certification “Gold” and/or above
- NF HQE Bâtiment Tertiaire en Exploitation “Excellent” and/or above
- Nordic Swan Ecolabel

Significant contribution⁹



Green Buildings

Acquisition, ownership, construction or refurbishment of buildings aligned with the technical screening criteria in the EU Taxonomy Climate Delegated Act:

- buildings built before 31 December 2020 either with an EPC label ≥ “A” or belonging to the top 15% of the national building stock in terms of Primary Energy Demand (PED)
- buildings built after 31 December 2020 with energy performance lower of at least 10% than the threshold set for nearly zero-building (NZEB) requirements

Significant contribution¹¹



Limited contribution⁹



Green Buildings

Acquisition, ownership, construction or refurbishment of buildings aligned with the technical screening criteria in the EU Taxonomy Climate Delegated Act:

- renovated buildings that comply with the applicable requirements for major renovations
- renovated buildings with energy savings of at least 30% in comparison to the baseline performance before the building renovation

Significant contribution¹¹



Limited contribution⁹



For the projects to be financed under the following Use of Proceeds categories (projects or activities aligned with the technical screening criteria in a future EU Taxonomy Delegated Act related to “sustainable use and protection of water and marine resources” or to “pollution prevention and control”), limited information is available to assess categories’ contribution to the Sustainable Development Goals defined by the United Nations (UN SDGs) as Technical Screening Criteria for Taxonomy Regulation objectives are still to be defined in the EU Taxonomy Delegated Act.

B. MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS ASSOCIATED WITH THE SELECTION CRITERIA

The table below presents the findings of an ISS ESG assessment of the selection criteria for eligible green categories against ISS ESG KPIs.

Key performance indicators (KPIs) Green activities

ASSESSMENT AGAINST ISS ESG KPI

KPIs RELEVANT FOR ALL USE OF PROCEEDS CATEGORIES

Conservation and biodiversity management

- ✓ Covestro has policies in place that systematically ensure all assets financed under this framework undergo environmental impact assessments at the planning stage. However, EU based projects must comply with EU Directive 2011/92 on Environmental Impact Assessment, transposed into directly applicable German law. Additionally, to ensure systematic management, Covestro has an integrated management system for corporate health, safety, environment, energy, and quality (HSEQ) pursuant to ISO 9001, ISO 14001, ISO 45001 and ISO 50001. According to the issuer, the certification of HSEQ management systems according to ISO 14001 would cover 95% of business activity, measured according to energy usage.

Working conditions and On-Site Safety

- ✓ Covestro Integrated Management System (HSEQ) is based on internationally recognised standards, including the energy ISO 45001. According to the issuer, the certification of HSEQ management systems according to ISO 45001 would cover 87% of business activity, measured according to energy usage. The directive covers all activities of Covestro operations, regardless of the certification status of different sites and includes employees and contractors.

KPIs RELEVANT FOR CIRCULAR ECONOMY, RENEWABLE ENERGY, POLLUTION PREVENTION AND CONTROL, AND SUSTAINABLE WATER AND WASTEWATER MANAGEMENT CATEGORIES

Community Dialogue

- Covestro has no policy systematically in place ensuring community dialogue. However, according to the issuer, for investments projects in the United States and Germany, ad-hoc dialogue between company representatives and local communities such as residents, businesses, government officials and NGOs occurs through Community Advisory Panels and Chempark neighbourhood offices, respectively. Limited information is available on grievance and/or dispute resolution procedures.

KPIs RELEVANT FOR CIRCULAR ECONOMY, ENERGY EFFICIENCY AND RENEWABLE ENERGY CATEGORIES

Environmental aspects of construction (or production) and operation

- ✓ Life-cycle-assessments: All of Covestro's Circular Economy projects are evaluated based on a Life Cycle Assessment. This is a mandatory requirement in Covestro's Circular Economy program. LCA modelling is in line with international standards ISO 14040:2006+A2:2021 and ISO 14044:2006+A2:2021. For EU based projects, EU regulations for Waste Electrical and Electronic equipment (EU Waste Electrical & Electronic Equipment Directive 2012/19/EU) will be applicable. However, no policy or regulation covers non-EU energy efficiency and renewable energy projects. In addition, Covestro's Supplier Code of Conduct also requires that suppliers comply with all applicable quality, health, safety and environmental regulations. Suppliers are required to have systems in place to ensure the safe handling, movement, storage, recycling, reuse and management of waste, air emissions and wastewater discharges.

KPIs RELEVANT FOR CIRCULAR ECONOMY AND POLLUTION PREVENTION AND CONTROL

Environmental aspects of construction (or production) and operation

- ✓ Environmentally safe operation of plants: Covestro has a globally binding directive and procedures on process and plant safety ensuring that operations are safe both for the environment and people. Covestro has applied the German Chemical Industry Association's (Verband der Chemischen Industrie, VCI) guidelines on documenting plant safety performance indicators, and are thus aligned with the updated and globally harmonised definition by the International Council of Chemical Associations (ICCA).

Hazardous Waste

- ✓ Specialised reuse or recycling technologies for substances of concern are implemented and the issuer monitors treatment processes (e.g. audits of disposal facilities). Treatment results of substances of concern are disclosed (e.g. recycling ratio, incineration output and landfill rate). According to the issuer, hazardous waste management is part of the environmental management system and is subject to environmental, health, and safety (EHS) laws, regulations, rules, and ordinances at the international, national, and local levels in multiple jurisdictions.

KPIs RELEVANT FOR CIRCULAR ECONOMY

Energy efficiency

- ✓ Covestro Integrated Management System (HSEQ) is based on internationally recognised standards, including the energy ISO 50001. According to the issuer, the certification of HSEQ management systems according to ISO 50001 would cover 48% of business activity, measured according to energy usage. The issuer also has an energy management system, Covestro's STRUCTese™ (Structured Efficiency System for Energy). STRUCTese™ compares actual energy usage in production with the realistic potential optimum, thus eliminating inefficiencies and resulting in permanent energy savings. Energy usage per metric ton of product at main production sites has also seen an overall 40.2% improvement in energy efficiency compared to the base year 2005.

Environmental aspects of construction (or production) and operation

- ✓ Environmental management system: Covestro Integrated Management System (HSEQ) is based on internationally recognized standards, including the energy ISO 14001. According to the issuer, the certification of HSEQ management systems according to ISO 14001 would cover 95% of business activity, measured according to energy usage.

Product safety

- ✓ Management of substances of concern: Covestro is committed to conducting risk assessments, including proactive testing methods that take into account legally unregulated aspects (e.g. chemical mixture toxicity, long-term exposure, endocrine effects, water mobility). However, limited information is available on after-sales risk monitoring e.g. through customer surveys or value chain studies.

- ✓ Product safety: Covestro has measures in place to ensure product safety. Safety data sheets are provided and translated into relevant languages, customers are provided training and/or receive counselling on health and safety issues of products, hotlines for product-related questions and complaints are provided on product labels and/or are easily accessible on the company's website. Additionally, Covestro Integrated Management System (HSEQ) is based on internationally recognised standards, including the energy ISO 9001. According to the issuer, the certification of HSEQ management systems according to ISO 9001 would cover 100% of business activity, measured according to energy usage.

KPIs RELEVANT FOR THE GREEN BUILDINGS CATEGORY

Water use minimisation in buildings

- No information is available on whether Covestro has set any water use reduction targets. However, water management is part of the environmental management system and is subject to local legislation.

KPIs RELEVANT FOR THE SUSTAINABLE WATER AND WASTEWATER MANAGEMENT CATEGORY

Environmental aspects of construction (or production) and operation

- ✓ Environmental impacts of sewage sludge disposal: The company has implemented specialised treatment technologies to eliminate and/or recycle relevant contaminants and discloses relevant effluent data. The company states that all wastewater is subject to strict monitoring and analysis according to the applicable legal regulations before it is discharged into disposal channels. Covestro also has a corporate commitment on water, covering aspects of water scarcity, wastewater and marine litter. However, limited information is available on the monitoring of relevant pollutants.

- High standards regarding sustainable water withdrawal: The issuer has not clearly defined water use reduction targets, with currently 2% of the water usage is being recycled or reused. Limited information is available on whether Covestro identifies

and continuously monitors the impact of its activities on freshwater resources and on measures to mitigate (potential) impacts. However, the company identifies whether it has activities in regions with high levels of water stress and discloses total freshwater use broken down by source, although not at a relevant geographical level. Covestro also has a corporate commitment on water and since 2020 a risk-based water approach, which includes potential regulatory risks at its production sites and physical risks such as water scarcity and quality (approach followed at main production sites currently exposed to a high risk of water stress).

DISCLAIMER

1. Validity of the SPO: As long as no material changes to the Framework are undertaken.
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to standardized procedures to ensure consistent quality of responsibility research worldwide. In addition, we provide Second Party Opinion (SPO) on bonds solely based on data provided by the issuer.
3. We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of ISS ESG in connection with the use of these SPO, the information provided in them, and the use thereof shall be excluded.
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ANNEX 1: Methodology

ISS ESG Green KPIs

The ISS ESG Green Bond KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of Covestro’s Green Financing Instruments.

It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the assets can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the assets and which can also be used for reporting. If a majority of assets fulfill the requirement of an indicator, this indicator is then assessed positively. Those indicators may be tailor-made to capture the context-specific environmental and social risks.

Environmental and social risks assessment methodology

ISS ESG evaluates whether the assets included in the asset pool match the eligible project category and criteria listed in the Green Bond KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment “no or limited information is available” either indicates that no information was made available to ISS ESG or that the information provided did not fulfil the requirements of the ISS ESG Green Bond KPIs.

The evaluation was carried out using information and documents provided to ISS ESG on a confidential basis by Covestro (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the issuer.

Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, ISS ESG identifies the extent to which Covestro’s Green Financing Instruments contributes to related SDGs.

ANNEX 2: ISS ESG Corporate Rating Methodology

The following pages contain methodology description of the ISS ESG Corporate Rating.

Methodology - Overview

The ESG Corporate Rating methodology was originally developed by Institutional Shareholder Services Germany (formerly oekom research) and has been consistently updated for more than 25 years.

ESG Corporate Rating - The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-.

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

Analyst Opinion - Qualitative summary and explanation of the central rating results in three dimensions:

- (1) Opportunities - assessment of the quality and the current and future share of sales of a company's products and services, which positively or negatively contribute to the management of principal sustainability challenges.
- (2) Risks - summary assessment of how proactively and successfully the company addresses specific sustainability challenges found in its business activity and value chain, thus reducing its individual risks, in particular regarding its sector's key issues.
- (3) Governance - overview of the company's governance structures and measures as well as of the quality and efficacy of policies regarding its ethical business conduct.

Norm-Based Research - Severity Indicator - The assessment of companies' sustainability performance in the ESG Corporate Rating is informed by a systematic and comprehensive evaluation of companies' ability to prevent and mitigate ESG controversies. ISS ESG conducts research and analysis on corporate involvement in verified or alleged failures to respect recognized standards for responsible business conduct through Norm-Based Research.

Norm-Based Research is based on authoritative standards for responsible business conduct such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights and the Sustainable Development Goals.

As a stress-test of corporate disclosure, Norm-Based Research assesses the following:

- Companies' ability to address grievances and remediate negative impacts
- Degree of verification of allegations and claims
- Severity of impact on people and the environment, and systematic or systemic nature of malpractices

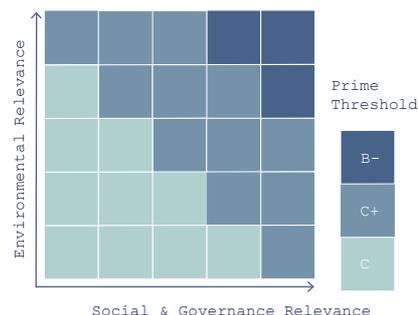
Severity of impact is categorized as Potential, Moderate, Severe, Very severe. This informs the ESG Corporate Rating.

Decile Rank - The Decile Rank indicates in which decile (tenth part of total) the individual Corporate Rating ranks within its industry from 1 (best – company's rating is in the first decile within its industry) to 10 (lowest – company's rating is in the tenth decile within its industry). The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of companies within an industry cannot be evenly divided by ten, the surplus company ratings are distributed from the top (1 decile) to the bottom. If there are Corporate Ratings with identical absolute scores that span a division in decile ranks, all ratings with an equal decile score are classified in the higher decile, resulting in a smaller number of Corporate Ratings in the decile below.

Distribution of Ratings - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ESG Corporate Rating universe (company portrayed in this report: dark blue).

Industry Classification - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analyzed is classified in a Sustainability Matrix.

Depending on this classification, the two dimensions of the ESG Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS ESG Prime Status (Prime threshold) are defined (absolute best-in-class approach).



Industry Leaders - List (in alphabetical order) of the top three companies in an industry from the ESG Corporate Rating universe at the time of generation of this report.

Key Issue Performance - Overview of the company's performance with regard to the key social and environmental issues in the industry, compared to the industry average.

Performance Score - The ESG Performance Score allows for cross-industry comparisons using a standardized best-in-class threshold that is valid across all industries. It is the numerical representation of the alphabetic ratings (D- to A+) on a scale of 0 to 100 with 50 representing the prime threshold. All companies with values greater than 50 are Prime, while companies with values less than 50 are Not Prime. As a result, intervals are of varying size depending on the original industry-specific prime thresholds.

Rating History - Development of the company's rating over time and comparison to the average rating in the industry.

Rating Scale - Companies are rated on a twelve-point scale from A+ to D-:

A+: the company shows excellent performance.

D-: the company shows poor performance (or fails to demonstrate any commitment to appropriately address the topic).

Overview of the range of scores achieved in the industry (light blue) and indication of the grade of the company evaluated in this report (dark blue).

Sources of Information - A selection of sources used for this report is illustrated in the annex.

Status & Prime Threshold - Companies are categorized as Prime if they achieve/exceed the sustainability performance requirements (Prime threshold) defined by ISS ESG for a specific industry (absolute best-in-class approach) in the ESG Corporate Rating. Prime companies are sustainability leaders in their industry and are better positioned to cope with material ESG challenges and risks, as well as to seize opportunities, than their Not Prime peers. The financial materiality of the Prime Status has been confirmed by performance studies, showing a continuous outperformance of the Prime portfolio when compared to conventional indices over more than 14 years.

Transparency Level - The Transparency Level indicates the company's materiality-adjusted disclosure level regarding the environmental and social performance indicators defined in the ESG Corporate Rating. It takes into consideration whether the company has disclosed relevant information regarding a specific indicator, either in its public ESG disclosures or as part of the rating feedback process, as well as the indicator's materiality reflected in its absolute weight in the rating. The calculated percentage is classified in five transparency levels following the scale below.

0% - < 20%: very low

20% - < 40%: low

40% - < 60%: medium

60% - < 80%: high

80% - 100%: very high

For example, if a company discloses information for indicators with a cumulated absolute weight in the rating of 23 percent, then its Transparency Level is "low". A company's failure to disclose, or lack of transparency, will impact a company's ESG performance rating negatively.

ANNEX 3: Quality management processes

SCOPE

Covestro commissioned ISS ESG to compile a Green Financing Instruments SPO. The Second Party Opinion process includes verifying whether the Green Financing Framework aligns with the ICMA's Green Bond Principles and to assess the sustainability credentials of its Green Financing Instruments, as well as the issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA's Green Bond Principles
- ISS ESG Key Performance Indicators relevant for Use of Proceeds categories selected by the issuer

ISSUER'S RESPONSIBILITY

Covestro's responsibility was to provide information and documentation on:

- Framework
- Eligibility criteria
- Documentation of ESG risks management at the asset level

ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Green Financing Instruments to be issued by Covestro based on ISS ESG methodology and in line with the ICMA's Green Bond Principles.

The engagement with Covestro took place from February to May 2022.

ISS ESG'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For more information on SPO services, please contact: SPOsales@isscorporatesolutions.com

For more information on this specific Green Financing Instruments SPO, please contact: SPOOperations@iss-esg.com

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