

Covestro Green Bond Allocation Report as of December 31, 2022

Covestro has established a Green Financing Framework ("Framework") under which the company issued a green bond to finance and/or refinance green products or projects with a clear benefit to environment and/or society.

This Green Financing Framework is based on the International Capital Markets Association's ("ICMA") Green Bond Principles ("GBP") in their 2021 version. The proposal for an EU Green Bond Standard has also been considered where possible. Covestro obtained an independent verification assessment from ISS ESG to confirm the alignment of the Framework with the ICMA's Green Bond Principles. The Second Party Opinion document is available on our website, together with the Framework.

Covestro successfully issued its first Green Financing Instrument in the form of a Green Bond with a total volume of EUR 500 million on the capital markets in November 2022.

Final Terms

Issuer	Covestro AG
Issuer Rating	Baa2 / stable
Format	Senior, Unsecured
Settlement date	November 15, 2022
Volume	500,000,000 €
Coupon	4.75 %
Re-offer price	99.206%
Re-offer yield	4.906 %
ISIN	XS2554997937
Denominations	Euro
Use of Proceeds	Green projects in line with Covestro Green Financing Framework
Listing	Regulated market of the Luxembourg Stock Exchange Stock Exchange

Use of proceeds

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 as defined in Covestro's Green Financing Framework:

Use of proceeds categories

ICMA GBP Categories	Eligible Green Projects	UN SDGs / EU environmental objective	
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 	<p>Climate Change Mitigation</p> <p>Transition to a Circular Economy</p> <p>Pollution Prevention and Control</p>   	
	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) 	<p>Climate Change Mitigation</p>  
	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 Act 1, 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>Climate Change Mitigation</p>   
Sustainable water and wastewater management	<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 Act related to "sustainable use and protection of water and marine resources"</p>	<p>Sustainable use and protection of water and marine resources</p>  	
Pollution prevention and control	<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>	<p>Pollution prevention and control</p>  	

Use of proceeds categories

ICMA GBP Categories	Eligible Green Projects	UN SDGs / EU environmental objective
Green Buildings	<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 <p>renovated buildings with energy savings of at least 30% in comparison to the baseline performance before the building renovation</p>	Climate Change Mitigation



¹ 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.

Allocation report as of December 31, 2022

€ 500 million Green Bond issued

Allocation report as of December 31, 2022 (in € million)

	Eligible green project expenditures by category			Green Bond Issuance	
	2020	2021	2022		
	€ million	€ million	€ million		
Circular economy adapted products, production technologies and processes; and /or certified eco-efficient products	10	57	171	ISIN: (November 2022)	500
Energy efficiency	9	12	29		
Pollution prevention and control	96	90	62		
Green buildings	25	0	0		
Total eligible green project portfolio	140	159	262		
Total			561		500
Eligible Green Project Portfolio unallocated					€ 61 million
Percentage of Eligible Green Project Portfolio Allocated (coverage)					89%
Percentage of Proceeds of Green Financing Instruments allocated to Eligible Green Project Portfolio					100%

As of December 31st, 2022, Covestro has a total eligible green project portfolio amounting to € 561 million. Thereof 89% have been allocated to the Green Bond issued in November 2022 in the amount of € 500 million, meaning that the net proceeds of Covestro AG's Green Bond have been fully allocated. € 299 million (53.3%) were allocated to refinance existing projects with expenditures in 2020 and 2021 and € 262 million (46.7%) were allocated to finance new projects with expenditures in 2022.

The auditing firm KPMG has conducted an external assurance ("limited assurance") according to ISAE 3000 of the allocation report and confirmed the allocation of issuance proceeds to green expenditures (see Appendix).

This report is the first and final allocation report for Covestro's Green Bond. The impact report will be provided by Covestro in due course.

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Limited Assurance Report of the Independent Auditor regarding the Use of Proceeds in the “Green Bond Allocation Report as of December 31, 2022” of Covestro AG

To Covestro AG, Leverkusen

We have been engaged to perform an independent limited assurance engagement on qualitative and quantitative disclosures related to the use of proceeds in the “Green Bond Allocation Report as of December 31, 2022” (further “the Report”), of Covestro AG, Leverkusen (further “the Company”).

It was not part of our engagement to review the Covestro AG’s Green Financing Framework and to report on the impacts.

Management’s Responsibility for the Report

Management of the Company is responsible for the preparation of the Report in accordance with the Reporting Criteria. Covestro AG applied the principles and standard disclosures of Covestro AG’s Green Financing Framework as Reporting Criteria (further “Reporting Criteria”), which is based on the 2021 ICMA Green Bond Principles.

This responsibility includes the selection and application of appropriate methods to prepare the Report and the use of assumptions and estimates for individual qualitative and quantitative sustainability disclosures which are reasonable under the given circumstances. Furthermore, management is responsible for such internal control as they consider necessary to enable the preparation of the Report that is free from material misstatement, whether due to fraud or error.

Independence and Quality Assurance

We have complied with the independence and quality assurance requirements set out in the national legal provisions and professional pronouncements, in particular the Professional Code for German Public Auditors and Chartered Accountants (in Germany) and the quality assurance standard of the German Institute of Public Auditors (Institut der Wirtschaftsprüfer, IDW) regarding quality assurance requirements in audit practice (IDW QS 1).

Practitioners’ Responsibility

Our responsibility is to express a conclusion with limited assurance on the Report based on our assurance engagement.

We conducted our assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised): “Assurance Engagements other than Audits or Reviews of Historical Financial Information” issued by the IAASB. This standard requires

that we plan and perform the assurance engagement to obtain limited assurance about whether any matters have come to our attention that cause us to believe that the Report has not been prepared, in all material respects, in accordance with the Reporting Criteria. We do not, however, issue a separate conclusion for each disclosure.

In a limited assurance engagement, the procedures performed are less extensive than in a reasonable assurance engagement, and accordingly, a substantially lower level of assurance is obtained. The selection of the assurance procedures is subject to the professional judgment of the assurance practitioner.

In the course of our assurance engagement we have, among other things, performed the following assurance procedures and other activities:

- Inquiry of employees responsible for the development of the Covestro Green Financing Framework as well as the procedure and process documentations derived from it
- Assessment of the Covestro Green Financing Framework with regard to the implementation of the requirements of Covestro AG's self-selected public framework (2021 ICMA Green Bond), taking into account the Second Party Opinion issued by ISS ESG on May 11, 2022 and already obtained
- Evaluation of the processes, specifications and principles with regard to suitability for the allocation of financial resources in accordance with the self-imposed requirements and criteria
- Assessment of the process for determining the projects and expenditures defined as relevant ("eligible") according to the Covestro Green Financing Framework. We include our findings from the audit of the consolidated financial statements of the financial years 2020-2022 at Covestro AG in the assessment.
- Evaluation of selected internal and external documents
- Evaluation of the data collection, validation and reporting processes as well as the reliability of the reported data in the course of sampling and control tests
- Assessment of the overall presentation of the data

Our assurance does not extend to any other information in the Report. We have neither reviewed and do not provide any assurance on any individual project information reported, including estimate of sustainability impacts, nor is the reporting on the project evaluation and selection and the management of proceeds part of our assurance procedures.

The verification of the issue conditions of the Green Bonds (including issue volume) and the process for internal tracking of disposition of funds was not part of our limited assurance engagement.

In our opinion, we obtained sufficient and appropriate evidence for reaching a conclusion for the assurance engagement.

Assurance Opinion

Based on the assurance procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the qualitative and quantitative disclosures related to the use of proceeds in the "Green Bond Allocation Report as of December 31, 2022" of Covestro AG have not been prepared, in all material respects, in accordance with the Reporting Criteria.

It was not part of our engagement to review Covestro AG's Green Financing Framework and to report on the impacts.

Restriction of Use

This assurance report is solely addressed to Covestro AG, Leverkusen. We assume no responsibility with regard to any third party.

Our assignment for Covestro AG, Leverkusen, and professional liability is governed by the General Engagement Terms for Wirtschaftsprüfer (German Public Auditors) and Wirtschaftsprüfungsgesellschaften (German Public Audit Firms) (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften) in the version dated January 1, 2017 (https://www.kpmg.de/bescheinigungen/lib/aab_english.pdf). By reading and using the information contained in this assurance report, each recipient confirms having taken note of provisions of the General Engagement Terms (including the limitation of our liability for negligence to EUR 4 million as stipulated in No. 9) and accepts the validity of the attached General Engagement Terms with respect to us.

Cologne, July 14, 2023

KPMG AG
Wirtschaftsprüfungsgesellschaft

14.07.2023

Krause

ppa. Dietrich

General Engagement Terms

for

Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften

[German Public Auditors and Public Audit Firms]

as of January 1, 2017

1. Scope of application

(1) These engagement terms apply to contracts between German Public Auditors (*Wirtschaftsprüfer*) or German Public Audit Firms (*Wirtschaftsprüfungsgesellschaften*) – hereinafter collectively referred to as "German Public Auditors" – and their engaging parties for assurance services, tax advisory services, advice on business matters and other engagements except as otherwise agreed in writing or prescribed by a mandatory rule.

(2) Third parties may derive claims from contracts between German Public Auditors and engaging parties only when this is expressly agreed or results from mandatory rules prescribed by law. In relation to such claims, these engagement terms also apply to these third parties.

2. Scope and execution of the engagement

(1) Object of the engagement is the agreed service – not a particular economic result. The engagement will be performed in accordance with the German Principles of Proper Professional Conduct (*Grundsätze ordnungsmäßiger Berufsausübung*). The German Public Auditor does not assume any management functions in connection with his services. The German Public Auditor is not responsible for the use or implementation of the results of his services. The German Public Auditor is entitled to make use of competent persons to conduct the engagement.

(2) Except for assurance engagements (*betriebswirtschaftliche Prüfungen*), the consideration of foreign law requires an express written agreement.

(3) If circumstances or the legal situation change subsequent to the release of the final professional statement, the German Public Auditor is not obligated to refer the engaging party to changes or any consequences resulting therefrom.

3. The obligations of the engaging party to cooperate

(1) The engaging party shall ensure that all documents and further information necessary for the performance of the engagement are provided to the German Public Auditor on a timely basis, and that he is informed of all events and circumstances that may be of significance to the performance of the engagement. This also applies to those documents and further information, events and circumstances that first become known during the German Public Auditor's work. The engaging party will also designate suitable persons to provide information.

(2) Upon the request of the German Public Auditor, the engaging party shall confirm the completeness of the documents and further information provided as well as the explanations and statements, in a written statement drafted by the German Public Auditor.

4. Ensuring independence

(1) The engaging party shall refrain from anything that endangers the independence of the German Public Auditor's staff. This applies throughout the term of the engagement, and in particular to offers of employment or to assume an executive or non-executive role, and to offers to accept engagements on their own behalf.

(2) Were the performance of the engagement to impair the independence of the German Public Auditor, of related firms, firms within his network, or such firms associated with him, to which the independence requirements apply in the same way as to the German Public Auditor in other engagement relationships, the German Public Auditor is entitled to terminate the engagement for good cause.

5. Reporting and oral information

To the extent that the German Public Auditor is required to present results in writing as part of the work in executing the engagement, only that written work is authoritative. Drafts are non-binding. Except as otherwise agreed, oral statements and explanations by the German Public Auditor are binding only when they are confirmed in writing. Statements and information of the German Public Auditor outside of the engagement are always non-binding.

6. Distribution of a German Public Auditor's professional statement

(1) The distribution to a third party of professional statements of the German Public Auditor (results of work or extracts of the results of work whether in draft or in a final version) or information about the German Public Auditor acting for the engaging party requires the German Public Auditor's written consent, unless the engaging party is obligated to distribute or inform due to law or a regulatory requirement.

(2) The use by the engaging party for promotional purposes of the German Public Auditor's professional statements and of information about the German Public Auditor acting for the engaging party is prohibited.

7. Deficiency rectification

(1) In case there are any deficiencies, the engaging party is entitled to specific subsequent performance by the German Public Auditor. The engaging party may reduce the fees or cancel the contract for failure of such subsequent performance, for subsequent non-performance or unjustified refusal to perform subsequently, or for unconscionability or impossibility of subsequent performance. If the engagement was not commissioned by a consumer, the engaging party may only cancel the contract due to a deficiency if the service rendered is not relevant to him due to failure of subsequent performance, to subsequent non-performance, to unconscionability or impossibility of subsequent performance. No. 9 applies to the extent that further claims for damages exist.

(2) The engaging party must assert a claim for the rectification of deficiencies in writing (*Textform*) [Translators Note: *The German term "Textform" means in written form, but without requiring a signature*] without delay. Claims pursuant to paragraph 1 not arising from an intentional act expire after one year subsequent to the commencement of the time limit under the statute of limitations.

(3) Apparent deficiencies, such as clerical errors, arithmetical errors and deficiencies associated with technicalities contained in a German Public Auditor's professional statement (long-form reports, expert opinions etc.) may be corrected – also versus third parties – by the German Public Auditor at any time. Misstatements which may call into question the results contained in a German Public Auditor's professional statement entitle the German Public Auditor to withdraw such statement – also versus third parties. In such cases the German Public Auditor should first hear the engaging party, if practicable.

8. Confidentiality towards third parties, and data protection

(1) Pursuant to the law (§ [Article] 323 Abs 1 [paragraph 1] HGB [German Commercial Code: *Handelsgesetzbuch*], § 43 WPO [German Law regulating the Profession of Wirtschaftsprüfer: *Wirtschaftsprüferordnung*], § 203 StGB [German Criminal Code: *Strafgesetzbuch*]) the German Public Auditor is obligated to maintain confidentiality regarding facts and circumstances confided to him or of which he becomes aware in the course of his professional work, unless the engaging party releases him from this confidentiality obligation.

(2) When processing personal data, the German Public Auditor will observe national and European legal provisions on data protection.

9. Liability

(1) For legally required services by German Public Auditors, in particular audits, the respective legal limitations of liability, in particular the limitation of liability pursuant to § 323 Abs. 2 HGB, apply.

(2) Insofar neither a statutory limitation of liability is applicable, nor an individual contractual limitation of liability exists, the liability of the German Public Auditor for claims for damages of any other kind, except for damages resulting from injury to life, body or health as well as for damages that constitute a duty of replacement by a producer pursuant to § 1 ProdHaftG [German Product Liability Act: *Produkthaftungsgesetz*], for an individual case of damages caused by negligence is limited to € 4 million pursuant to § 54 a Abs. 1 Nr. 2 WPO.

(3) The German Public Auditor is entitled to invoke demurs and defenses based on the contractual relationship with the engaging party also towards third parties.

(4) When multiple claimants assert a claim for damages arising from an existing contractual relationship with the German Public Auditor due to the German Public Auditor's negligent breach of duty, the maximum amount stipulated in paragraph 2 applies to the respective claims of all claimants collectively.

(5) An individual case of damages within the meaning of paragraph 2 also exists in relation to a uniform damage arising from a number of breaches of duty. The individual case of damages encompasses all consequences from a breach of duty regardless of whether the damages occurred in one year or in a number of successive years. In this case, multiple acts or omissions based on the same source of error or on a source of error of an equivalent nature are deemed to be a single breach of duty if the matters in question are legally or economically connected to one another. In this event the claim against the German Public Auditor is limited to € 5 million. The limitation to the fivefold of the minimum amount insured does not apply to compulsory audits required by law.

(6) A claim for damages expires if a suit is not filed within six months subsequent to the written refusal of acceptance of the indemnity and the engaging party has been informed of this consequence. This does not apply to claims for damages resulting from scienter, a culpable injury to life, body or health as well as for damages that constitute a liability for replacement by a producer pursuant to § 1 ProdHaftG. The right to invoke a plea of the statute of limitations remains unaffected.

10. Supplementary provisions for audit engagements

(1) If the engaging party subsequently amends the financial statements or management report audited by a German Public Auditor and accompanied by an auditor's report, he may no longer use this auditor's report.

If the German Public Auditor has not issued an auditor's report, a reference to the audit conducted by the German Public Auditor in the management report or any other public reference is permitted only with the German Public Auditor's written consent and with a wording authorized by him.

(2) If the German Public Auditor revokes the auditor's report, it may no longer be used. If the engaging party has already made use of the auditor's report, then upon the request of the German Public Auditor he must give notification of the revocation.

(3) The engaging party has a right to five official copies of the report. Additional official copies will be charged separately.

11. Supplementary provisions for assistance in tax matters

(1) When advising on an individual tax issue as well as when providing ongoing tax advice, the German Public Auditor is entitled to use as a correct and complete basis the facts provided by the engaging party – especially numerical disclosures; this also applies to bookkeeping engagements. Nevertheless, he is obligated to indicate to the engaging party any errors he has identified.

(2) The tax advisory engagement does not encompass procedures required to observe deadlines, unless the German Public Auditor has explicitly accepted a corresponding engagement. In this case the engaging party must provide the German Public Auditor with all documents required to observe deadlines – in particular tax assessments – on such a timely basis that the German Public Auditor has an appropriate lead time.

(3) Except as agreed otherwise in writing, ongoing tax advice encompasses the following work during the contract period:

- a) preparation of annual tax returns for income tax, corporate tax and business tax, as well as wealth tax returns, namely on the basis of the annual financial statements, and on other schedules and evidence documents required for the taxation, to be provided by the engaging party
- b) examination of tax assessments in relation to the taxes referred to in (a)
- c) negotiations with tax authorities in connection with the returns and assessments mentioned in (a) and (b)
- d) support in tax audits and evaluation of the results of tax audits with respect to the taxes referred to in (a)
- e) participation in petition or protest and appeal procedures with respect to the taxes mentioned in (a).

In the aforementioned tasks the German Public Auditor takes into account material published legal decisions and administrative interpretations.

(4) If the German Public auditor receives a fixed fee for ongoing tax advice, the work mentioned under paragraph 3 (d) and (e) is to be remunerated separately, except as agreed otherwise in writing.

(5) Insofar the German Public Auditor is also a German Tax Advisor and the German Tax Advice Remuneration Regulation (*Steuerberatungsvergütungsverordnung*) is to be applied to calculate the remuneration, a greater or lesser remuneration than the legal default remuneration can be agreed in writing (*Textform*).

(6) Work relating to special individual issues for income tax, corporate tax, business tax, valuation assessments for property units, wealth tax, as well as all issues in relation to sales tax, payroll tax, other taxes and dues requires a separate engagement. This also applies to:

- a) work on non-recurring tax matters, e.g. in the field of estate tax, capital transactions tax, and real estate sales tax;
- b) support and representation in proceedings before tax and administrative courts and in criminal tax matters;
- c) advisory work and work related to expert opinions in connection with changes in legal form and other re-organizations, capital increases and reductions, insolvency related business reorganizations, admission and retirement of owners, sale of a business, liquidations and the like, and
- d) support in complying with disclosure and documentation obligations.

(7) To the extent that the preparation of the annual sales tax return is undertaken as additional work, this includes neither the review of any special accounting prerequisites nor the issue as to whether all potential sales tax allowances have been identified. No guarantee is given for the complete compilation of documents to claim the input tax credit.

12. Electronic communication

Communication between the German Public Auditor and the engaging party may be via e-mail. In the event that the engaging party does not wish to communicate via e-mail or sets special security requirements, such as the encryption of e-mails, the engaging party will inform the German Public Auditor in writing (*Textform*) accordingly.

13. Remuneration

(1) In addition to his claims for fees, the German Public Auditor is entitled to claim reimbursement of his expenses; sales tax will be billed additionally. He may claim appropriate advances on remuneration and reimbursement of expenses and may make the delivery of his services dependent upon the complete satisfaction of his claims. Multiple engaging parties are jointly and severally liable.

(2) If the engaging party is not a consumer, then a set-off against the German Public Auditor's claims for remuneration and reimbursement of expenses is admissible only for undisputed claims or claims determined to be legally binding.

14. Dispute Settlement

The German Public Auditor is not prepared to participate in dispute settlement procedures before a consumer arbitration board (*Verbraucherschlichtungsstelle*) within the meaning of § 2 of the German Act on Consumer Dispute Settlements (*Verbraucherstreitbeilegungsgesetz*).

15. Applicable law

The contract, the performance of the services and all claims resulting therefrom are exclusively governed by German law.