



# Covestro Corporate Commitment

## **Forced labour, slavery and human trafficking**

**UK Modern Slavery Act Statement** (financial year  
ending 31st December 2022)



## Corporate Commitment against forced labour, slavery and human trafficking (financial year 2022)

### Purpose

This statement is made in relation to [Section 54 of the UK Modern Slavery Act 2015](#) (the “Act”). Covestro’s understanding of slavery and servitude, forced or compulsory labour and human trafficking is based on the definitions given in the Act. Covestro has zero tolerance to any form of forced labour, modern slavery or human trafficking. We are committed to always acting ethically and with integrity and transparency in our business dealings. This statement sets out Covestro’s approach to safeguard against modern slavery in our business operations and supply chain.

### Our Business

In its core business, Covestro produces precursors for polyurethane foams and the high-performance plastic polycarbonate as well as precursors for coatings, adhesives, sealants, and specialty products, including films. Other noncore precursors, such as chlorine and by-products like styrene, are also part of Covestro’s product portfolio. The company’s materials are used in many areas of modern life, such as insulation for refrigerators and entire buildings, laptop and smartphone cases, medical technology as well as scratch-resistant and fast-drying vehicle coatings and film coverings for personal identification cards.

Covestro is organized in seven business entities. The Performance Materials segment focuses on delivering Covestro’s standard urethane components, standard polycarbonates, and base chemicals businesses. The Solutions & Specialties segment comprises six business entities: Engineering Plastics, Coatings & Adhesives, Tailored Urethanes, Thermoplastic Polyurethanes, Specialty Films, and Elastomers.

In the reporting year, Covestro operated 50 production sites and 13 Research and Development facilities in 21 countries in the EMLA, NA, and APAC regions. Covestro procured goods and services from some 16,000 suppliers in 61 countries for €14.5 billion. The procurement spending of Covestro’s main sites in Germany, the United States, and China accounted for 78% of Covestro’s global spending. Most of this amount – 81% - went to local suppliers in the individual countries.

### Covestro Commitments

The respect for human rights is an integral element of the business policies at Covestro and guides its social responsibility efforts. Covestro is committed to respecting and





safeguarding human rights on the basis of the [United Nations \(UN\) Declaration of Human Rights](#), [“Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy”](#) from the International Labour Organization (ILO) and the UN Guiding Principles on Business and Human Rights. Covestro is a member of the UN Global Compact and actively supports the national action plans and applicable national legislation on corporate human rights due diligence. Therefore, Covestro commits to apply due diligence to prevent violations in all of its activities and throughout its global supply chains and value chains. A key component of our commitment is zero tolerance towards child labour, forced labour, slavery and human trafficking.

### **Covestro Policies**

The principles of our human rights due diligence at Covestro are delineated in the Covestro Human Rights Policy Statement, various Corporate policies, Group regulations, and in our Supplier Code of Conduct. In these documents, Covestro has specified key international conventions and principles as the basis of its conduct and its expectations to business partners worldwide.

Within the supply chain, Covestro regards adherence to sustainability standards as a fundamental factor in value creation and an important lever for minimizing risks. Both current and new Covestro suppliers must meet not only economic standards but also social, ethical, and environmental standards as well as those related to corporate responsibility. All required standards, including those regarding the prevention of modern slavery, are defined in the Supplier Code of Conduct of Covestro, the basis for its collaboration with suppliers.

### **Organizational Responsibility for Human Rights Risk Management**

In 2022, the Board of Management of Covestro designated the head of the corporate Sustainability & Public Affairs function (Chief Sustainability Officer, CSO) as the Group Human Rights Officer. The Group Human Rights Officer reports directly to the Board of Management and is responsible for overseeing the functioning of the human rights risk management system at Covestro. Further, the heads of the functions responsible for managing relevant, prioritized human rights focal areas are nominated as risk owners respectively (Human Rights Risk Owners).

To support the Board of Management, the Group Human Rights Officer and the Human Rights Risk Owners, Covestro has established a cross-departmental working group (Human Rights Office), which is responsible for fully integrating human rights requirements into the group's activities, including safeguards against forced labour, child labour, slavery and human trafficking. Our overarching management approach is



based on the [UN's Guiding Principles on Business and Human Rights \(UNGPs\)](#), the ["Guidelines for Multinational Enterprises" from the Organization for Economic Cooperation and Development \(OECD\)](#) and operates in line with applicable national legislation on corporate human rights due diligence.

The Human Rights Office works under the guidance of the Global Human Rights Officer and its human rights-related responsibilities include developing and implementing the comprehensive management approach, systematically assessing risks, such as modern slavery, prioritizing and monitoring the implementation of individual measures, planning and conducting trainings, preparing reports for the Board of Management, and communicating about this issue in general. The involved functions are responsible for, among other things, identifying and assessing risks and developing preventative measures and related effectiveness monitoring. These measures are designed and implemented in the departments in consultation with the Human Rights Office.

### **Human Rights Risk Analysis**

The starting point for human rights due diligence at Covestro is a risk analysis that identifies and assesses actual or potential negative impacts on human rights that Covestro could cause, contribute to or be directly linked with as a result of its business activities. The comprehensive risk analysis, which is conducted every three to four years, first identifies all potentially relevant human rights risks, including forced labour and modern slavery risks. On a yearly as well as on an ad hoc basis, the relevant risks are then discussed with the respective business entities and corporate functions and are prioritized for further management, depending on the gross assessment of the severity of the potential human rights violation and its likelihood. Potential human rights violations assigned with the highest degree of severity based on the scale, scope, and irremediability of the potential violations, always take top priority. For its suppliers, Covestro analyses and prioritizes human rights risks using a combination of country and industry or sector risks, based on recognized external sources which include forced labour and modern slavery indices.

### **Prioritized Risks**

The human rights focal areas we have identified primarily relate to working conditions and health effects on workers and contractors at sites of Covestro and in the supply chain. Forced labour is included in the focal areas and is prioritized for its severity. For the chemical production industries, we consider the likelihood for forced labour, modern slavery and human trafficking to be generally low. However, the salient risks of forced and child labour are prioritized for certain supplier industry and country combinations. In adjacent areas like supply chain services, including logistics, and





ancillary services, such as facility management, we also assess a higher likelihood of the potential risk for forced labour.

### **Preventative & Remedial Measures (including Training & Dialogue)**

In accordance with the risk-based approach recommended in the UN Guiding Principles, the Covestro Human Rights Risk Owners assess the suitability of existing measures, and when necessary, implement new appropriate measures, for preventing or mitigating negative impacts on human rights in the identified human rights focal areas.

### **Own Business Area**

Many measures in the areas of health and safety, product stewardship, compliance, human resources, and sustainable supplier management have long been integrated at Covestro and aim to prevent or mitigate negative human rights impacts. These measures are largely integrated into the existing company-wide management systems at Covestro, including the Integrated Management System over HSEQ, the Compliance Management System, the Human Resources Process Landscape, and other corporate governance frameworks.

The Human Rights Office organizes trainings on human rights aspects relevant to the company's operations and its value chain. Further, the Human Rights Office regularly communicates about human rights in the company and gives guidance to the individual corporate functions on how to fully integrate human rights requirements, of which modern slavery is included, into the company's management systems. In the year under review, the human rights requirements and Covestro's human rights management approach were presented to, among others, the management bodies of all Covestro's business entities. In addition, human rights-related training was given to the human rights caretakers in the business entities.

If there are reasonable suspicions or concrete indications of human rights violations within Covestro, the local Compliance Officer investigates the facts based on Group wide standards which are outlined in a Group policy. In the event that Covestro has directly caused a human rights violation, Covestro is committed to work quickly to stop or change the responsible business activities, in order to end the violation. Any human rights violation caused by a Covestro employee are evaluated and organizational or disciplinary measures may be taken, if necessary.

### **Vis-à-vis Direct Suppliers**

In the supply chain of Covestro, the Supplier Code of Conduct has been integrated into the electronic ordering systems and contracts across the Covestro Group. New



and renewed supply agreements, in particular, generally contain special clauses requesting that suppliers adhere to the sustainability requirements outlined in the Supplier Code of Conduct, including those related to the prevention of modern slavery, and entitling Covestro to verify compliance. Covestro is a member of [Together for Sustainability \(TfS\)](#), a joint initiative undertaken by the chemical industry for promoting sustainability in the supply chain, that now includes 40 companies. Using a standardized TfS assessment process, Covestro evaluates whether the suppliers maintain the required sustainability standards. A structured prioritization process is then carried out to select the suppliers to be evaluated through an online assessment or an on-site audit unless recent audit or assessment results are available.

In addition, dialogue and close collaboration are essential in enabling suppliers to successfully comply with Covestro's sustainability requirements. Covestro offers its suppliers a range of opportunities for training and dialogue. This provides the foundation for building reliable relationships and enables us to identify and eliminate issues at an early stage. Continually improving suppliers' sustainability performance is a priority for Covestro and is supported by the TfS initiative, which regularly organizes supplier days and promotes further training, among other activities. The TfS Academy, which was launched in April 2022, offers buyers in the chemical industry and their suppliers a platform on which they can expand and deepen their knowledge, keep up to date with trends, and make their contribution to creating more sustainable, more innovative, and more resilient supply chains. The TfS Academy currently provides access to more than 335 courses in ten languages. Trainings include introductory courses to human rights, focal courses on specific human rights such as child labour or forced labour, along with courses focusing on supplier human rights due diligence.

If there are reasonable suspicions or concrete indications of human rights violations in the supply chain of Covestro, it investigates them carefully and consistently. Covestro expects its business partners to cooperate in clarifying the surrounding facts within a reasonable time frame. In the event that Covestro finds, that through its business activities, it has contributed to or is indirectly linked to human rights violations by one of its direct or indirect suppliers, it is prepared to take measures to address the violation. Depending on the severity of the violation, Covestro reserves the right to respond appropriately in connection with its business partners.

### **Complaints Procedure**

Covestro expressly encourages reporting of possible human rights violations within the company as well as at suppliers' companies. A whistle-blower tool is available for reporting violations, which consists of a worldwide hotline and an online tool. Covestro





therefore enables employees and third parties to anonymously disclose any potential violations in our own operations or at its direct or indirect suppliers. A defined process is followed to investigate reported potential human rights violations which is based on engagement with (potentially) affected stakeholders. No confirmed cases of human rights violations, including those related to forced labour, modern slavery or human trafficking, were reported through the Group-wide grievance mechanism in 2022.

### **Effectiveness Monitoring**

Appropriate qualitative and quantitative indicators, along with internal and external sources, are used to assess the human rights measures at Covestro to review their effectiveness in preventing negative impacts on human rights in existing management processes. In the year 2022, the functions represented in the Human Rights Office reported on a monthly basis on the implemented measures and any potentials findings regarding their effectiveness. Moreover, the effectiveness of the company's complaints procedure and remedial actions are reviewed annually and on an ad hoc basis.

In addition, none of the supplier assessments conducted in 2022 revealed any indication of child or forced labour. Covestro had no cause to terminate a supplier relationship in the reporting year or in the previous year solely on account of an externally determined result or a serious sustainability deficit, e.g., human rights violations like child labour or forced labour.

### **Reporting**

Every year, Covestro communicates its human rights activities to the public in its Group Management Report, which is assured by external auditors. Moreover, the Group Human Rights Officer and the Human Rights Office report regularly (no less than once a year) to the Board of Management on the status of human rights due diligence and the systematic integration of these requirements into the management systems at Covestro.

### **Approval for this Statement**

This statement was approved by the Board of Management of Covestro AG on March 23<sup>rd</sup>, 2023.

**Dr. Markus Steilemann**

Chief Executive Officer

March 23<sup>rd</sup>, 2023