

TO OUR STOCKHOLDERS

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REPORT OF THE SUPERVISORY BOARD



Dr. Richard Pott, Chairman of the Supervisory Board

Dear Stockholders,

During the reporting period, the Supervisory Board of Covestro AG performed its duties with due care in accordance with the law, the Articles of Incorporation, and the rules of procedure. During fiscal 2019, it monitored the conduct of the company's business by the Board of Management with regular frequency based on detailed written and oral reports received from the Board of Management, and also acted in an advisory capacity. The discussions between the Supervisory Board and Board of Management were always constructive and were conducted in the spirit of openness and trust.

The Supervisory Board Chair was in regular contact with the Board of Management outside of Supervisory Board meetings and remained informed about current developments in the company's business performance and material transactions. In addition, the Chair of the Supervisory Board was in close contact with the Board of Management Chair to discuss important questions and decisions one on one. The full Supervisory Board was informed in detail about the content of these discussions no later than during the next meeting.

In this way, the Supervisory Board was kept regularly and fully informed in the respective meetings about the company's intended business strategy, corporate planning (including financial, investment, and human resources planning), the company's profitability, the state of the business, and the situation of the company and the Group (including the risk situation, risk management, and the compliance situation). Where Board of Management decisions or actions required the approval of the Supervisory Board during the reporting period, whether by law, or under the Articles of Incorporation or the rules of procedure, the draft resolutions were inspected and thoroughly discussed by the members of the Supervisory Board at its meetings, sometimes after preparatory work by the responsible committees, or approved in writing on the basis of documents circulated to the members. The Supervisory Board was always directly involved in decisions of material importance to the company. It thoroughly discussed the business trends described in the reports from the Board of Management and the prospects for the development of the Covestro Group as a whole, the individual segments, and the regions. The Supervisory Board continually ensured that the actions of the Board of Management were lawful, due and proper, and appropriate.

Meetings of the full Supervisory Board and member attendance

In fiscal year 2019, the Supervisory Board held a total of six regular meetings, all of which were also attended by at least one member of the Board of Management, except where issues were discussed that required them to be absent.

The average attendance rate at the meetings of the full Supervisory Board and of its committees was over 98% in 2019. No member of the Supervisory Board attended fewer than half of the meetings of the full Supervisory Board and of the committees to which he or she belonged.

Specifically, the members of the Supervisory Board attended the meetings of the Supervisory Board and its committees, as follows. Three committee meetings were held by telephone conference.

Member of the Supervisory Board	Meeting attendance (including committee meetings)	Attendance rate (%)
Dr. Richard Pott (Chair)	19/19	100.0
Ferdinando Falco Beccalli	9/9	100.0
Dr. Christine Bortenlänger	6/6	100.0
Johannes Dietsch	15/16	93.8
Peter Hausmann	9/10	90.0
Petra Kronen (Vice Chair)	16/16	100.0
Irena Küstner	10/10	100.0
Dr. Ulrich Liman	12/12	100.0
Prof. Dr. Rolf Nonnenmacher	10/10	100.0
Regine Stachelhaus	9/9	100.0
Marc Stothfang	6/6	100.0
Frank Werth	6/6	100.0
Average attendance rate		98.4

Only in two cases – one meeting of the Human Resources Committee and one meeting of the Audit Committee – did a member of the respective committee not attend on short notice for personal reasons.

Based on its composition and experience, the Supervisory Board as a whole has in-depth industry expertise in the polymer sector in which Covestro operates.

In the 2019 reporting period, personal continuing education was again an important activity for Supervisory Board members. For example, members visited the Covestro production site in Antwerp (Belgium) and attended an event with a guest lecture, which addressed developments relevant to the chemical industry at the EU level. The Supervisory Board also participated in a day-long workshop to review the core elements of the Group's strategy in connection with a visit to the K 2019 plastics trade fair, at which Covestro exhibited. Moreover, the Supervisory Board considered the effects of national industrial policy and international trade conflicts on China's chemical market as part of another guest lecture and in-depth discussion. Information was also exchanged and discussed regarding an issue pertaining to corporate law.

Principal topics discussed by the Supervisory Board

The deliberations of the Supervisory Board focused on the Board of Management's regular reports on business activities, which contained detailed information on the development of the sales and earnings for the Group and the segments as well as on the strategy, opportunities and risks situation, and personnel matters at Covestro. The Supervisory Board also concentrated on the following topics in its individual meetings:

In its meeting on February 22, 2019, the Supervisory Board discussed at length the results of its effectiveness and efficiency review performed as a self-evaluation based on a written questionnaire answered by Supervisory Board members. The main topics covered were the Supervisory Board meeting process; cooperation with the Board of Management; the provision of information to the Supervisory Board; the responsibilities, composition and work of the committees; and cooperation with the stockholder and employee representatives. On the whole, the Supervisory Board's activity was evaluated and found to be efficient by its members. Moreover, the Supervisory Board extensively discussed the financial statements of Covestro AG and the consolidated financial statements of the Covestro Group for fiscal 2018, the combined management report including the Group's nonfinancial statement, the proposal for the use of the distributable profit, as well as the agenda and proposed resolutions for the 2019 Annual General Meeting. The Supervisory Board also thoroughly reviewed the audit report and the auditor's oral report concerning the material results of the audit. In addition, the Supervisory Board examined internal risk reporting, which sets out the material risks for the Group and current developments in this regard, as well as the relevant counter-measures. Furthermore, the organization, statistics, training efforts, processes, and effectiveness of the Group's compliance management system were reviewed in depth.

Prior to the Annual General Meeting (AGM) on April 12, 2019, the Supervisory Board mainly met to prepare for the upcoming AGM.

At the Supervisory Board meeting on June 4, 2019, in Antwerp (Belgium), the focus was particularly on the appointment of the new Board of Management member responsible for Innovation, Marketing and Sales, Sucheta Govil. In addition, Supervisory Board members extensively addressed the current organization of the Board of Management as well as the focus of the other Board of Management areas of responsibility. Furthermore, certain aspects of the investment strategy and planning were discussed. The Supervisory Board also received information about the capabilities and potential for value creation unlocked by digitalization in Group-wide research and development.

At its meeting on August 27, 2019, the Supervisory Board again discussed ongoing capital expenditures at length, particularly with a view to cost efficiency and planning accuracy. The Supervisory Board was additionally informed in detail about the importance of the circular economy for Covestro.

Taking account of the extensive dialogue and discussions that occurred during a strategy workshop that was conducted on the previous day, the Supervisory Board in its meeting on October 18, 2019, again addressed the strategy implementation thus far and continued considerations with respect to the six key elements: investment, innovation, M&A, efficiency and effectiveness, digitalization, and corporate culture. The Supervisory Board was also informed about the focus and direction of the HR strategy. In this meeting, the Supervisory Board also voted to issue an unqualified declaration of conformity with the German Corporate Governance Code in the February 7, 2017, version.

In its last meeting on December 3, 2019, the Supervisory Board deliberated on the review of the appropriateness of the Board of Management's compensation, including the long-term compensation components for the period from 2020 to 2023. The Board additionally discussed in detail the financial planning for fiscal 2020 proposed by the Board of Management and the medium-term outlook also presented. Moreover, the Supervisory Board approved the proposed financial framework for fiscal 2020.



Supervisory Board (from left to right): Irena Küstner, Prof. Dr. Rolf Nonnenmacher, Petra Kronen, Dr. Ulrich Liman, Dr. Richard Pott, Ferdinando Falco Beccalli, Johannes Dietsch, Frank Werth, Regine Stachelhaus, Marc Stothfang, Peter Hausmann and Dr. Christine Bortenlänger

Committees of the Supervisory Board

In the past fiscal year, the Supervisory Board again had four committees set up for the purpose of exercising its duties efficiently. The committees prepared resolutions by the full Supervisory Board and provided information on other topics to be discussed by this body. Moreover, certain decision-making powers of the Supervisory Board were assigned to the committees to the extent legally permissible. The Supervisory Board currently has a Presidial Committee, an Audit Committee, a Human Resources Committee and a Nominations Committee. The tasks and responsibilities of the committees and their current composition are described in greater detail in "Declaration on Corporate Governance" under "Committees of the Supervisory Board" in the Combined Management Report.

The meetings and decisions of the committees, and especially the meetings of the Audit Committee, were prepared on the basis of reports and explanations provided by the Board of Management. The committee chairs regularly provided comprehensive reports on the work of the committees to the full Supervisory Board.

In 2019, the **Presidial Committee** was not required to convene in its capacity as the mediation committee.

The **Audit Committee** met a total of four times on February 21, April 25, July 23, and October 25, 2019, in the presence of the CFO. Two of these meetings were also attended by the auditor. The committee conducted a preparatory review of the financial statements of Covestro AG, the consolidated financial statements of the Covestro Group, the combined management report, and the proposal for the use of the distributable profit for the Supervisory Board and provided a detailed explanation of the audit report in each case. The auditor also presented an oral report on the material findings of the audit. The combined management report also included the Group's nonfinancial statement. In conducting its review, the Audit Committee found no grounds for objections. In addition, the Audit Committee discussed with the Board of Management the half-year financial report in light of the results of the review by the auditor, and the Q1 and Q3 2019 interim statements prior to their publication.

The Audit Committee monitored the accounting and financial reporting process as well as the effectiveness of the internal control system and the risk management system based on information such as reporting by the head of the internal audit department and the auditor of the financial statements. No material weaknesses were identified in the internal control system for financial reporting purposes or the risk early warning system.

The Audit Committee additionally undertook preparations for the Supervisory Board's proposal for the appointment of the financial statement auditor by the Annual General Meeting, the engagement of the auditor and agreement on the auditor's fee. It monitored the effectiveness of the audit and the independence of the auditor as well as the supplementary non-audit services provided in addition to the financial statement audit. In this context, the committee had the auditor confirm their independence.

The Audit Committee continually exchanged information with the auditor about the material audit risks and the necessary direction of the audit, as well as discussing the areas of focus for the audit proposed by the auditor.

Furthermore, the Audit Committee obtained information on an ongoing basis on enhancements to the compliance management system (particularly regarding anti-corruption measures), on the handling of suspected compliance violations, progress in significant litigation, new legal and regulatory risks, and on the risk situation, risk tracking, and risk monitoring in the Group. The internal audit department provided regular reports about risk assessments.

The heads of the relevant departments also participated in meetings of the Audit Committee on selected agenda items, reported on these and answered questions. In addition, the Chair of the Audit Committee discussed important matters between meetings, particularly with the Supervisory Board Chair, the CFO and the auditor. The key results of these discussions were reported regularly to the Audit Committee and the Supervisory Board.

In the year under review, the **Human Resources Committee** met a total of six times on February 21, April 12, June 3, August 27, October 10, and December 3, 2019. In its first meeting, the Committee primarily considered the target attainment Board of Management members and received information about the status of the search for a successor for the Board of Management member responsible for Innovation, Marketing and Sales (Chief Commercial Officer). At the meeting on June 3, the Human Resources Committee concentrated mainly on the appointment of the new Board of Management member Sucheta Govil and her employment contract. During the fourth and fifth meetings, the committee was informed about the Covestro human resources strategy and discussed the long-term succession planning for the Board of Management. In its last meeting on December 3, 2019, the Board held preparatory discussions regarding the subsequent Supervisory Board meeting on the review of the appropriateness of the Board of Management's compensation.

In the reporting period, the **Nominations Committee** met for a total of three meetings held on February 22, May 21, and November 19, 2019. The meetings focused on issues such as the review of the competence profile and diversity concept for the Supervisory Board and preparation for selecting candidates for the election of new Supervisory Board members at the 2020 Annual General Meeting. The Nominations Committee developed a proposal for filling stockholder representative positions that will be presented to the Supervisory Board for a vote. This proposal is based on an analysis of the skills required overall for and already represented on the Covestro Supervisory Board, taking into account the goals that provide for diversity.

Financial statements/audit

The financial statements of Covestro AG were prepared according to the requirements of the German Commercial Code (HGB) and German Stock Corporation Act (AktG). The consolidated financial statements of the Covestro Group were prepared according to the German Commercial Code and the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). The combined management report including the Group's nonfinancial statement was prepared according to the German Commercial Code. The auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, audited the financial statements of Covestro AG, the consolidated financial statements of the Covestro Group, and the combined management report including the Group's nonfinancial statement. KPMG AG Wirtschaftsprüfungsgesellschaft has audited Covestro's financial statements since fiscal 2018. Dr. Markus Zeimes and Oliver Geier signed the Independent Auditor's Report for fiscal year 2019. Both first signed the Independent Auditor's Report as of December 31, 2018. The conduct and results of the audit are explained in the auditor's reports. According to the auditor's results, Covestro has complied with the German Commercial Code, the German Stock Corporation Act and/or the IFRS regulations as adopted by the EU, and issues unqualified opinions on the financial statements of Covestro AG and the consolidated financial statements of the Covestro Group. The financial statements of Covestro AG, the consolidated financial statements of the Covestro Group, the combined management report including the Group's nonfinancial statement, and the audit reports were submitted to all members of the Supervisory Board. At meetings to discuss the financial statements, the Audit Committee and the Supervisory Board reviewed the financial statement documentation in depth after the auditor's report was presented. The auditor attended both meetings.

The Supervisory Board examined the financial statements of Covestro AG, the proposal for the use of the distributable profit, the consolidated financial statements of the Covestro Group, and the combined management report including the Group's nonfinancial statement. It had no objections and thus concurred with the result of the audit.

The Supervisory Board approved the financial statements of Covestro AG and the consolidated financial statements of the Covestro Group prepared by the Board of Management. The financial statements of Covestro AG are thus confirmed. The Supervisory Board is in agreement with the combined management report and, in particular, with the assessment of the future development of the enterprise. It also concurs with the dividend policy and the decision to add to the company's reserves. The Supervisory Board agreed with the proposal for the use of the distributable profit, which proposes a dividend of €2.40 per share.

Corporate governance and declaration of conformity

During the reporting year, the Supervisory Board again extensively addressed Covestro's corporate governance, taking into account the German Corporate Governance Code and, together with the Board of Management, submitted an unqualified declaration of conformity in accordance with Section 161 of the German Stock Corporation Act in October 2019 based on the Code in the February 7, 2017, version.

Change in the composition of the Supervisory Board

Peter Hausmann stepped down at the end of fiscal 2019 after retiring. The Supervisory Board would like to thank Peter Hausmann for the good working relationship. The court appointed Petra Reinbold-Knape as his successor.

Expression of appreciation from the Supervisory Board

The Supervisory Board would like to thank the Board of Management and all of Covestro's employees for their unwavering dedication in the 2019 fiscal year. We wish you all success in further implementing the company's strategic goals.

Leverkusen, February 18, 2020

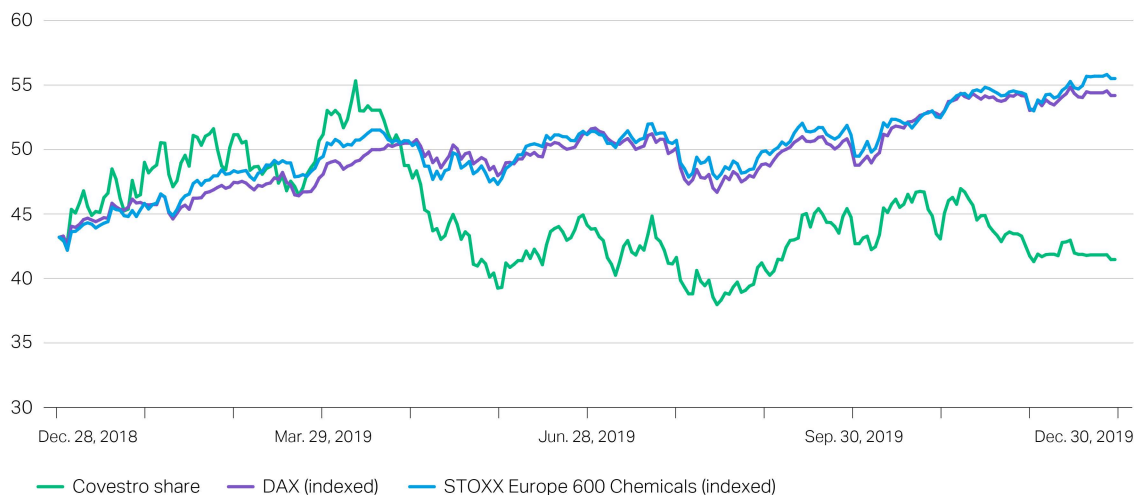
For the Supervisory Board

Dr. Richard Pott
Chairman

COVESTRO ON THE CAPITAL MARKET

Performance of Covestro stock versus market in fiscal year 2019

€ (Covestro share)



Covestro closing prices Xetra; source: Bloomberg

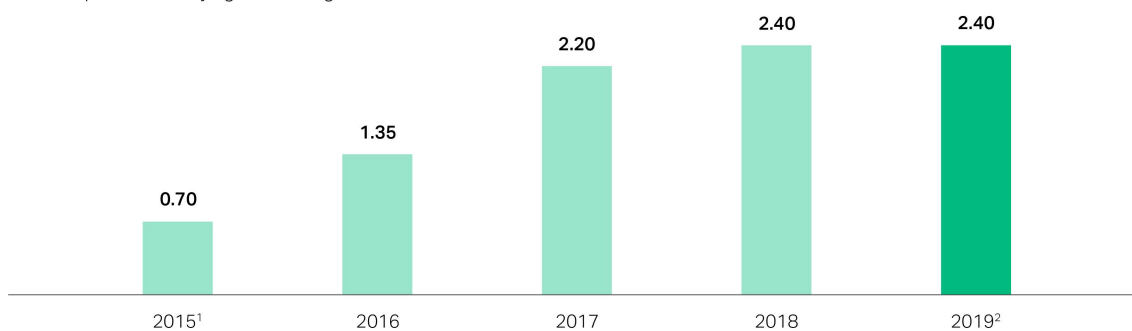
Cyclical chemical stocks under further pressure despite positive equity environment

European stock markets performed well in 2019, thereby recovering from a weak year on stock markets in 2018. Many indices such as the EURO STOXX 50* posted positive performances for the year. At the end of 2019, the DAX, which is relevant for Covestro, was up 25.5% compared with its value at year-end 2018, while the STOXX Europe 600 Chemicals** index gained 28.5% during the same period.

Cyclical chemical stocks continued to experience downward pressure, however, driven by uncertainties arising from ongoing trade conflicts and the slowing of global economic growth and industrial production. In this capital market environment, Covestro stock finished 2019 at a Xetra closing price of €41.45. Covestro reached its low for the year with a closing price of €37.95 on August 15, 2019. The high for the year was €55.32 on April 12, 2019.

Dividend performance

Dividend per share carrying dividend rights (€)



¹ Short fiscal year of Covestro AG

² Proposed dividend

* EURO STOXX 50: European stock index that reflects the share price performance of the 50 most important and highest revenue companies in Europe.

** STOXX Europe 600 Chemicals: Sector index put together by index provider STOXX. The STOXX Europe 600 comprises 600 companies across Europe.

In 2019, Covestro's share price was down 4.0% from its closing price of €43.18 in 2018. Including the dividend for the 2018 fiscal year of €2.40 per share paid out in April 2019, Covestro's stock performance (with dividend reinvestment) was 0.3%.

At the end of the reporting period, Covestro's market capitalization stood at around €7.6 billion based on the capital stock of 183 million shares. The average daily trading volume was approximately 1.3 million shares. In a ranking by German stock indices, Covestro therefore came in 24th in terms of trading volume and 39th in terms of market capitalization at the end of 2019.

Covestro share at a glance

		2018	2019
Average daily turnover	million shares	1.2	1.3
Year-end closing price	€	43.18	41.45
High	€	95.00	55.32
Low	€	41.90	37.95
Outstanding shares (closing date)	million shares	182.7	182.9
Market capitalization (closing date)	€ billion	7.9	7.6
Stock price development	%	-49.8	-4.0
Stock price performance (with dividend reinvestment)	%	-48.4	+0.3
Dividend per share	€	2.40	2.40

Covestro closing prices Xetra; source: Bloomberg

ADR program successful for third year

Since December 1, 2016, the American Depositary Receipt (ADR) program has granted global investors simplified access to Covestro stock. The Covestro ADR is traded over the counter in the United States under the COVTY ticker symbol. The total number of outstanding depositary receipts reached some 1.9 million at the end of 2019 (previous year: around 1.2 million) with monthly growth rates remaining high.

Moody's confirms credit rating

At the end of the first half of 2019, rating agency Moody's Investors Service, London (UK), reviewed Covestro's existing investment-grade rating and confirmed the company's rating on July 2, 2019. The Baa1 rating with a stable outlook puts Covestro in an excellent position for obtaining financing, particularly on the international debt market.

Buy recommendation from eleven analysts

At the end of 2019, Covestro was covered by 28 securities brokers. Of these, eleven analysts issued buy recommendations, and ten were neutral. Seven analysts recommended selling Covestro stock. The average share price target was approximately €46 at year-end.

Basic Covestro share information

Capital stock	€183,000,000
Outstanding shares (year-end)	182,864,685
Share class	No-par ordinary bearer shares
ISIN	DE0006062144
WKN	606214
Ticker symbol	1COV
Reuters symbol	1COV.DE
Bloomberg symbol	1COV GY
Market segment	Regulated market
Transparency level	Prime standard
Sector	Chemicals
Index	DAX