

TO OUR SHAREHOLDERS

Report of the Supervisory Board	22
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Covestro on the Capital Market	29
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Report of the Supervisory Board



Dr. Richard Pott, Chairman of the Supervisory Board

Dear Shareholders,

The coronavirus pandemic cast a shadow over the year 2020 across the globe. Covestro also faced numerous challenges as a result. Fortunately, our company's management was able to react quickly, decisively, and judiciously. With hindsight, we can see that the Board of Management made the right decisions to protect our employees, keep production operations and other business activities running, and therefore optimally guide the company through the pandemic. The Supervisory Board regularly exchanged information with the Board of Management and reviewed the effectiveness of the measures implemented. Covestro also took a major step in the future direction of the Group by making the decision to focus completely on the circular economy and embed this approach in the strategy. The planned acquisition of the Resins & Functional Materials (RFM) business from Netherlands-based Koninklijke DSM N.V. (DSM) additionally set the stage for the further sustainable growth of the Covestro Group. The Supervisory Board advised the Board of Management in all of these matters and therefore actively participated in securing Covestro's future.

The fiscal year 2020 was an unusual one for the work and activities of the Supervisory Board as well. For instance, we initially had to delay the Annual General Meeting due to the pandemic but were later able to successfully run it virtually. At this Annual General Meeting, the six shareholder representatives to the Supervisory Board were elected. And although only one Supervisory Board meeting could be held in-person as usual due to the extraordinary situation, the Board worked together very closely on a virtual platform.

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 2020, 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 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 2020, the Supervisory Board held a total of seven 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. From April 2020 onward, the meetings were held virtually as a rule due to the coronavirus pandemic.

The average attendance rate at the meetings of the full Supervisory Board and of its committees was over 95% in fiscal 2020. 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:

Member of the Supervisory Board	Meeting attendance (including committee meetings) ¹	Attendance rate (%)
Dr. Richard Pott (Chair)	20 / 20	100.0
Ferdinando Falco Beccalli	9 / 10	90.0
Dr. Christine Bortenlänger	6 / 8	75.0
Johannes Dietsch (until July 2020)	8 / 8	100.0
Petra Kronen (Vice Chair)	17 / 17	100.0
Irena Küstner	12 / 12	100.0
Dr. Ulrich Liman	10 / 10	100.0
Prof. Dr. Rolf Nonnenmacher	13 / 14	92.9
Petra Reinbold-Knape (since January 2020)	14 / 14	100.0
Regine Stachelhaus	12 / 12	100.0
Marc Stothfang	6 / 7	85.7
Patrick W. Thomas (since July 2020)	5 / 6	83.3
Frank Werth	7 / 7	100.0
Average attendance rate		95.9

¹ Six Supervisory Board and twelve committee meetings were held virtually.

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.

Despite the challenges posed by the coronavirus pandemic and the associated restrictions on physical events and travel, members of the Supervisory Board once again participated in continuing education in the 2020 reporting year. A particular highlight was a multi-hour virtual workshop on the topic of project management in chemical plant construction.

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 18, 2020, the Supervisory Board had an in-depth discussion about the annual and consolidated financial statements for fiscal 2019, the Group Management Report including the Group's nonfinancial statement, and the proposal for the use of the distributable profit. 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 countermeasures. Furthermore, the organization, statistics, training efforts, processes, and effectiveness of the Group's compliance management system were reviewed in depth. The Supervisory Board also talked at length about 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, composition and work of the committees; and cooperation with the shareholder and employee representatives. On the whole, the Supervisory Board's activity was evaluated and found to be appropriate and effective by its members. The Supervisory Board also discussed the agenda as well as the proposed resolutions for the Annual General Meeting initially planned for April and the election of the shareholder representatives to be held at the Annual General Meeting, along with human resources issues and compensation matters. The meeting additionally focused on modifying the financing framework for fiscal 2020 during the process of renewing the revolving credit facility. Finally, the Supervisory Board also held in-depth consultations on the planned introduction of the new vision for the company fully focused on the circular economy.

On April 28, 2020, the Supervisory Board took a vote in writing and approved the resolution passed by the Board of Management to hold Covestro AG's Annual General Meeting virtually on July 30, 2020.

Another resolution was passed in writing by the Supervisory Board on May 19, 2020, subject to future amendments, to take a 15-percent pay cut from the fixed compensation of Supervisory Board members for the period from June 1 to November 30, 2020, as a contribution to Covestro's solidarity initiative.

On May 25, 2020, the Board approved the issue of EUR 1 billion in bonds and the associated increase in the planned debt limit, also by way of a written vote.

At the Supervisory Board meeting on June 9, 2020, the main agenda item was preparing for the virtual Annual General Meeting on July 30, 2020. In addition, the Board considered the reappointment and extension of the contract with Dr. Thomas Toepfer as CFO.

Subsequent to the Annual General Meeting on July 30, 2020, at which all six shareholder representative candidates were elected, the Supervisory Board held its constituent meeting to elect its Chair and assign the shareholder representatives to committees. Dr. Richard Pott was again elected Chair of the Supervisory Board.

In its meeting on August 20, 2020, the Board thoroughly discussed the possible acquisition of the RFM business from DSM, including the potential financing options for the planned acquisition. Moreover, the Supervisory Board deliberated on the LEAP global transformation program intended to be implemented at Covestro to reorganize the company's structures, processes, and control mechanisms.

On September 29, 2020, the Supervisory Board held a special session to pass a resolution on the planned acquisition of the RFM business from DSM after lengthy discussions on the strategic aspects of this deal. The Supervisory Board also approved the planned financing structure for the acquisition along with the associated potential capital increase and the modified financing framework proposed by the Board of Management for obtaining outside funding.

In its meeting on October 8, 2020, the Supervisory Board discussed the Covestro Group's new strategy in depth. This strategy includes three components ("Become the best of who we are," "Drive sustainable growth," and "Become fully circular"), which are boosted by the acceleration of our digital transformation and the reinforcement of our We are 1 culture.

In its last meeting on December 10, 2020, the Supervisory Board deliberated at length on the compensation systems for its members and the review of the appropriateness of its compensation. Considering the significantly improved economic situation of the company and planned one-time compensation payment to the Board of Management and employees at the end of the year, the Supervisory Board resolved to set aside its proportional pay cut of May 19, 2020. In addition, it considered the compensation system for the Board of Management, including the long-term compensation components for the period from 2021 to 2024, which include a nonfinancial performance criterion for the first time. The Supervisory Board reviewed the Board of Management's fixed compensation on a regular basis. The Board additionally discussed in detail the financial planning for fiscal 2021 proposed by the Board of Management and the medium-term outlook also presented. The Supervisory Board approved the proposed financing framework for fiscal 2021. In this meeting, the Supervisory Board also voted to issue an unqualified declaration of conformity with the German Corporate Governance Code.



Supervisory Board (from left to right):

Top row: Dr. Richard Pott, Petra Kronen, Ferdinando Falco Beccalli, Dr. Christine Bortenlänger

Middle row: Irena Küstner, Dr. Ulrich Liman, Prof. Dr. Rolf Nonnenmacher, Petra Reinbold-Knape

Bottom row: Regine Stachelhaus, Marc Stothfang, Patrick W. Thomas, Frank Werth

Committees of the Supervisory Board

In the past fiscal year, the Supervisory Board again had four permanent committees set up for the purpose of exercising its duties efficiently. In addition, a special committee was formed temporarily to monitor and approve preparations for and performance of the capital increase for the announced acquisition of the RFM business from DSM. The members of this special committee were Dr. Richard Pott (Chair), Petra Kronen, Prof. Dr. Rolf Nonnenmacher, and Petra Reinbold-Knape, and it met twice on October 13, 2020.

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 the following permanent committees: Presidial Committee, Audit Committee, Human Resources Committee, and Nominations Committee.

The tasks and responsibilities of the standing 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 all 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 fiscal 2020, the [Presidial Committee](#) was not required to convene in its capacity as the mediation committee.

The [Audit Committee](#) met a total of five times on February 17, April 27, June 4, July 22, and October 26, 2020, 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 2020 interim statements prior to their publication.

The Audit Committee monitored the accounting and financial reporting process and the effectiveness of the internal control system, the risk management system, and the internal audit system and deliberated on the audit of the financial statements and compliance. In doing so, the Committee received reports from the head of Internal Audit and the financial statement auditor. No material weaknesses were identified in the internal control system for financial reporting purposes or the risk early warning system. Against the backdrop of the coronavirus pandemic, the Audit Committee held in-depth discussions on the current business performance and steps taken by the Board of Management, such as those to secure Covestro's liquidity, and ensured that the enhanced risk management and reporting requirements were fulfilled.

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 reporting period, the [Human Resources Committee](#) met for a total of three meetings held on February 18, June 9, and December 10, 2020. In its first meeting, the Committee primarily reviewed target attainment by the Board of Management members. At the meeting on June 9, the Human Resources Committee concentrated mainly on reappointing CFO Dr. Thomas Toepfer and extending his contract. In its third meeting on December 10, the Board held preparatory discussions regarding the subsequent Supervisory Board meeting on the Board of Management's compensation system. Moreover, the Board talked about lifting the proportional pay cut taken as a show of solidarity for the period from June to November 2020.

In the reporting period, the [Nominations Committee](#) met for a total of four meetings held on February 5, July 30, September 24, and November 5, 2020. The subject of the meetings was a review of the skills profile and diversity plan for the Supervisory Board and the subsequent preparations for nominating candidates for election to the Board as shareholder representatives.

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 2020. 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 EUR 1.30 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 December 2020 based on the Code in the December 16, 2019, version.

Change in the Composition of the Supervisory Board

On July 30, 2020, the Annual General Meeting reelected all shareholder representatives with one exception. Former Chair of the Board of Management of Covestro AG Patrick W. Thomas was newly elected to the Supervisory Board in the place of Johannes Dietsch, who stepped down. The Supervisory Board would like to thank Johannes Dietsch for his efforts on behalf of the company and for a good working relationship over the past five years.

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 and solidarity with the company in the challenging 2020 fiscal year. We wish you all success in implementing the company's new strategic direction.

The Supervisory Board would also like to thank Covestro's shareholders for the trust they have placed in the company.

Leverkusen, February 22, 2021

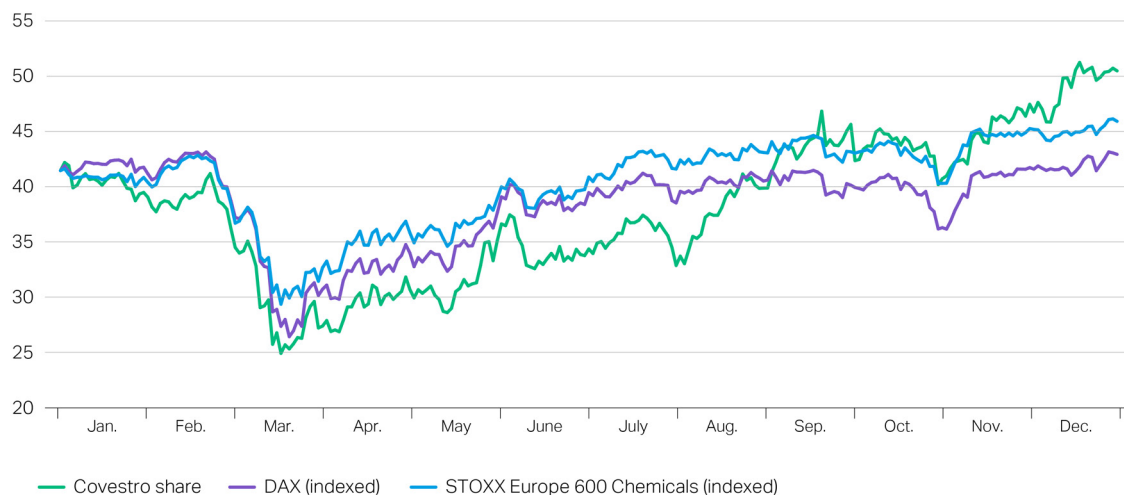
For the Supervisory Board

Dr. Richard Pott
Chairman

Covestro on the Capital Market

Performance of Covestro stock versus market in fiscal year 2020

€ (Covestro share)



Covestro closing prices Xetra; source: Deutsche Börse

Volatile stock market influenced by the pandemic

Much like the global economy, the stock markets felt the effects of the worldwide coronavirus pandemic in fiscal 2020. During the initial weeks of the year 2020, European equity markets continued the upward trajectory they began in the year 2019. Mid-February 2020 brought a steep drop in share prices in reaction to the global spread of the coronavirus: The EURO STOXX 50* index lost around 40% of its value by its low point on March 18, 2020, and a comparable crash took place on the DAX, the leading German index relevant for Covestro. By the end of the year, the stock markets had largely recovered from their low points, and they closed the year at the prior-year level. The EURO STOXX 50 ended fiscal year 2020 at 3,572 points, 4.7% lower than in the previous year, whereas the DAX finished the year at 13,719 points, a slight increase of 3.5% year over year.

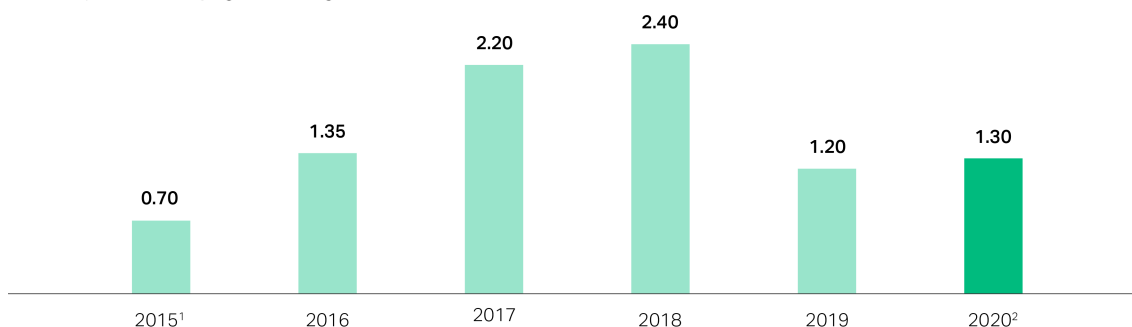
European chemical stocks essentially followed the same trajectory, but recovered at a faster pace in the second half of the year. As of December 31, 2020, the STOXX Europe 600 Chemicals index was up 10.8% from its level at the beginning of the year. At a Xetra closing price of €50.48, Covestro's share price also finished the volatile stock market year up significantly, by 21.8% over December 31, 2019. Covestro's stock marked its low for the year on March 16, 2020, closing at €24.90. The high for the year was €51.24 on December 15, 2020.

Including the dividend for the 2019 fiscal year of €1.20 per share paid out on August 4, 2020, Covestro's stock performance (with dividend reinvestment) was 26.2% compared with the 2019 year-end closing price of €41.45.

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

Dividend performance

Dividend per share carrying dividend rights (€)



¹ Short fiscal year of Covestro AG.

² Proposed dividend.

At the end of the reporting period, Covestro's market capitalization stood at around €9.8 billion based on the capital stock of 193.2 million shares. The average daily Xetra trading volume was approximately 1.5 million shares.

Covestro share at a glance

		2019	2020
Average daily turnover	million shares	1.3	1.5
Year-end closing price	€	41.45	50.48
High	€	55.32	51.24
Low	€	37.95	24.90
Outstanding shares (closing date)	million shares	182.9	193.2
Market capitalization (closing date)	€ billion	7.6	9.8
Stock price development	%	-4.0	21.8
Stock price performance (with dividend reinvestment)	%	0.3	26.2

Covestro closing prices Xetra; source: Deutsche Börse

ADR program successful for fourth year

Since December 1, 2016, the American Depositary Receipt (ADR) program has granted global investors simplified access to Covestro stock. Covestro ADRs are traded over the counter in the United States under the COVTY ticker symbol. The total number of outstanding ADRs reached some 2.2 million at the end of fiscal 2020 (previous year: around 1.9 million).

Virtual Annual General Meeting (AGM)

The Covestro AG 2020 Annual General Meeting was originally planned for April 17, 2020, in Bonn, but had to be postponed to a later date due to the rapid spread of the coronavirus at that time. Ultimately, a virtual AGM was held for the first time on July 30, 2020.

Due to the ongoing coronavirus pandemic and the resulting lack of certainty in planning physical events, Covestro AG also intends to hold the 2021 Annual General Meeting scheduled for April 16, 2021, in a virtual format.

Moody's downgrades Covestro's rating

On October 7, 2015, one day after Covestro stock was listed on the Frankfurt Stock Exchange, Covestro AG received an investment-grade rating of Baa2 from London-based Moody's Investors Service. Moody's raised the company's credit rating from Baa2 to Baa1 with stable outlook on July 30, 2018. On June 2, 2020, Moody's revised the rating downward again from Baa1 to Baa2 with a negative outlook. Covestro's credit rating therefore remains firmly in the investment-grade range. In the future, Covestro intends to continue to maintain financing structures and financial ratios that support a solid investment-grade rating.

Successful placement of euro bonds

On June 5, 2020, Covestro successfully placed €1.0 billion in euro bonds on debt markets. The bonds mature in February 2026 and June 2030 and carry coupon rates of 0.875% and 1.375%, respectively. Robust investor demand led to the placement volume being oversubscribed by more than ten times. The transactions enable Covestro to significantly extend the average maturity of the bond portfolio. The proceeds of the bond placement will be used to further reinforce Covestro's liquidity in view of the economic effects of the coronavirus pandemic and to provide funds to repay the existing bond maturing in fiscal 2021.

Successful capital increase for acquisition financing

In the course of acquiring the Resins & Functional Materials (RFM) business from Koninklijke DSM N.V., Heerlen (Netherlands), Covestro completed a capital increase partially utilizing Authorized Capital 2020. As part of the capital increase on October 13, 2020, an accelerated bookbuilding process was used to place 10,200,000 new, no-par value bearer shares with institutional investors. The new shares carry full dividend rights for fiscal year 2020. The placement price of €43.85 per share represents a discount of 0.9% from the Xetra closing price of €44.25 on October 13, 2020. The gross issuing proceeds before commission and costs of €447 million will be used to partly finance the announced RFM acquisition, which totals €1.6 billion. Covestro's capital stock of €183 million increased by 5.6% to €193 million as a result of this capital measure.

Majority of analysts issue buy recommendation for Covestro stock

At the end of the year 2020, Covestro was covered by 24 securities brokers. Of these, 17 analysts issued buy recommendations, and five were neutral. Two analysts recommended selling Covestro stock. The average share price target was approximately €55 at year-end.

Basic Covestro share information

Capital stock	€193,200,000
Outstanding shares (year-end)	193,160,544
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