CORPORATE GOVERNANCE REPORT

Covestro’s corporate governance is characterized by a sense of responsibility as well as ethical principles. Covestro places great importance on responsible corporate governance. This promise to stockholders, business partners and employees is based on our commitment to the German Corporate Governance Code (GCGC) and the Articles of Incorporation that reflect these standards. In pursuing our business activities, we follow company principles that exceed the requirements of the law and the German Corporate Governance Code. A key concern is combining business success with environmental and social goals, so when making any business decision, we always consider the three dimensions of sustainability – people, planet, profit. The principles guiding our actions, which are also based on these dimensions, are documented in six policies applicable throughout the Group. These provide our employees with guidance in the areas of value creation, sustainability, innovation, human resources, HSEQ (Health, Safety, Environment and Quality) and compliance. The standards contained in these policies are mandatory for all employees worldwide.

Additional information is available at: www.covestro.com/en/sustainability/service-downloads/policies-commitments

The Board of Management and Supervisory Board issued the current Declaration of Conformity with the GCGC pursuant to Section 161 of the German Stock Corporation Act (AktG) in October 2019. In this Declaration, Covestro AG affirms that it fulfills all of the recommendations of the GCGC in the February 7, 2017, version applicable in the fiscal year under review. The Board of Management and Supervisory Board provide information pertaining to corporate governance pursuant to Section 3.10 GCGC in the sections that follow, including a Declaration on Corporate Governance for Covestro AG pursuant to Section 289f and for the Covestro Group pursuant to Section 315d of the German Commercial Code (HGB). The contents of the Corporate Governance Report also comprise part of the combined management report. Pursuant to Section 317, Paragraph 2, Sentence 6 HGB, the disclosures in the Declaration on Corporate Governance are not included in the audit. In addition, the Compensation Report is part of the Corporate Governance Report. The full Corporate Governance Report, supplementary information on the Board of Management and Supervisory Board, and prior-year declarations of conformity with the GCGC are published on our website.

Declaration on Corporate Governance

The Board of Management and Supervisory Board issued a Declaration of Conformity in October 2019 that is posted on Covestro’s website.

In the year under review, Covestro AG was in compliance with all recommendations of the “Government Commission on the German Corporate Governance Code” as published by the Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette (Bundesanzeiger), and will remain so in the future.

Covestro AG also complies with all of the suggestions in the GCGC.

**Declaration of Conformity (in accordance with the German Corporate Governance Code)**

Declaration by the Board of Management and Supervisory Board concerning the German Corporate Governance Code (February 7, 2017 version) pursuant to Section 161 of the German Stock Corporation Act (AktG)

Since the last Declaration of Conformity as of December 2018, Covestro AG has complied with all recommendations of the German Corporate Governance Code in the version of February 7, 2017, and will comply with them in the future.

Leverkusen, October 2019

For the Board of Management: Dr. Markus Steilemann

For the Supervisory Board: Dr. Richard Pott
Composition, duties and activities of the Board of Management and Supervisory Board

Board of Management

Duties and activities of the Board of Management

The Board of Management runs the company on its own responsibility with the goal of sustainably increasing the company’s enterprise value and achieving defined corporate objectives. In doing so, it takes into account the interests of stockholders, employees and other stakeholders. The Board of Management performs its tasks according to the law, the Articles of Incorporation, the Board of Management’s rules of procedure, and the recommendations of the GCGC as stated in the Declaration of Conformity. It ensures compliance with the law and internal company policies, and works with the company’s other governance bodies in a spirit of trust.


The Board of Management defines the long-term goals and strategies for the company and sets forth the principles and policies for the resulting corporate policies. Furthermore, it coordinates and monitors the most important activities, defines the company’s portfolio, develops and deploys managerial staff, allocates resources and decides on the financial steering and reporting of the Covestro Group.

The members of the Board of Management bear joint responsibility for running the business as a whole. However, the individual members manage the areas assigned to them on their own responsibility within the framework of the decisions made by the full Board. The allocation of duties among the members of the Board of Management is defined in a written schedule appended to its rules of procedure.

The full Board of Management makes decisions on all matters of fundamental importance and in cases where a decision of the full Board is prescribed by law or otherwise mandatory. The rules of procedure of the Board of Management contain a list of topics that must be dealt with and resolved by the full Board.

Board of Management meetings are held regularly and are convened by the Chair of the Board of Management. Any member of the Board of Management may also demand that a meeting be convened, notifying the other members of the matter for discussion. The Board of Management makes decisions by a simple majority of the votes cast, except where unanimity is required by law. In the event of a tie, the Chair has the casting vote.

According to the Board of Management’s rules of procedure and schedule of duties, the Chair bears particular responsibility for coordinating all Board of Management areas. The Chair represents the Board of Management as well as Covestro AG and the Group in dealings with the public and other third parties.

Composition of the Board of Management

Under the schedule of duties, each Board member is assigned responsibility for particular duties and areas. The Board of Management members manage the areas assigned to them on their own responsibility within the framework of the decisions made by the full Board. The Chair of the Board of Management is appointed by the Supervisory Board. The Board of Management currently has no committees.
Areas of responsibility

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Areas of responsibility</th>
<th>Memberships on supervisory boards and memberships in comparable supervising bodies of German or foreign corporations</th>
</tr>
</thead>
</table>
| Dr. Markus Steilemann | Chief Executive Officer | • Communications  
• Corporate Audit  
• Human Resources  
• Strategy  
• Sustainability | Independent Non-Executive Director of Eurocell plc (United Kingdom) |
| Sucheta Govil         | Chief Commercial Officer | • Polyurethanes  
• Polycarbonates  
• Coatings, Adhesives, Specialties  
• Central Marketing  
• Innovation Management & Commercial Services  
• Supply Chain Center EMILA  
• Supply Chain Center NAFTA  
• Supply Chain Center APAC | Member of the Supervisory Board of TÜV Rheinland AG (since June 2019) |
| Dr. Klaus Schäfer     | Chief Technology Officer | • Global Project Engineering  
• Health, Safety, Environment & Quality  
• Production & Technology  
• Procurement  
• Site Management NRW  
• Site Management Baytown  
• Site Management Shanghai | |
| Dr. Thomas Toepfer    | Chief Financial Officer  
Labor Director    | • Accounting  
• Controlling  
• Finance  
• Information Technology  
• Investor Relations  
• Law, Intellectual Property & Compliance  
• Portfolio Development  
• Taxes | |

1 As of December 31, 2019

Objectives and concept for the composition of the Board of Management

Assisted by the Human Resources Committee and the Board of Management, the Supervisory Board arranges long-term succession planning for individual Board of Management members. It conducts a systematic process for selecting candidates for the Board of Management, while following the recommendations of the GCGC. In accordance with Covestro’s corporate values, it also observes the diversity principle, i.e. balancing the Board’s composition in terms of age, educational and professional background as well as a balanced ratio of male and female members. The Board of Management as a whole should represent a variety of backgrounds and possess extensive experience in corporate strategy, innovation, production and technology, marketing and sales, finance, leadership and sustainability management.

When filling specific Board of Management positions, the Supervisory Board also develops a skills profile that is based on the diversity criteria and used to evaluate candidates from within and outside the company. Decisions are made in the company’s interest and taking into account all of the circumstances of each individual case.
Implementation status of the objectives
Covestro AG’s Board of Management currently has four members. The goals regarding age structure and function-specific expertise were generally met in fiscal 2019. The Board of Management meets the education and professional background requirements. The Board of Management’s members ranged in age from 47 to 57 in fiscal 2019. As a whole, the Board of Management features members with a range of different educational backgrounds. In particular, they possess many years of experience in the following areas: engineering, physics and chemistry, business administration and finance. The members of the Board of Management have extensive professional experience in Germany and abroad as well as in the petroleum and chemical industries. In the course of their careers, they have held leadership positions in marketing and sales, corporate strategy, production and technology, and finance, among others, and possess extensive experience in human resources management and project management.

Promotion of equal participation of women and men in leadership positions
The German Law on Equal Participation of Women and Men in Leadership Positions in the Private and Public Sectors of May 24, 2015, requires certain companies in Germany to define target quotas for appointing women to their Supervisory Boards, and Boards of Management and the two management levels below, and to establish dates by which this quota is to be achieved in each case.

In accordance with Section 96, Paragraph 2 AktG, the Supervisory Board of a company which is both listed and subject to co-determination rules should be composed of at least 30% women and at least 30% men. As of December 31, 2019, the Supervisory Board of Covestro AG comprised four women and eight men. The minimum legal requirement has thus been met.

At the end of the first target attainment period on June 30, 2017, the Supervisory Board decided on a target quota of at least 40% for women on the Board of Management of Covestro AG and an implementation period through June 30, 2022. As of December 31, 2019, one woman and three men served on the Board of Management. Women therefore made up 25% of the Board of Management.

In addition, in 2017 the Board of Management set new targets for the first two management levels below the Board of Management. For the period until June 30, 2022, the goal of Covestro AG and the Covestro Group is to achieve a minimum of 30% women at both levels.

Targets for Covestro AG and the Covestro Group

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<tr>
<th></th>
<th>Covestro AG</th>
<th>Covestro Group</th>
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<tbody>
<tr>
<td></td>
<td>Status quo</td>
<td>Target</td>
</tr>
<tr>
<td>Management level 1</td>
<td>0%</td>
<td>30%</td>
</tr>
<tr>
<td>Management level 2</td>
<td>31%</td>
<td>30%</td>
</tr>
</tbody>
</table>

1 Direct reports to the Board of Management with management responsibilities
2 Direct reports to management level 1 with management responsibilities
Supervisory Board

Duties and activities of the Supervisory Board

The Supervisory Board advises and oversees the Board of Management. The Supervisory Board is directly involved in decisions on matters of fundamental importance to the company, regularly conferring with the Board of Management on the strategic alignment of Covestro AG and the Covestro Group, and on the implementation status of the business strategy. The Supervisory Board Chair coordinates its work and presides over the meetings. The Chair also represents the Supervisory Board outside the company and, in this capacity, is generally prepared to conduct Supervisory Board-specific discussions with investors. In accordance with the Articles of Incorporation, the Supervisory Board has issued rules of procedure governing its activity. These rules of procedure are applicable to the Supervisory Board as a whole as well as to individual Supervisory Board committees. They also include rules concerning the composition and work of the committees.

Rules of procedure for the Supervisory Board are available at:

The Board of Management informs the Supervisory Board about business policy, corporate planning and strategy in regular and open discussions. The Supervisory Board approves the annual budget and financing framework. It also approves the financial statements of Covestro AG and the consolidated financial statements of the Covestro Group, along with the combined management report, taking into account the auditor’s reports and explanations. The Supervisory Board also regularly meets without the Board of Management in attendance. Employee representatives often hold discussions with members of the Board of Management prior to Supervisory Board meetings.

Composition of the Supervisory Board

The Supervisory Board has 12 members, half of whom are stockholder representatives and half employee representatives pursuant to the German Codetermination Act. The six members representing employees comprise four Covestro employees and two union representatives. The stockholder representatives are elected individually by the Annual General Meeting.

The Supervisory Board discussed the requirements stipulated by Section 100, Paragraph 5 AktG. Based on its composition, the Supervisory Board as a whole has in-depth industry expertise in the chemical and polymer sector in which Covestro operates. This industry knowledge was acquired by the members either through their jobs or the requisite continuing education.
### Supervisory Board

<table>
<thead>
<tr>
<th>Name/function</th>
<th>Membership on the Supervisory Board</th>
<th>Position</th>
<th>Memberships on other supervisory boards and memberships in comparable supervising bodies of German or foreign corporations</th>
</tr>
</thead>
</table>
| Dr. Richard Pott (Chair)               | Member of the Supervisory Board since August 2015 | • Former Member of the Board of Management and Labor Director of Bayer AG | • Chair of the Supervisory Board of Covestro Deutschland AG  
• Member of the Supervisory Board of Freudenberg SE  
• Member of the Supervisory Board of SCHOTT AG |
| Petra Kronen (Vice Chair)              | Member of the Supervisory Board since October 2015 | • Chair of the Works Council of Covestro at the Uerdlingen site  
• Chair of the General Works Council of Covestro  
• Vice Chair of Covestro-European Forum  
• Employee of Covestro Deutschland AG | • Vice Chair of the Supervisory Board of Covestro Deutschland AG  
• Member of the Supervisory Board of Bayer Biestandskasse VVaG |
| Ferdinando Falco Beccalli              | Member of the Supervisory Board since October 2015 | • Chair of the Board of Falco Enterprises AG  
• Chair of the Board of Falco Holding SA  
• Chair of the Board of Falco Capital AG | • Member of the Supervisory Board of Covestro Deutschland AG |
| Dr. Christine Bortenlänger             | Member of the Supervisory Board since October 2015 | • Executive Member of the Board of Deutsches Kulturinstitut e.V. | • Member of the Supervisory Board of Covestro Deutschland AG  
• Member of the Supervisory Board of MTU Aero Engines AG  
• Member of the Supervisory Board of OSRAM GmbH  
• Member of the Supervisory Board of OSRAM Licht AG  
• Member of the Supervisory Board of TÜV SÜD AG  
• Member of the Supervisory Board of Covestro Deutschland AG |
| Johannes Dietsch                       | Member of the Supervisory Board since August 2015 | • Member of the Board of Management of thyssenkrupp AG (since February 2019) | • Member of the Supervisory Board of Covestro Deutschland AG  
• Member of the Supervisory Board of Covestro Deutschland AG (until December 2019)  
• Vice Chair of the Supervisory Board of 50Hertz Transmission GmbH (until January 2020) |
| Peter Hausmann                         | Member of the Supervisory Board until December 2019 | • Chair of the Works Council of Covestro at the Leverkusen site  
• Chair of the Group Works Council of Covestro  
• Vice Chair of the General Works Council of Covestro  
• Employee of Covestro Deutschland AG | • Secretary of the German Mining, Chemical and Energy Industrial Union (IG BCE) |
| Irena Küstner                          | Member of the Supervisory Board since October 2015 | • Chair of the Managerial Employees’ Committee of Covestro Deutschland AG | • Member of the Supervisory Board of Covestro Deutschland AG |
| Dr. Ulrich Liman                      | Member of the Supervisory Board since January 2018 | • Manager of Covestro Deutschland AG | • Member of the Supervisory Board of Covestro Deutschland AG  
• Member of the Supervisory Board of Continental AG  
• Member of the Supervisory Board of ProSiebenSat.1 Media SE |
| Prof. Dr. Rolf Nonnenmacher            | Member of the Supervisory Board since August 2015 | • Member of various supervisory boards | • Member of the Supervisory Board of Covestro Deutschland AG  
• Member of the Supervisory Board of CECONOMY AG  
• Member of the Supervisory Board of Leoni AG (since November 2019)  
• Member of the Supervisory Board of SPIE Deutschland und Zentraleuropa GmbH  
• Director of SPIE SA, France  
• Nonexecutive director of ComputaCenter plc, United Kingdom (until May 2019) |
| Regine Stachelhaus                     | Member of the Supervisory Board since October 2015 | • Former Member of the Board of Management and Labor Director of E.ON SE | • Chair of the Works Council of Covestro at the Brunsbüttel site  
• Chair of Covestro-European Forum  
• Employee of Covestro Deutschland AG |
| Marc Stothfang                         | Member of the Supervisory Board since February 2017 | • District Manager of the German Mining, Chemical and Energy Industrial Union (IG BCEI – district Leverkusen | • Member of the Supervisory Board of Covestro Deutschland AG |
| Frank Werth                            | Member of the Supervisory Board since September 2016 | | |
## Supervisory Board

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</tr>
</thead>
<tbody>
<tr>
<td>Petra Reinbold-Knape</td>
<td>Member of the Supervisory Board since January 2020</td>
<td>• Member of the Executive Committee of the German Mining, Chemical and Energy Industrial Union (IG BCE)</td>
<td>• Member of the Supervisory Board of Covestro Deutschland AG (since January 2020)</td>
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<td></td>
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<td></td>
<td>• Member of the Supervisory Board of Bayer AG</td>
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<td></td>
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<td></td>
<td>• Vice Chair of the Supervisory Board of Lausitz Energie Kraftwerke AG</td>
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<td></td>
<td></td>
<td></td>
<td>• Vice Chair of the Supervisory Board of Lausitz Energie Bergbau AG</td>
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</tbody>
</table>

### Committees of the Supervisory Board

**Presidial Committee:** The Presidial Committee comprises the Supervisory Board Chair and Vice Chair along with a further stockholder representative and a further employee representative. The Executive Committee serves primarily as the mediation committee pursuant to the German Codetermination Act. It has the task of submitting proposals to the Supervisory Board on the appointment of members of the Board of Management if the necessary two-thirds majority is not achieved in the first vote at a plenary meeting. Certain decision-making powers in connection with capital measures, including the power to amend the Articles of Incorporation, have also been delegated to this committee.

Members: Dr. Richard Pott (Chair), Peter Hausmann (until December 2019), Petra Kronen, Regine Stachelhaus and Petra Reinbold-Knape (since February 2020)

**Audit Committee:** The Audit Committee comprises three stockholder representatives and three employee representatives. The Chair of the Audit Committee in the reporting year, Prof. Dr. Rolf Nonnenmacher, satisfies the statutory requirements concerning expertise in the field of accounting or auditing that at least one member of the Supervisory Board and the Audit Committee is required to possess and is independent pursuant to Section 5.4.2 GCGC. The Audit Committee meets four times a year. It monitors the accounting and financial reporting process and is responsible for examining the financial statements, consolidated financial statements and management reports, and for discussing the quarterly and half-yearly reporting with the Board of Management. On the basis of the auditor's report, the Audit Committee develops proposals for resolutions by the Supervisory Board relating to the confirmation of the financial statements, the approval of the consolidated financial statements and the use of the distributable profit.

The Audit Committee is also responsible for the company’s relationship with the external auditor. It submits a proposal to the full Supervisory Board concerning the auditor’s appointment and may award the audit contract to the audit firm appointed on behalf of the Supervisory Board and agree the auditor’s remuneration. It also suggests areas of focus for the audit and monitors the quality of the audit as well as the independence and qualifications of the auditor. To this end, the Audit Committee has obtained a statement of independence from the auditor. The auditor is required to immediately inform the Audit Committee about all possible grounds for exclusion or lack of impartiality arising during the audit or review, and all findings and incidents material to the Supervisory Board’s responsibilities, particularly suspected accounting irregularities. Moreover, the Audit Committee has requested that the auditor inform the Committee and make a note in the audit report if facts are identified during the financial statement audit process that indicate an error in the Declaration of Conformity with the German Corporate Governance Code submitted by the Board of Management and Supervisory Board.

In addition, the Audit Committee monitors the effectiveness of the internal control system, the risk management system, the internal audit system and the compliance function.

Members: Prof. Dr. Rolf Nonnenmacher (Chair), Johannes Dietsch, Peter Hausmann (until December 2019), Petra Kronen, Irena Küstner, Dr. Richard Pott and Petra Reinbold-Knape (since January 2020)
Human Resources Committee: On this committee, too, there is parity of representation between stockholders and employees. It consists of the Supervisory Board Chair and three other members. The Human Resources Committee prepares the personnel decisions of the full Supervisory Board, which resolves on appointments or dismissals of members of the Board of Management. The Human Resources Committee resolves on behalf of the Supervisory Board on the service contracts of the members of the Board of Management. However, it is the task of the full Supervisory Board, based on the recommendations submitted by the Human Resources Committee, to resolve on the total compensation of the individual members of the Board of Management and the respective compensation components, as well as to regularly review the compensation system. The Human Resources Committee also discusses the long-term succession planning for the Board of Management.

Members: Dr. Richard Pott (Chair), Johannes Dietsch, Petra Kronen and Dr. Ulrich Liman

Nominations Committee: This committee carries out preparatory work when an election of stockholder representatives to the Supervisory Board is to be held. It suggests suitable candidates for the Supervisory Board to propose to the Annual General Meeting for election. The Nominations Committee comprises the Supervisory Board Chair, another stockholder representative on the Executive Committee and an elected stockholder representative.

Members: Dr. Richard Pott (Chair), Ferdinando Falco Beccalli and Regine Stachelhaus

In its report, the Supervisory Board provides detailed information about the work of the Supervisory Board and its committees.

Objectives for the composition of the Supervisory Board and diversity concept

The Supervisory Board should be composed in such a way that its members jointly possess the necessary expertise, skills and professional experience to properly perform their duties, and are sufficiently independent. The Supervisory Board assesses the independence of its members according to the recommendation contained in Section 5.4.2 GCGC.

Covestro AG’s Supervisory Board has agreed the following specific goals for its composition that align with the recommendations of the GCGC and at the same time provide for diversity in terms of age, independence and professional experience:

- The Supervisory Board has resolved that 75% of its members and more than half of the stockholder representatives on the Supervisory Board are to be independent.
- Absent of special circumstances, a Supervisory Board member shall not serve more than three full terms of office and shall not hold office beyond the end of the next Annual General Meeting following his or her 72nd birthday.
- The Supervisory Board shall not include more than two former members of the company’s Board of Management. Supervisory Board members may not perform executive functions or consulting activities for major competitors of the company or any Group company, and they must not be exposed to other significant conflicts of interest.
- At least two Supervisory Board members must have function-specific knowledge in each of the following areas:
  - Accounting and/or auditing
  - Strategy, mergers and acquisitions, capital markets
  - Marketing, sales, supply chain
  - Research and development, innovation
  - Technology, digitalization
  - Human resources, change management
  - Corporate governance, compliance
The Supervisory Board must have at least two members with experience in industries, sales markets and/or divisions of importance to Covestro, e.g. (polymer) chemistry, production and technology.

Taking into account the specific situation and international operations of Covestro and its affiliated companies, the Supervisory Board shall strive to ensure sufficient diversity among its members. Moreover, at least three members should have managerial experience in an international enterprise and/or experience serving on other supervisory boards or supervisory bodies.

The objectives described refer to the Supervisory Board as a whole unless resolved otherwise. However, since the Supervisory Board can only nominate candidates for election as stockholder representatives, it can only consider the objectives in making these nominations.

Implementation status of the objectives
The Supervisory Board has several members with international business experience and an international background. The objectives pertaining to age limits, length of service and independence are being met. In the opinion of the Supervisory Board, the stockholder representatives Dr. Richard Pott, Ferdinando Falco Beccalli, Dr. Christine Bortenlänger, Johannes Dietsch, Prof. Dr. Rolf Nonnenmacher and Regine Stachelhaus are independent pursuant to the GCGC. The requirements for function-specific knowledge are generally being met, but the specific goal of having at least two stockholders per field of expertise is not fulfilled in all areas.

Information about Covestro AG's current Supervisory Board members is available on our website at: www.covestro.com/en/company/management/supervisory-board

Stockholdings and reportable securities transactions by members of the Board of Management or Supervisory Board
In the year under review, members of the Board of Management and Supervisory Board and their close relatives are legally required to disclose all transactions involving the purchase or sale of Covestro AG securities where such transactions total €5,000 or more in a calendar year. Covestro publishes details of such transactions immediately on its website and also notifies the German Federal Financial Supervisory Authority accordingly. This information is provided to the company register for archiving.

Further Information on securities transactions by members of the Board of Management or Supervisory Board can be found at: www.covestro.com/en/investors/stock-details/disclosure-of-securities-transactions

Systematic risk management
Our enterprise risk management system ensures early identification of any financial or nonfinancial risks. We attempt to avoid or mitigate identified risks, or to transfer them to third parties (such as insurers) to the extent possible and economically acceptable.

The internal control system (ICS) for accounting and financial reporting enables the timely monitoring of risks to prevent or correct potential errors in accounting for business transactions. It thus ensures the availability of reliable data on the company's financial situation.

However, the control and risk management system cannot provide absolute protection against losses arising from business risks or fraudulent actions.
Detailed reporting
We provide regular and timely information on the Covestro Group’s position and significant changes in business activities to stockholders, financial analysts, stockholders’ associations, the media and the general public to maximize transparency. Four times a year we report to our stockholders about the company’s business performance, its net assets, financial position and results of operations, and the risks it faces. Our company’s reporting thus complies with the provisions of the GCGC.

In line with statutory requirements, the members of the company’s Board of Management provide an assurance that, to the best of their knowledge, the financial statements of Covestro AG, the consolidated financial statements of the Covestro Group, and the combined management report provide a true and fair view.

The financial statements of Covestro AG, the consolidated financial statements of the Covestro Group and the combined management report are published within 90 days following the end of each fiscal year. During the fiscal year, Covestro additionally informs stockholders and other interested parties about developments by means of the half-year financial report and interim reports for the first and third quarters. The half-year financial report is voluntarily subjected to a review by the auditor appointed by the Annual General Meeting.

Covestro also provides information about the current corporate strategy, important growth areas, the financial position and results of operations, and financial targets at regular press conferences and analysts’ meetings. The company uses the internet as a platform for the timely disclosure of information, with the dates of major publications and events, such as the annual report, half-year financial report, quarterly statements and the Annual General Meeting, posted on the Group’s website.

In line with the principle of fair disclosure, all stockholders and other main target groups are treated equally as regards the communication of valuation-relevant information. All significant new facts are disclosed immediately to the general public. In addition to our regular reporting, we issue ad-hoc statements on developments that otherwise might not become publicly known but have the potential to materially affect the price of Covestro stock.

Stockholders and Annual General Meeting
Covestro’s stockholders exercise their rights within the scope provided for by the law and the Articles of Incorporation at the Annual General Meeting (AGM) and there exercise their right to vote. Each share of Covestro AG confers the same rights and carries one vote at the Annual General Meeting. Stockholders can exercise their voting rights by way of a proxy, e.g., a credit institution, a stockholders’ association, or another third party. Stockholders can issue and revoke proxies in respect of the company electronically using the company’s online proxy system. The company also makes it easier for its stockholders to exercise their personal rights by appointing voting proxies to cast their votes, subject to their instructions. They are also available during the Annual General Meeting. All of the company’s stockholders and interested members of the public may watch the opening of the Annual General Meeting by the meeting chair and follow the report of the Board of Management live online. All documents and information on the Annual General Meeting such as the invitation, including the agenda, and the annual report are available on our website as well.

The live feed of the opening of the Annual General Meeting and the report of the Supervisory Board is available at: www.covestro.com/en/investors/financial-calendar/annual-general-meeting
Takeover-relevant Information

Description pursuant to Section 289a, Paragraph 1 and Section 315a, Paragraph 1 of the German Commercial Code (HGB)

Investments in capital interest held, exceeding 10% of total voting rights

We have received no notification nor are we otherwise aware of direct or indirect investments in capital interest held, equal to or exceeding 10% of the voting rights.

For additional information on Covestro’s ownership structure, see: www.covestro.com/en/investors/stock-details/shareholder-structure

Board of Management

Appointment and dismissal of members of the Board of Management, changes to the Articles of Incorporation

The appointment and dismissal of members of the Board of Management are subject to the provisions of Sections 84 and 85 of the German Stock Corporation Act, Section 31 of the German Codetermination Act and Section 6 of the Articles of Incorporation of Covestro AG. Pursuant to Section 84, Paragraph 1 of the German Stock Corporation Act, the members of the Board of Management are appointed and dismissed by the Supervisory Board. The term of service for a Board of Management member appointed for the first time is generally three years. Since Covestro AG falls within the scope of the German Codetermination Act, the appointment or dismissal of members of the Board of Management requires a majority of two-thirds of the votes of the members of the Supervisory Board on the first ballot pursuant to Section 31, Paragraph 2 of that act. If no such majority is achieved, the appointment is resolved pursuant to Section 31, Paragraph 3 of the Codetermination Act on a second ballot by a simple majority of the votes of the members of the Supervisory Board. If the required majority still is not achieved, a third ballot is held. Here again, a simple majority of the votes of the members suffices, but in this ballot, the Supervisory Board Chair has two votes pursuant to Section 31, Paragraph 4 of the Codetermination Act. Under Section 6, Paragraph 1 of the Articles of Incorporation, the number of members of the Board of Management is determined by the Supervisory Board but must be at least two. The Supervisory Board may appoint one member of the Board of Management to be its Chair and one member to be the Vice Chair pursuant to Section 84, Paragraph 2 of the German Stock Corporation Act and Section 6, Paragraph 1 of the Articles of Incorporation.

Any amendments to the Articles of Incorporation are made pursuant to Section 179 of the German Stock Corporation Act and Sections 10 and 17 of the Articles of Incorporation. Under Section 179, Paragraph 1 of the German Stock Corporation Act, amendments to the Articles of Incorporation require a resolution of the Annual General Meeting. Pursuant to Section 179, Paragraph 2 of the German Stock Corporation Act, this resolution must be passed by a majority of three-quarters of the voting capital represented at the meeting, unless the Articles of Incorporation provide for a different majority. However, where an amendment relates to a change in the object of the company, the Articles of Incorporation may only specify a larger majority. Section 17, Paragraph 2 of the Articles of Incorporation utilizes the scope for deviation pursuant to Section 179, Paragraph 2 of the German Stock Corporation Act and provides that resolutions may be passed by a simple majority of the votes cast or, where a capital majority is required, by a simple majority of the capital represented. Pursuant to Section 10, Paragraph 9 of the Articles of Incorporation, the Supervisory Board may resolve on amendments to the Articles of Incorporation that relate solely to their wording.

Capital

Composition of the capital stock

The capital stock of Covestro AG amounted to €183,000,000 as of December 31, 2019, and is composed of 183,000,000 no-par value bearer shares. Each share confers equal rights and one vote at the Annual General Meeting.
Authorized capital
Provisions of the Articles of Incorporation concerning authorized capital are entered in the commercial register of Covestro AG. With the approval of the Supervisory Board and until October 2, 2020, the Board of Management may use the authorized capital to increase the capital stock by up to a total of €101,250,000. New no-par value bearer shares may be issued against cash contributions and/or contributions in kind. If the authorized capital is used to issue shares in return for cash contributions, stockholders must normally be granted subscription rights. However, the Board of Management is authorized – with the approval of the Supervisory Board – to exclude subscription rights for stockholders:

(a) Where the subscription ratio gives rise to fractional amounts.

(b) To the extent necessary to grant holders or creditors of bonds (including jouissance rights) with warrants or conversion rights or obligations issued by the company or its Group companies the right to subscribe to new shares to the extent to which they would be entitled after exercise of their warrants or conversion rights, or performance of their exercise or conversion obligations.

(c) If the capital is increased by granting shares against contributions in kind.

(d) If the new shares are issued at a price that is not significantly below the stock market price and the total interest in the capital stock attributable to the new shares for which subscription rights are excluded pursuant to Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act does not exceed 10% of the existing capital stock either on the date this authorization takes effect or the date it is utilized. The sale of treasury shares shall count toward this limit if they are sold during the term of this authorization and subscription rights are disappplied pursuant to Section 71, Paragraph 1, No. 8, Sentence 5 in conjunction with Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act. Further, shares issued or to be issued to service bonds (including jouissance rights) with warrants or conversion rights or obligations shall also count toward this limit where such bonds or jouissance rights were issued during the term of this authorization and stockholders’ subscription rights were excluded in analogous application of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act.

(e) To issue a scrip dividend in which stockholders are given the option of contributing their dividend entitlements to the company (either in full or in part) as a noncash contribution in return for the granting of new shares in the company out of the authorized capital.

Conditional capital
The company’s capital stock shall be conditionally increased by up to €70,000,000, divided into up to 70,000,000 no-par value bearer shares (conditional capital). The conditional capital increase shall only be implemented to the extent that the holders of warrants or conversion rights attached to bonds (including jouissance rights) issued or guaranteed by the company or its Group companies up to August 31, 2020, on the basis of the authorization of the Annual General Meeting of September 1, 2015, exercise their warrants or conversion rights, or perform their warrant or conversion obligations arising from such bonds, and to the extent that such warrants or conversion rights or obligations are not serviced by treasury shares, shares issued out of the authorized capital, or other forms of settlement.

The new shares shall be issued at the warrant or conversion price to be determined in accordance with the authorizing resolution referred to above. The new shares shall participate in the profit from the beginning of the fiscal year in which they come into existence; however, the Board of Management, with the approval of the Supervisory Board, may decide that the new shares shall participate in the profit from the beginning of the fiscal year for which, at the time when the warrants or conversion rights are exercised or the exercise or conversion obligations are performed, the Annual General Meeting has not yet adopted a resolution on the use of the distributable profit. The Board of Management is authorized, with the approval of the Supervisory Board, to set further details of the terms of the conditional capital increase. In the event of a capital increase, the company may regulate dividend entitlement of the new shares differently from what is specified in Section 60 of the German Stock Corporation Act.
Acquisition and use of treasury shares

By a resolution adopted by the Annual General Meeting on April 12, 2019, the Board of Management is authorized to acquire and use treasury shares, also using derivatives. The individual details of the resolution are as follows:

1. Authorization granted to the Board of Management to acquire and use treasury shares

1.1 The Board of Management is authorized until April 11, 2024, to acquire treasury shares with a proportionate interest in the capital stock totaling up to 10% of the company’s capital stock existing at the date of the resolution, or if this value is lower, at the time the authorization is exercised, subject to the proviso that the shares acquired as a result of this authorization, together with other shares of the company that the company has already acquired and still holds, or which are attributable to it under Sections 71a et seqq. of the German Stock Corporation Act, at no time exceed 10% of the capital stock of the company. The provisions in Section 71, Paragraph 2, Sentences 2 and 3 of the German Stock Corporation Act must be complied with.

The acquisition may only take place via the stock exchange or by means of a public purchase offer and must satisfy the principle of equal treatment of stockholders (Section 53a of the German Stock Corporation Act). If the acquisition takes place via the stock exchange, the purchase price paid by the company (excluding transaction costs) may neither exceed, nor be lower than, the company’s share price, as determined by the opening auction in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange on the trading day, by more than 10%. If the acquisition takes place by means of a public purchase offer, the offer price paid by the company (excluding transaction costs) may neither exceed, nor be lower than, the company’s share price, as determined by the closing auction in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange on the last trading day before the publication of the purchase offer, by more than 10%. If the total number of the shares tendered in response to a public purchase offer exceeds the offer volume, purchases may be made in proportion to the number of shares tendered (tender ratios); in addition, preferential acceptance of small numbers of shares (up to 50 shares per stockholder), as well as rounding in accordance with commercial principles to avoid notional share fractions, may be provided for. Any further stockholder tender rights are disappplied to this extent.

1.2 The authorization may be exercised in full, or in a number of partial amounts split across several acquisition dates, until the maximum purchase volume has been reached. The acquisition may also be carried out by Group companies that are dependent on the company within the meaning of Section 17 of the German Stock Corporation Act, or by third parties on behalf of the company or such Group companies. The authorization may, subject to compliance with the statutory requirements, be exercised for any purpose permissible in law, especially in pursuit of one or more of the purposes listed in No. 1.3, 1.4, 1.5 and 1.6. Trading in treasury shares is not permitted.

If the treasury shares acquired are used for one or more of the purposes described under No. 1.3 or 1.4, the stockholders’ subscription rights are disappplied. The Board of Management is authorized to disapply subscription rights if the treasury shares acquired are used for the purpose specified in No. 1.6. Stockholders also do not have any subscription rights if the treasury shares acquired are sold via the stock exchange. In the event that the treasury shares acquired are sold by means of a public offer to stockholders and this public offer complies with the principle of equal treatment, the Board of Management is authorized to disapply the stockholders’ subscription rights for fractions.

1.3 The Board of Management is authorized to also sell the treasury shares acquired on the basis of the above or an earlier authorization in a manner other than via the stock exchange or by way of an offer to all stockholders, provided that the sale takes place against cash payment and at a price which, at the date of the sale, is not significantly lower than the market price for the same class of shares in the company. This authorization concerning the use of shares is restricted to shares whose proportionate interest in the capital stock may not in total exceed 10% of the capital stock either at the date when this authorization becomes effective or, if this amount is lower, at the date when the present authorization is exercised. The upper limit of 10% of the capital stock is reduced by the proportionate interest in the capital stock which is attributable to those shares which are issued or sold during the term of this authorization while disapplying subscription rights under or in accordance with Section 186, Paragraph 3, Sentence 4 of the...
German Stock Corporation Act. The upper limit of 10% of the capital stock is further reduced by the proportionate interest in the capital stock which is attributable to those shares which are to be issued to service bonds with warrants or conversion rights or obligations, provided that these bonds are issued during the term of this authorization while disapplying subscription rights in application of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act, with the necessary modifications.

1.4 The Board of Management is authorized to transfer the treasury shares acquired under the above or an earlier authorization to third parties, provided this is done for the purpose of acquiring companies, parts of companies, equity interests in companies, or other assets, or to effect business combinations.

1.5 The Board of Management is authorized to retire the treasury shares acquired under the above or an earlier authorization without a further resolution by the Annual General Meeting. The shares may also be retired without reducing the capital by adjusting the proportionate interest of the remaining no-par value shares in the capital stock of the company. In this case, the Board of Management is authorized to amend the number of no-par value shares in the Articles of Incorporation.

1.6 The Board of Management is authorized to use the treasury shares acquired as a result of the above-mentioned or earlier authorization to pay a scrip dividend.

1.7 The Board of Management may only use the authorizations in No. 1.3, 1.4 and 1.6 with the approval of the Supervisory Board. Moreover, the Supervisory Board may determine that the measures taken by the Board of Management on the basis of this resolution by the Annual General Meeting may only be implemented with its consent.

1.8 Overall, the above authorizations concerning the use of shares may be utilized on one or several occasions, individually or together, in relation to partial volumes of the treasury shares or all treasury shares held in total.

2. Authorization for acquisition using derivatives

2.1 Treasury shares being acquired as part of the authorization under No. 1.1 may also be acquired using put or call options. In this case, the option transactions must be entered into with a credit institution, or a company which operates in accordance with Section 53, Paragraph 1, Sentence 1 or Section 53b, Paragraph 1, Sentence 1 or Paragraph 7 of the German Banking Act, that is independent of the company (financial institution), provided that this financial institution, when the option is exercised, only delivers shares which were previously acquired via the stock exchange at a market-driven price in compliance with the principle of equal treatment.

2.2 The acquisition of shares using put or call options is limited to a maximum of 5% of the capital stock in existence as of the date of the resolution by the Annual General Meeting or, if this value is lower, as of the date when the authorization is exercised.

2.3 The option premium paid by the company in the case of call options may not be materially higher and the option premium received in the case of put options may not be materially lower than the theoretical fair value of the options concerned calculated using accepted financial valuation methods. The exercise price agreed in the option transaction (in each case not including transaction costs, but taking into account the option premium received or paid) may not be more than 10% higher or lower than the price of the company's shares as determined by the opening auction in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange on the trading day on which the option transaction was entered into.

2.4 The term of the individual derivatives may not, in each case, exceed 18 months; it must end at the latest on April 11, 2024, and must be selected so that the shares are not acquired using derivatives after April 11, 2024.

2.5 The provisions under 1. also apply to the use of company shares that have been acquired on the basis of this authorization under 2. using derivatives.
3. Authorization to issue convertible bonds, warrant bonds and/or jouissance rights and to disapply subscription rights to these convertible bonds, warrant bonds and/or jouissance rights

3.1 Authorization period, object, nominal value, term, number of shares
The Board of Management is authorized, with the approval of the Supervisory Board, to issue by August 31, 2020 – in one or more installments – convertible bonds, warrant bonds and/or jouissance rights (collectively referred to as “bonds”) – as either registered or bearer bonds – with a total nominal value of up to €1,500,000,000, with or without limited maturity, and to grant to the creditors of these bonds warrants or conversion rights in respect of up to 70,000,000 no-par value bearer shares of the company with a proportionate interest in the capital stock totaling up to €70,000,000 (hereinafter referred to as “shares of the company”) in accordance with the terms of these bonds (hereinafter referred to as the “terms of the bonds”). The Board of Management can use the authorization in one or more installments. Bonds may also be issued against consideration in kind.

3.2 Currency, issue by Group companies
The bonds may be issued in euros or in the legal currency of any OECD country up to the equivalent value in euros. If bonds are issued in a currency other than the euro, the value shall be calculated using the European Central Bank’s reference price for that currency on the date the resolution concerning the bond issue was taken. The bonds may also be issued by a Group company within the meaning of Section 18 of the German Stock Corporation Act. In such case, the Board of Management is authorized, with the approval of the Supervisory Board, to assume the guarantee for redemption of the bonds and to grant to the creditors of these bonds warrants or conversion rights to shares of the company.

3.3 Conversion rights/obligations, conversion ratio
In the case of bonds with conversion rights, creditors may exchange their bonds for shares of the company in accordance with the terms of the bond. The proportionate interest in the capital stock upon conversion into shares may not exceed the nominal value or a lower issue price for the bond with conversion rights. The conversion ratio is the nominal value of a bond with conversion rights divided by the conversion price for a share in the company. This applies analogously if the price of the bond with conversion rights is lower than the nominal value. The conversion ratio may be rounded up or down to the nearest whole number. Moreover, an additional cash payment may be determined. It may also be determined that fractions are aggregated and/or paid out in cash. The terms of the bond may provide for a fixed or variable conversion ratio. The terms of the bond may also specify a conversion obligation. Moreover, they may entitle the company to grant the creditors of bonds with conversion rights upon or before maturity shares in the company in full or partial place of the cash amount due (company’s substitution right). The terms of the bond may also authorize the company to compensate by cash in full or in part any difference between the nominal value of the bond with conversion rights and the product of the conversion ratio and a price for the share at the time of conversion that is to be specified in the terms of the bond. The share price used in the calculation in accordance with the preceding sentence must be at least 80% of the share price relevant for the lower limit of the conversion price in accordance with the following No. 3.6.
3.4 Warrants/exercise obligations
In the case of bonds with warrants or exercise obligations, one or several warrants are attached to each bond entitling the creditors to subscribe to shares in the company in accordance with the terms of the bond that are to be defined by the Board of Management. The subscription ratio is the nominal value of a bond with warrants divided by the subscription price for a share in the company. The proportionate interest in the capital stock represented by the shares of the company to be issued on exercise of the options may not exceed the nominal value of the bonds. The terms of the bond may also provide for subscription to a variable number of shares on exercise of the warrants. They may also permit settlement of the subscription price by way of a transfer of bonds (trade-in) and, if necessary, an additional cash payment.

3.5 Granting of new or existing shares, cash payment
When exercising warrants or conversion rights or when meeting exercise or conversion obligations, the company may choose to either grant new shares issued from conditional capital or existing shares in the company or shares in another listed corporation. The terms of the bond may entitle the company to pay the cash value instead of granting shares when exercising warrants or conversion rights or when meeting exercise or conversion obligations.

3.6 Conversion/exercise price
The conversion/exercise price must be at least 80% of the volume-weighted average closing price for the company's shares in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange on the last ten trading days before the day on which the Board of Management passes the resolution concerning the bond issue or at least 80% of the average closing price for the company's shares in Xetra trading (or a comparable successor system) during the days on which the subscription rights are traded on the Frankfurt Stock Exchange, with the exception of the last two trading days of subscription rights trading. In the case of bonds that are subject to mandatory conversion or if the company exercises its substitution right, the conversion price for one share must be either the aforementioned minimum price or at least the average closing price for the company's shares in Xetra trading (or a comparable successor system) on the ten trading days before the day on which the conversion takes effect. The terms of the bond may provide for changes to the conversion or exercise price over the course of its term, taking account of the minimum prices as described above within a range specified by the Board of Management depending on the development of the share price. The terms of the bond may include dilution clauses for the case that, during the conversion or exercise period, the company increases the capital stock with subscription rights for its stockholders or issues further convertible bonds, warrant bonds, or profit jouissance rights or grants or guarantees other option rights and disappplies the subscription rights to which the holders of warrants or conversion rights would be entitled on exercise of their warrants or conversion rights or on performance of their conversion obligations. The terms of the bond may also allow a value-preserving adjustment of the conversion or exercise price or of the option ratio or payment of a cash component in the event of other measures taken by the company or events which entail an economic dilution of the value of the warrants or conversion rights (e.g. dividends). Under no circumstances may the proportionate interest in the capital stock per share attached to a bond exceed the nominal value of the bond itself.

This shall not affect Section 9, Paragraph 1 or Section 199 of the German Stock Corporation Act.

3.7 Other terms of the bond
The Board of Management is authorized, with the approval of the Supervisory Board, to set further details for the issue and class of the bonds.
3.8 Subscription rights, disapplying subscription rights

When bonds are issued, stockholders must be granted subscription rights as a matter of principle. The bonds may be taken up by one or more banks with the obligation to offer them for subscription to stockholders. However, when issuing bonds, the Board of Management is authorized – with the approval of the Supervisory Board – to disapply stockholders’ subscription rights:

3.8.1 For fractions.

3.8.2 Insofar as it is necessary to grant the holders of warrants or conversion rights to shares in the company or the creditors of bonds with conversion obligations attached a subscription right to the extent to which they would be entitled if they were to exercise their rights or perform the conversion obligation.

3.8.3 Insofar as the bonds are issued against cash and the issue price does not substantially fall below the theoretical market value of the bonds as determined in accordance with recognized financial principles. However, this authorization to disapply subscription rights relates only to bonds with rights to shares with a total proportionate interest in the capital stock of no more than 10%, and neither at the time when this authorization becomes effective nor at the time it is exercised. The sale of treasury shares shall count toward this limit if they are sold during the term of this authorization and subscription rights are disapplied pursuant to Section 71, Paragraph 1, No. 8, Sentence 5 in conjunction with Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act. Those shares issued during the term of this authorization from authorized capital and on which subscription rights are disapplied pursuant to Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act shall also count toward this limit.

3.8.4 Insofar as they are issued against considerations in kind and the value of these considerations in kind is in reasonable proportion to the market value of the bonds determined according to the preceding No. 3.8.3.

Material conditional agreements

Some debt financing instruments contain clauses that refer to cases of change of control. Such clauses grant the respective investor additional rights of termination, which will possibly be restricted by additional conditions – such as a rating being downgraded. Our syndicated credit line and our bonds, for example, are governed by change-of-control agreements.

Agreements exist for the members of the Board of Management in compliance with Section 4.2.3 of the German Corporate Governance Code in the version of February 7, 2017, to cover the eventuality of a takeover offer being made for Covestro AG. Under these agreements, payments promised in the event of early termination of the service contract of a Board of Management member due to a change of control are limited to the value of three years’ compensation and may not compensate more than the remaining term of the contract.
Compliance

Our corporate conduct is characterized by a sense of responsibility as well as ethical principles. Compliance with legal and regulatory requirements is integral to our operations. It is only in this manner that we can sustainably increase the company’s enterprise value and safeguard our reputation.

Compliance culture and targets

In its Corporate Compliance Policy, Covestro has specified a Group-wide code of conduct that mandates fundamental principles and rules for all employees. This code of conduct details our commitment to fair competition, integrity in business dealings, the principles of sustainability and product stewardship, data protection, upholding of foreign trade and insider dealing laws, the separation of business and private interests, proper record-keeping and transparent financial reporting, as well as to providing fair, respectful and non-discriminatory working conditions. These requirements apply within the company as well as to all interactions with external partners and the general public. Our code of conduct furthermore provides a decision-making framework for our company and our employees. The Corporate Compliance Policy is available on our intranet and on our website, and is part of an information packet distributed to new employees when they are hired.

Covestro is aware that employees will likely embrace and exhibit integrity if managers are excellent role models. As the Covestro Board of Management states very clearly in its Corporate Compliance Policy for all staff, Covestro does not conduct any business activities that would be legal yet violate our rules. In addition, supervisors are prohibited from instructing employees to violate any Covestro rule. In this way, management continuously fosters our compliance culture by, for example, regularly drawing employees’ attention to compliance topics and their significance to the company. At Covestro town hall meetings, for example, Board of Management members present recent compliance cases to employees as well as underscore the importance of complying with statutory requirements and in-house regulations.

We want to utilize our compliance management system in order to:

- Foster and reinforce conduct per compliance requirements;
- Minimize or even eliminate compliance violations;
- Identify risks for potential violations;
- Implement preventive measures;
- Uncover, remedy and proactively eliminate a repeat occurrence of any compliance violations committed by individuals acting without authorization and in breach of clear rules; and
- Achieve continuous improvement of our compliance management system.

Organization

At Covestro, the Chief Compliance Officer oversees compliance activities and reports in this capacity directly to the Board of Management. A central Compliance department coordinates compliance activities throughout the Covestro Group. Chaired by the CFO of Covestro, the Compliance Committee is the Group’s top-level decision-making body on these issues. The Committee’s responsibilities include the following: exercising a Group-wide compliance governance function, initiating and approving compliance-related regulations, and approving the annual training plan. In the reporting period, the Compliance Committee met a total of four times.

A local Compliance Officer has also been appointed for each country in which Covestro has employees. This person serves as a local point of contact for employees on all questions regarding legally and ethically correct conduct in business situations. The country organizations also have local compliance committees.
Communication
Covestro systematically conducts training courses on compliance. Once areas of emphasis have been specified, specialists define target groups for each category of course content and determine which employees require which type of training.

Covestro expressly encourages its employees to openly address any doubts about proper conduct in business situations and to solicit advice. We inform all employees whom they can contact if they have any doubts or questions. Covestro has also set up a whistleblowing portal. Employees and external persons can report potential compliance violations through a hotline accessible worldwide or use an email address that also permits anonymous reports. In addition, employees can also report any compliance incidents to their supervisors, to the local Compliance Officer or to the Global Compliance Office.

An internal policy sets out the principles for handling compliance incidents at Covestro. This policy also stipulates that all suspected compliance incidents be recorded in a central database. Confirmed violations are evaluated. Organizational, disciplinary or legal measures are taken if necessary.

Compliance incidents are regularly reported to the Supervisory Board, the Board of Management and the segments’ management teams. In addition, a current overview of incidents, along with news and additional information on various aspects and developments related to this topic, is published in a monthly Compliance Telegram on the intranet and therefore can be viewed by all employees.

On a quarterly basis, all companies document risks arising from pending or current legal proceedings. Relevant cases are reported to the Audit Committee of the Supervisory Board. The major risks are disclosed in the Notes to the Consolidated Financial Statements.
Compensation Report

The Compensation Report outlines the essential features of the compensation system for the members of the Board of Management and the Supervisory Board of Covestro AG and explains the compensation of the individual members. The report conforms to the requirements of the applicable accounting and reporting regulations for listed companies, the German Commercial Code (HGB), the principles of German Accounting Standard No. 17 (DRS 17), and International Financial Reporting Standards (IFRSs). It also complies with the recommendations of the German Corporate Governance Code (GCGC) in the version of February 7, 2017, applicable on the reporting date.

Compensation of the Board of Management

Objectives

The compensation system for Covestro AG's Board of Management remains largely unchanged from the version approved by the Annual General Meeting on May 3, 2016. It is aligned with the corporate strategy and is designed to facilitate a long-term increase in the company's value and responsible corporate governance. We aim to position Covestro as an attractive employer in the competition for highly qualified executives, and, at the same time, ensure statutory and regulatory compliance. Board of Management compensation is in line with the basic principles of the compensation structure and, as a principle, is structured uniformly for the Board of Management as well as for other executives, including managerial employees, in the Covestro Group.

The appropriateness of the system and the compensation level of the Board of Management are regularly reviewed by the Supervisory Board, which then makes any necessary adjustments. The Supervisory Board used the services of an independent, third-party compensation consultant to determine appropriateness. As a rule, adjustments are in line with the increase in the consumer price index in Germany. If the need for a larger adjustment is ascertained, this is discussed in detail by the Human Resources Committee in view of the appropriate background information, and a resolution is proposed to the Supervisory Board as a whole. Covestro's peer group comprises the companies listed on the DAX and MDAX (not including banks and insurance companies due to limited comparability). Covestro is compared to these companies to determine, in particular, whether Covestro's relative position within this group in terms of revenue, employees and market capitalization is in line with the relative positioning of Board of Management compensation. The Supervisory Board then votes on the proposed adjustment.

Compensation structure

The compensation comprises a non-performance-related component, an annual incentive and a long-term stock-based component. The Covestro Group's compensation structure, based on average total annual compensation for a Board of Management member at 100% target attainment, is as follows:

<table>
<thead>
<tr>
<th>Compensation Structure (German Commercial Code)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed annual compensation</td>
<td>approx. 30%</td>
</tr>
<tr>
<td>Long-term variable compensation</td>
<td>approx. 40%</td>
</tr>
<tr>
<td>Short-term variable compensation</td>
<td>approx. 30%</td>
</tr>
</tbody>
</table>

1 Excluding fringe benefits and pension entitlements
The non-performance-related compensation comprises the fixed annual compensation, which reflects the responsibilities and performance of the Board of Management members, along with fringe benefits. The performance-related compensation comprises a short-term variable component, which depends on the attainment of the corporate performance targets and on the long-term variable compensation, the stock-based compensation program Prisma. This is linked directly to changes in Covestro’s share price.

The members of the Board of Management also receive pension entitlements for themselves and their surviving dependents. Furthermore, Covestro AG has purchased a liability insurance for the members of the Board of Management to cover their legally required personal liability arising from their service on the Board of Management. This includes a deductible that is in line with the GCGC recommendation.

Non-performance-related components

Fixed annual compensation
The level of the non-performance-related, fixed annual compensation for members of the Board of Management takes into account the functions and responsibilities assigned to them as well as market conditions. It is paid out in 12 monthly installments.

Fringe benefits
Fringe benefits mainly comprise company cars (limited to the term of existing vehicle leases) or a vehicle allowance, use of the company carpool, payments toward the cost of security equipment, and reimbursement of the cost of annual health screening examinations. Due to her family's place of residence in England and her Indian citizenship, Sucheta Govil also receives assistance from an external advisor in preparing her tax returns. Fringe benefits are reported at cost or the amount of the pecuniary advantage gained.

Performance-related components

Short-term variable compensation
The target value of the short-term variable compensation is 100% of the fixed annual compensation. This amount is adjusted in line with the company’s performance.

In fiscal 2016, the Group-wide Covestro Profit Sharing Plan (Covestro PSP) was introduced, which also applies to the members of the Board of Management. It consists of a short-term variable compensation based solely on the company’s business performance. The system is based on the same performance indicators used to manage the company. The payout is based on performance in the areas of growth (core volume growth), liquidity (free operating cash flow, FOCF), and profitability (return on capital employed, ROCE), with each counting for one-third. In 2018, the Supervisory Board defined the global values for the threshold, 100% achievement and the maximum amount for each performance indicator, which are applied for the three-year period from 2019 to 2021. Between these values, linear interpolation is used to determine the payout.

Components of the Covestro Profit Sharing Plan 2019–2021

<table>
<thead>
<tr>
<th>Growth: Core volume growth</th>
<th>Liquidity: FOCF</th>
<th>Profitability: ROCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Threshold (0%)</td>
<td>+1.5%</td>
<td>Cash inflow of €400 million</td>
</tr>
<tr>
<td>100% target attainment</td>
<td>+4.0%</td>
<td>Cash inflow of €800 million</td>
</tr>
<tr>
<td>Ceiling (300%)</td>
<td>+9.0%</td>
<td>Cash inflow of €1,600 million</td>
</tr>
</tbody>
</table>

For each individual performance indicator, the payout can be between zero (failure to meet minimum requirements) and three times the target value; however, the maximum payout for all three components combined is limited to 250% of the target value. The maximum payout is therefore 2.5 times the fixed annual compensation.
If a Board of Management member’s term begins or ends in the middle of a fiscal year, their PSP entitlement is prorated based on calendar days. The PSP entitlement for the fiscal year in which a Board of Management member leaves the company is forfeited in the event the member steps down (unless this occurs for good cause for which the member is not responsible) and in cases where the Board of Management member is terminated by the company for good cause.

The Supervisory Board is entitled to reduce the PSP payout to below the calculated amount or resolve to eliminate it entirely to the extent that target attainment falls far short of expectations (e.g., when the Covestro Group’s ROCE comes in below the WACC), or if an incident occurs at one of Covestro’s plants resulting in death or a large-scale discharge of chemicals that affects the surrounding areas.

**Long-term compensation**

**Prisma**

The members of the Board of Management are eligible to participate in the Prisma compensation program as long as they are employed by the Covestro Group and fulfill the share ownership guidelines applicable to them. This program is based on a target opportunity set at 130% of the fixed annual compensation. When a member of the Board of Management retires, current tranches may be shortened, thus reducing their value.

The payout is determined by calculating two factors: The total shareholder return (TSR) factor is the return generated by a stock expressed as a percentage (total of the final price of the share and all dividends distributed per share during the performance period divided by the initial price). The outperformance factor is based on the performance of Covestro stock during the performance period relative to the performance of the STOXX Europe 600 Chemicals index. It is determined by expressing the difference between the performance of Covestro stock and that of the index as a percentage. The factor is greater than 100% (less than 100%) if Covestro’s stock outperforms (underperforms) the index.

The Prisma target opportunity of each participant is multiplied by the TSR factor and the outperformance factor to arrive at the total distribution figure. The total distribution is limited to no more than 200% of the target opportunity. The maximum payout is therefore 260% of the fixed annual compensation. If Covestro’s shares were to significantly underperform the index (e.g. if the price of the stock went down while the index increased in value), the outperformance factor could amount to zero. As a result, there would be no payout.
If a Board of Management member’s term begins or ends in the middle of the first year of a performance period, their Prisma claim is prorated based on calendar days in that year. Tranches awarded for previous years remain in effect if members leave the company. Prisma claims for the tranches still in effect when a Board of Management member leaves the company are forfeited in the event the member steps down (unless this occurs for good cause for which the member is not responsible) and in cases where the Board of Management member is terminated by the company for good cause.

### Prisma Performance Periods

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</thead>
<tbody>
<tr>
<td>Prisma Performance Period</td>
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<tr>
<td>Prisma Performance Period 1</td>
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<tr>
<td>Prisma Performance Period 2</td>
<td></td>
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</tr>
<tr>
<td>Prisma Performance Period 3</td>
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<td></td>
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<tr>
<td>Prisma Performance Period 4</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Prisma Payout 1</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Prisma Payout 2</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prisma Payout 3</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prisma Payout 4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Share ownership guidelines

The members of the Board of Management are contractually obligated to acquire Covestro shares equivalent to half of the Prisma target value (65% of the fixed compensation) on their own account within three years of their initial appointment and to hold these shares for the duration of their service on the Board of Management. This obligation is expected to be increased to 100% of the fixed compensation in future contract extensions. Sucheta Govil is already subject to this increased commitment.

### Pension entitlements (retirement and surviving dependents’ pensions)

The members of the Board of Management are entitled to receive a lifelong company pension after leaving the Covestro Group, though generally not before the age of 62. This pension is paid out in the form of a monthly life annuity.

The arrangements for surviving dependents basically provide for a widow's pension amounting to 60% of the member’s pension entitlement, and an orphan's pension amounting to 12% of the member’s pension entitlement for each child.

The annual pension entitlement is based on contributions. From September 1, 2015, onward, Covestro has provided a hypothetical contribution each year amounting to as much as 33% of the respective fixed compensation beyond the annual income threshold in the statutory pension plan. This percentage comprises a 6% basic contribution and a matching contribution of up to 27% – three times the member’s maximum personal contribution of 9%. The total annual contribution is converted into a pension module according to the annuity table for the applicable tariff of the Rheinische Pensionskasse VVaG pension fund. The annual pension entitlement upon retirement is the total amount of the accumulated pension modules including an investment bonus, which is determined annually by the representatives’ meeting of the Rheinische Pensionskasse VVaG and approved by the German Financial Supervisory Authority.

In the case of fixed compensation up to the annual income threshold, the Board of Management members, like all entitled employees, remain subject to the rules governing the basic company pension and are regular participants in the relevant pension plan.

Dr. Klaus Schäfer has been granted, in addition, a vested entitlement to a fixed annual pension of €126,750.

The actual pension entitlement cannot be precisely determined in advance. It depends on the development of the member’s compensation, the number of years of service on the Board of Management and the return on the assets contributed to the Rheinische Pensionskasse VVaG.
Certain assets are administered under a contractual trust agreement (CTA), providing additional insolvency protection for pension entitlements resulting from direct commitments for the members of the Board of Management in Germany.

As a rule, future pension payments are adjusted by at least 1% per year. Depending on the pension obligation, an additional adjustment may be made if the investment bonus of the Rheinische Pensionskasse VVaG or the consumer price index exceeds 1% per year.

**Cap on compensation**

The individual performance-related components are capped at the grant date. To comply with the recommendation of the GCGC, a cap has also been agreed for the compensation as a whole. In 2018, the Supervisory Board resolved to include company pension expenditures above and beyond the components already taken into account (fixed annual compensation and variable components) in calculating total target compensation, i.e. the total of the individual components in the case of 100% target attainment of the variable components.

The cap was set at 1.9 times the respective target compensation. This value was chosen to ensure that compensation will not have to be reduced even if both short-term and long-term compensation reach the maximum possible cap. In the event of such a scenario, it can therefore be expected that the total compensation accrued will not exceed the permitted cap, even when fringe benefits are added, the amount of which cannot be precisely determined in advance. A sample calculation is presented below using the compensation of the Chair of the Board of Management serving as of December 31, 2019.

**Sample calculation of limited target compensation for the Chair of the Board of Management**

<table>
<thead>
<tr>
<th>€ thousand</th>
<th>Target value</th>
<th>Achievable value upon maximum payout of both variable compensation systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed annual compensation</td>
<td>1,192</td>
<td>1,192</td>
</tr>
<tr>
<td>Short-term variable compensation</td>
<td>1,192</td>
<td>2,980</td>
</tr>
<tr>
<td>Long-term variable compensation</td>
<td>1,550</td>
<td>3,099</td>
</tr>
<tr>
<td>Pension service cost</td>
<td>489</td>
<td>489</td>
</tr>
<tr>
<td><strong>Target compensation</strong></td>
<td><strong>4,423</strong></td>
<td><strong>7,760</strong></td>
</tr>
<tr>
<td>Fringe benefits</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>7,860</strong></td>
</tr>
<tr>
<td><strong>Limited to 1.9 times the target compensation</strong></td>
<td></td>
<td><strong>8,404</strong></td>
</tr>
</tbody>
</table>

1. Target value: 100% of fixed annual compensation
2. Target value: 130% of fixed annual compensation
3. Pension service cost (HGB)
4. Hypothetical assumptions/example

**Benefits upon termination of service on the Board of Management**

**Post-contractual noncompete agreements**

Post-contractual noncompete agreements exist with the members of the Board of Management, providing for compensatory payments to be made by the company for the duration of these agreements (maximum of two years). The compensatory payment amounts to 100% of the average fixed compensation in the 12 months preceding termination of service.

**Change of control**

Agreements exist with the members of the Board of Management providing for severance payments to be made in certain circumstances in the event of a change in control. The amount of the severance payments, including any ancillary benefits, in the case of early termination of service on the Board of Management as a result of a change in control is limited to the value of three years’ compensation in line with the recommendation in Section 4.2.3 GCGC. Such payments do not exceed the compensation payable for the remaining term of the service contract.
Early termination of service on the Board of Management
The amount of the payments, including any ancillary benefits, made upon early termination of service on the Board of Management is limited to the value of two years’ compensation in line with the recommendation in Section 4.2.3 GCGC.

Unfitness for work
In the event of temporary unfitness for work, members of the Board of Management continue to receive the contractually agreed compensation. Covestro AG may terminate the service contract early if the member has been continuously unfit for work for at least 18 months and is likely to be permanently incapable of fully performing his or her duties (permanent incapacity to work). A disability pension is paid in the event of contract termination before the age of 60 due to permanent incapacity to work. The amount of this disability pension corresponds to the entitlement accrued on the date of contract termination, plus, where applicable, a fictitious period of service from that date to the member’s 55th birthday where applicable.

Compensation of the Board of Management for the fiscal year
The following section reports the compensation of the Board of Management of Covestro AG for fiscal 2019. The members of the Board of Management of Covestro AG are the same as the members of the Board of Management of Covestro Deutschland AG, which became a subsidiary of Covestro AG on September 1, 2015. Compensation is not paid for the members’ work on the Board of Management of Covestro Deutschland AG.

In the 2019 reporting period, the aggregate compensation for the members of the Board of Management of Covestro AG amounted to €6,274 thousand (previous year: €14,337 thousand). This amount comprised €3,001 thousand (previous year: €4,468 thousand) in non-performance-related components and €3,273 thousand (previous year: €9,869 thousand) in performance-related components.

The following table shows the total compensation of the individual members of the Board of Management who served in 2019 and/or 2018 according to the HGB.

<table>
<thead>
<tr>
<th>Non-performance-related compensation</th>
<th>Performance-related compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fixed compensation</td>
</tr>
<tr>
<td>Dr. Markus Steilemann (Chair)</td>
<td>916</td>
</tr>
<tr>
<td>Dr. Klaus Schäfer</td>
<td>562</td>
</tr>
<tr>
<td>Dr. Thomas Toepfer</td>
<td>536</td>
</tr>
<tr>
<td>Patrick Thomas</td>
<td>487</td>
</tr>
<tr>
<td>Total</td>
<td>2,501</td>
</tr>
</tbody>
</table>

1 Fair value when granted
2 Member of the Board of Management since August 2019
3 Member of the Board of Management since April 2018
4 Member of the Board of Management until May 2018

Fixed annual compensation
The fixed compensation of Board of Management members was increased as of January 1, 2019, based on the change in the previous year’s consumer price index (1.90% from November 2017 to October 2018). The need for an additional adjustment for Dr. Klaus Schäfer was identified by the Supervisory Board, because his fixed compensation was significantly lower relative to that of the other Board of Management members in the relevant peer market group.

The fixed compensation of all members of the Board of Management in the 2019 reporting period totaled €2,771 thousand (previous year: €2,501 thousand).
**Short-term variable compensation**

In 2019, the short-term variable compensation for all Board of Management members totaled €549 thousand after deduction of the solidarity contribution (previous year: €6,309 thousand). This was based on a payout of 20.2% of the respective target value whose calculation is presented in the table below. The solidarity contribution is made by all employees of the companies covered by the respective agreements with the employee representatives to help safeguard jobs at the German sites. For the 2019 reporting period, the contribution amounted to 2.1% of each employee’s Covestro PSP award. By resolution of the Supervisory Board, this contribution is also withheld from the Board of Management.

**Payout of the Covestro Profit Sharing Plan for 2019**

<table>
<thead>
<tr>
<th>Growth: Core volume growth</th>
<th>Liquidity: FOCF</th>
<th>Profitability: ROCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achieved value</td>
<td>+2.0%</td>
<td>Cash inflow of €473 million</td>
</tr>
<tr>
<td>Resulting payout</td>
<td>+22.0%</td>
<td>+18.3%</td>
</tr>
<tr>
<td>Total payout (averaged)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Long-term compensation (Prisma)**

The total compensation according to the HGB includes long-term stock-based compensation (Prisma) with a fair value when granted of €2,724 thousand (previous year: €3,560 thousand).

In accordance with IFRSs, grants of stock-based compensation with a four-year performance period are therefore expensed at their respective fair values over four years starting with the grant year. The associated expense is a part of compensation according to IFRSs. In addition, according to IFRSs, the change in the value of existing entitlements under ongoing tranches granted in prior years must be reported as stock-based compensation.

As of December 31, 2019, provisions of €10,570 thousand (December 31, 2018: €7,203 thousand) had been accrued for long-term compensation payable to members of the Board of Management; former members of the Board of Management accounted for €6,027 thousand (December 31, 2018: €4,273 thousand) of this figure.

**Long-term compensation (IFRS)**

<table>
<thead>
<tr>
<th>Board of Management members serving as of Dec. 31, 2019</th>
<th>Former Board of Management members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr. Markus Steilemann (Chair)</td>
<td>Dr. Klaus Schäfer (Production and Technology)</td>
</tr>
<tr>
<td>Sucheta Govil (Innovation, Marketing and Sales)</td>
<td>Dr. Thomas Toepper (Finance and Labor Director)</td>
</tr>
<tr>
<td>Dr. Thomas Toepfer (Finance and Labor Director)</td>
<td>Frank H. Lutz</td>
</tr>
<tr>
<td>Patrick Thomas</td>
<td>Pierre-Régis Leclaire</td>
</tr>
<tr>
<td>Total expenses in the reporting period for long-term compensation ²</td>
<td>216 772 – 22 216 668 92 151 209 148 418 1,066 1,151 2,827</td>
</tr>
</tbody>
</table>

1 The previous entitlements from the one-time stock-based Aspire compensation programs of the Bayer Group were frozen on the basis of the 2015 closing price and will therefore not change.

2 Long-term variable compensation from newly earned entitlements includes the Prisma program from the years 2016, 2017, 2018 and 2019 amounting to €2,602 thousand (2018: €2,820 thousand), because this compensation is earned over a period of four fiscal years. It is stated at its pro-rata fair value during the 2018 and 2019 vesting period.
Pension obligations

The pension service cost recognized for the members of the Board of Management in the reporting year was €956 thousand (previous year: €966 thousand) according to the HGB, while the current service cost for pension entitlements recognized according to IFRSs was €1,351 thousand (previous year: €1,434 thousand).

Pension obligations are shown in the following table.

**Pension entitlements (HGB and IFRSs)**

<table>
<thead>
<tr>
<th></th>
<th>German Commercial Code</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pension service cost</td>
<td>Settlement value of pension obligation as of Dec. 31</td>
</tr>
<tr>
<td>Dr. Markus Steilemann</td>
<td>329</td>
<td>489</td>
</tr>
<tr>
<td>Sucheta Govil²</td>
<td>–</td>
<td>59</td>
</tr>
<tr>
<td>Dr. Klaus Schäfer</td>
<td>194</td>
<td>222</td>
</tr>
<tr>
<td>Dr. Thomas Toepfer⁴</td>
<td>121</td>
<td>186</td>
</tr>
<tr>
<td>Patrick Thomas⁵</td>
<td>322</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>966</td>
<td>956</td>
</tr>
</tbody>
</table>

¹ Including company contribution to Bayer Pensionskasse VVaG or Rheinische Pensionskasse VVaG
² Includes direct and indirect pension obligations
³ Member of the Board of Management since August 2019
⁴ Member of the Board of Management since April 2018
⁵ Member of the Board of Management until May 2018

The pension service cost differs on account of the different principles applied in measuring the settlement value of pension obligations in accordance with the HGB and the present value of defined benefit pension obligations in accordance with IFRSs.
Disclosures pursuant to the recommendations of the German Corporate Governance Code
The following tables show the compensation and fringe benefits paid for the reporting period (2019) or the prior-year period, including the minimum and maximum achievable variable compensation, and the allocation of compensation for the reporting period or the prior-year period in line with the recommendations of the GCGC in the February 7, 2017, version.

### Compensation and benefits granted for the reporting period

<table>
<thead>
<tr>
<th>€ thousand</th>
<th>Dr. Markus Steilemann (Chair)</th>
<th>Sucheta Govil (Innovation, Marketing and Sales)</th>
<th>Dr. Klaus Schäfer (Production and Technology)</th>
<th>Dr. Thomas Toepfer (Finance and Labor Director)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Joined August 20, 2015</td>
<td>Joined August 1, 2019</td>
<td>Joined August 20, 2015</td>
<td>Joined April 1, 2018</td>
</tr>
<tr>
<td></td>
<td>916</td>
<td>1,192</td>
<td>1,192</td>
<td>1,192</td>
</tr>
<tr>
<td>Fringe benefits</td>
<td>196</td>
<td>33</td>
<td>33</td>
<td>33</td>
</tr>
<tr>
<td>Total</td>
<td>1,112</td>
<td>1,225</td>
<td>1,225</td>
<td>1,225</td>
</tr>
<tr>
<td>Short-term variable compensation</td>
<td>1,170</td>
<td>1,192</td>
<td>2,980</td>
<td>2,980</td>
</tr>
<tr>
<td>Long-term stock-based compensation (2018–2021 Prisma tranche)</td>
<td>736</td>
<td>1,192</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term stock-based compensation (2019–2022 Prisma tranche)</td>
<td>-</td>
<td>1,171</td>
<td>3,099</td>
<td>3,099</td>
</tr>
<tr>
<td>Total</td>
<td>3,018</td>
<td>3,588</td>
<td>7,304</td>
<td>7,304</td>
</tr>
<tr>
<td>Benefit expense</td>
<td>538</td>
<td>705</td>
<td>705</td>
<td>705</td>
</tr>
<tr>
<td>Total compensation</td>
<td>3,556</td>
<td>4,293</td>
<td>1,930</td>
<td>8,009</td>
</tr>
</tbody>
</table>

1 Fair value when granted
2 Applicable caps have not yet been taken into account in the total maximum amounts. The payout in a single year is limited to 1.9 times the target compensation.

### Compensation and benefits granted for the reporting period

<table>
<thead>
<tr>
<th>€ thousand</th>
<th>Patrick Thomas Stepped down May 31, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Target value 2018</td>
</tr>
<tr>
<td>Fixed annual compensation</td>
<td>487</td>
</tr>
<tr>
<td>Fringe benefits</td>
<td>19</td>
</tr>
<tr>
<td>Total</td>
<td>506</td>
</tr>
<tr>
<td>Short-term variable compensation</td>
<td>877</td>
</tr>
<tr>
<td>Long-term stock-based compensation (2018–2021 Prisma tranche)</td>
<td>1,150</td>
</tr>
<tr>
<td>Long-term stock-based compensation (2019–2022 Prisma tranche)</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>2,533</td>
</tr>
<tr>
<td>Benefit expense</td>
<td>415</td>
</tr>
<tr>
<td>Total compensation</td>
<td>2,948</td>
</tr>
</tbody>
</table>

1 Fair value when granted
2 Applicable caps have not yet been taken into account in the total maximum amounts. The payout in a single year is limited to 1.9 times the target compensation.
### Allocation of compensation for the reporting period

<table>
<thead>
<tr>
<th>Dr. Markus Steilemann (Chair)</th>
<th>Sucheta Govil (Innovation, Marketing and Sales)</th>
<th>Dr. Klaus Schäfer (Production and Technology)</th>
<th>Dr. Thomas Toepfer (Finance and Labor Director)</th>
<th>Patrick Thomas Stepped down May 31, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joined August 20, 2015</td>
<td>Joined August 1, 2019</td>
<td>Joined August 20, 2015</td>
<td>Joined April 1, 2018</td>
<td>Stepped down May 31, 2018</td>
</tr>
<tr>
<td>€ thousand</td>
<td></td>
<td>€ thousand</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed annual compensation</td>
<td>916, 1,192</td>
<td>562, 600</td>
<td>1,717, 141</td>
<td>506</td>
</tr>
<tr>
<td>Fringe benefits</td>
<td>196, 33</td>
<td>20, 20</td>
<td>1,717, 141</td>
<td>506</td>
</tr>
<tr>
<td>Total</td>
<td>1,112, 1,225</td>
<td>597, 636</td>
<td>2,253, 870</td>
<td>506</td>
</tr>
<tr>
<td>Short-term variable</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>compensation</td>
<td>2,346, 236</td>
<td>1,127, 119</td>
<td>1,760</td>
<td>–</td>
</tr>
<tr>
<td>2014–2017 Aspire tranche¹</td>
<td>98²</td>
<td>130</td>
<td>–</td>
<td>609</td>
</tr>
<tr>
<td>2015–2018 Aspire tranche</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>3,556, 1,461</td>
<td>1,854, 755</td>
<td>3,329, 1,014</td>
<td>2,875²</td>
</tr>
<tr>
<td>Benefit expense</td>
<td>538, 705</td>
<td>279, 291</td>
<td>202, 277</td>
<td>415</td>
</tr>
<tr>
<td>Total compensation</td>
<td>4,094, 2,166</td>
<td>2,133, 1,046</td>
<td>3,531, 1,291</td>
<td>3,290</td>
</tr>
</tbody>
</table>

¹ The depicted inflow from the respective 2014–2017 tranche of the one-time stock-based Aspire compensation program of the Bayer Group took place in the payout year. The payout itself was made for a performance period that mostly occurred prior to the start of the Board of Management term.

² Payment was made partially outside Germany in local currency on the basis of a theoretical net salary in Germany.

³ In addition, Patrick Thomas received a payout of long-term stock-based compensation in fiscal 2018 in the form of virtual Bayer shares in the amount of €959 thousand in his capacity as subgroup CEO in the Bayer Group for fiscal 2014.

In 2018, the former Management Board member Frank H. Lutz received a payment of €186 thousand for the 2014–2017 tranche of the long-term compensation program Aspire.

### Compensation of former members of the Board of Management

In 2019, former members of the Board of Management did not receive any compensation (previous year: €674 thousand). The aggregate compensation for 2018 included a one-time lump sum payment of €390 thousand for Patrick Thomas and a pro-rata compensation of €284 thousand for the post-contractual noncompete clause for Frank H. Lutz that was limited to one year. A provision of €7,818 thousand (previous year: €668 thousand) is recognized in the consolidated financial statements as of December 31, 2019, for current pensions for former Board of Management members. A provision of €5,804 thousand is recognized for this purpose in the financial statements of Covestro AG as of December 31, 2019 (December 31, 2018: €465 thousand).
Compensation of the Supervisory Board
The Supervisory Board is compensated according to the relevant provisions of the Articles of Incorporation.

The members of the Supervisory Board each receive fixed annual compensation of €100 thousand plus reimbursement of their expenses.

In accordance with the recommendations of the GCGC, additional compensation is paid to the Supervisory Board Chair and Vice Chair, and for chairing and membership in committees. The Supervisory Board Chair receives fixed compensation of €300 thousand, while €150 thousand is paid to the Vice Chair. This compensation includes chairmanship of and membership in committees. The other members of the Supervisory Board are entitled to additional compensation for membership in or chairmanship of committees. The Chair of the Audit Committee receives an additional €50 thousand, the other members of the Audit Committee €25 thousand each. The chairs of the remaining committees receive €30 thousand each, the other members of those committees €20 thousand each. No additional compensation is paid for membership in the Nominations Committee. Work on committees will be considered for no more than two committees. If this cap is exceeded, compensation is paid for the two highest paid positions. If changes are made to the Supervisory Board and/or its committees during the year, members receive compensation on a prorated basis. The members of the Supervisory Board also receive an attendance fee of €1 thousand each time they personally attend a meeting of the Supervisory Board or a committee. The attendance fee is limited to €1 thousand per day.

Compensation of the Supervisory Board for the fiscal year
The following table outlines the components of each Covestro AG Supervisory Board member’s compensation for the 2019 reporting period and the prior-year period:

<table>
<thead>
<tr>
<th>Supervisory Board Member</th>
<th>Fixed compensation</th>
<th>Attendance fee</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ferdinando Falco Beccalli</td>
<td>100</td>
<td>100</td>
<td>4</td>
</tr>
<tr>
<td>Dr. Christine Bortenländer</td>
<td>100</td>
<td>100</td>
<td>5</td>
</tr>
<tr>
<td>Johannes Dietsch</td>
<td>145</td>
<td>145</td>
<td>10</td>
</tr>
<tr>
<td>Peter Hausmann</td>
<td>145</td>
<td>145</td>
<td>8</td>
</tr>
<tr>
<td>Petra Kronen (Vice Chair)</td>
<td>150</td>
<td>150</td>
<td>10</td>
</tr>
<tr>
<td>Irena Küstner</td>
<td>125</td>
<td>125</td>
<td>9</td>
</tr>
<tr>
<td>Dr. Ulrich Liman</td>
<td>120</td>
<td>120</td>
<td>7</td>
</tr>
<tr>
<td>Prof. Dr. Rolf Nonnenmacher (Chair of the Audit Committee)</td>
<td>150</td>
<td>150</td>
<td>9</td>
</tr>
<tr>
<td>Dr. Richard Pott (Chair)</td>
<td>300</td>
<td>300</td>
<td>10</td>
</tr>
<tr>
<td>Regine Stachelhaus</td>
<td>120</td>
<td>120</td>
<td>5</td>
</tr>
<tr>
<td>Marc Stotzfang</td>
<td>100</td>
<td>100</td>
<td>5</td>
</tr>
<tr>
<td>Frank Werth</td>
<td>100</td>
<td>100</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,655</strong></td>
<td><strong>1,655</strong></td>
<td><strong>87</strong></td>
</tr>
</tbody>
</table>

In addition to their compensation as members of the Supervisory Board, those employee representatives who are employees of Covestro Group companies receive compensation unrelated to their service on the Supervisory Board. The total amount of such compensation was €883 thousand (previous year: €925 thousand).

No compensation was paid or benefits granted to members of the Supervisory Board for personally performed services such as consulting or agency services. In addition, the company has purchased insurance for the members of the Supervisory Board to cover their personal liability arising from their service on the Supervisory Board. This includes a deductible that is in line with the GCGC recommendation.

Other information
There were no advances or loans to members of the Board of Management or the Supervisory Board outstanding as of either December 31, 2018, or December 31, 2019.