

<b>Report of the Supervisory Board</b>	<b>34</b>
<b>Governance Bodies</b>	<b>43</b>
<b>Covestro on the Capital Market</b>	<b>46</b>

# TO OUR STOCKHOLDERS

# SUPERVISORY BOARD

# REPORT OF THE

Dear Stockholders,

**During the reporting period, the Supervisory Board of Covestro AG performed its duties with due care in accordance with the law, the Articles of Incorporation, and the rules of procedure. During fiscal 2018, it monitored the conduct of the company's business by the Board of Management with regular frequency based on detailed written and oral reports received from the Board of Management, and also acted in an advisory capacity. The discussions between the Supervisory Board and Board of Management were always constructive and were conducted in the spirit of openness and trust.**

**T**he Supervisory Board Chair was in regular contact with the Board of Management outside of Supervisory Board meetings and remained informed about current developments in the company's business performance and material transactions. In addition, the Chair of the Supervisory Board was in close contact with the Board of Management Chair to discuss important questions and decisions one on one. The full Supervisory Board was informed in detail about the content of these discussions no later than during the next meeting.

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



**Dr. Richard Pott**  
Chairman of the  
Supervisory Board

### Meetings of the full Supervisory Board and member attendance

In fiscal year 2018, the Supervisory Board held a total of five regular meetings, all of which were also attended by at least one member of the Board of Management, except where issues were discussed that required them to be absent.

The average attendance rate at the meetings of the full Supervisory Board and of its committees was over 97% in 2018. No member of the Supervisory Board attended fewer than half of the meetings of the full Supervisory Board and of the committees to which he or she belonged.

Specifically, the members of the Supervisory Board attended the meetings of the Supervisory Board and its committees, including by phone in two cases, as follows:

Member of the Supervisory Board	Meeting attendance (including committee meetings)	Attendance rate (%)
Dr. Richard Pott (Chair)	14/14	100
Ferdinando Falco Beccalli	4/6	66.7
Dr. Christine Bortenlänger	5/5	100
Johannes Dietsch	13/13	100
Peter Hausmann	9/9	100
Petra Kronen (Vice Chair)	13/13	100
Irena Küstner	9/9	100
Dr. Ulrich Liman	9/9	100
Prof. Dr. Rolf Nonnenmacher	9/9	100
Regine Stachelhaus	6/6	100
Marc Stothfang	5/5	100
Frank Werth	5/5	100
<b>Average attendance rate</b>		<b>97.2</b>



Only in the case of one regular Supervisory Board meeting and a meeting of the Nominations Committee scheduled on the same day did a member of the Supervisory Board and the Nominations Committee have to cancel on short notice for personal reasons.

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

In the 2018 reporting period, personal continuing education was again an important activity for Supervisory Board members. The main highlight was once again an all-day workshop on the key elements of the Group strategy, as well as a guest presentation and extensive dialog on the future of the chemical industry in a circular economy.

### **Principal topics discussed by the Supervisory Board**

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

In its meeting on February 19, 2018, the Supervisory Board deliberated at length about the existing voluntary commitment by its members to acquire Covestro shares for 25% of their annual fixed compensation, including any compensation for committee membership. After an in-depth discussion about the advantages and disadvantages of continuing to uphold this voluntary commitment, particularly considering the insider trading risks associated with stock purchases, and the great variation in experience with and handling of this issue at other listed companies, the members of the Supervisory Board decided to eliminate the voluntary commitment to purchase further Covestro shares. The obligation to hold the Covestro shares purchased thus far as part of the voluntary commitment for the duration of their term on the Supervisory Board of Covestro AG remains unaffected. Additional topics at this initial meeting were target attainment by Board of Management members and the adjustment in the calculation of maximum compensation for the Board of Management according to the provisions of the German Corporate Governance Code. Moreover, the Supervisory Board extensively discussed the financial statements of Covestro AG and the consolidated financial statements of the Covestro Group for fiscal 2017, the combined management report, the proposal for the use of the distributable profit, as well as the agenda and proposed resolutions for the 2018 Annual General Meeting. The Supervisory Board also thoroughly reviewed the audit report and the auditor's oral report concerning the material results of the audit. In addition, the Supervisory Board examined the risk report, which sets out the material risks for the Group and current developments in this regard, as well as the relevant countermeasures. Furthermore, the organization, statistics, training efforts, processes, and effectiveness of the Group's compliance management system were reviewed in depth. After a discussion of the matter, the Supervisory Board ultimately decided to wait for implementation of the results from the efficiency working groups, before it conducts another efficiency review of its activities.

In its meeting on April 13, 2018, the Supervisory Board passed a resolution after a thorough discussion on the early departure of Patrick Thomas as CEO as of May 31, 2018, and the corresponding slightly earlier appointment of Dr. Markus Steilemann as the Covestro Group's new CEO as of June 1, 2018. Additionally, the Supervisory Board focused mainly on issues relevant to the upcoming Annual General Meeting of Covestro AG.

The Supervisory Board meeting on May 23, 2018, focused particularly on certain aspects of the implementation of the Group's strategy. Aside from continuing deliberations regarding a possible MDI investment program, project plans and measures aimed at closer, industry-typical cooperation with external contractors on future large-scale investment projects were discussed as well. Moreover, the Supervisory Board reviewed the M&A strategy; individual digitalization efforts; employee development; and the "Covestro Campus", the new company's new office administration building, the construction of which commenced in the fiscal year 2018. The Supervisory Board was also informed about the status of the Group's compliance with the requirements of the EU's General Data Protection Regulation and started deliberating on the possible establishment of a Covestro foundation to promote sustainable development.

In its meeting on October 9, 2018, the Supervisory Board focused on issues such as the organization of the current Board of Management and the individual Board of Management areas of responsibility in view of the Group's strategic goals. In view of the extensive discussions and dialog that occurred during a strategy workshop that was conducted on the previous day, the Supervisory Board again addressed the implementation thus far and future considerations with respect to the six key elements of the Group's strategy: investment, innovation, M&A, performance, digitalization, and corporate culture. After extensive debate and analysis, the Supervisory Board ultimately also approved a large-scale investment in projects including construction of a new world-scale MDI production facility at the Covestro site in Baytown, United States. In conclusion, the Supervisory Board raised the standard age limit for its members to 72.

At its last meeting on December 7, 2018, the Supervisory Board comprehensively reviewed the appropriateness of its own compensation and that of the members of the Board of Management, including long-term compensation components for the period from 2019 to 2022. Furthermore, the board discussed adjustments to growth, profitability, and liquidity thresholds for the short-term compensation program ("Covestro Profit Sharing Plan") for 2019 to 2021 and appointed Dr. Thomas Toepfer as the Group's new Labor Director effective January 1, 2019. Additionally, the Supervisory Board discussed a suitable approach to an efficiency review of its activities in the 2018 fiscal year. Against the backdrop of Covestro AG's share buy-back program completed in early December 2018 and the capital reduction resolved by the Board of Management, the Supervisory Board passed the necessary resolution to adjust the Articles of Incorporation to reflect the reduced capital stock. The Supervisory Board also delved deeper into its initial deliberations on further optimizing individual Board of Management portfolios and again extensively debated the MDI investment program. Implementation costs for the "Perspective" program, which is aimed at →

boosting efficiency and effectiveness, were approved and a detailed discussion was held about the financial planning and also the medium-term outlook proposed by the Board of Management. Moreover, the Supervisory Board approved the proposed financial framework for fiscal 2019. It also voted to issue an unqualified declaration of conformity with the German Corporate Governance Code as amended on February 7, 2017.

### Committees of the Supervisory Board

In the past fiscal year, the Supervisory Board once again had four committees set up for the purpose of exercising its duties efficiently. The committees prepared resolutions by the full Supervisory Board and provided information on other topics to be discussed by this body. Moreover, certain decision-making powers of the Supervisory Board were assigned to the committees to the extent legally permissible. The Supervisory Board currently has a Presidial Committee, an Audit Committee, a Human Resources Committee, and a Nominations Committee. The tasks and responsibilities of the committees are described in greater detail in section 22 "Declaration on Corporate Governance" under "Committees of the Supervisory Board." The current composition is presented in the section "Governance Bodies."

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

In 2018, the **Presidial Committee** was not required to convene in its capacity as the mediation committee.

The **Audit Committee** met four times in the reporting year on February 16, April 25, July 25, and October 24, 2018, with the (interim) CFO present at all four meetings and the responsible auditor in each case attending two of them. The committee conducted a preparatory review for the Supervisory Board of the financial statements of Covestro AG, the consolidated financial statements of the Covestro Group, the combined management report, the proposal for the use of the distributable profit, and the related parties report. Additionally, it also thoroughly discussed, in particular, the respective audit report and the oral report by the auditor on the material results of the audit. The combined management report also included the Group's nonfinancial statement. In conducting its review, the Audit Committee found no grounds for objections. In addition, the Audit Committee discussed with the Board of Management the half-year financial report in light of the results of the review by the auditor, and the Q1 and Q3 2018 interim statements prior to their publication.

A particular focus of the Audit Committee was on the status reports regarding the "BrigHteR" project (transition of HR processes during the rollout of a new cloud-based HR software system) and the "TOMA" project (transfer of various accounting activities to a Shared Service Center in Bratislava, Slovakia). It also intensively discussed a comparative study on corporate social responsibility (CSR) reporting and the associated controls in DAX companies.

Finally, the Audit Committee reviewed in detail the reasons for changes in general administration expenses since the carve-out, the status at the company regarding the implementation of the new International Financial Reporting Standard – IFRS 16 "Leases" – and the experiences, action items, and future plans for cybersecurity.

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

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

The Audit Committee continually exchanged information with the auditor about the material audit risks and the necessary focus of the audit.

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

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

The **Human Resources Committee** held a total of four meetings in the reporting year, on February 16/19, April 13, October 9, and December 3, 2018. Topics covered at the first meeting particularly included the achievement of targets set for Board of Management members, the general change in Share Ownership Guidelines for executives from a fixed number of shares to be acquired to a corresponding investment value, the adjustment in the calculation of maximum Board of Management compensation according to the provisions of the German Corporate Governance Code, and succession planning and employee development for Group executives. In its second meeting, the Human Resources Committee concentrated mainly on the somewhat earlier departure of Patrick Thomas as CEO of the Group as of May 31, 2018, and the corresponding earlier appointment of Dr. Markus Steilemann as the new CEO as of June 1, 2018. The Human Resources Committee's last two meetings focused on an in-depth discussion of the Guidelines for Sustainable Management Board Compensation; a review of the current organization of the Board of Management against the backdrop of the Group's business strategy; a review of Board of Management compensation; the raising of growth, profitability, and liquidity thresholds for the Covestro Profit Sharing Plan for the period from 2019 to 2021; and the appointment of Dr. Thomas Toepfer as the Group's new Labor Director effective January 1, 2019.

The **Nominations Committee** met once in the reporting year on December 7, 2018. Considering the Covestro Group's business activities, current strategy, and future business performance, the Committee again examined the composition of the Supervisory Board and the qualifications of its members. Taking the developed skill matrix into account, searches for suitable future Supervisory Board members will focus especially on personal experience with digitalization, innovation and technology.

### Financial statements / audits

The financial statements of Covestro AG were prepared according to the requirements of the German Commercial Code (HGB) and German Stock Corporation Act (AktG). The consolidated financial statements of the Covestro Group were prepared according to the German Commercial Code and the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). The combined management report including the Group's nonfinancial statement was prepared according to the German Commercial Code. The auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, audited the financial statements of Covestro AG, the consolidated financial statements of the Covestro Group, and the combined management report including the Group's nonfinancial statement. The conduct and results of the audit are explained in the auditor's reports. According to the auditor's results, Covestro has complied with the German Commercial Code, the German Stock Corporation Act and/or the IFRS regulations as adopted by the EU, and issues unqualified opinions on the financial statements of Covestro AG and the



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

consolidated financial statements of the Covestro Group. The financial statements of Covestro AG, the consolidated financial statements of the Covestro Group, the combined management report, and the audit reports were submitted to all members of the Supervisory Board. They were discussed in detail by the Audit Committee and at a meeting of the full Supervisory Board. The auditor submitted a report on both occasions and was present during the discussions.

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

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

### **Corporate governance and declaration of conformity**

During the reporting year, the Supervisory Board again extensively addressed Covestro's corporate governance, taking into account the German Corporate Governance Code and, together with the Board of Management, submitted an unqualified declaration of conformity in accordance with Section 161 of the German Stock Corporation Act in December 2018 based on the Code as amended on February 7, 2017. The declaration of conformity was subsequently made permanently available to stockholders on the company's website.

### **Expression of appreciation for the Board of Management and employees**

The Supervisory Board would like to thank the Board of Management and all of Covestro's employees for their unwavering dedication and notable accomplishments in the 2018 fiscal year. We wish you all success in further implementing the company's strategic goals.

Leverkusen (Germany), February 22, 2019

For the Supervisory Board

Dr. Richard Pott

Chairman

# GOVERNANCE BODIES

## Board of Management

The Board of Management of Covestro AG as of December 31, 2018

Name	Position	Areas of responsibility	Memberships on other supervisory boards
<b>Dr. Markus Steilemann</b>	Chief Executive Officer Chief Commercial Officer	<ul style="list-style-type: none"> <li>• Polyurethanes</li> <li>• Polycarbonates</li> <li>• Coatings, Adhesives, Specialties</li> <li>• Communications</li> <li>• Corporate Audit</li> <li>• Human Resources</li> <li>• Innovation Management &amp; Commercial &amp; Services</li> <li>• Strategy</li> <li>• Supply Chain Center EMLA</li> <li>• Supply Chain Center NAFTA</li> <li>• Supply Chain Center APAC</li> <li>• Sustainability</li> </ul>	
<b>Dr. Klaus Schäfer</b>	Chief Technology Officer Labor Director (until December 2018)	<ul style="list-style-type: none"> <li>• Global Project Engineering</li> <li>• Health, Safety, Environment &amp; Quality</li> <li>• Production &amp; Technology</li> <li>• Procurement</li> <li>• Site Management NRW</li> <li>• Site Management Baytown</li> <li>• Site Management Shanghai</li> </ul>	
<b>Dr. Thomas Toepfer</b>	Chief Financial Officer Labor Director (since January 2019)	<ul style="list-style-type: none"> <li>• Accounting</li> <li>• Controlling</li> <li>• Finance</li> <li>• Information Technology</li> <li>• Investor Relations</li> <li>• Law, Intellectual Property &amp; Compliance</li> <li>• Portfolio Development</li> <li>• Taxes</li> </ul>	

## Supervisory Board

The Supervisory Board comprises the following member:

Name Function	Membership on the Supervisory Board	Position	Memberships on other supervisory boards and memberships in comparable supervising bodies of German or foreign corporations
<b>Dr. Richard Pott</b> (Chair)	Member of the Supervisory Board since August 2015	<ul style="list-style-type: none"> <li>Former Member of the Board of Management and Labor Director of Bayer AG</li> </ul>	<ul style="list-style-type: none"> <li>Chair of the Supervisory Board of Covestro Deutschland AG</li> <li>Member of the Supervisory Board of Freudenberg SE</li> <li>Member of the Supervisory Board of SCHOTT AG</li> </ul>
<b>Petra Kronen</b> (Vice Chair)	Member of the Supervisory Board since October 2015	<ul style="list-style-type: none"> <li>Chair of the Works Council of Covestro at the Uerdingen site</li> <li>Chair of the General Works Council of Covestro</li> <li>Vice Chair of Covestro-European Forum</li> <li>Employee of Covestro Deutschland AG</li> </ul>	<ul style="list-style-type: none"> <li>Vice Chair of the Supervisory Board of Covestro Deutschland AG</li> <li>Member of the Supervisory Board of Bayer Beistandskasse VVaG</li> </ul>
<b>Ferdinando Falco Beccalli</b>	Member of the Supervisory Board since October 2015	<ul style="list-style-type: none"> <li>Chair of the Board of Falco Enterprises AG</li> <li>Chair of the Board of Falco Holding SA</li> </ul>	<ul style="list-style-type: none"> <li>Member of the Supervisory Board of Covestro Deutschland AG</li> </ul>
<b>Dr. Christine Bortenlänger</b>	Member of the Supervisory Board since October 2015	<ul style="list-style-type: none"> <li>Executive Member of the Board of Deutsches Aktieninstitut e.V.</li> </ul>	<ul style="list-style-type: none"> <li>Member of the Supervisory Board of Covestro Deutschland AG</li> <li>Member of the Supervisory Board of MTU Aero Engines AG (since April 2018)</li> <li>Member of the Supervisory Board of OSRAM GmbH</li> <li>Member of the Supervisory Board of OSRAM Licht AG</li> <li>Member of the Supervisory Board of SGL Carbon SE (until June 2018)</li> <li>Member of the Supervisory Board of TÜV SÜD AG</li> </ul>
<b>Johannes Dietsch</b>	Member of the Supervisory Board since August 2015	<ul style="list-style-type: none"> <li>Member of the Board of Management of Bayer AG (until May 2018)</li> <li>Member of the Board of Management of thyssenkrupp AG (since February 2019)</li> </ul>	<ul style="list-style-type: none"> <li>Member of the Supervisory Board of Covestro Deutschland AG</li> <li>Chair of the Supervisory Board of Bayer Business Services GmbH (until May 2018)</li> </ul>
<b>Peter Hausmann</b>	Member of the Supervisory Board since October 2015	<ul style="list-style-type: none"> <li>Secretary of the German Mining, Chemical and Energy Industrial Union (IG BCE)</li> </ul>	<ul style="list-style-type: none"> <li>Member of the Supervisory Board of Covestro Deutschland AG</li> <li>Member of the Supervisory Board of Henkel AG &amp; Co. KGaA (until April 2018)</li> <li>Member of the Supervisory Board of Continental AG (until October 2018)</li> <li>Vice Chair of the Supervisory Board of 50Hertz Transmission GmbH</li> <li>Vice Chair of the Supervisory Board of Vivawest GmbH (until April 2018)</li> <li>Vice Chair of the Supervisory Board of Vivawest Wohnen GmbH (until April 2018)</li> </ul>
<b>Irena Küstner</b>	Member of the Supervisory Board since October 2015	<ul style="list-style-type: none"> <li>Chair of the Works Council of Covestro at the Leverkusen site</li> <li>Chair of the Group Works Council of Covestro</li> <li>Vice Chair of the General Works Council of Covestro</li> <li>Employee of Covestro Deutschland AG</li> </ul>	<ul style="list-style-type: none"> <li>Member of the Supervisory Board of Covestro Deutschland AG</li> </ul>
<b>Dr. Ulrich Liman</b>	Member of the Supervisory Board since January 2018	<ul style="list-style-type: none"> <li>Chair of the Managerial Employees' Committee of Covestro Deutschland AG</li> <li>Manager of Covestro Deutschland AG</li> </ul>	<ul style="list-style-type: none"> <li>Member of the Supervisory Board of Covestro Deutschland AG</li> </ul>





Name Function	Membership on the Supervisory Board	Position	Memberships on other supervisory boards and memberships in comparable supervising bodies of German or foreign corporations
<b>Prof. Dr. Rolf Nonnenmacher</b>	Member of the Supervisory Board since August 2015	<ul style="list-style-type: none"> <li>• Certified Accountant</li> </ul>	<ul style="list-style-type: none"> <li>• Member of the Supervisory Board of Covestro Deutschland AG</li> <li>• Member of the Supervisory Board of Continental AG</li> <li>• Member of the Supervisory Board of ProSiebenSat.1 Media SE</li> </ul>
<b>Regine Stachelhaus</b>	Member of the Supervisory Board since October 2015	<ul style="list-style-type: none"> <li>• Former Member of the Board of Management and Labor Director of E.ON SE</li> </ul>	<ul style="list-style-type: none"> <li>• Member of the Supervisory Board of Covestro Deutschland AG</li> <li>• Member of the Supervisory Board of CECONOMY AG</li> <li>• Member of the Supervisory Board of SPIE Deutschland und Zentraleuropa GmbH</li> <li>• Director of SPIE SA, France</li> <li>• Nonexecutive director of ComputaCenter plc, United Kingdom</li> </ul>
<b>Marc Stothfang</b>	Member of the Supervisory Board since February 2017	<ul style="list-style-type: none"> <li>• Chair of the Works Council of Covestro at the Brunsbüttel site</li> <li>• Chair of Covestro-European Forum</li> <li>• Employee of Covestro Deutschland AG</li> </ul>	
<b>Frank Werth</b>	Member of the Supervisory Board since September 2016	<ul style="list-style-type: none"> <li>• District Manager of the German Mining, Chemical and Energy Industrial Union (IG BCE) – district Leverkusen</li> </ul>	<ul style="list-style-type: none"> <li>• Member of the Supervisory Board of Covestro Deutschland AG</li> </ul>

## Members of Committees

The committees of the Supervisory Board of Covestro AG as of December 31, 2018

Presidial Committee	Nominations Committee	Audit Committee	Human Resources Committee
<b>Dr. Richard Pott</b> (Chair)	<b>Dr. Richard Pott</b> (Chair)	<b>Prof. Dr. Rolf Nonnenmacher</b> (Chair)	<b>Dr. Richard Pott</b> (Chair)
<b>Peter Hausmann</b>	<b>Ferdinando Falco Beccalli</b>	<b>Johannes Dietsch</b>	<b>Johannes Dietsch</b>
<b>Petra Kronen</b>	<b>Regine Stachelhaus</b>	<b>Peter Hausmann</b>	<b>Petra Kronen</b>
<b>Regine Stachelhaus</b>		<b>Petra Kronen</b>	<b>Dr. Ulrich Liman</b>
		<b>Irena Küstner</b>	
		<b>Dr. Richard Pott</b>	

# CAPITAL MARKET

# COVESTRO ON THE

## Performance of Covestro Stock Versus Market in Fiscal Year 2018



### Inclusion in the DAX

On March 19, 2018, Deutsche Börse AG added Covestro to the German benchmark index, the DAX. As a result, Covestro is now one of the 30 most important listed companies in Germany. Covestro is also included in the STOXX® Europe 600 Index, the MSCI Global Standard Germany Index, and the FTSE Global Equity Index Series.

### Covestro stock in a weak environment

On the whole, the European stock market was mediocre in 2018: Many indices such as the EURO STOXX 50® posted a negative performance. At the end of the year, the DAX, which is relevant for Covestro, was down 18.3% compared with its value at year end 2017, while the STOXX® Europe 600 Chemicals Index fell 15.6% during the same period.

Hallmarks of the past year included uncertainties such as the trade dispute between the United States and China, rising debt in Italy, and the Brexit negotiations between the European Union and the United Kingdom. This environment in capital markets also affected Covestro's stock. The Xetra® closing price was €43.18 at the end of 2018. The high price for the year of €95.00 – also the latest record in Covestro's capital market history – was reached on January 19, 2018. On December 20, 2018, Covestro stock dipped to its low for the year with a closing price of €41.90.

Compared with the closing price of €86.03 for 2017, this represents a decline of 49.8% for Covestro's stock in 2018. Including the dividend of €2.20 per share paid out in April 2018, Covestro's stock performance (with dividend reinvestment) was –48.4%.

At the end of the reporting period, Covestro's market capitalization stood at around €7.9 billion based on the reduced capital stock of 183 million shares. The average daily trading volume was around 1.2 million shares. In a ranking by German stock indices, the company therefore came in 23rd in terms of trading volume and 34th in terms of market capitalization at year end 2018.



Covestro has been listed in the DAX since March 19, 2018.

The Board of Management and the Supervisory Board of Covestro AG will propose a dividend of €2.40 per share carrying dividend rights to the Annual General Meeting on April 12, 2019. This represents a dividend yield of 5.6% based on the closing price on December 28, 2018.

### Covestro Share at a Glance

		2017	2018
Average daily turnover	million shares	0.6	1.2
Year-end closing price	€	86.03	43.18
High	€	88.20	95.00
Low	€	62.07	41.90
Outstanding shares (closing date)	million shares	202.5	182.7
Market capitalization (closing date)	€ billion	17.4	7.9
Stock price development	%	+32.0	-49.8
Stock price performance (with dividend reinvestment)	%	+34,5	-48.4
Dividend per share	€	2.20	2.40

Covestro closing prices Xetra®; source: Bloomberg

### Share buy-back program completed and capital stock reduced

On December 4, 2018, the share buy-back program announced in the fall of 2017 was completed successfully. This program involved the company buying back treasury shares amounting to as much as €1.5 billion, or up to 10% of the capital stock. From November 21, 2017, the company acquired shares in three tranches totaling more than 9.8% of the capital stock and valued at nearly €1.5 billion. As a result, Covestro successfully concluded the program around half a year earlier than envisioned.

The Board of Management intends to propose a new authorization to acquire treasury shares amounting to no more than 10% of the company's capital stock at the upcoming Annual General Meeting. According to the German Stock Corporation Act, authorization such as this is required for deciding on possible additional share buy-backs in the future. →

After completion of the current program, the Board of Management also resolved to retire 19.5 million treasury shares and therefore reduce the capital stock by €19.5 million. Since then, the capital stock of Covestro AG has amounted to €183 million, divided into 183 million no-par value bearer shares.

### Substantially higher free float

Bayer AG reduced its direct interest in Covestro by another 21 million shares at the start of 2018. The share placement took place after the markets closed on January 10, 2018, and was aimed exclusively at institutional investors. On May 3, 2018, Bayer AG initiated the sale of a further block of around 29 million Covestro shares. This block was once again offered exclusively to institutional investors. Bayer AG now only holds around 14 million Covestro shares with which the company has stated it intends to settle the 2017 exchangeable bond maturing in 2020. Accordingly, around 92% of Covestro's shares were in free float at the end of 2018.

### Moody's upgrades credit rating

The rating agency Moody's Investors Service, London, has updated Covestro's existing investment-grade rating as part of a regular review. On July 30, 2018, Moody's upgraded the company's credit rating from Baa2 to Baa1 with stable outlook.

The ratings analysts based their decision in part on the consistently strong operating results and cash flows that Covestro has generated in recent years. The assessment stated that this led to faster paydown of debt than originally expected. Covestro AG's financial indicators therefore placed the company in a better rating category.

The Baa1 rating with a stable outlook puts Covestro in an excellent position for obtaining financing, particularly on the international debt market.

### ADR program successful in second year

Since December 1, 2016, the American Depositary Receipt (ADR) program has granted global investors simplified access to Covestro stock. The Covestro ADR is traded over the counter in the United States under the COVTY ticker symbol. The total number of outstanding depositary receipts reached approximately 1.2 million (previous year: around 191,000) with continued high monthly growth rates.

### Buy recommendation from nine analysts

At the end of 2018, Covestro stock was covered by 24 financial analysts, with nine issuing buy recommendations and 15 giving neutral assessments. None of the analysts recommended selling Covestro stock. The average share price target was approximately €60 at year end.

### Basic Covestro Share Information

Capital stock	€183,000,000
Outstanding shares (year end)	182,704,602
Share class	No-par ordinary bearer shares
ISIN	DE0006062144
WKN	606214
Ticker symbol	1COV
Reuters symbol	1COV.DE
Bloomberg symbol	1COV GY
Market segment	Regulated market
Transparency level	Prime standard
Sector	Chemicals
Index	DAX