Corporate Governance Report

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 Articles of Incorporation that reflect these standards.

The Board of Management and Supervisory Board provide information pertaining to corporate governance in this Report pursuant to Section 3.10 of the GCGC, 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 Group Management Report. Pursuant to Section 317 (2), Sentences 4 and 5 of the German Commercial Code, 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.

22. Declaration on Corporate Governance

In the reporting year, the Board of Management and Supervisory Board again addressed the matter of complying with the German Corporate Governance Code and the resulting Declaration of Conformity was issued in December 2018 and 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.

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 2017, 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, December 2018

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 and the Board of Management's rules of procedure, and the recommendations of the German Corporate Governance Code 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. 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 and 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.

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. The Supervisory Board conducts a systematic process for selecting candidates for the Board of Management, while following the recommendations of the German Corporate Governance Code. 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's Board of Management currently has three members. The goals regarding age structure and function-specific expertise were generally met in fiscal year 2018. In filling the position of CFO, the Board of Management met the education and professional background requirements. The Board of Management's members ranged in age from 46 to 56 in fiscal year 2018. 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 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 of the Stock Corporation Act, the Supervisory Board of a company which is both listed and codetermined should be composed of at least 30% women and at least 30% men. As of December 31, 2018, the Supervisory Board of Covestro AG comprises 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.

In addition, in the past year the Board of Management set new targets for the first two management levels below the Board of Management. For the new 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

	Covestro AG		Covestro-Konzern	
	Status quo (December 31, 2018	Target (by June 30, 2022	Status quo (December 31, 2018	Target (by June 30, 2022
Management level[1]	0%	30%	7%	30%
Management level[2]	27%	30%	20%	30%

[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.

Through regular and open discussions with the Board of Management, the Supervisory Board is kept informed of business policy, corporate planning and strategy. 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.

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 by the Annual General Meeting.

The Supervisory Board discussed the requirements stipulated by Section 100, Paragraph 5 of the German Stock Corporation Act. 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.

Committees of the Supervisory Board

The Supervisory Board currently has the following committees:

Presidial Committee: This 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, Petra Kronen and Regine Stachelhaus

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 of the German Corporate Governance Code. 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.

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, Petra Kronen, Irena Küstner and Dr. Richard Pott

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, Dr. Ulrich Liman and Petra Kronen

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), Regine Stachelhaus and Ferdinando Falco Beccalli

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 of the German Corporate Governance Code.

Existing objectives for the composition

Covestro AG's Supervisory Board has agreed the following specific goals for its composition that align with the recommendations of the German Corporate Governance Code 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 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, distribution, 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 Section 5.4.2 of the German Corporate Governance Code. 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

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. Information on securities transactions by members of the Board of Management or Supervisory Board can be found at: investor.covestro.com/en/stock/shareholder-structure/disclosure-of-securities-transactions/

Common values and leadership principles

Covestro is guided by three corporate values that reflect the way people at the company think and act: curious, courageous and colorful.

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 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

To maximize transparency, 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. 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 German Corporate Governance Code.

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 informs stockholders and other interested parties about developments by means of the half-year financial report and additional 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 additionally provides information about the current corporate strategy, important growth areas, the financial position and results of operations, and financial targets at regular news 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, interim financial reports 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.

23. 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 information on Covestro's ownership structure, see: investor.covestro.com/en/stock/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 company's Articles of Incorporation. 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. 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 of Covestro AG, 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 Stockholders' 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 of Covestro AG 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, 2018, and is composed of 183,000,000 no-par value bearer shares. Each share confers equal rights and one vote at the Stockholders' Meeting. On December 3, 2018, the Covestro AG Board of Management resolved to buy back 19,500,000 own shares against a reduction in the Company's capital stock of €19,500,000. The Company's Articles of Incorporation were changed accordingly by resolution of the Supervisory Board on December 7, 2018.

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 consent 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 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. 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 Stockholders' Meeting of September 1, 2015, exercise their warrant or conversion rights or perform their warrant or conversion obligations, and to the extent that such warrants or conversion rights or obligations cannot be 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 consent 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 Stockholders' Meeting has not yet adopted a resolution on the use of the distributable profit. The Board of Management is authorized, with the consent 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 Stockholders' Meeting on September 1, 2015, 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 August 31, 2020, 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, 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 71d and 71e 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.

Making use of the authorization to acquire treasury shares, Covestro AG's Board of Management resolved on October 24, 2017, to buy back treasury shares totaling up to €1.5 billion (excluding transaction costs), or up to 10% of the company's capital stock, whichever comes first.

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 disapplied 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 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 1.3 or 1.4, the stockholders' subscription rights are disapplied. The Board of Management is authorized to disapply subscription rights if the treasury shares acquired are used for the purpose specified in 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 under the above authorization in a manner other than via the stock exchange or via an offer to all stockholders, provided that the sale takes place against cash consideration and at a price which, at the date of 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 while disapplying subscription rights under or in accordance with Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act on or after September 1, 2015. 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 while disapplying subscription rights in application of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act, with the necessary modifications, on or after September 1, 2015.

1.4 The Board of Management is authorized to transfer the treasury shares acquired under the above 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 authorization without a further resolution by the Stockholders' 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 authorization to pay a scrip dividend.

1.7 The Board of Management may only use the authorizations in 1.3, 1.4 and 1.6 with the consent of the Supervisory Board. Moreover, the Supervisory Board can determine that the measures taken by the Board of Management on the basis of this Stockholders' Meeting resolution 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.

Under the share buy-back program, the company acquired treasury shares at a total price of approximately €1.5 billion (excluding transaction costs) in three tranches during the period from November 21, 2017, up to and including December 4, 2018, corresponding to a proportional share of 9.84% of the capital stock of the company registered to that date that amounted to €202,500,000. From January 1 through December 4, 2018, a total of 18,260,077 treasury shares were acquired at a total price of some €1.3 billion. This corresponds to 9.02% of the capital stock of the Company of €202,500,000 registered to that date.

2. Authorization for acquisition using derivatives

2.1 Treasury shares being acquired as part of the authorization under 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 Stockholders' 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 valuation techniques. 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 August 31, 2020, and must be selected so that the shares are not acquired using derivatives after August 31, 2020.

2.5 The provisions under 1.1 also apply to the use of company shares that have been acquired on the basis of this authorization.

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 representing a total pro-rated increase of up to €70,000,000 in the company's capital stock (hereinafter referred to as "shares of the company") on the terms to be defined for these bonds (hereinafter referred as the "terms of the bond"). 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 8 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 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 disapplies 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 consent 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 consent 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 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.

24. 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 our 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 nondiscriminatory working conditions. The requirements of our Corporate Compliance Policy 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. Our Corporate Compliance Policy is available online and on our intranet. New employees receive a comprehensive set of information documents, including our Corporate Compliance Policy.

Covestro is aware that employees will likely embrace and exhibit integrity if managers are excellent role models. As the Board of Management of Covestro 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.

Compliance 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. The Compliance Committee, chaired by the CFO of Covestro, is the Group's top-level decision-making body on compliance issues. In addition, the Compliance Committee is in charge of 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. Internal 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 of their company, 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 compliance 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 Covestro companies document risks arising from pending or current legal proceedings. Relevant cases are reported to the Audit Committee of the Supervisory Board, and the major risks are disclosed in the notes to the consolidated financial statements.

Due diligence on human rights

Covestro is committed to respect for human rights on the basis of the United Nations Guiding Principles on Business and Human Rights. In particular, we are committed to meeting the requirements of various country-specific action plans and laws with respect to due diligence on human rights. We acknowledge that companies are responsible for respecting human rights in their scope of business operations, at subsidiaries and throughout global supply chains and value chains as well as guarding against violations of human rights.

See section 6 "Sustainability in Supplier Management"

The principles of our due diligence on human rights are delineated in various corporate commitment documents, company policies, and our Supplier Code of Conduct. We revised our Corporate Commitment on Human Rights in 2018 and published it on our website. In this document, we have specified key international conventions and principles as the basis of our conduct. We expect our employees and business partners around the world to conduct themselves in accordance with these principles.

A key component of our due diligence on human rights lies in zero tolerance of child labor, forced labor and human trafficking. We made a public statement on the latter last year in our document "Corporate Commitment against Slavery and Human Trafficking."

25. Compensation Report

The Compensation Report describes 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 German Commercial Code, including the principles of German Accounting Standard No. 17 (DRS 17) and to the recommendations of the German Corporate Governance Code (GCGC) as amended on February 7, 2017. It also complies with the International Financial Reporting Standards (IFRSs).

Compensation of the Board of Management

Objectives

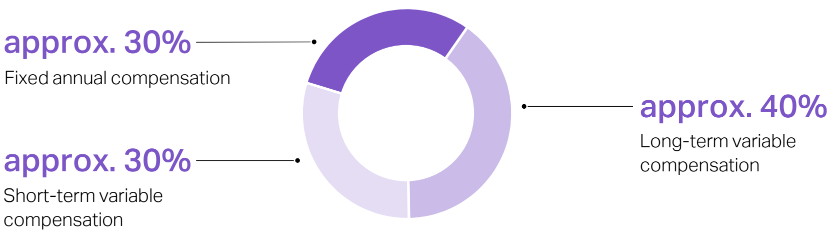
The compensation system for the Board of Management of Covestro AG is designed to facilitate a long-term increase in the company's value and responsible corporate governance. Furthermore, we aim to position Covestro as an attractive employer in the competition for highly qualified executives, and ensure statutory and regulatory compliance. Board of Management compensation is in line with the basic principles of the compensation structure for managerial employees in the Covestro Group.

The appropriateness of the system and the compensation level are regularly reviewed by the Supervisory Board, which then makes any necessary adjustments. To this end, Covestro is compared with DAX and MDAX companies to determine, in particular, whether Covestro's relative position within this group of companies in terms of revenue, employees and market capitalization is in line with the relative positioning of Board of Management compensation.

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:

Board of Management Compensation Structure (German Commercial Code)[1]



[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 insurance for the members of the Board of Management to cover their 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. The fixed compensation is regularly reviewed by the Supervisory Board in light of factors such as the consumer price index and adjusted if necessary. It is paid out in 12 monthly installments.

Fringe benefits

Fringe benefits mainly comprise a company car (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. They 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 success.

In fiscal year 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 success. 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 2015, 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 last time in fiscal 2018.

Components of the Covestro Profit Sharing Plan 2016–2018

	Growth: Core volume growth	Liquidity: FOCF	Profitability: ROCE
Threshold (0%)	+1.5%	Cash inflow of €250 million	ROCE = WACC
100% target attainment	+3.5%	Cash inflow of €500 million	1% point above WACC
Ceiling (300%)	+6.5%	Cash inflow of €875 million	2.5% points above WACC

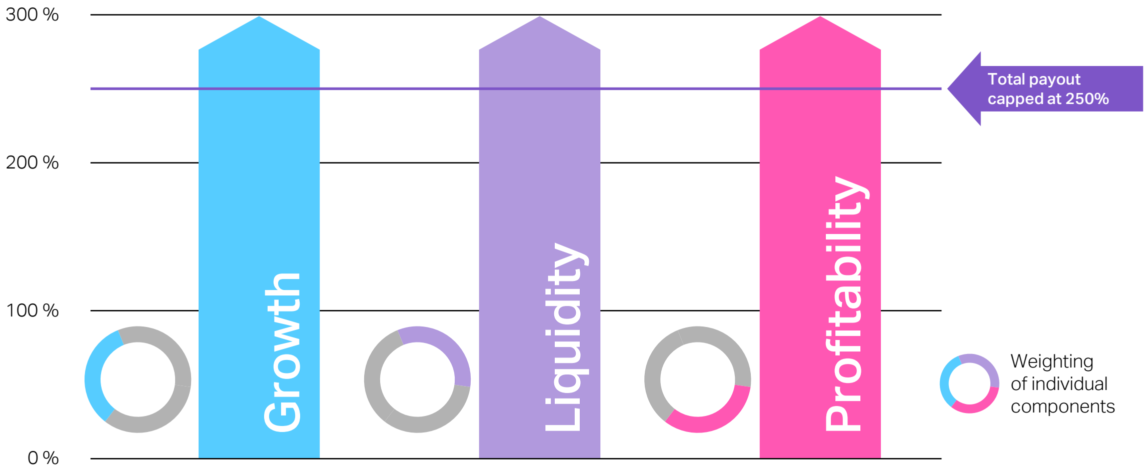
The figures for the upcoming years were adjusted for the Covestro PSP. The values below are applicable to the three-year period from 2019 to 2021.

Components of the Covestro Profit Sharing Plan 2019–2021

	Growth: Core volume growth	Liquidity: FOCF	Profitability: ROCE
Threshold (0%)	+1.5%	Cash inflow of €400 million	ROCE = WACC
100% target attainment	+4.0%	Cash inflow of €800 million	8% points above WACC
Ceiling (300%)	+9.0%	Cash inflow of €1,600 million	24% points above WACC

For each individual KPI, 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.

Components of Short-Term Variable Compensation



Long-term compensation

Aspire

The Board of Management members in office since 2015 are still formally participating in the final ongoing performance period (2015–2018 tranche) of the Bayer Group's Aspire long-term stock-based compensation program. The payments made under this program are based on the Aspire Target Opportunity, which is a contractually agreed percentage of fixed annual compensation. Depending on the performance of Bayer stock, both in absolute terms and relative to the EURO STOXX 50® benchmark index, participants are granted an award between 0% and 300% of their individual Aspire Target Opportunity at the end of the respective performance period.

In order to break the link between the payout and the development of Bayer's share price, which can no longer be materially influenced by the members of the Board of Management, the Supervisory Board decided in 2015 that the average price of Bayer stock and the benchmark index calculated from the closing prices for the last 30 trading days of 2015 would be used as the closing price for all current tranches and that the payout amount would be frozen accordingly. As a result, there will be no payout for the 2015–2018 tranche otherwise due in January 2019, because the relevant average price as of year end 2015 remained below the hurdle. The target value for the 2015–2018 tranche was reduced to 8/12 of the full value (pro rata for the period from January to August 2015). This was compensated for by increasing the target value for the first tranche of Covestro's own Prisma long-term compensation program launched in 2016 by 4/12.

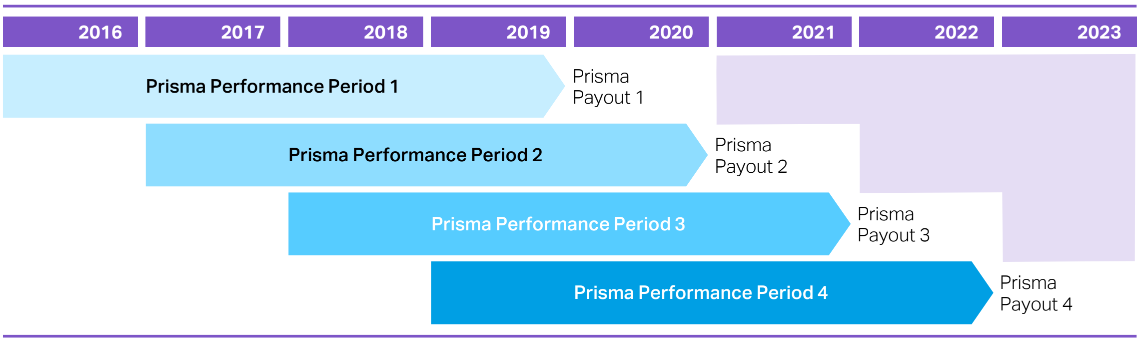
Prisma

The members of the Board of Management are eligible to participate in the Prisma compensation program as long as they remain in the service of the Covestro Group and acquire for their own account and hold Covestro shares according to defined policies. 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.

Prisma Performance Periods



Other stock-based compensation

In his capacity as subgroup CEO within the Bayer Group, Patrick Thomas received a split payout of the short-term variable compensation (short-term incentive, STI) for the period prior to fiscal unity from October 2013 to December 2014. Part of the STI was paid out in the form of virtual Bayer shares with a three-year lock-up period. The payout of the STI tranche for fiscal 2013 of the entitlements based on virtual Bayer shares took place in 2017. The payout of the STI tranche for fiscal 2014 took place in 2018. The payout amount for both tranches was "frozen" on the basis of the stock price as of December 31, 2015.

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 amounting to as much as 33% of the respective fixed compensation each year. 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 of 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 German Corporate Governance Code, 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 compensation of a Board of Management member in the case of 100% target attainment.

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, 2018:

Sample Calculation of Limited Target Compensation for the Chair of the Board of Management

€ thousand	Target value	Achievable value upon maximum payout of both compensation systems
Fixed annual compensation[1]	1,170	1,170
Short-term variable compensation[2]	1,170	2,925
Long-term variable compensation[3]	1,521	3,042
Pension service cost[4]	420	420
Target compensation	**4,281**	
Fringe benefits[5]		100
Total		**7,657**
Limited to 1.9 times the target compensation		**8,134**

[1] Fixed compensation of CEO converted to twelve months
[2] Target value: 100% of fixed annual compensation
[3] Target value: 130% of fixed annual compensation
[4] Pension service cost (German Commercial Code) converted to twelve months as CEO
[5] 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 of the German Corporate Governance Code. 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 of the German Corporate Governance Code.

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, taking into account a fictitious period of service between that date and the member's 55th birthday where applicable.

Compensation of the Board of Management for the fiscal year

The following paragraphs report the compensation of the Board of Management of Covestro AG for the fiscal year 2018. 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.

As of May 31, 2018, the Supervisory Board initiated early termination of Patrick Thomas' Board of Management contract by mutual agreement. The outstanding remuneration amount was stipulated in the context of a termination agreement, which categorized him as if he had worked until the regular expiration date of the contract (September 30, 2018). Accordingly, he received the pro-rated fixed compensation for the period from June to

September 2018 in the form of a one-time lump-sum payment amounting to €390 thousand, which was paid out at the end of May 2018. For 2018, a target value of €877 thousand was established as short-term variable compensation under the Covestro PSP (equivalent to a pro-rated amount for nine out of 12 months) and will be paid out on the regular payout date at the end of April 2019 in accordance with the Covestro PSP regulations. The claims arising from the 2016–2019 and 2017–2020 tranches of the Prisma long-term compensation program remain unaffected. A target value of €1,140 thousand was determined for the 2018–2021 tranche (equivalent to a pro-rated amount for 9 out of 12 months). All Prisma tranches will be paid out according to the applicable plan regulations on the respective regular payout date.

In the 2018 reporting period, the aggregate compensation for the members of the Board of Management of Covestro AG totaled €14,337 thousand comprising €4,468 thousand in non-performance-related components and €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 2018 according to the German Commercial Code and DRS 17.

Total Board of Management Compensation (German Commercial Code) for the Reporting Period 2018

€ thousand	Fixed annual compensation	Fringe benefits	Short-term variable compensation	Longterm variable compensation[1]	Aggregate compensation
Board of Management members serving as of December 31, 2018					
Dr. Markus Steilemann (Chairman)	916	196	2,346	736	4,194
Dr. Klaus Schäfer	562	35	1,127	736	2,460
Dr. Thomas Toepfer	536	1,717	1,076	938	4,267
Former Board of Management member					
Patrick Thomas	487	19	1,760	1,150	3,416
Total	**2,501**	**1,967**	**6,309**	**3,560**	**14,337**

[1] Fair value when granted

Fixed annual compensation

The fixed compensation of Board of Management members was increased as of January 1, 2018, based on the change in the previous year's consumer price index (1.68% from November 2016 to October 2017).

The fixed compensation of all members of the Board of Management in the reporting period totaled €2,501 thousand.

The fringe benefits for the reporting year 2018 include costs totaling €1,696 thousand in variable compensation paid to Dr. Thomas Toepfer in lieu of compensation from his previous employer to which he was no longer entitled.

Short-term variable compensation

In 2018, the short-term variable compensation for all the members of the Board of Management totaled €6,309 thousand after deduction of the solidarity contribution. 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 2018 reporting period, the contribution amounted to 0.18% of each member's Covestro PSP award. By resolution of the Supervisory Board, this contribution is also withheld from the Board of Management.

Long-term compensation (Aspire and Prisma)

The total compensation according to the German Commercial Code includes long-term stock-based compensation (Prisma) with a fair value when granted of €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. 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 explained above, however, because the payout amount of all remaining Aspire tranches was frozen based on the 2015 closing price, no change in value occurred under these tranches in the reporting year.

As of December 31, 2018, provisions of €7,203 thousand (December 31, 2017: €7,076 thousand) had been established for long-term compensation payable to members of the Board of Management; former members of the Board of Management accounted for €4,273 thousand (December 31, 2017: €1,491 thousand) of this figure.

Long-term Compensation (IFRS)

	Board of Management members serving as of December 31, 2018						Former Board of Management member					
	Dr. Markus Steilemann (Chairman)		Dr. Klaus Schäfer (Production and Technology, Labour Director)		Dr. Thomas Toepfer (Finance)		Frank H. Lutz		Patrick Thomas		Total	
€ thousand	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Total expenses in the reporting period for long-term compensation[1, 2]	781	216	789	216	–	92	810	209	1,641	418	4,021	1,151

[1] Long-term variable compensation from newly earned entitlements includes the Prisma program from the years 2016, 2017, and 2018 amounting to €2,820 thousand (2017: €3,610 thousand) as well as the Aspire program from the year 2015 amounting to €0 thousand (2017: €267 thousand) because this compensation is earned over a period of four fiscal years. It is stated at its pro-rata fair value in 2017 and 2018.

[2] 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.

Pension entitlements

The pension service cost recognized for the members of the Board of Management in the reporting year was €966 thousand (previous year: €756 thousand) according to the German Commercial Code, while the current service cost for pension entitlements recognized according to IFRSs was €1,434 thousand (previous year: €1,132 thousand).

Pension obligations are shown in the following table.

The pension service cost differs on account of the different principles applied in measuring the settlement value of pension obligations in accordance with the German Commercial Code and the present value of defined benefit pension obligations in accordance with IFRSs.

Pension Entitlements (German Commercial Code and IFRS)

	German Commercial Code				IFRS			
	Pension service cost[1]		Settlement value of pension obligation as of December 31		Service cost for pension entitlements		Present value of defined pension obligation as of December 31	
€ thousand	2017	2018	2017	2018	2017	2018	2017	2018
Board of Management members serving as of December 31, 2018								
Dr. Markus Steilemann	179	329	815	1,473	310	538	1,571	2,424
Dr. Klaus Schäfer	179	194	2,306	2,884	273	279	3,669	4,200
Dr. Thomas Toepfer	–	121	–	132	–	202	–	201
Former Board of Management member								
Patrick Thomas	398	322	3,864	4,849	549	415	5,082	6,188
Total	**756**	**966**	**6,985**	**9,338**	**1,132**	**1,434**	**10,322**	**13,013**

[1] Including company contribution to Bayer Pensionskasse VVaG or Rheinische Pensionskasse VVaG

Disclosures pursuant to the recommendations of the German Corporate Governance Code

The following tables show the compensation and fringe benefits paid for the 2018 reporting period 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 the line with the recommendations in the February 7, 2017, version of the German Corporate Governance Code.

Compensation and Benefits Granted for the Reporting Period

	Board of Management members serving as of December 31, 2018											
	Dr. Markus Steilemann (Chairman)				Dr. Klaus Schäfer (Production and Technology, Labor Director)				Dr. Thomas Toepfer (Finance)			
€ thousand	Target value 2017	Target value 2018	Min. 2018	Max.[2] 2018	Target value 2017	Target value 2018	Min. 2018	Max.[2] 2018	Target value 2017	Target value 2018	Min. 2018	Max.[2] 2018
Fixed annual compensation	552	916	916	916	552	562	562	562	–	536	536	536
Fringe benefits	435	196	196	196	323	35	35	35	–	1,717	1,717	1,717
Total	**987**	**1,112**	**1,112**	**1,112**	**875**	**597**	**597**	**597**	**–**	**2,253**	**2,253**	**2,253**
Short-term variable compensation	552	1,170	–	2,924	552	562	–	1,404	–	536	–	1,341
Long-term stock-based compensation (2017–2020 Prisma-tranche)	694[1]				694[1]				–			
Long-term stock-based compensation (2018–2021 Prisma-tranche)	–	736[1]	–	1,460	–	736[1]	–	1,460	–	938[1]	–	1,859
Total	**2,233**	**3,018**	**1,112**	**5,496**	**2,121**	**1,895**	**597**	**3,461**	**–**	**3,727**	**2,253**	**5,453**
Benefit expense	310	538	538	538	273	279	279	279	–	202	202	202
Total compensation	**2,543**	**3,556**	**1,650**	**6,034**	**2,394**	**2,174**	**876**	**3,740**	**–**	**3,929**	**2,455**	**5,655**

[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

	Former Board of Management member			
	Patrick Thomas			
€ thousand	Target value 2017	Target value 2018	Min. 2018	Max.[2] 2018
Fixed annual compensation	1,150	487	487	487
Fringe benefits	70	19	19	19
Total	**1,220**	**506**	**506**	**506**
Short-term variable compensation	1,150	877	–	2,193
Long-term stock-based compensation (2017–2020 Prisma-tranche)	1,447[1]			
Long-term stock-based compensation (2018–2021 Prisma-tranche)		1,150[1]	–	2,281
Total	**3,817**	**2,533**	**506**	**4,980**
Benefit expense	549	415	415	415
Total compensation	**4,366**	**2,948**	**921**	**5,395**

[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

	Board of Management members serving as of December 31, 2018						Former Board of Management member	
	Dr. Markus Steilemann (Chairman)		Dr. Klaus Schäfer (Production and Technology, Labor Director)		Dr. Thomas Toepfer (Finance)		Patrick Thomas	
€ thousand	2017	2018	2017	2018	2017	2018	2017	2018
Fixed annual compensation	552	916	552	562	–	536	1,150	487
Fringe benefits	435	196	323	35	–	1,717	70	19
Total	**987**	**1,112**	**875**	**597**	**–**	**2,253**	**1,220**	**506**
Short-term variable compensation	1,279	2,346	1,279	1,127	–	1,076	2,664	1,760
2013–2016 Aspire-tranche[1]	103[2]	–	223[2]	–	–	–	978	–
2014–2017 Aspire-tranche[1]		98[2]		130				609
Total	**2,369**	**3,556**	**2,377**	**1,854**	**–**	**3,329**	**4,862[3]**	**2,875[3]**
Benefit expense	310	538	273	279	–	202	549	415
Total compensation	**2,679**	**4,094**	**2,650**	**2,133**	**–**	**3,531**	**5,411**	**3,290**

[1] The depicted inflow from the respective tranches of the one-time stock-based Aspire compensation program of the Bayer Group will take 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 the long-term stock-based compensation in the form of virtual Bayer shares in the amount of €959 thousand (2017: €164 thousand) in his capacity as subgroup CEO in the Bayer Group for the 2014 and 2013 fiscal year, respectively.

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 2018, former members of the Board of Management received aggregate compensation of €674 thousand. The aggregate compensation 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. For current pensions, a provision of €668 thousand is recognized in the consolidated financial statements as of December 31, 2018, for Frank H. Lutz. A provision of €465 thousand is recognized for this purpose in the financial statements of Covestro AG.

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 German Corporate Governance Code, additional compensation is paid to the Supervisory Board Chair and Vice Chair, and for chairing and membership in committees. The Chair of the Supervisory Board receives fixed annual compensation of €300 thousand, the Vice Chair €150 thousand. 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. receives compensation only for the two committees with the highest compensation. If changes are made to the Supervisory Board and/or its committees during the year, members receive compensation on a pro-rated 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 acommittee. The attendance fee is limited to €1 thousand per day.

The members of the Supervisory Board gave a voluntary commitment that they will each purchase Covestro shares for 25% of their fixed compensation, including any compensation for committee membership (before taxes) and hold these shares for as long as they remain members of the Supervisory Board. Following in-depth discussions, the Supervisory Board resolved in 2018 to rescind the voluntary commitment to purchase shares in consideration of the insider trading risks associated with stock purchases. Only the obligation to hold previously acquired shares for the duration of membership in the Supervisory Board remains unchanged.

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 2018 reporting period and the prior-year period.

Compensation of the Members of the Supervisory Board of Covestro AG

	Fixed compensation		Attendance fee		Total	
€ thousand	2017	2018	2017	2018	2017	2018
Ferdinando Falco Beccalli	100	100	5	4	105	104
Dr. Christine Bortenlänger	100	100	5	5	105	105
Johannes Dietsch	145	145	11	10	156	155
Dr.-Ing. Thomas Fischer[1]	120	–	8	–	128	–
Peter Hausmann	145	145	9	8	154	153
Petra Kronen (Vice Chair)	150	150	12	10	162	160
Irena Küstner	125	125	10	9	135	134
Dr. Ulrich Liman[2]	–	120	–	7	–	127
Prof. Dr. Rolf Nonnenmacher (Chair of the Audit Committee)	150	150	9	9	159	159
Dr. Richard Pott (Chair)	300	300	13	10	313	310
Regine Stachelhaus	120	120	7	5	127	125
Marc Stothfang[3]	89	100	6	5	95	105
Frank Werth	100	100	6	5	106	105
Sabine Wirtz[4]	11	–	–	–	11	–
Total	**1,655**	**1,655**	**101**	**87**	**1,756**	**1,742**

[1] Member of the Supervisory Board until December 2017
[2] Member of the Supervisory Board since January 2018
[3] Member of the Supervisory Board since February 2017
[4] Member of the Supervisory Board until February 2017

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 €925 thousand (previous year: €915 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, 2017, or December 31, 2018.