

FINANCIAL STATEMENTS 2018

Financial Statements of Covestro AG
for the fiscal year 2018





»TOGETHER«

A sustainable world.
A pleasant, simple life for as
many people as possible.

This does not need to be a utopia,
but we can only reach this
goal together. Working together,
supporting others
and inspiring others –
this is the Covestro path.

The path to our vision:

To make the world a brighter place.

The management report of Covestro AG is combined with the management report of the Covestro Group. The Combined Management Report is published in Covestro's Annual Report for 2018. The financial statements and the Combined Management Report of the Covestro Group and Covestro AG for fiscal 2018 have been submitted to the operator of the electronic Federal Gazette in Germany and are accessible via the Company Register website.

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Forward-Looking Statements

This financial report may contain forward-looking statements based on current assumptions and forecasts made by the management of Covestro AG. Various known and unknown risks, uncertainties and other factors could lead to material differences between the actual future results, financial situation, development or performance of the company and the estimates given here. These factors include those discussed in Covestro's public reports, which are available on the Covestro website at www.covestro.com. The company assumes no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.

This financial report was published in German and English. Only the German version is binding.

Statement of Financial Position of Covestro AG

Assets

	Dec. 31, 2017	Dec. 31, 2018
	€ thousand	€ thousand
Noncurrent assets		
Intangible assets	9	3
Property, plant and equipment	793	723
Financial assets	1,766,024	1,766,024
	1,766,826	1,766,750
Current assets		
Receivables and other assets		
Trade accounts receivable	19,041	24,787
of which from affiliated companies	19,016	24,763
Receivables from affiliated companies	5,505,139	3,762,374
Other assets	57,471	52,035
	5,581,651	3,839,196
Deferred charges	8,840	7,300
Excess of plan assets over pension liability	13,112	6,262
	7,370,429	5,619,508

Equity and Liabilities

	Dec. 31, 2017	Dec. 31, 2018
	€ thousand	€ thousand
Equity		
Capital stock	202,500	183,000
Treasury shares	(1,668)	(295)
Issued capital	200,832	182,705
Capital reserves	4,777,348	3,493,145
Other retained earnings	268,896	329,161
Distributable profit	438,900	439,200
	5,685,976	4,444,211
Provisions		
Provisions for pensions	1,817	2,765
Provisions for taxes	79,421	107,485
Other provisions	59,098	49,084
	140,336	159,334
Liabilities		
Bonds	1,500,000	1,000,000
Trade accounts payable	7,148	10,192
of which to affiliated companies	320	619
Liabilities to affiliated companies	31,157	1,116
Other liabilities	5,812	4,655
of which taxes	1,418	520
	1,544,117	1,015,963
	7,370,429	5,619,508

Income Statement of Covestro AG

	2017	2018
	€ thousand	€ thousand
Income from investments in affiliated companies	704,353	745,444
Income from investments in affiliated companies	704,353	745,444
Other interest and similar income	2,715	2,751
of which from affiliated companies	2,546	2,199
Interest and similar expenses	(17,257)	(20,782)
of which expenses from unwinding of discount	(2,292)	(5,691)
Interest result	(14,542)	(18,031)
Other financial income	28	62
of which from currency translation	28	12
Other financial expenses	(3,741)	(5,994)
of which from currency translation	(34)	(58)
Other financial income and expenses	(3,713)	(5,932)
Financial result	686,098	721,481
Net sales	25,636	23,465
Cost of services provided	(26,730)	(22,206)
General administration expenses	(63,824)	(79,613)
Other operating income	1,070	25,347
Other operating expenses	(3,598)	(1,034)
Operating result	(67,446)	(54,041)
Result of operations	618,652	667,440
Income taxes	(130,999)	(171,292)
Result after tax / net income	487,653	496,148
Accumulated gains brought forward from prior year	–	3,317
Allocation to other retained earnings	(48,753)	(60,265)
Distributable profit	438,900	439,200

Notes

Basis of Preparation

The financial statements of Covestro AG, Leverkusen, are prepared in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The company, headquartered in Leverkusen (Germany), is registered in the commercial register of the Local Court of Cologne under No. HRB 85281.

The income statement has been prepared using the cost-of-sales method. In order to emphasize Covestro AG's role as a holding company, the aggregated items of the financial result are presented first, and this presentation deviates from the classification prescribed in Section 275, Paragraph 3 of the German Commercial Code. In addition, financial income and expenses, whose disclosure is not covered by a mandatory item, are reported under other financial income and expenses.

The declaration of conformity with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act has been issued and made permanently available to shareholders on the internet. It also forms part of the Declaration on Corporate Governance pursuant to Section 289f of the German Commercial Code. It is available for download at www.investor.covestro.com.

The consolidated financial statements of Covestro AG represent both the largest and the smallest group of consolidated companies. The consolidated financial statements of Covestro AG are submitted to the operator of the electronic Federal Gazette in Germany and published on the website at <http://investor.covestro.com>.

The management report of Covestro AG is combined with the management report of the Covestro Group pursuant to Section 315, Paragraph 3 in conjunction with Section 298, Paragraph 3 of the German Commercial Code.

Rounding differences between individual line items may arise due to reporting in thousands of euros.

Accounting Policies and Valuation Principles

Purchased intangible assets are recognized at cost and amortized on a straight-line basis over their estimated useful lives. Internally generated intangible assets are not recognized as assets. Writedowns are recognized if the impairment is expected to be permanent.

Items of property, plant and equipment are carried at cost less depreciation on a straight-line basis for depreciable assets over their expected useful lives. Amortization and depreciation are based on the following useful lives:

Useful Life

Intangible assets	1 to 20 years
Operating and office equipment	2 to 15 years
Information technology	2 to 15 years
Transportation equipment	2 to 12 years

Movable noncurrent assets that are subject to wear and tear and capable of being used independently are depreciated in full in the year of acquisition if their cost does not exceed €800. This threshold was redefined by legislators in 2017 for all assets acquired, manufactured or included in the company's assets after December 31, 2017.

Write-downs are recognized if expected permanent impairment exceeds the carrying amount.

Investments in affiliated companies are recognized at cost, or at the lower fair value if permanent impairment is expected. Where impairment losses were recognized in previous years and the reasons for impairment no longer or only partially apply, the write-down is reversed, up to a maximum of the original cost.

Receivables and other assets are recognized at their principal amounts, less any valuation adjustments. Valuation adjustments are based on the probable risk of default. Global valuation adjustments of 2% are recognized for general credit risk of third-party customers. Non-interest-bearing or low-interest receivables due after one year are discounted to their present value.

In order to meet various obligations related to pension plans and work-time credits of employees, corresponding funds are primarily invested in liquid international bonds, shares, investment funds and near-money market products using separate pension-provision investment vehicles. These funds are held in trust for Covestro AG and are exempt from attachment by other creditors in the event that the employer declares insolvency. The investments are measured at fair value, which is derived from stock prices and market interest rates. The assets held in trust are offset against the underlying obligations. If there is an excess obligation, a provision is recognized. If the value of the securities exceeds the obligations, the difference is recorded in the statement of financial position under assets as "excess of plan assets over pension liability." Income from the trust assets is likewise offset against expenses relating to the interest component of obligations and to changes in the discount rate in the income statement, provided that income is available.

Deferred charges and deferred income include expenses incurred and income generated prior to the reporting date, which represent expenses and income for a specific period after that date; they are recognized at their nominal amounts.

In addition, in application of the option pursuant to Section 250, Paragraph 3 of the German Commercial Code, deferred charges include the difference between the issue and settlement amount of the bonds issued. The differences are amortized over the maturity of the corresponding bond.

Deferred taxes are recognized for temporary differences between the assets, liabilities, deferred charges and deferred income recognized in the German Commercial Code financial statements and the tax statement. For Covestro AG, this not only includes the differences relating to its own statement of financial position items but also those of tax group subsidiaries and partnerships in which it holds an equity interest. In addition to temporary differences, tax loss carryforwards are also recognized where necessary. Deferred taxes are calculated on the basis of the combined income tax rate for the tax group of Covestro AG, which is currently 32.05% (previous year: 32.02%). The combined income tax rate includes corporate income tax, trade tax, and the solidarity surcharge. However, deferred taxes relating to temporary differences for investments in partnerships are calculated on the basis of a combined income tax rate, which includes only corporate income tax and the solidarity surcharge; this remained unchanged from the previous year at 15.83%. Any resulting overall tax burden would be recognized as a deferred tax liability in the statement of financial position. In the event of tax relief, the option to recognize the deferred tax would not be exercised. In the fiscal year, there was a total of one unrecognized deferred tax asset.

The capital stock of Covestro AG is divided into 183,000,000 no-par-value bearer shares with a notional value of €1 per share.

Provisions for pensions and similar obligations are determined according to actuarial principles, using the projected unit credit method on the basis of biometric probability using the Heubeck 2018 G mortality tables. Expected future salary and pension increases are taken into account when determining the obligations. We assume annual salary increases of 2.75% (previous year: 2.75%). We expect annual pension increases of 1.70% (previous year: 1.70%). However, for pension commitments granted as from January 1, 2000, an annual pension increase of 1.00% applies in line with what was promised to employees. The discount rate as of December 31, 2018, used for discounting pension obligations was 3.21% (previous year: 3.68%). This is the average market interest rate over the past ten years for an assumed remaining term of 15 years calculated and published by Deutsche Bundesbank for December 2018.

The difference resulting from the change in the discount rate for pension obligations as defined by Section 253, Paragraph 2 of the German Commercial Code is subject to distribution restrictions pursuant to Section 253, Paragraph 6 of the German Commercial Code.

Other provisions cover all foreseeable risks and uncertain liabilities. They are measured on the basis of the settlement amount required according to sound business judgment. Future price and cost increases are taken into account as long as there are sufficient objective indications that they will occur. Provisions with a remaining maturity of more than one year are discounted using the average market interest rate over the past seven fiscal years appropriate to their remaining maturities. For long-term personnel-related provisions, such as those for long-term service awards, a rate of 2.32% (previous year: 2.80%) is used for an assumed remaining maturity of 15 years. Shorter-term personnel-related provisions for obligations under early retirement and semi-retirement agreements are discounted using a rate appropriate to their maturity. In 2018, the maturity was three years and the discount rate 0.97% (previous year: 1.43%). The interest rates at the time that the respective personnel-related provisions were determined are those expected for December.

Liabilities are recognized at their settlement amount.

Short-term receivables in foreign currencies and short-term liabilities in foreign currencies with a remaining maturity of one year or less are translated at the average exchange rate applicable on the reporting date without taking into account the constraints of the realization and acquisition cost principles.

The disclosed contingent liabilities from sureties and debt guarantees for third-party liabilities correspond to the loan drawdowns and obligations of beneficiaries on the reporting date.

Notes to the Statement of Financial Position

1. Intangible Assets

Intangible Assets

	Software licenses
	€ thousand
Gross carrying amounts, Jan. 1, 2018	17
Additions	–
Gross carrying amounts, Dec. 31, 2018	17
Accumulated amortization and writedowns, Jan. 1, 2018	8
Accumulated amortization and writedowns	6
Accumulated amortization and writedowns, Dec. 31, 2018	14
Net carrying amounts, Dec. 31, 2018	3
Net carrying amounts, Jan. 1, 2018	9

2. Property, Plant and Equipment

Property, Plant and Equipment

	Operating and office equipment	Prepayments and assets under construction	Total
	€ thousand	€ thousand	€ thousand
Gross carrying amounts, Jan. 1, 2018	959	24	983
Additions	60	(7)	53
Gross carrying amounts, Dec. 31, 2018	1,019	17	1,036
Accumulated depreciation and writedowns, Jan. 1, 2018	190	–	190
Accumulated depreciation and writedowns	123	–	123
Accumulated depreciation and writedowns, Dec. 31, 2018	313	–	313
Net carrying amounts, Dec. 31, 2018	706	17	723
Net carrying amounts, Jan. 1, 2018	769	24	793

3. Financial Assets

Financial Assets

	Investments in affiliated companies
	€ thousand
Gross carrying amounts, Jan. 1, 2018	1,766,024
Additions	–
Retirements	–
Gross carrying amounts, Dec. 31, 2018	1,766,024
Accumulated writedowns, Jan. 1, 2018	–
Accumulated writedowns	–
Accumulated writedowns, Dec. 31, 2018	–
Net carrying amounts, Dec. 31, 2018	1,766,024
Net carrying amounts, Jan. 1, 2018	1,766,024

4. Receivables and Other Assets

Receivables from affiliated companies include loans of €3,030,000 thousand and the receivable stemming from the profit and loss transfer agreement of €745,444 thousand from Covestro Deutschland AG.

All receivables and other assets had a maturity of less than one year.

5. Excess of Plan Assets over Pension Liability

Obligations arising from work-time accounts as well as pension commitments are fully or partially covered by assets that were held in trust and invested using separate pension-provision investment vehicles (plan assets). The invested assets may only be used for the purpose of meeting obligations under specifically defined plans and are exempt from attachment by other creditors in the event that the employer becomes insolvent. They were offset against the underlying obligations. This resulted in a total excess of €6,262 thousand as of the reporting date, of which €496 thousand was attributable to obligations arising from work-time accounts and €5,766 thousand to pension commitments.

Excess of Plan Assets over Pension Liability

	Dec. 31, 2017	Dec. 31, 2018
	€ thousand	€ thousand
Settlement amount of obligations relating to credit balances on employees' long-term work-time accounts	326	533
Fair value of assets invested	841	1,029
Difference between assets and obligations relating to long-term work-time accounts (excess of plan assets)	515	496
Acquisition cost of assets invested	797	1,019

	Dec. 31, 2017	Dec. 31, 2018
	€ thousand	€ thousand
Settlement amount of pension commitments	24,783	15,220
Fair value of assets invested	37,380	20,986
Difference between assets and obligations relating to pension commitments (excess of plan assets)	12,597	5,766
Acquisition cost of assets invested	35,976	20,927

The plan assets are measured at fair value, which was €37,908 thousand as of December 31, 2018. Offsetting of plan assets of €22,015 thousand against the underlying obligations resulted in an overfunding asset. This item is reported as "excess of plan assets over pension liability". The underfunding liability of the remaining €15,893 thousand was reported under pension provisions.

6. Equity

During the fiscal year, equity changed as follows:

Equity

	Jan. 1, 2018	Retired treasury shares	Share buybacks	Treasury shares issued under employee share programs	Dividends	Net income	Dec. 31, 2018
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Capital stock	202,500	(19,500)	–	–	–	–	183,000
Treasury shares	(1,668)	19,500	(18,260)	133	–	–	(295)
Issued capital	200,832	–	(18,260)	133	–	–	182,705
Capital reserves	4,777,348	–	(1,291,867)	7,664	–	–	3,493,145
Other retained earnings	268,896	–	–	–	–	60,265	329,161
Distributable profit	438,900	–	–	–	(435,583)	435,883	439,200
	5,685,976	–	(1,310,127)	7,797	(435,583)	496,148	4,444,211

The capital stock of Covestro AG amounts to €183,000,000 (previous year: €202,500,000) and is divided into 183,000,000 (previous year: 202,500,000) no-par-value bearer shares with a notional value of €1 per share; it is fully paid-up. The reduction in capital stock is attributable to the retirement of 19,500,000 treasury shares.

The difference between the notional value and cost of the treasury shares acquired was withdrawn from capital reserves pursuant to Section 272, Paragraph 2, No. 4 of the German Commercial Code.

The Annual Stockholders' Meeting of October 2, 2015, resolved authorized capital of €101,250,000, expiring October 2, 2020. This may be used to increase capital stock through the issue of new no-par-value bearer shares against cash and/or noncash contributions. The stockholders are entitled to subscription rights. However, the Board of Management is authorized, with the consent of the Supervisory Board, to disapply stockholders' subscription rights where the subscription ratio gives rise to fractional amounts. Subscription rights may also be disappplied to the extent necessary to grant holders or creditors of bonds (including profit participation 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. The Board of Management is further authorized, with the consent of the Supervisory Board, to disapply subscription rights for stockholders if the capital increase is implemented to grant shares against noncash contributions or to grant a scrip dividend, in the process of which the stockholders are given the option of contributing their dividend rights to the company (either in full or in part) as noncash contributions in exchange for new shares being granted from authorized capital. The stockholders' subscription rights may also be disappplied 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 disappplied 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 counts toward this limit if they are sold during the term of this authorization and subscription rights are disappplied pursuant to Section 71, Paragraph 1, No. 8, Sentence 5 in conjunction with Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act. Furthermore, shares issued or to be issued to service bonds (including profit participation rights) with warrants or conversion rights or obligations also count toward this limit where such bonds or profit participation 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.

The authorized capital, expiring on October 2, 2020, has not been utilized to date.

The Board of Management, with the consent of the Supervisory Board, decides on the substance of the share rights as well as the other terms and conditions of the share issue, including the issue price.

The Annual Stockholders' Meeting of September 1, 2015, passed resolutions on conditional capital 2015, authorizing an increase in conditional capital stock by up to €70,000,000 by issuing up to 70,000,000 new no-par value

registered shares with a notional value of €1 per share. The conditional capital increase will only be implemented to the extent that the holders of warrants or conversion rights attached to bonds (including profit participation rights) issued or guaranteed by the company or its Group companies up to August 31, 2020, on the basis of the authorization of the Annual Stockholders' Meeting of September 1, 2015, exercise their conversion or option rights or fulfill their conversion or option obligations, and to the extent that such warrants or conversion rights or obligations cannot be serviced by treasury shares, shares issued from authorized capital, or other forms of settlement.

The new shares will be issued at the warrant or conversion price to be determined in accordance with the authorizing resolution referred to above. The new shares will participate in 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 will participate in profit from the beginning of the fiscal year for which, at the time when the warrant or conversion rights are exercised or the exercise or conversion obligations are performed, the Annual 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 profit participation rules for the new shares may be specified in derogation from Section 60 of the German Stock Corporation Act.

The conditional capital has not been utilized to date.

Treasury shares

In October 2017, Covestro AG's Board of Management announced that the Company intended to buy back treasury shares totaling up to €1.5 billion (excluding transaction costs) until the middle of 2019, or up to 10% of the company's capital stock, whichever comes first. The resolution was adopted in accordance with the authorization granted by the Annual General Meeting on September 1, 2015. The share buy-back is executed in Xetra® trading on the Frankfurt Stock Exchange in line with the requirements for share buy-back programs set forth in Article 5 of the Market Abuse Regulation and the associated Commission Delegated Regulation.

The change in treasury shares is shown in the following table:

Treasury shares

	2018
	Number of shares
Treasury shares at Jan. 1, 2018	1,668,512
Share buy-backs	18,260,077
Retired treasury shares	(19,500,000)
Treasury shares issued under employee share programs	(133,191)
Treasury shares at Dec. 31, 2018	295,398

The 295,398 shares held by Covestro AG are equivalent to a notional value of €295,398, or 0.16% of the capital stock.

Resolved in October 2017, the €1.5 billion share buy-back program began on November 21, 2017, and was completed on December 4, 2018. The acquisition was carried out in three tranches.

During fiscal 2018, €1,310,127 thousand (excluding transaction costs) was spent on the share buy-back; this is equivalent to a weighted average price of €71.75 per share. From January 2, 2018, through February 28, 2018, from May 4, 2018, through July 30, 2018, and from August 13, 2018, through December 4, 2018, banks commissioned by Covestro AG acquired treasury shares in Xetra® trading on the Frankfurt Stock Exchange. The average volume acquired by Covestro on the trading days was 99,240 shares. During the buy-back, the purchase price per repurchased share (excluding transaction costs) was not allowed to be more than 10% higher or lower than the price of Covestro shares as determined by the opening auction in Xetra® trading on the trading day.

The repurchased treasury shares may be retired or reissued to employees as part of a share participation program.

Disclosures on Amounts Subject to Distribution Restrictions Within the Meaning of Sections 268, Paragraph 8 and 253, Paragraph 6 of the German Commercial Code

To cover pension obligations and credit balances on employees' long-term work-time accounts, as part of contractual trust arrangements, funds have been transferred to the Metzler Fund, earmarked for this purpose and protected from insolvency. The funds are measured at fair value. As of the reporting date, these funds amounted to €37,908 thousand; they exceeded cost of €37,767 thousand by €141 thousand. The excess of €141 thousand was offset by available reserves of €2,377,504 thousand, which means that this excess amount is subject to distribution restrictions.

Furthermore, the difference resulting from the change in the discount rate used to discount provisions for pension obligations, amounting to an additional €7,159 thousand of available reserves, was subject to distribution restrictions pursuant to Section 253, Paragraph 6 of the German Commercial Code.

The reported distributable profit of €439,200 thousand was not subject to distribution restrictions.

Information on Stockholdings Pursuant to Section 33, Paragraph 1, of the German Securities Trading Act (WpHG)

During fiscal year 2018 and in the previous years, we received the following notifications of stockholdings in Covestro AG pursuant to Section 33, Paragraph 1 of the German Securities Trading Act. In cases where stockholdings reached, exceeded, or fell below the thresholds set out in this provision on several occasions and are reportable, only the most recent or last such notification is included:

Disclosures in Accordance with Section 160 Paragraph 1 No. 8 of the German Stock Corporation Act (AktG)

Entity subject to disclosure requirements	Date of notification	Share of voting rights reached on	Threshold	Voting rights		Attribution according to WpHG
				%	absolute	
Ministry of Finance on behalf of the State of Norway, Oslo	Dec. 11, 2018	Dec. 6, 2018	3	2.96	5,421,409	Sec. 34, 38 para. 1 No. 1
Allianz Global Investors GmbH, Frankfurt / Main	Dec. 10, 2018	Dec. 3, 2018	3	3.22	5,895,458	Sec. 34, 38 para. 1 No. 1, 2
BlackRock, Inc., Wilmington	Dec. 10, 2018	Dec. 3, 2018	5	6.38	11,667,113	Sec. 34, 38 para. 1 No. 1, 2
Bayer AG, Leverkusen	May 5, 2018	May 3, 2018	5	6.81	13,791,540	Sec. 33
The Goldman Sachs Group, Inc., Wilmington	Oct. 13, 2017	Oct. 5, 2017	3	0.61	1,230,116	Sec. 34, 38 para. 1 No. 1, 2
Standard Life Investments Ltd., Edinburgh	Oct. 10, 2016	Oct. 4, 2016	3	2.94	5,958,554	Sec. 34
BlackRock Luxembourg Holdco S.à r.l., Luxembourg	Nov. 26, 2015	Nov. 24, 2015	3	2.98	6,039,615	Sec. 34
BlackRock(Luxembourg) S. A., Luxembourg	Nov. 26, 2015	Nov. 24, 2015	3	2.98	6,039,615	Sec. 34
BlackRock Global Funds, Luxembourg	Nov. 26, 2015	Nov. 24, 2015	3	2.96	5,984,212	Sec. 33
BlackRock Investment Management (UK) Limited, London	Oct. 9, 2015	Oct. 7, 2015	3	3.68	7,444,261	Sec. 34
BlackRock Group Limited, London	Oct. 9, 2015	Oct. 7, 2015	3	3.80	7,689,383	Sec. 34
BR Jersey International Holdings L. P., St. Helier, Jersey	Oct. 9, 2015	Oct. 7, 2015	3	3.80	7,691,608	Sec. 34
BlackRock International Holdings, Inc., Wilmington	Oct. 9, 2015	Oct. 7, 2015	3	3.80	7,691,608	Sec. 34
BlackRock Financial Management, Inc., Wilmington	Oct. 9, 2015	Oct. 7, 2015	3	3.85	7,802,680	Sec. 34
BlackRock Holdco 2, Inc., Wilmington	Oct. 9, 2015	Oct. 7, 2015	3	3.85	7,802,680	Sec. 34

¹ If the threshold was reached prior to December 4, 2018, the share of voting rights is based on the capital stock prior to the retirement of shares.

7. Provisions for Pensions

Provisions for pensions include the benefit obligations for current and past employees. This item also includes obligations under early retirement arrangements.

Obligations arising from pension commitments are fully or partially covered by assets held in trust and invested using separate pension-provision investment vehicles (plan assets). The invested assets may only be used for the purpose of meeting pension obligations and are exempt from attachment by other creditors. They were offset against the underlying obligations.

Provisions for Pensions

	Dec. 31, 2017	Dec. 31, 2018
	€ thousand	€ thousand
Settlement amount of pension commitments	1,817	18,658
Fair value of assets invested	–	15,893
Net value of pension commitments (provisions)	1,817	2,765
Acquisition cost of assets invested	–	15,821

The **difference resulting from the change in the discount rate within the meaning of Section 253, Paragraph 6, Sentence 1 of the German Commercial Code** was €7,159 thousand on December 31, 2018 (previous year: €5,454 thousand).

8. Provisions for taxes

The increase in provisions for taxes by €28,064 thousand as against the previous year was mainly due to the increase in provisions for prior years.

9. Other Provisions

Other provisions were mainly recognized for personnel-related obligations (€28,817 thousand). Provisions to offset possible tax claims by Bayer AG in connection with the contribution, indemnification, and post-formation agreement were also included in provisions for other uncertain liabilities (€16,401 thousand).

10. Bonds

On December 31, 2018, bonds amounted to €1,000,000 thousand. They break down as follows:

Bonds

	Par value	Coupon rate	Effective interest rate	Dec. 31, 2018
		in %	in %	€ thousand
DIP bond 2016 / 2018	€500 million	variable	variable	–
DIP bond 2016 / 2021	€500 million	1.000	1.076	500,000
DIP bond 2016 / 2024	€500 million	1.750	1.782	500,000
				1,000,000

DIP bond 2016/2018 was repaid on time in fiscal 2018.

The differences between the issue and settlement amount of the bonds issued, which are reported under deferred charges in application of the option pursuant to Section 250, Paragraph 3 of the German Commercial Code, totaled €1,915 thousand on December 31, 2018 (previous year: €2,441 thousand).

11. Additional Disclosures on Liabilities

Liabilities were classified according to maturity as follows:

Maturity Structure of Liabilities

	31.12.2017			
	Due in 2018	Due in or after 2019	of which due in or after 2023	Total
	€ thousand	€ thousand	€ thousand	€ thousand
Bonds	500,000	1,000,000	500,000	1,500,000
Trade accounts payable	7,148	–	–	7,148
Liabilities to affiliated companies	31,157	–	–	31,157
Other liabilities	5,380	432	–	5,812
Total	543,685	1,000,432	500,000	1,544,117

Maturity Structure of Liabilities

	31.12.2018			
	Due in 2019	Due in or after 2020	of which due in or after 2024	Total
	€ thousand	€ thousand	€ thousand	€ thousand
Bonds	–	1,000,000	500,000	1,000,000
Trade accounts payable	10,192	–	–	10,192
Liabilities to affiliated companies	1,116	–	–	1,116
Other liabilities	4,655	–	–	4,655
Total	15,963	1,000,000	500,000	1,015,963

Notes to the Income Statement

12. Income from Investments in Affiliated Companies

Income from investments in affiliated companies of €745,444 thousand (previous year: €704,353 thousand) was solely attributable to income from the control and profit and loss transfer agreement with Covestro Deutschland AG

13. Interest Result

In addition to expenses of €14,033 thousand (previous year: €15,115 thousand) for the bonds issued in fiscal 2016, the interest result includes primarily interest income for loans granted to Covestro Deutschland AG in the amount of €2,199 thousand (previous year: €2,546 thousand).

In addition, expenses related to the interest cost allocated to pension provisions of €4,094 thousand (previous year: €2,751 thousand) were incurred, which also included expenses from changes in the discount rate as well as expenses of €1,273 thousand (previous year: income of €843 thousand) from the investment with Metzler Trust e.V., Frankfurt am Main (Germany).

14. Other Financial Income and Expenses

The main item reported in other financial income and expenses was bank fees amounting to €5,787 thousand (previous year: €3,550 thousand). These include commitment fees for credit lines and amortization of the original issue discount on the bonds.

Income and expenses from foreign currency translation are also reported in this item.

15. Net Sales

Sales include income from services rendered by the Corporate Center divisions of Covestro AG for Covestro Group companies. Of the €23,465 thousand (previous year: €25,636 thousand) reported, sales generated with foreign Group companies accounted for €449 thousand (1.91%) (previous year: €394 thousand). Expenses incurred for providing the services are shown under cost of services provided.

16. Other Operating Income

Other operating income included prior-period income of €25,347 thousand (previous year: €1,068 thousand). €14,202 thousand is attributable to the reversal of other provisions for personal-related obligations as well as the reversal of provisions in connection with the existing contribution, indemnification, and post-formation agreement between Bayer AG and Covestro AG described in the section 21 "Contingent Liabilities". Other income of €10,408 thousand from this agreement was also reported in this item.

17. Income Taxes

Income tax expense encompasses corporate income tax, trade tax, the solidarity surcharge and income taxes paid outside Germany.

The tax expense does not include deferred taxes. As of December 31, 2018, Covestro AG expected a future tax relief of €208,311 thousand (previous year: €119,244 thousand) from temporary differences relating to itself as well as to companies within the tax group and partnerships. This is calculated on the basis of the combined income tax rate of 32.05% (previous year: 32.02%) (Covestro AG and tax group subsidiaries) or 15.83% (investments in partnerships; the tax rate includes only corporate income tax and the solidarity surcharge).

Deferred tax liabilities were mainly the result of the difference between the higher carrying amounts of noncurrent assets as well as differences related to unrealized foreign currency translation gains. Deferred tax assets are mainly the result of higher amounts recognized for pension obligations in the financial statements in accordance with German commercial law compared with their tax base. Deferred tax assets also resulted from provisions for anticipated losses and for pre-retirement leave, which are not eligible for recognition in the tax financial statements. Other reasons for deferred tax assets included measurement differences for example for provisions for early retirement arrangements, long-term accounts, and long-term service awards. Overall, deferred tax liabilities were more than offset by deferred tax assets. In application of the option under Section 274, Paragraph 1, Sentence 2 of the German Commercial Code, no deferred tax assets were recognized for the excess of deferred tax assets over deferred tax liabilities.

18. Other Taxes

Where other taxes could be allocated to general administration expenses, they are recognized there. Otherwise, they are included under other operating expenses. Other taxes totaled €72 thousand (previous year: €69 thousand).

19. Cost of Materials

Cost of Materials

	2018
	€ thousand
Cost of raw materials, consumables and supplies, and of purchased merchandise	32
Cost of purchased services	54
	86

20. Personnel Expenses / Employees

Personnel Expenses

	2018
	€ thousand
Wages and salaries	40,837
Social expenses and expenses for pensions and other benefits	4,943
of which pension expenses	3,916
	45,780

Personnel expenses do not include the interest cost allocated to personnel-related provisions, in particular to provisions for pensions, which are shown in the interest result.

On average, Covestro AG had 158 employees (previous year: 166) in the reporting year. They break down as follows:

Employees

	2018	
	Women	Men
Senior executives and senior managers	22	61
Junior managers and nonmanagerial employees	47	28
	69	89

These figures include part-time employees on a pro rata basis.

Other Disclosures

21. Contingent Liabilities

Liabilities arising from debt guarantees and sureties amounted to €70,750 thousand. They were issued in favor of Group companies without exception. Due to the Group's excellent liquidity situation, all of the companies concerned are able to meet the underlying obligations; utilization is therefore not expected.

Debt Guarantees and Sureties

	Principal amount
	€ thousand
LyondellBasell Covestro Manufacturing Maasvlakte V.O.F, Rotterdam (Netherlands)	
due in 2031	25,000
Covestro LLC, Pittsburgh (USA)	
Principal amount \$52,402 thousand; maturing 2020	45,750
	70,750

In connection with the contribution, indemnification, and post-formation agreement between Bayer AG and Covestro AG, arrangements were made to settle possible claims for taxes, which may result in corresponding liabilities.

22. Other Financial Commitments

In addition to provisions, liabilities, and contingent liabilities, there are other financial commitments.

Effective September 1, 2015, Bayer-Pensionskasse VVaG, Leverkusen (Germany), and Covestro AG agreed to include Covestro AG as an additional guarantor in the initial fund previously agreed with Bayer AG. The purpose of the initial fund is to provide Bayer-Pensionskasse VVaG with repayable, interest-bearing loans if necessary. Covestro AG has undertaken to provide a maximum of €208 million to the initial fund. As of the reporting date, Covestro AG had not yet made any contributions.

Obligations of €846 thousand were recognized for future lease and rent payments. Of the total rental obligations, €241 thousand is due in 2019 and €605 thousand in 2020 to 2023.

23. Related Party Disclosures

Related parties are legal entities or natural persons that are able to exert influence over Covestro AG or over which Covestro AG exercises control or has a significant influence.

Transactions with related parties up to May 31, 2018, included mainly those entered into with Bayer AG and its subsidiaries as well as with pension plans. Effective May 31, 2018, when Johannes Dietsch, who is a member of Covestro's Supervisory Board, left the Board of Management of Bayer AG, Bayer AG no longer has significant influence on Covestro AG.

These mainly comprise rental, service, and financing transactions.

24. Total Compensation of the Board of Management and Supervisory Board and Advances and Loans Granted

The compensation of the members of the Board of Management in fiscal 2018 consisted of the following:

Total Compensation of the Board of Management

	Board of Management members serving as of December 31, 2018		Former Board of Management members	
	2017	2018	2017	2018
	€ thousand	€ thousand	€ thousand	€ thousand
Fixed annual compensation	2,254	2,014	288	487
Fringe benefits	828	1,948	615	19
Short-term variable compensation	5,222	4,549	659	1,760
Long-term variable compensation ¹	2,835	2,410	358	1,150
Aggregate compensation	11,139	10,921	1,920	3,416
Pension service cost ²	756	644	94	322

¹ Fair value when granted

² Including company contribution to Bayer-Pensionskasse VVaG and Rheinischen Pensionskasse VVaG

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, has the following components: approx. 30% fixed annual compensation, approx. 30% short-term variable compensation, and approx. 40% long-term variable compensation (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 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.

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.

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.

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.

Expenses for pension commitments of €966 thousand were incurred for those members of the Board of Management who were in the service to the company during the reporting year. These included the current service cost for pension commitments and company contributions to Bayer-Pensionskasse VVaG and Rheinische Pensionskasse VVaG. The settlement amount for pension obligations for members of the Board of Management in service as of the reporting date amounted to €4,489 thousand. The settlement amount for pension obligations for former members of the Board of Management amounted to €5,314 thousand.

Total compensation for the Supervisory Board for the reporting year was €1,742 thousand. This includes attendance fees of €87 thousand.

As of December 31, 2018, there were no loans to members of the Board of Management or the Supervisory Board, nor were any loans repaid during the fiscal year.

Details of the compensation of the Board of Management and Supervisory Board can be found in the compensation report included in the combined management report of the Covestro Group and Covestro AG.

25. Governance Bodies

Board of Management

Name	Position	Areas of responsibility	Memberships on other supervisory boards
Dr. Markus Steilemann	Chief Executive Officer (since June 2018) Chief Commercial Officer	<ul style="list-style-type: none"> • Polyurethanes • Polycarbonates • Coatings, Adhesives, Specialties • Communications • Corporate Audit • Human Resources • Innovation Management & Commercial & Services • Strategy • Supply Chain Center EMLA • Supply Chain Center NAFTA • Supply Chain Center APAC • Sustainability 	
Dr. Klaus Schäfer	Chief Technology Officer Labor Director (until December 2018)	<ul style="list-style-type: none"> • Global Project Engineering • Health, Safety, Environment & Quality • Production & Technology • Procurement • Site Management NRW • Site Management Baytown • Site Management Shanghai 	
Dr. Thomas Toepfer	Chief Financial Officer (since April 2018) Labor Director (since January 2019)	<ul style="list-style-type: none"> • Accounting • Controlling • Finance • Information Technology • Investor Relations • Law, Intellectual Property & Compliance • Portfolio Development • Taxes 	
Patrick Thomas	Chief Executive Officer (until May 2018) Chief Financial Officer (until March 2018)	<ul style="list-style-type: none"> • Corporate Office • Communications • Corporate Audit • Human Resources • Sustainability 	<ul style="list-style-type: none"> • Member of the Supervisory Board of Akzo Nobel N.V. • Chair of the Supervisory Board of Johnson Matthey plc. (since June 1, 2018) • Member of the Supervisory Board of Deutsche Afrika-Linien/John T. Essberger Group (since January 31, 2018) • Member of the Supervisory Board of Aliaxis Group S.A./N.V. (since March 22, 2018)

Supervisory Board

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

Supervisory Board

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

26. Audit Fees

The total fee charged by the auditor for the reporting year within the meaning of Section 285, No. 17 of the German Commercial Code is broken down into auditing services, other assurance services, tax-advisory services, and other services as presented in the corresponding statement in the consolidated financial statements.

The fees for auditing the financial statements mainly comprise those for the audit of the consolidated financial statements, the review of the interim consolidated financial statements as of June 30, 2018, as well as the audit of the single-entity financial statements of Covestro AG and German subsidiaries.

To a lesser degree, the auditor also provided tax advice.

27. List of Shareholdings

Covestro AG directly or indirectly holds shares in the following companies (disclosures pursuant to Section 285, No. 11 of the German Commercial Code). The amounts stated for equity and net income or loss for the year relate to the amounts from the annual financial statements prepared in accordance with national law as of December 31, 2018; all amounts are rounded:

List of Shareholdings

Company name	Place of business	Equity interest	Equity	Net income/loss	Foot-note
		%	€ thousand	€ thousand	
EMLA					
Asellion B.V.	Amsterdam (Netherlands)	100.0	4	(496)	2
Bayer Pearl Polyurethane Systems FZCO	Dubai (United Arab Emirates)	51.0	23,472	868	2
Bayer Pearl Polyurethane Systems L.L.C	Dubai (United Arab Emirates)	49.0	312	466	2
Covestro (France) SNC	Fos-sur-Mer (France)	100.0	22,363	5,477	2
Covestro (Slovakia) Services s.r.o.	Bratislava (Slovakia)	100.0	312	81	2
Covestro (Tielt) NV	Tielt (Belgium)	100.0	13,211	1,849	2
Covestro A/S	Otterup (Denmark)	100.0	10,077	7,070	2
Covestro B.V.	Foxhol (Netherlands)	100.0	15,610	12,006	2
Covestro Brunsbüttel Energie GmbH	Brunsbüttel (Germany)	100.0	39	1,102	1,2
Covestro Deutschland AG	Leverkusen (Germany)	100.0	1,782,685	745,444	1
Covestro Elastomers SAS	Romans-sur-Isère (France)	100.0	36,606	3,246	2
Covestro First Real Estate GmbH	Monheim (Germany)	100.0	61,747	20,399	2
Covestro GmbH	Leverkusen (Germany)	100.0	5,325	1,708	1,2
Covestro Indústria e Comércio de Polímeros Ltda.	São Paulo (Brazil)	100.0	32,606	14,989	2
Covestro International SA	Fribourg (Switzerland)	100.0	243,303	240,680	2
Covestro NV	Antwerp (Belgium)	100.0	269,959	40,139	2
Covestro Oldenburg GmbH & Co. KG	Oldenburg (Germany)	100.0	11,478	5,199	2
Covestro Polímer Anoním Şirketi	Istanbul (Turkey)	100.0	279	130	2
Covestro Polyurethanes B.V.	Nieuwegein (Netherlands)	100.0	59,104	12,855	2
Covestro S.p.A.	Milan (Italy)	99.0	12,923	1,946	2
Covestro S.r.l.	Milan (Italy)	100.0	104,228	13,276	2
Covestro, S.L.	La Canonja (Spain)	100.0	126,304	6,744	2
Covestro Second Real Estate GmbH	Monheim (Germany)	100.0	31,383	9,373	2
Covestro Thermoplast Composite GmbH	Markt Bibart (Germany)	100.0	(3,256)	52	2
Covestro UK Limited	Cheadle (United Kingdom)	100.0	1,383	352	2
Covestro Verwaltungs GmbH Oldenburg	Oldenburg (Germany)	100.0	35	2	4
Epurex Films Geschäftsführungs-GmbH	Bomlitz (Germany)	100.0	101	7	2
Epurex Films GmbH & Co. KG	Bornlitz (Germany)	100.0	26,132	11,667	1,2
LyondellBasell Covestro Manufacturing Maasvlakte V.O.F	Rotterdam (Netherlands)	50.0	41,088	(5,975)	2
MS Global AG	Köniz (Switzerland)	100.0	6,331	1,137	2
MS Holding B.V.	Nieuwegein (Netherlands)	100.0	1,746,985	279,487	2
OOO Covestro	Moscow (Russia)	100.0	1,878	(504)	2
Paltough Industries (1998) Ltd.	Kibbutz Ramat Yochanan (Israel)	25.0	75,999	(672)	2
NAFTA					
Covestro International Trade Services Corp.	Wilmington (United States)	100.0	2	45,314	2
Covestro LLC	Pittsburgh (United States)	100.0	1,367,537	384,617	2
Covestro PO LLC	New Martinsville (United States)	100.0	287,261	56,326	2
Covestro S.A. de C.V.	Mexico City (Mexico)	100.0	70,266	4,232	2
PO JV, LP	Wilmington (United States)	39.4	398,852	(53,788)	2
Technology JV, L.P.	Wilmington (United States)	33.3	271,886	-	2

List of Shareholdings

Company name	Place of business	Equity interest	Equity	Net income/loss	Foot-note
		%	€ thousand	€ thousand	
APAC					
Covestro (Hong Kong) Limited	Hong Kong (China)	100.0	40,647	38,648	2
Covestro (India) Private Limited	Thane (India)	100.0	69,593	22,496	3
Covestro (Shanghai) Management Co., Ltd.	Shanghai (China)	100.0	6,693	4,272	2
Covestro (Taiwan) Ltd.	Kaohsiung (Taiwan)	95.5	30,892	1,832	2
Covestro (Thailand) Co., Ltd.	Bangkok (Thailand)	100.0	397,382	113,545	2
Covestro (Viet Nam) Company Limited	Ho Chi Minh City (Vietnam)	100.0	3,452	1,410	2
Covestro Far East (Hong Kong) Limited	Hong Kong (China)	100.0	315	94,039	2
Covestro Japan Ltd.	Tokyo (Japan)	100.0	15,137	8,704	2
Covestro Korea Corporation	Seoul (South Korea)	100.0	8,333	326	2
Covestro Polymers (China) Co., Ltd.	Shanghai (China)	100.0	2,204,114	727,643	2
Covestro Polymers (Qingdao) Co., Ltd.	Qingdao (China)	100.0	5,972	823	2
Covestro Polymers (Shenzhen) Co., Ltd.	Shenzhen (China)	100.0	11,803	2,242	2
Covestro Polymers (Tianjin) Co., Ltd.	Tianjin (China)	100.0	3,061	495	2
Covestro Pty Ltd	Cheltenham (Australia)	100.0	3,070	683	2
DIC Covestro Polymer Ltd.	Tokyo (Japan)	50.0	29,439	4,210	2
Guangzhou Covestro Polymers Co., Ltd.	Guangzhou (China)	100.0	19,722	(1,033)	2
PT Covestro Polymers Indonesia	Jakarta (Indonesia)	99.9	49,360	3,626	2
Sumika Covestro Urethane Company, Ltd.	Amagasaki (Japan)	60.0	47,438	13,513	2

¹ Result prior to takeover

² Preliminary result

³ Net income as of March 31, 2018

⁴ Net income as of December 31, 2017

28. Events After the End of the Reporting Period

Since January 1, 2019, there have been no events of special significance that we expect could affect the net assets, financial position, and results of operations of Covestro AG.

29. Proposal for the Appropriation of Distributable Profit

The financial statements of Covestro AG show distributable profit of €439,200 thousand. We recommend that distributable profit be used to pay a dividend of €2.40 per no-par-value share carrying dividend rights and that the amount from distributable profit attributable to non-dividend bearing no-par-value shares be carried forward.

Leverkusen, February 19, 2019
Covestro AG
The Board of Management

Responsibility Statement

To the best of our knowledge, and in accordance with applicable reporting principles for financial reporting, the annual financial statements give a true and fair view of the net assets, financial position, and results of operations of Covestro AG, and the management report, which has been combined with the management report of the Covestro Group, includes a fair review of the development and performance of the business and the position of the Covestro Group and Covestro AG, together with a description of the principal opportunities and risks associated with the expected development of the Covestro Group and Covestro AG.

Leverkusen, February 19, 2019
Covestro AG
The Board of Management

Dr. Markus Steilemann
(Chairman)

Dr. Klaus Schäfer

Dr. Thomas Toepfer

Independent Auditor's Report

To Covestro AG, Leverkusen

Report on the Audit of the Annual Financial Statements and of the Management Report

Opinions

We have audited the annual financial statements of Covestro AG, Leverkusen, which comprise the balance sheet as at 31 December 2018, and the statement of profit and loss for the financial year from 1 January 2018 to 31 December 2018, and notes to the financial statements, including a summary of significant accounting policies. In addition, we have audited the management report, which is combined with the group management report of Covestro AG, for the financial year from 1 January 2018 to 31 December 2018 including the non-financial statement in accordance with Section 315b (1), 315c HGB [Handelsgesetzbuch: German Commercial Code]. In accordance with the German legal requirements, we have not audited the content of the governance statement included in section 22 of the management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2018 and of its financial performance for the financial year from 1 January 2018 to 31 December 2018 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the governance statement mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). We performed the audit of the financial statements in supplementary compliance with the International Standards on Auditing (ISAs). Our responsibilities under those requirements, principles *and standards* are further described in the "Auditor's Responsibilities for the Audit of the annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January 2018 to 31 December 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Recoverability of the carrying amount of noncurrent financial assets:

For the applied recognition and measurement policies, we refer to chapter „Accounting Policies and Valuation Principles“ within the notes. Explanations with respect to the financial performance as well as assets and liabilities of the Company are presented section 18 of the management report.

THE FINANCIAL STATEMENT RISK

In the financial statements of Covestro AG as at 31 December 2018, the noncurrent financial assets included shares investments in affiliated companies in the amount of EUR 1,766 million. Noncurrent financial assets account for 31% of the balance sheet total and thereby have a significant influence on the Company's financial position.

Noncurrent financial assets are presented on the balance sheet at acquisition costs or, in case of a reduction in value which is expected to be permanent, at their lower value. The Company determines the value of investments in affiliated companies using the Discounted-Cash-Flow approach.

The cash flows utilised for the Discounted-Cash-Flow approach are based on entity specific projections for the upcoming 5 years with a forward projection on the basis of assumed long-term growth rates. The discount rate is derived from the return on alternative investments with a commensurate level of risk. When the value is lower than the carrying amount, quantitative and qualitative criteria are assessed to determine whether the impairment is expected to be permanent in nature.

The assessment of the recoverability of the carrying amount including the calculation of the value using the Discounted-Cash-Flow approach is complex and, in terms of the assumptions made, heavily dependent on the Company's estimates and judgements. This is, among other things, the case for estimates of future cash flows and long-term growth rates, the determination of discount rates as well as the assessments with respect to the longevity of the impairment.

Due to an increase in competition, future business prospects in the Chemicals sector showed first signs of deterioration. The Company did not record impairments on noncurrent financial assets in financial year 2018. There is the financial statement risk that the carrying amount of the noncurrent financial assets may not be recoverable.

OUR AUDIT APPROACH

We initially obtained an understanding of the Company's process for assessing the recoverability of the carrying amount of the noncurrent financial assets held on the basis of explanations provided by the Controlling department, which oversees the financial planning on entity level, as well as by assessing documentation. This included an intensive review of the Company's approach to the determination of necessary impairments and, based on the information obtained within the scope of our audit, an assessment as to whether there was an indication of the need to record an impairment not identified by the Company.

Subsequently, with the involvement of our valuation specialists, we assessed the appropriateness of the significant assumptions as well as of the valuation model underlying the company valuations as prepared by the Company. We discussed the expected cash flows as well as the assumed long-term growth rates with those responsible for the planning process. We also assessed the consistency of the assumptions with external market expectations, by utilizing economic reports from recognized industry institutes as well as analyst assessments.

Moreover, we assessed the Company's planning accuracy by comparing projections for previous financial years with the actual results realised and analysed deviations.

We compared the assumptions and parameters underlying the discount rate - in particular the risk-free interest rate, the market risk premium and the beta factor - with own assumptions and data which is publicly available. To account for the uncertainty of forecast information, we then assessed reasonably possible changes in the discount rate, in the expected cash flows respectively and in the long-term growth rate on the value (sensitivity analysis) by calculating alternative scenarios and comparing these with the Company's valuation results. To provide for the mathematical accuracy of the valuation model utilised, we recalculated the Company's calculations on the basis of elements selected in a risk-orientated manner.

OUR OBSERVATIONS

The approach to the impairment test of shares in affiliated companies is appropriate and consistent with the applicable valuation principles. The assumptions, judgements and parameters applied by the Company, on the whole, are appropriate.

Other Information

Management is responsible for the other information. The other information comprises:

- the governance statement, and
- the remaining parts of the annual report, with the exception of the audited annual financial statements and management report and our auditor's report.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Supervisory Board for the Annual Financial Statements and the Management Report

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) and *supplementary compliance with the ISAs* will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 13 April 2018. We were engaged by the Audit Committee of the Supervisory Board on 19 July 2018. We have been the auditor of Covestro AG since fiscal year 2018.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Dr Markus Zeimes.

Düsseldorf, 20 February 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Dr. Zeimes
[German Public Auditor]

Geier
[German Public Auditor]

REPORT OF THE SUPERVISORY BOARD

Dear Stockholders,

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

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

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

Meetings of the full Supervisory Board and member attendance

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

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

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

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

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

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

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

Principal topics discussed by the Supervisory Board

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

In its meeting on February 19, 2018, the Supervisory Board deliberated at length about the existing voluntary commitment by its members to acquire Covestro shares for 25% of their annual fixed compensation, including any compensation for committee membership. After an in-depth discussion about the advantages and disadvantages of continuing to uphold this voluntary commitment, particularly considering the insider trading risks associated with stock purchases, and the great variation in experience with and handling of this issue at other listed companies, the members of the Supervisory Board decided to eliminate the voluntary commitment to purchase further Covestro shares. The obligation to hold the Covestro shares purchased thus far as part of the voluntary commitment for the duration of their term on the Supervisory Board of Covestro AG remains unaffected. Additional topics at this initial

meeting were target attainment by Board of Management members and the adjustment in the calculation of maximum compensation for the Board of Management according to the provisions of the German Corporate Governance Code. Moreover, the Supervisory Board extensively discussed the financial statements of Covestro AG and the consolidated financial statements of the Covestro Group for fiscal 2017, the combined management report, the proposal for the use of the distributable profit, as well as the agenda and proposed resolutions for the 2018 Annual General Meeting. The Supervisory Board also thoroughly reviewed the audit report and the auditor's oral report concerning the material results of the audit. In addition, the Supervisory Board examined the risk report, which sets out the material risks for the Group and current developments in this regard, as well as the relevant countermeasures. Furthermore, the organization, statistics, training efforts, processes, and effectiveness of the Group's compliance management system were reviewed in depth. After a discussion of the matter, the Supervisory Board ultimately decided to wait for implementation of the results from the efficiency working groups, before it conducts another efficiency review of its activities.

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

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

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

At its last meeting on December 7, 2018, the Supervisory Board comprehensively reviewed the appropriateness of its own compensation and that of the members of the Board of Management, including long-term compensation components for the period from 2019 to 2022. Furthermore, the board discussed adjustments to growth, profitability, and liquidity thresholds for the short-term compensation program ("Covestro Profit Sharing Plan") for 2019 to 2021 and appointed Dr. Thomas Toepfer as the Group's new Labor Director effective January 1, 2019. Additionally, the Supervisory Board discussed a suitable approach to an efficiency review of its activities in the 2018 fiscal year. Against the backdrop of Covestro AG's share buy-back program completed in early December 2018 and the capital reduction resolved by the Board of Management, the Supervisory Board passed the necessary resolution to adjust the Articles of Incorporation to reflect the reduced capital stock. The Supervisory Board also delved deeper into its initial deliberations on further optimizing individual Board of Management portfolios and again extensively debated the MDI investment program. Implementation costs for the "Perspective" program, which is aimed at boosting efficiency and effectiveness, were approved and a detailed discussion was held about the financial planning and also the medium-term outlook proposed by the Board of Management. Moreover, the Supervisory Board approved the proposed financial framework for fiscal 2019. It also voted to issue an unqualified declaration of conformity with the German Corporate Governance Code as amended on February 7, 2017.

Committees of the Supervisory Board

In the past fiscal year, the Supervisory Board once again had four committees set up for the purpose of exercising its duties efficiently. The committees prepared resolutions by the full Supervisory Board and provided information on other topics to be discussed by this body. Moreover, certain decision-making powers of the Supervisory Board were assigned to the committees to the extent legally permissible. The Supervisory Board currently has a Presidial Committee, an Audit Committee, a Human Resources Committee, and a Nominations Committee. The tasks and responsibilities of the committees are described in greater detail in section 22 "Declaration on Corporate Governance" under "Committees of the Supervisory Board." The current composition is presented in the section "Governance Bodies."¹

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

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

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

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

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

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

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

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

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

¹ The sections mentioned and the other references are based on the Covestro Group's Annual Report.

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

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

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

Financial statements/audits

The financial statements of Covestro AG were prepared according to the requirements of the German Commercial Code (HGB) and German Stock Corporation Act (AktG). The consolidated financial statements of the Covestro Group were prepared according to the German Commercial Code and the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). The combined management report including the Group's nonfinancial statement was prepared according to the German Commercial Code. The auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, audited the financial statements of Covestro AG, the consolidated financial statements of the Covestro Group, and the combined management report including the Group's nonfinancial statement. The conduct and results of the audit are explained in the auditor's reports. According to the auditor's results, Covestro has complied with the German Commercial Code, the German Stock Corporation Act and/or the IFRS regulations as adopted by the EU, and issues unqualified opinions on the financial statements of Covestro AG and the consolidated financial statements of the Covestro Group. The financial statements of Covestro AG, the consolidated financial statements of the Covestro Group, the combined management report, and the audit reports were submitted to all members of the Supervisory Board. They were discussed in detail by the Audit Committee and at a meeting of the full Supervisory Board. The auditor submitted a report on both occasions and was present during the discussions.

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

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

Corporate governance and declaration of conformity

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

Expression of appreciation for the Board of Management and employees

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

Leverkusen (Germany), February 22, 2019

For the Supervisory Board

Dr. Richard Pott

Chairman

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