INTERIM REPORT

Financial Report as of September 30, 2015

Third Quarter 2015

Covestro Group Key Data

	3rd quarter 2014	3rd quarter 2015	Change	First nine months 2014	First nine months 2015	Change
	€ million	€ million	%	€ million	€ million	%
Sales	**3,062**	**3,020**	**– 1.4**	**8,781**	**9,284**	**+ 5.7**
Change in Sales						
Volume		– 0.6 %			+ 2.9 %	
Price		– 7.4 %			– 6.1 %	
Currency		+ 6.6 %			+ 8.9 %	
Portfolio		0.0 %			0.0 %	
Core volume growth[1]	**+ 4.5 %**	**– 0.7 %**		**+ 5.8 %**	**+ 2.5 %**	
Sales by region						
EMLA[2]	1,396	1,352	– 3.2	4,186	4,140	– 1.1
NAFTA[3]	789	852	+ 8.0	2,233	2,571	+ 15.1
APAC[4]	877	816	– 7.0	2,362	2,573	+ 8.9
EBITDA[5]	**324**	**455**	**+ 40.4**	**934**	**1,287**	**+ 37.8**
Adjusted EBITDA[6]	**326**	**471**	**+ 44.5**	**951**	**1,385**	**+ 45.6**
EBIT[7]	**175**	**287**	**+ 64,0**	**489**	**760**	**+ 55.4**
Adjusted EBIT[8]	**177**	**305**	**+ 72.3**	**510**	**883**	**+ 73.1**
Financial results	**(35)**	**(56)**	**– 60.0**	**(91)**	**(143)**	**– 57.1**
Net income[9]	**99**	**160**	**+ 61.6**	**277**	**427**	**+ 54.2**
Earnings per share (in €)[10]	**0.49**	**0.79**	**+ 61.6**	**1.37**	**2.11**	**+ 54.2**
Gross cash flow[11]	**274**	**313**	**+ 14.2**	**828**	**1,039**	**+ 25.5**
Operating cash flow (net cash flow)[12]	**357**	**379**	**+ 6.2**	**511**	**923**	**+ 80.6**
Cash outflows for capital expenditures	**134**	**128**	**– 4.5**	**373**	**352**	**– 5.6**
Free operating cash flow[13]	**223**	**251**	**+ 12.6**	**138**	**571**	**+ 313.8**
Net financial debt[14,16]	**4,160**	**4,995**	**+ 20.1**	**4,160**	**4,995**	**+ 20.1**
Employees (in FTE)[15,16]	**14,408**	**15,723**	**+ 9.1**	**14,408**	**15,723**	**+ 9.1**

1 Core volume growth refers to the core products in the Polyurethanes, Polycarbonates and Coatings, Adhesives, Specialties segments. It is calculated as the percentage change in externally sold volumes in thousand tons compared to the prior year. Covestro also takes advantage of business opportunities outside its core business, for example the sale of raw materials and intermediates such as hydrochloric acid, sodium hydroxide solution and styrene. These transactions are not included in core volume growth
2 EMLA: Europe, Middle East, Africa and Latin America (excl. Mexico) region
3 NAFTA: United States, Canada and Mexico region
4 APAC: Asia and Pacific region
5 EBITDA: earnings before financial result, taxes, depreciation and amortization
6 Adjusted EBITDA: earnings before financial result, taxes, depreciation and amortization before special items
7 EBIT: earnings before financial result and taxes
8 Adjusted EBIT: earnings before financial result and taxes before special items
9 Net income: income after income taxes attributable to the stockholders of Covestro AG
10 Earnings per share: net income divided by total number of shares after IPO (including new issued shares)
11 Gross cash flow: operating cash flow disregarding changes in inventories, trade accounts receivable and payable, other working capital and other noncash items
12 Operating cash flow (net cash flow): cash flow from operating activities according to IAS 7
13 Free operating cash flow: operating cash flow less cash outflows for property, plant, equipment and intangible assets
14 Excluding obligations for pensions and other post-employment benefits
15 Employees calculated as full-time equivalents (FTE)
16 As of September 30, 2015 compared to September 30, 2014

Contents

Forward-Looking Statements
This financial report may contain forward-looking statements based on current assumptions and forecasts made by 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.

Rounding
As the indicators in this report are stated in accordance with commercial rounding principles, totals and percentages may not always be exact.

Reference Period
Covestro has only existed as a company within the meaning of IFRS since September 1, 2015. Therefore, all data for the reference period and for parts of the 2015 reporting period are as contained in the Combined Financial Statements. Please see Note 1 in the Notes to the Consolidated Interim Financial Statements (Basis of Preparation of the Consolidated Financial Statements) for further information about the Combined Financial Statements.

Letter to Stockholders

Valued stockholders,

I am pleased to welcome you most warmly as the new shareholders of Covestro AG and to report to you for the first time on the development of your company.

Covestro has been listed on the stock market since October 6, 2015, and the strong interest we received from the capital market confirms the belief held by myself and my fellow board members that it was the right step. Our company can now continue to improve its position and develop further – we will become more flexible and more efficient, and we will be able to make better use of our competitive advantages in the global arena.

Our IPO has been the first highlight in a new era, which was initiated just over a year ago with the announcement of the carve-out from the Bayer Group. June 1 marked a further key milestone when the new name Covestro was made public – coupled with the launch of our colorful new look and our vision: "To make the world a brighter place." That is why we are working continuously to deliver innovations to preserve the environment, advance society and create value. Our high-tech materials for use in key sectors such as the automotive, construction and electronics industries are helping to make this a reality.

The next step came on September 1, when Covestro became a separate legal and economic entity. In this form, we have continued to drive forward our business at the same pace as before. Each of our more than 15,700 employees across the world has contributed to these efforts.

And they can be proud of the results. Between July and September 2015, we increased our operating result (adjusted EBITDA) by almost 45% compared with the prior-year period. This figure is a further demonstration of Covestro's earning power.

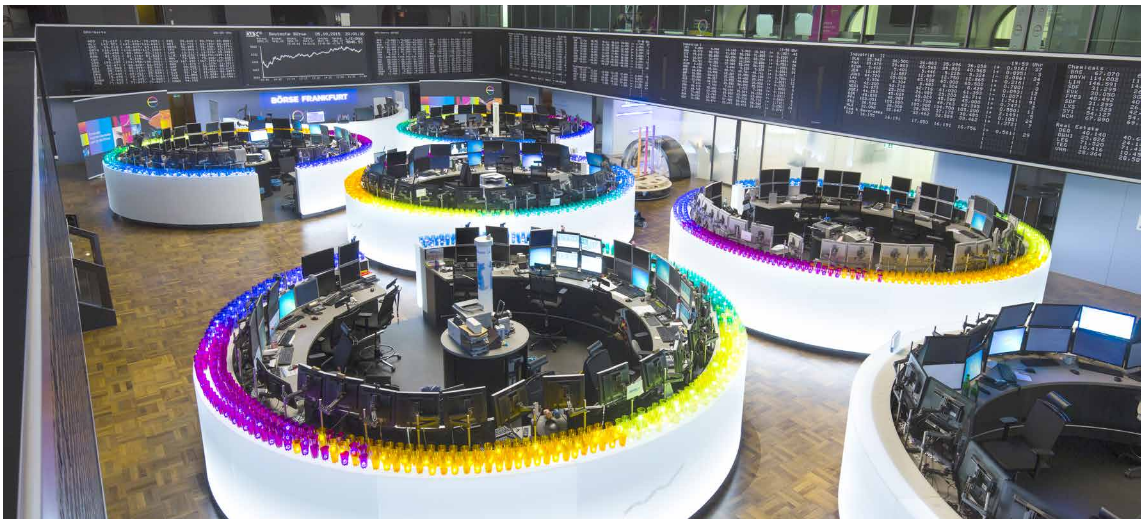
As far as sales are concerned, we kept volumes stable in the third quarter. However, selling prices were reduced by partially passing on lower raw material costs. Overall, sales were therefore slightly lower than at the same time last year. Nonetheless, we anticipate slight growth in sales and a substantial increase in adjusted EBITDA and free operating cash flow for the full fiscal year 2015.

As you can see, your company is on track.

Sincerely,

Patrick Thomas

Covestro on the Capital Market



The Frankfurt Stock Exchange was decorated with thousands of plastic cups specially made by Covestro to mark the start of trading.

Since October 6, 2015, the shares of Covestro AG have been listed in the Prime Standard on the Frankfurt Stock Exchange. The opening price was €26.00, exactly €2.00 higher than the issue price of €24.00 which the company set on October 2 for new shares issued by way of a capital increase. Since then, around 31% of the 202,500,000 no-par ordinary bearer shares have been in circulation. Bayer AG, formerly the sole owner of the company, holds around 69% of Covestro shares.

The stock market flotation was a further important step for Covestro in a new era of independence. The gross issue proceeds of €1.5 billion were mainly used to pay back debt to the Bayer Group, not least with the aim of achieving an investment-grade rating. Just one day after the initial listing, rating agency Moody's Investors Service in London gave Covestro a rating of Baa2 with a stable outlook. The company's first credit rating therefore confirms its creditworthiness on the international capital market.

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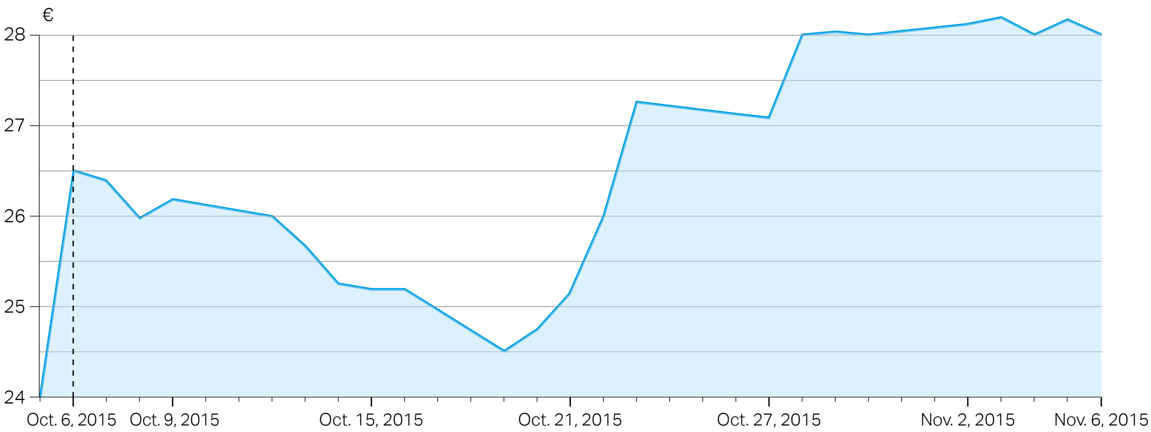
CEO Patrick Thomas (left) and CFO Frank H. Lutz rang in a new era for Covestro as a listed company.

Performance of Covestro Stock Since the First Day of Trading

Xetra® closing prices, source: Bloomberg



Interim Group Management Report

as of September 30, 2015

1 Covestro at a Glance

To make the world a brighter place

LEADING SUPPLIER OF HIGH-PERFORMANCE POLYMER MATERIALS

SALES € **9.3 bn**
EARNINGS* € **1.4 bn**
(Jan.-Sep. 2015)

More than
15,700
EMPLOYEES

GLOBAL PRESENCE

State-of-the-art
FACILITIES
EFFICIENT, SAFE, SUSTAINABLE

HIGH-TECH MATERIALS FOR **KEY INDUSTRIES**

- Automotive & Transportation
- Construction
- Wood Processing & Furnitures
- Electrical & Electronics
- Sports & Leisure
- Cosmetics
- Health
- Textiles

* Adjusted EBITDA

Covestro is a leading global supplier of high-tech polymer materials and application solutions for many areas of modern life. We supply thousands of customers in key sectors such as the automotive, construction, furniture and electronics industries. Our core portfolio includes components for polyurethane foams, the high-tech plastic polycarbonate and raw materials for coatings, adhesives and sealants, as well as specialty products such as films and elastomers. The company is divided into three operational segments, which are supported and managed by central functions.

Covestro has been economically and legally independent since September 1, 2015. Prior to this, the business operated as Bayer MaterialScience and was wholly owned by the Bayer Group. In October 2015, Covestro was floated on the stock market and is now listed on the Frankfurt Stock Exchange. The free float is around 31% and the remaining shares are held by Bayer AG, which was formerly the sole owner.

Strategy

Over the coming five years, we aim to build on our leading positions in our industry sectors and share in the growth that independent experts are predicting for our customer industries. This growth is expected to be driven by macro trends such as climate change, the diminishing availability of fossil resources, the expanding global population, urbanization and increasing mobility. Through our products and solutions, we aim to help master these challenges in line with our vision: "To make the world a brighter place." In keeping with this, sustainability is of central importance in all our activities – with a view to preserving the environment, advancing society and creating value.

In order to sustainably enhance our business performance, we aim to further improve our cost structures and, above all, to ensure optimum utilization of our plant capacities. Our global production facilities are equipped to very high technological standards and are capable of serving the anticipated growth in demand, while at the same time meeting requirements for maximum efficiency, safety, reliability and environmental compatibility.

Moreover, we focus on continuous product and process innovation as a means of safeguarding and building our position in the global marketplace. Research and development is steered by targets to ensure that it satisfies the needs of our customer industries and of end customers. The focus is on high-end applications, improved functionalities, design flexibility, cost-reducing production processes and sustainability, whereby we also endeavor to find alternatives to petrochemical raw materials. Around 1,000 employees work in a global research and development network that includes major innovation centers in Germany, the United States and China. International collaboration with external scientific institutions, start-ups and academic spin-offs is also essential.

Polyurethanes segment

Covestro is the leading supplier of raw materials and systems in the global polyurethanes industry – which independent experts predict is likely to grow faster than the world economy in the years ahead as well. We develop and manufacture components for flexible foams which, used in products such as mattresses and upholstered furniture, make day-to-day life more comfortable. We also manufacture raw materials for rigid polyurethane foam, which is used above all as an insulating material for buildings and refrigeration appliances and thus helps to reduce energy consumption and greenhouse gas emissions.

The Polyurethanes (PUR) segment is constantly seeking to optimize both its products and its manufacturing and application processes. For example, we are driving forward new technologies in order to produce nanocellular foams for more efficient insulation. We are also working to increase the flame-retardant properties of our materials. Lightweight composite materials are a further focus; they can be used to enhance the efficiency of wind turbines, for example. In the area of process development, we are looking to use carbon dioxide as a new source of carbon in order to reduce dependence on petrochemical raw materials. In 2016 we aim to launch the first novel CO_2-based polyurethane component.

Polycarbonates segment

Another key product is the high-performance plastic polycarbonate and Covestro is one of the world's leading suppliers of this material. This industry, too, is expected to grow faster than global gross domestic product (GDP) in the years ahead. In the automotive, electronics and construction sectors, in particular, rising demand is anticipated for this material, which is characterized by positive properties such as low weight, transparency, stability and design flexibility.

The Polycarbonates (PCS) segment is seeking to further extend its technological leadership, one focus being fiber-reinforced composites. Used in high-quality IT products and automotive components in particular, these materials can improve performance and are a low-cost substitute for existing solutions based on metal. They weigh much less than conventional solutions made from glass and steel and can therefore reduce vehicle fuel consumption, for example. We also supply and develop special polycarbonates for light-emitting diodes, which likewise contribute to sustainability in the automotive sector and other applications.

Coatings, Adhesives, Specialties segment

Covestro is the leading supplier of mainly polyurethane-based raw materials primarily for coatings and adhesives. The main areas of application include automotive and transportation, infrastructure and construction, wood processing and furniture. Independent experts likewise anticipate long-term growth rates above GDP growth for the Coatings, Adhesives, Specialties (CAS) segment's products. We aim to secure and build our position in this segment's main business and will also consider targeted expansion of production capacities to achieve this goal.

Our specialties comprise elastomers and special films and are also applied in fields such as cosmetics, medical products and textiles. We are targeting accelerated growth in this area.

Additionally, we are driving forward new process technologies, for example the use of bio-based raw materials. We recently launched a new component for polyurethane coatings and adhesives for which 70% of the raw materials are derived from biomass that does not compete with food production. Another development is a thermolatent hardener for automotive coatings which can be processed much more quickly and using less energy. For textiles and polyurethane synthetic materials, we offer a new generation of polyurethane dispersions that also conserve natural resources and do not require the use of organic solvents.

2 Overview of Sales, Earnings and Financial Position

Covestro Group Key Data

	3rd quarter 2014	3rd quarter 2015	Change	First nine months 2014	First nine months 2015	Change
	€ million	€ million	%	€ million	€ million	%
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Sales by region						
EMLA[2]	1,396	1,352	– 3.2	4,186	4,140	– 1.1
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EBIT[7]	175	287	+ 64.0	489	760	+ 55.4
Adjusted EBIT[8]	177	305	+ 72.3	510	883	+ 73.1
Financial result	(35)	(56)	– 60.0	(91)	(143)	– 57.1
Net income[9]	99	160	+ 61.6	277	427	+ 54.2
Gross cash flow[10]	274	313	+ 14.2	828	1,039	+ 25.5
Operating cash flow (net cash flow)[11]	357	379	+ 6.2	511	923	+ 80.6
Cash outflows for capital expenditures	134	128	– 4.5	373	352	– 5.6
Free operating cash flow[12]	223	251	+ 12.6	138	571	313.8
Net financial debt[13,14]	4,160	4,995	+ 20.1	4,160	4,995	+ 20.1

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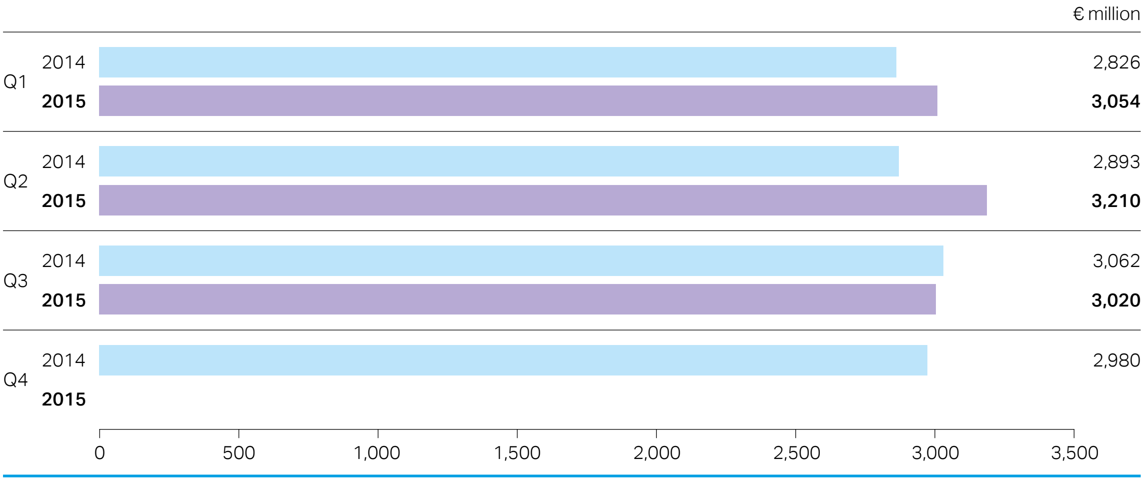
Third quarter of 2015

Group sales in the third quarter of 2015 declined year on year by 1.4% to €3,020 million (Q3 2014: €3,062 million). This resulted above all from the expected decrease in selling prices in all three segments, especially Polyurethanes, which was primarily due to lower raw material prices. Shifts in exchange rates had a positive effect and largely compensated for the lower selling prices. Overall, volumes remained at the prior-year level. Polycarbonates recorded substantial increases, while volumes at Polyurethanes and Coatings, Adhesives, Specialties were down on the prior-year quarter.

In the Polyurethanes segment, sales in the third quarter of 2015 declined by 8.5% to €1,512 million (Q3 2014: €1,652 million).

Covestro Group Quarterly Sales



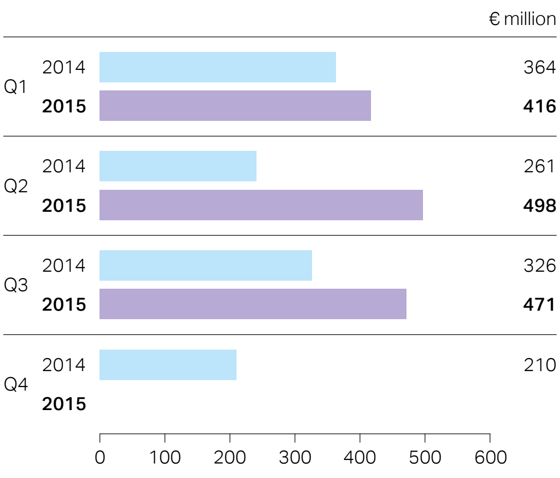
The Polycarbonates segment posted sales growth of 13.0% to €819 million (Q3 2014: €725 million). Sales of the Coatings, Adhesives, Specialties segment advanced by 2.6% to €519 million (Q3 2014: €506 million).

Growth of the Covestro Group is also measured in terms of core volume growth[1]. The percentage increase in this parameter, in contrast to sales, is influenced less by raw material prices or currency effects and is therefore more suitable for assessing growth. From fiscal 2016, the Covestro Group will use core volume growth as a further significant key performance indicator for controlling.

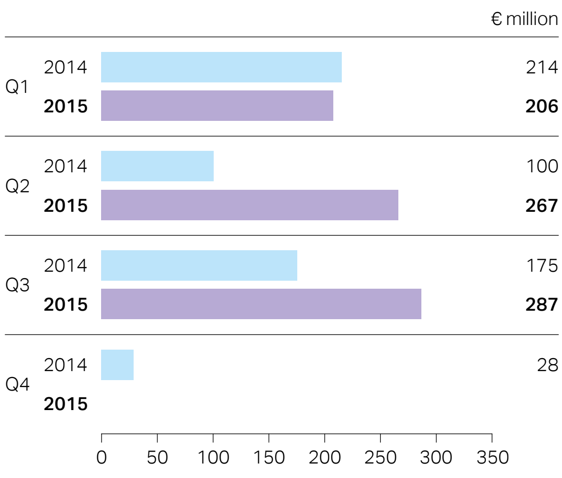
Core volume growth for the Covestro Group in the third quarter of 2015 dipped by 0.7%. While Polycarbonates achieved an increase of 5.5%, both Polyurethanes and Coatings, Adhesives, Specialties recorded year-on-year declines of 2.8% and 2.3%, respectively.Adjusted EBITDA for the third quarter of 2015 climbed by 44.5% to €471 million (Q3 2014: €326 million). One main reason for this is the significant decline in raw material prices which, against the backdrop of a more favorable supply and demand situation - especially for polycarbonates - more than offset a decline in selling prices. Currency effects had a positive impact of around €70 million.

In the Polyurethanes segment, adjusted EBITDA rose by 8.0% to €175 million (Q3 2014: €162 million). The Polycarbonates segment more than quadrupled adjusted EBITDA to €171 million (Q3 2014: €39 million). Adjusted EBITDA for the Coatings, Adhesives, Specialties segment was €137 million, 10.5% higher than the prior-year figure of €124 million.

Covestro Group
Quarterly Adjusted EBITDA



Covestro Group
Quarterly EBIT



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EBIT of the Covestro Group climbed by 64.0% in the third quarter of 2015 to €287 million (Q3 2014: €175 million). Special items amounted to minus €18 million (Q3 2014: minus €2 million). They comprised special charges in connection with the consolidation of production sites as well as expenses for and proceeds from the stock market flotation of Covestro. Also included was reimbursement from Bayer AG for termination of the agreement on the joint use of Bayer trademarks. Adjusted EBIT came to €305 million (+72.3%; Q3 2014: €177 million).

After a financial result of minus €56 million (Q3 2014: minus €35 million), income before income taxes rose to €231 million (Q3 2014: €140 million). After taxes and noncontrolling interest, net income amounted to €160 million (Q3 2014: €99 million).

In the third quarter of 2015, gross cash flow rose by 14.2% to €313 million (Q3 2014: €274 million) due to the substantial increase in EBITDA. The operating cash flow (net cash flow) moved ahead by 6.2% to €379 million (Q3 2014: €357 million). This figure reflected income tax payments of €63 million (Q3 2014: €41 million).

From fiscal 2016, the Covestro Group will use free operating cash[2] flow as a further significant key performance indicator for controlling the Group. This parameter reflects the company's internal financing capability.

In the third quarter of 2015, the free operating cash flow increased by 12.6% to €251 million (Q3 2014: €223 million).

Net financial debt advanced by €417 million to €4,995 million between June 30 and September 30, 2015. Cash inflows from the stock market listing of Covestro at the beginning of October were not recorded in the reporting period. They are described in "Events After the End of the Reporting Period."

First nine months of 2015

Group sales in the first nine months of 2015 increased by 5.7% to €9,284 million (9M 2014: €8,781 million). Volumes expanded in all three operational segments. Currency effects had a positive impact, which overall more than offset the decline in selling prices, especially at Polyurethanes and Polycarbonates.

Sales in the Polyurethanes segment edged up by 0.3% to €4,703 million in the first nine months of 2015 (9M 2014: €4,689 million). The Polycarbonates segment raised sales by 16.0% to €2,413 million (9M 2014: €2,080 million). Sales of the Coatings, Adhesives, Specialties segment advanced by 10.4% to €1,616 million (9M 2014: €1,464 million).

At Group level, core volume growth increased by 2.5%. This was mainly attributable to the Polycarbonates segment, which posted a growth rate of 6.7%. In the Coatings, Adhesives, Specialties segment, core volume growth was 3.5% and for the Polyurethanes segment it was 0.8%.

Adjusted EBITDA in the first nine months of 2015 climbed 45.6% to €1,385 million (9M 2014: €951 million). Considerably lower raw material prices and higher volumes more than offset the decline in selling prices. This development reflected a more favorable supply and demand situation, especially at Polycarbonates. Currency effects of some €200 million also had a positive impact on earnings.

In the first nine months of 2015, the Covestro Group improved EBIT by 55.4% to €760 million (9M 2014: €489 million). Special items amounted to minus €123 million (9M 2014: minus €21 million). Adjusted EBIT came to €883 million (+73.1%; 9M 2014: €510 million).

Spending on research and development in the first nine months of 2015 rose by 18.2% to €188 million (9M 2014: €159 million), including €63 million in the third quarter of 2015 (Q3 2014: €48 million). This investment went mainly to identify new areas of application for our products and to improve process technologies and products. We also invested €62 million in joint development projects with customers in the first nine months of the current year (9M 2014: €56 million), including €21 million in the third quarter of 2015 (Q3 2014: €19 million).

After a financial result of minus €143 million (9M 2014: minus €91 million), income before income taxes climbed to €617 million (9M 2014: €398 million). After tax expense of €184 million (9M 2014: €120 million), income after income taxes was €433 million (9M 2014: €278 million). After noncontrolling interest, net income amounted to €427 million (9M 2014: €277 million).

Gross cash flow in the first three quarters of 2015 rose by 25.5% to €1,039 million (9M 2014: €828 million) and operating cash flow (net cash flow) by 80.6% to €923 million (9M 2014: €511 million). This figure reflected income tax payments of €143 million (9M 2014: €81 million).

Free operating cash flow advanced substantially to €571 million (9M 2014: €138 million).

[2] Free operating cash flow is the operating cash flow less cash outflows for property, plant, equipment and intangible assets.

3 Business Development by Segment

3.1 Business Development: Polyurethanes

Polyurethanes Key Data

	3rd quarter 2014	3rd quarter 2015	Change	First nine months 2014	First nine months 2015	Change
	€ million	€ million	%	€ million	€ million	%
Sales	**1,652**	**1,512**	**– 8.5**	**4,689**	**4,703**	**+ 0.3**
Change in sales						
Volume		– 2.2%			+ 2.0%	
Price		– 12.1%			– 9.9%	
Currency		+ 5.8%			+ 8.2%	
Portfolio		0.0%			0.0%	
Core volume growth[1]	**3.8%**	**– 2.8%**		**+ 5.5%**	**+ 0.8%**	
Sales by region						
EMLA[2]	746	667	– 10.6	2,171	2,048	– 5.7
NAFTA[3]	479	496	+ 3.5	1,354	1,503	+ 11.0
APAC[4]	427	349	– 18.3	1,164	1,152	– 1.0
EBITDA[5]	**161**	**161**	**0.0**	**489**	**509**	**+ 4.1**
Adjusted EBITDA[6]	**162**	**175**	**+ 8.0**	**491**	**561**	**+ 14.3**
EBIT[7]	**73**	**60**	**– 17.8**	**231**	**183**	**– 20.8**
Adjusted EBIT[8]	**74**	**72**	**– 2.7**	**233**	**256**	**+ 9.9**

1 Core volume growth refers to the core products in the Polyurethanes, Polycarbonates and Coatings, Adhesives, Specialties segments. It is calculated as the percentage change in externally sold volumes in thousand tons compared to the prior year. Covestro also takes advantage of business opportunities outside its core business, for example the sale of raw materials and intermediates such as hydrochloric acid, sodium hydroxide solution and styrene. These transactions are not included in core volume growth.
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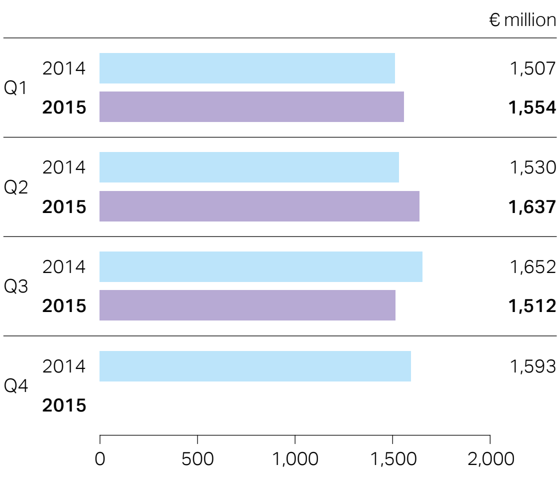
Polyurethanes Quarterly Sales



Sales in the Polyurethanes segment in the third quarter of 2015 contracted by 8.5% against the prior-year period to €1,512 million. This resulted from lower volumes and selling prices, which were partly compensated by currency effects. The decline in prices in the toluene diisocyanate (TDI), diphenylmethane diisocyanate (MDI) and polyether polyol product groups was significant in some cases and was mainly attributable to reduced raw material prices, which were largely passed on to customers.

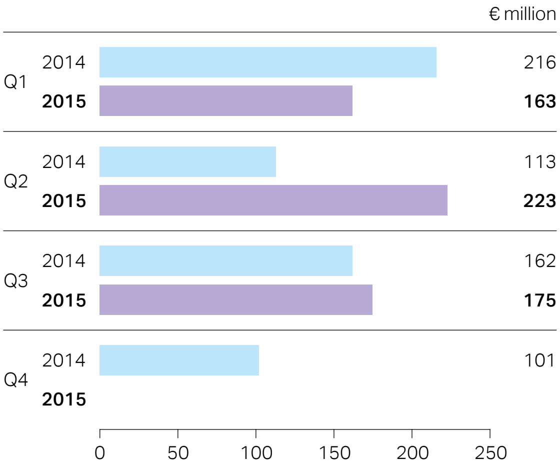
Lower volumes diminished sales by 2.2%. In the APAC region, demand in the third quarter was lower than in the prior-year period. The contraction in volumes in this region was the result of slower market growth, particularly in China. Overall, the downward development in APAC outweighed the expansion in volumes in the NAFTA region. Volumes in EMLA remained stable as reduced demand in LATAM was compensated by higher sales in EMEA, which largely resulted from the expansion of TDI capacity at the production site in Dormagen, Germany.

Selling prices at Polyurethanes were 12.1% below the prior-year level, primarily because of lower raw material prices in all regions. In the case of TDI, the lower price level was also attributable to increased competition resulting from a high level of product availability.

In EMLA, sales declined 10.6% due to lower selling prices, although volumes remained stable. By contrast, sales in NAFTA rose 3.5%. Favorable exchange rate developments and higher volumes more than made up for the lower prices. Sales in APAC decreased by 18.3% despite the positive impact of currency effects. This was due to reduced volumes and significantly lower selling prices.

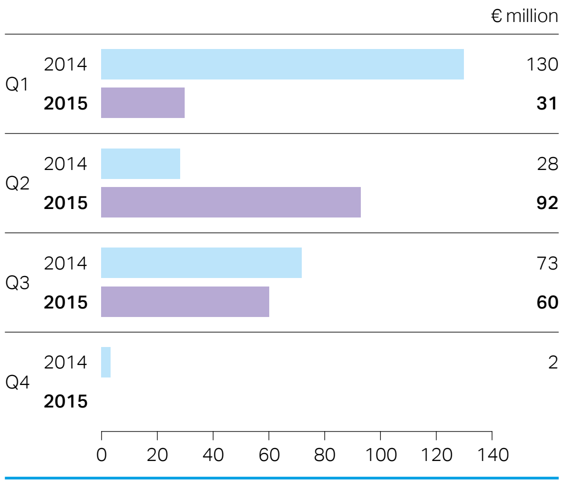
Core volume growth shrank by 2.8% in the third quarter.

Polyurethanes
Quarterly Adjusted EBITDA



Although the market environment clouded in the third quarter, adjusted EBITDA at Polyurethanes rose 8.0% to €175 million (Q3 2014: €162 million). A positive influence was exerted in particular by margin improvements for the by-product styrene in Europe. By contrast, earnings were depressed by lower margins for TDI. Additionally, reduced volumes had a negative impact. However, the weak euro supported earnings growth.

Polyurethanes
Quarterly EBIT



EBIT declined by 17.8% to €60 million (Q3 2014: €73 million), reflecting special items of minus €12 million (Q3 2014: minus €1 million).

In the first nine months of 2015, sales at Polyurethanes rose by 0.3% to €4,703 million. Favorable exchange rate developments and higher volumes offset reduced selling prices. In the case of MDI, TDI and polyether polyols, selling prices were below the prior year, primarily because of lower purchase prices for raw materials. Volumes overall were higher than in the prior-year period. Core volume growth amounted to 0.8% in the first three quarters.

Adjusted EBITDA increased by 14.3% to €561 million while EBIT declined by 20.8% to €183 million.

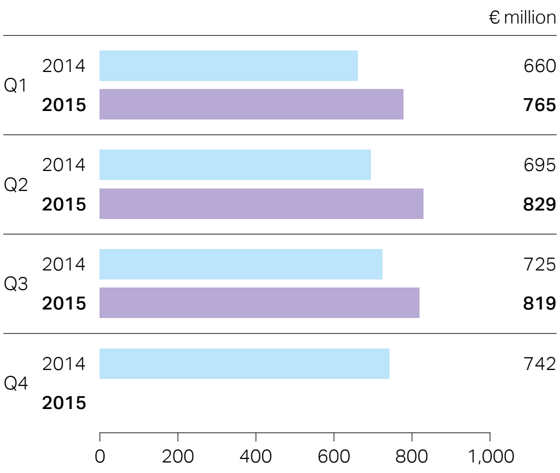
3.2 Business Development: Polycarbonates

Polycarbonates Key Data

	3rd quarter 2014	3rd quarter 2015	Change	First nine months 2014	First nine months 2015	Change
	€ million	€ million	%	€ million	€ million	%
Sales	**725**	**819**	**+ 13.0**	**2,080**	**2,413**	**+ 16.0**
Change in sales						
Volume		+ 4.1%			+ 6.4%	
Price		– 0.8%			– 2.2%	
Currency		+ 9.7%			+ 11.8%	
Portfolio		0.0%			0.0%	
Core volume growth[1]	**+ 8.6%**	**+ 5.5%**		**+ 9.2%**	**+ 6.7%**	
Sales by region						
EMLA[2]	253	296	+ 17.0	804	866	+ 7.7
NAFTA[3]	165	200	+ 21.2	469	580	+ 23.7
APAC[4]	307	323	+ 5.2	807	967	+ 19.8
EBITDA[5]	**38**	**171**	**.**	**114**	**436**	**.**
Adjusted EBITDA[6]	**39**	**171**	**.**	**127**	**437**	**.**
EBIT[7]	**(3)**	**127**	**.**	**(8)**	**304**	**.**
Adjusted EBIT[8]	**(2)**	**128**	**.**	**6**	**306**	**.**

[1] Core volume growth refers to the core products in the Polyurethanes, Polycarbonates and Coatings, Adhesives, Specialties segments. It is calculated as the percentage change in externally sold volumes in thousand tons compared to the prior year. Covestro also takes advantage of business opportunities outside its core business, for example the sale of raw materials and intermediates such as hydrochloric acid, sodium hydroxide solution and styrene. These transactions are not included in core volume growth.
[2] EMLA: Europe, Middle East, Africa and Latin America (excl. Mexico) region
[3] NAFTA: United States, Canada and Mexico region
[4] APAC: Asia and Pacific region
[5] EBITDA: earnings before financial result, taxes, depreciation and amortization
[6] Adjusted EBITDA: earnings before financial result, taxes, depreciation and amortization before special items
[7] EBIT: earnings before financial result and taxes
[8] Adjusted EBIT: earnings before financial result and taxes before special items

Polycarbonates Quarterly Sales



Sales in the Polycarbonates segment in the third quarter of 2015 increased by 13.0% year on year to €819 million. Exchange rate developments had a positive impact on sales.

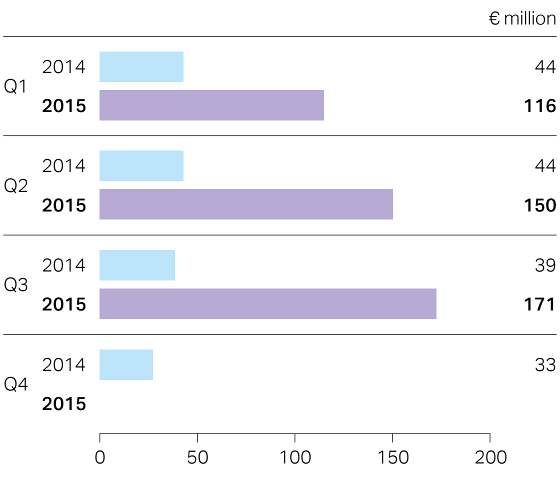
Sales increased due to volume gains of 4.1%, which were driven by higher demand from the automotive and construction industries, especially in EMLA and NAFTA. Volumes in APAC were down on the prior year, primarily as the result of lower demand from the shrinking optical data storage industry and reduced sales of intermediates.

Selling prices overall were 0.8% below the prior-year quarter due to lower prices in APAC and NAFTA, partly reflecting reductions in raw material prices, while prices in EMLA were above the prior year despite lower raw material prices.

Sales in EMLA increased by 17.0% owing to volume and price gains. An improvement of 21.2% was posted in NAFTA, where favorable currency effects and volume gains outweighed price reductions. APAC sales were 5.2% above the prior year due to favorable currency effects, which offset volume and price reductions.

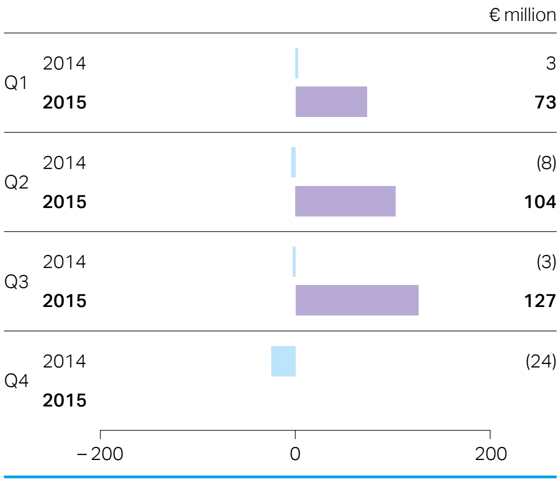
Core volume growth amounted to 5.5% in the third quarter.

Polycarbonates
Quarterly Adjusted EBITDA



Adjusted EBITDA improved significantly to €171 million (Q3 2014: €39 million). This increase was mainly driven by the favorable development of selling prices compared to raw material prices, reflecting an operational shortage in the industry. Additional contributions came from the weaker euro and higher volumes in NAFTA and EMLA.

Polycarbonates
Quarterly EBIT



EBIT of Polycarbonates advanced substantially in the third quarter of 2015 to €127 million (Q3 2014: minus €3 million), reflecting special items of minus €1 million (Q3 2014: minus €1 million).

In the first nine months of 2015, sales of Polycarbonates increased by 16.0% to €2,413 million. In all three regions, volume growth more than compensated negative price developments.

Core volume growth in the first nine months of 2015 amounted to 6.7%.

Adjusted EBITDA advanced strongly to €437 million. EBIT also increased significantly to €304 million.

3.3 Business Development: Coatings, Adhesives, Specialties

Coatings, Adhesives, Specialties Key Data

	3rd quarter 2014	3rd quarter 2015	Change	First nine months 2014	First nine months 2015	Change
	€ million	€ million	%	€ million	€ million	%
Sales	**506**	**519**	**+ 2.6**	**1,464**	**1,616**	**+ 10.4**
Change in sales						
Volume		– 2.5%			+ 2.7%	
Price		– 1.4%			– 0.8%	
Currency		+ 6.5%			+ 8.5%	
Portfolio		0.0%			0.0%	
Core volume growth[1]	**+ 0.1%**	**– 2.3%**		**+ 0.4%**	**+ 3.5%**	
Sales by region						
EMLA[2]	267	260	– 2.6	804	814	+ 1.2
NAFTA[3]	105	121	+ 15.2	295	374	+ 26.8
APAC[4]	134	138	+ 3.0	365	428	+ 17.3
EBITDA[5]	**125**	**135**	**+ 8.0**	**345**	**401**	**+ 16.2**
Adjusted EBITDA[6]	**124**	**137**	**+ 10.5**	**346**	**407**	**+ 17.6**
EBIT[7]	**106**	**113**	**+ 6.6**	**284**	**337**	**+ 18.7**
Adjusted EBIT[8]	**106**	**118**	**+ 11.3**	**289**	**346**	**+ 19.7**

1 Core volume growth refers to the core products in the Polyurethanes, Polycarbonates and Coatings, Adhesives, Specialties segments. It is calculated as the percentage change in externally sold volumes in thousand tons compared to the prior year. Covestro also takes advantage of business opportunities outside its core business, for example the sale of raw materials and intermediates such as hydrochloric acid, sodium hydroxide solution and styrene. These transactions are not included in core volume growth.
2 EMLA: Europe, Middle East, Africa and Latin America (excl. Mexico) region
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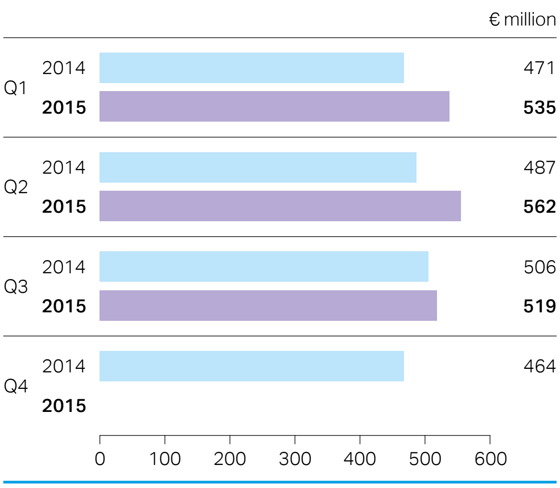
5 EBITDA: earnings before financial result, taxes, depreciation and amortization
6 Adjusted EBITDA: earnings before financial result, taxes, depreciation and amortization before special items
7 EBIT: earnings before financial result and taxes
8 Adjusted EBIT: earnings before financial result and taxes before special items

Coatings, Adhesives, Specialties Quarterly Sales



Sales in the Coatings, Adhesives, Specialties segment in the third quarter of 2015 expanded by 2.6% to €519 million. Currency effects had a positive impact.

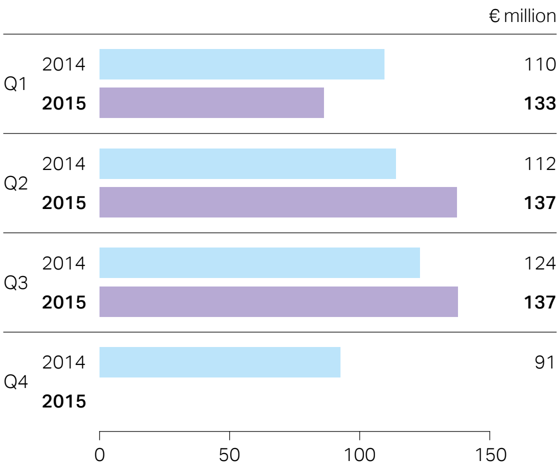
Overall, volumes were 2.5% down on the prior-year quarter, mainly due to reduced volumes in APAC. In EMLA, volumes were slightly lower year on year, while in NAFTA they remained stable. The decline in volumes in APAC was the result in particular of reduced demand for our products from the wood processing and furniture, electronics and automotive sectors.

Selling prices were down 1.4% compared with the prior-year quarter, which was attributable to price reductions in APAC. Selling prices in NAFTA and EMLA remained stable.

Overall, sales in EMLA were 2.6% lower than in the prior-year period, resulting from unchanged prices and a slight contraction in volumes. In NAFTA, sales climbed 15.2% due to the favorable development of exchange rates. Volumes and selling prices were on a par with the prior-year quarter. Sales in APAC increased by 3.0%, as currency effects offset lower volumes and selling prices.

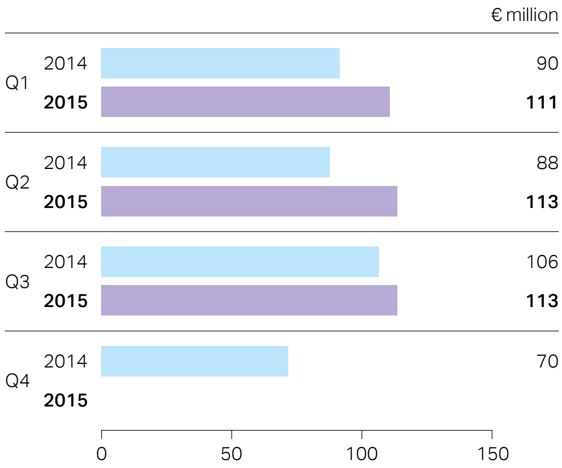
Core volume growth diminished by 2.3% compared to the prior-year quarter.

Coatings, Adhesives, Specialties
Quarterly Adjusted EBITDA



Adjusted EBITDA at Coatings, Adhesives, Specialties improved by 10.5% in the third quarter of 2015 to €137 million (Q3 2014: €124 million). Lower raw material prices were accompanied by slightly reduced selling prices. Earnings were diminished by the lower volumes but benefited from currency effects.

Coatings, Adhesives, Specialties
Quarterly EBIT



EBIT increased by 6.6% to €113 million (Q3 2014: €106 million), reflecting special items of minus €5 million (Q3 2014: €0 million).

In the first nine months of 2015, sales at Coatings, Adhesives, Specialties rose by 10.4% to €1,616 million. Shifts in exchange rates had a positive effect. Volumes in all three regions improved against the previous year. Overall, selling prices remained at the prior-year level. Prices fell in APAC but increased slightly in NAFTA and remained stable in EMLA.

Core volume growth amounted to 3.5% in the first three quarters of 2015.

Adjusted EBITDA increased by 17.6% to €407 million. EBIT improved by 18.7% to €337 million.

3.4 Segment Data and Quarterly Overview

Segment Data Third Quarter

	Polyurethanes		Polycarbonates		Coatings, Adhesives, Specialties		Others/ Consolidation		Covestro Group	
	3rd quarter 2014	3rd quarter 2015	3rd quarter 2014	3rd quarter 2015	3rd quarter 2014	3rd quarter 2015	3rd quarter 2014	3rd quarter 2015	3rd quarter 2014	3rd quarter 2015
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales	**1,652**	**1,512**	**725**	**819**	**506**	**519**	**179**	**170**	**3,062**	**3,020**
Change in sales										
Volume		– 2.2%		+ 4.1%		– 2.5%		0.0%		– 0.6%
Price		– 12.1%		– 0.8%		– 1.4%		– 7.8%		– 7.4%
Currency		+ 5.8%		+ 9.7%		+ 6.5%		+ 2.8%		+ 6.6%
Portfolio		0.0%		0.0%		0.0%		0.0%		0.0%
Core volume growth[1]	**+ 3.8%**	**– 2.8%**	**+ 8.6%**	**+ 5.5%**	**+ 0,1%**	**– 2.3%**			**+ 4.5%**	**– 0.7%**
Sales by region										
EMLA[2]	746	667	253	296	267	260	130	129	1,396	1,352
NAFTA[3]	479	496	165	200	105	121	40	35	789	852
APAC[4]	427	349	307	323	134	138	9	6	877	816
EBITDA[5]	**161**	**161**	**38**	**171**	**125**	**135**	**–**	**(12)**	**324**	**455**
Adjusted EBITDA[6]	**162**	**175**	**39**	**171**	**124**	**137**	**1**	**(12)**	**326**	**471**
EBIT[7]	**73**	**60**	**(3)**	**127**	**106**	**113**	**(1)**	**(13)**	**175**	**287**
Adjusted EBIT[8]	**74**	**72**	**(2)**	**128**	**106**	**118**	**(1)**	**(13)**	**177**	**305**
Depreciation, amortization, impairments losses and impairment loss reversals	**88**	**101**	**41**	**44**	**19**	**22**	**1**	**1**	**149**	**168**
Operating cash flow (net cash flow)[9]	**162**	**151**	**76**	**50**	**90**	**105**	**29**	**73**	**357**	**379**
Cash outflows for capital expenditures	**67**	**47**	**41**	**49**	**27**	**31**	**(1)**	**1**	**134**	**128**
Free operating cash flow[10]	**95**	**104**	**35**	**1**	**63**	**74**	**30**	**72**	**223**	**251**

1 Core volume growth refers to the core products in the Polyurethanes, Polycarbonates and Coatings, Adhesives, Specialties segments. It is calculated as the percentage change in externally sold volumes in thousand tons compared to the prior year. Covestro also takes advantage of business opportunities outside its core business, for example the sale of raw materials and intermediates such as hydrochloric acid, sodium hydroxide solution and styrene. These transactions are not included in core volume growth.
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Segment Data First Nine Months

	Polyurethanes		Polycarbonates		Coatings, Adhesives, Specialties		Others/ Consolidation		Covestro Group	
	First nine months 2014	First nine months 2015	First nine months 2014	First nine months 2015	First nine months 2014	First nine months 2015	First nine months 2014	First nine months 2015	First nine months 2014	First nine months 2015
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales	**4,689**	**4,703**	**2,080**	**2,413**	**1,464**	**1,616**	**548**	**552**	**8,781**	**9,284**
Change in sales										
Volume		+ 2.0%		+ 6.4%		+ 2.7%		– 0.5%		+ 2.9%
Price		– 9.9%		– 2.2%		– 0.8%		– 2.7%		– 6.1%
Currency		+ 8.2%		+ 11.8%		+ 8.5%		+ 4.0%		+ 8.9%
Portfolio		0.0%		0.0%		0.0%		0.0%		0.0%
Core volume growth[1]	**+ 5.5%**	**+ 0.8%**	**+ 9.2%**	**+ 6.7%**	**+ 0.4%**	**+ 3.5%**			**+ 5.8%**	**+ 2.5%**
Sales by region										
EMLA[2]	2,171	2,048	804	866	804	814	407	412	4,186	4,140
NAFTA[3]	1,354	1,503	469	580	295	374	115	114	2,233	2,571
APAC[4]	1,164	1,152	807	967	365	428	26	26	2,362	2,573
EBITDA[5]	**489**	**509**	**114**	**436**	**345**	**401**	**(14)**	**(59)**	**934**	**1,287**
Adjusted EBITDA[6]	**491**	**561**	**127**	**437**	**346**	**407**	**(13)**	**(20)**	**951**	**1,385**
EBIT[7]	**231**	**183**	**(8)**	**304**	**284**	**337**	**(18)**	**(64)**	**489**	**760**
Adjusted EBIT[8]	**233**	**256**	**6**	**306**	**289**	**346**	**(18)**	**(25)**	**510**	**883**
Depreciation, amortization, impairments losses and impairment loss reversals	**258**	**326**	**122**	**132**	**61**	**64**	**4**	**5**	**445**	**527**
Operating cash flow (net cash flow)[9]	**211**	**456**	**68**	**149**	**204**	**271**	**28**	**47**	**511**	**923**
Cash outflows for capital expenditures	**186**	**129**	**123**	**151**	**64**	**69**	**–**	**3**	**373**	**352**
Free operating cash flow[10]	**25**	**327**	**(55)**	**(2)**	**140**	**202**	**28**	**44**	**138**	**571**

1 Core volume growth refers to the core products in the Polyurethanes, Polycarbonates and Coatings, Adhesives, Specialties segments. It is calculated as the percentage change in externally sold volumes in thousand tons compared to the prior year. Covestro also takes advantage of business opportunities outside its core business, for example the sale of raw materials and intermediates such as hydrochloric acid, sodium hydroxide solution and styrene. These transactions are not included in core volume growth.
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Quarterly Overview

	1st quarter 2014	2nd quarter 2014	3rd quarter 2014	4th quarter 2014	1st quarter 2015	2nd quarter 2015	3rd quarter 2015
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales	**2,826**	**2,893**	**3,062**	**2,980**	**3,054**	**3,210**	**3,020**
Polyurethanes	1,507	1,530	**1,652**	1,593	1,554	1,637	1,512
Polycarbonates	660	695	**725**	742	765	829	819
Coatings, Adhesives, Specialties	471	487	**506**	464	535	562	519
Core volume growth[1]	**+ 7.6%**	**+ 5.4%**	**+ 4.5%**	**+ 1.9%**	**+ 1.7%**	**+ 6.8%**	**– 0.7%**
Adjusted EBITDA[2]	**364**	**261**	**326**	**210**	**416**	**498**	**471**
Polyurethanes	216	113	162	101	163	223	175
Polycarbonates	44	44	39	33	116	150	171
Coatings, Adhesives, Specialties	110	112	124	91	133	137	137
EBIT[3]	**214**	**100**	**175**	**28**	**206**	**267**	**287**
Polyurethanes	130	28	73	2	31	92	60
Polycarbonates	3	(8)	(3)	(24)	73	104	127
Coatings, Adhesives, Specialties	90	88	106	70	111	113	113
Financial result	**(33)**	**(23)**	**(35)**	**(45)**	**(41)**	**(46)**	**(56)**
Income before income taxes	**181**	**77**	**140**	**(17)**	**165**	**221**	**231**
Income after taxes	**125**	**53**	**100**	**(1)**	**118**	**154**	**161**
Net income[4]	**124**	**54**	**99**	**(5)**	**115**	**152**	**160**
Gross cash flow[5]	**327**	**227**	**274**	**188**	**339**	**387**	**313**
Operating cash flow (net cash flow)[6]	**3**	**151**	**357**	**414**	**184**	**360**	**379**
Cash outflows for capital expenditures	**100**	**139**	**134**	**239**	**94**	**130**	**128**
Free operating cash flow[7]	**(97)**	**12**	**223**	**175**	**90**	**230**	**251**

[1] Core volume growth refers to the core products in the Polyurethanes, Polycarbonates and Coatings, Adhesives, Specialties segments. It is calculated as the percentage change in externally sold volumes in thousand tons compared to the prior year. Covestro also takes advantage of business opportunities outside its core business, for example the sale of raw materials and intermediates such as hydrochloric acid, sodium hydroxide solution and styrene. These transactions are not included in core volume growth.
[2] Adjusted EBITDA: earnings before financial result, taxes, depreciation and amortization before special items
[3] EBIT: earnings before financial result and taxes
[4] Net income: income after income taxes attributable to the stockholders of Covestro AG
[5] Gross cash flow: operating cash flow disregarding changes in inventories, trade accounts receivable and payable, other working capital and other noncash items
[7] Operating cash flow (net cash flow): cash flow from operating activities according to IAS 7
[8] Free operating cash flow: operating cash flow less cash outflows for property, plant, equipment and intangible assets

4 Economic Outlook

Economic Outlook

	Growth[1] 2014	Growth[1] forecast 2015
	%	%
World	**+ 2.7**	**+ 2.6**
European Union	+ 1.4	+ 1.9
of which Germany	+ 1.6	+ 1.7
United States	+ 2.4	+ 2.5
Asia	+ 4.7	+ 4.5
of which China	+ 7.3	+ 6.5

[1] Real growth in gross domestic product, source: IHS (Global Insight) as of September 2015

For 2015 we expect global economic development to remain stable. Current uncertainty on the financial markets is likely to dampen but not derail global economic expansion. We expect continued growth above global GDP in almost all our main customer industries.

So far in 2015, the price of crude oil has collapsed by about 50% compared to 2014 as increased supply coincided with slower demand and the Organization of the Petroleum Exporting Countries (OPEC) maintained its commitment to not cut production. Continuing expansion of global inventories has put further downward pressure on oil prices.

Economic Outlook for Main Customer Industries

	Growth[1] 2014	Growth[1] forecast 2015
	%	%
Automotive	+ 3	+ 2
Construction	+ 4	+ 4
Electrical/electronics	+ 4	+ 4
Furniture	+ 4	+ 4

[1] Covestro's estimate based on the following sources: LMC Automotive Limited, IHS (Global Insight), EUROCONSTRUCT, CSIL (Centre for Industrial Studies) as of September 2015

However, the automotive industry is likely to grow more slowly for the time being. We expect the pace of growth in 2015 to be below the prior-year level due to temporarily lower demand in China.

The global construction industry is forecasted to grow at the prior-year rate in 2015. We anticipate a continued recovery in Europe. The prospects for North America and Asia are positive, and the investment climate in these regions should be stable. However, economic development in Russia and Brazil could have adverse effects.

We expect the global electrical/electronics industry to continue growing well above GDP in 2015. Demand is mainly driven by Asia, especially China and India. We predict strong growth in North America, while growth in Europe is likely to remain at a lower level.

We anticipate steady growth in the global furniture industry in 2015. In North America we expect to see a robust increase in demand from which furniture manufacturers in Asia should also benefit. We also anticipate gratifying business development in the domestic Asian market. As for the European furniture industry, we predict a continuing recovery.

5 Report on Future Perspectives

Sales and Earnings Forecast

	2014	Forecast 2015
Net sales	€11,761 million	Slightly increasing
Core volume growth[1]	+ 4.8%	Low-single-digit-percentage growth
Adjusted EBITDA[2]	€1,161 million	Significant increase
Free operating cash flow[3]	€302 million	Significant increase

[1] Core volume growth refers to the core products in the Polyurethanes, Polycarbonates and Coatings, Adhesives, Specialties segments. It is calculated as the percentage change in externally sold volumes in thousand tons compared to the prior year. Covestro also takes advantage of business opportunities outside its core business, for example the sale of raw materials and intermediates such as hydrochloric acid, sodium hydroxide solution and styrene. These transactions are not included in core volume growth.
[2] Adjusted EBITDA: earnings before financial result, taxes, depreciation and amortization before special items
[3] Free operating cash flow: operating cash flow less cash outflows for property, plant, equipment and intangible assets

The following forecast for the 2015 fiscal year is based on the business development described in this report, taking into account the potential risks and opportunities.

We are planning to achieve further volume growth in 2015 and anticipate selling prices below those of the prior year. In light of positive currency effects, we are expecting a slight year-on-year increase in sales (on a reported basis). These projections assume an exchange rate of US$1.12 to the euro in the fourth quarter of 2015.

We expect core volume growth in the low-single-digit percentage range.

We also believe that adjusted EBITDA for 2015 will be significantly above the prior year, owing in particular to a more favorable supply and demand situation. For the fourth quarter, we predict that adjusted EBITDA will be above the prior-year quarter.

For the full year 2015, we expect special items in EBIT of more than €200 million – primarily special charges in connection with the stock market flotation and restructuring.

We also anticipate significantly improved free operating cash flow in the current fiscal year. We aim to reduce net financial debt including post-employment benefit obligations to €4 billion. This was around the level achieved immediately after Covestro's stock market flotation in October 2015.

Furthermore, we expect to be able to earn the full cost of capital in 2015, calculated on the basis of CFRoI[4]. From 2016, Covestro will use ROCE[5] as the measure of its return on capital. This new indicator will provide greater transparency and better peer group comparability.

Polyurethanes

In the Polyurethanes segment, we expect a slight increase in core volume growth in 2015. We anticipate adjusted EBITDA above the prior-year figure at €592 million.

Polycarbonates

In the Polycarbonates segment, we expect further core volume growth in the mid-single-digit percentage range in 2015. We predict that adjusted EBITDA will at least triple compared with €160 million in 2014.

Coatings, Adhesives, Specialties

In the Coatings, Adhesives, Specialties segment, we are assuming core volume growth in the low-single-digit percentage range for 2015. We expect adjusted EBITDA to increase from the prior-year level of €437 million.

[4] For the 2015 fiscal year, CFRoI (cash flow return on investment) is a performance indicator which will be used by Covestro as a component of target achievement in performance-related incentive programs. Target achievement in 2015 will be calculated from the return on capital based on the CVA/CFRoI metric for the Covestro segment in the Bayer Group financial statements. In 2014, CFRoI for this reporting segment was 6%, putting it below the capital costs of 6.9%.
[5] The return on capital employed (ROCE) is calculated as the ratio of adjusted operating result after taxes to capital employed. The capital employed is the capital used by the company. It is the sum of noncurrent and current assets less noninterest-bearing liabilities such as trade accounts payable.

6 Calculation of Adjusted EBIT(DA)

Key indicators for the Covestro Group are adjusted EBIT and adjusted EBITDA. In order to facilitate a more accurate assessment of business operations, EBIT and EBITDA are adjusted for special items – as shown in the table below. The special items comprise effects that are nonrecurring or do not regularly recur or attain similar magnitudes. EBITDA, adjusted EBITDA and adjusted EBIT are not defined in the International Financial Reporting Standards (IFRS) and should therefore be regarded only as supplementary information. Adjusted EBITDA is a meaningful indicator of operating performance since it is not affected by depreciation, amortization, impairment losses, impairment loss reversals or special items. By reporting this indicator, the company aims to give a clear picture of the results of operations and ensure comparability of data over time.

Depreciation, amortization and impairments in the first three quarters of 2015 increased by 18.4% to €527 million (9M 2014: €445 million). They comprised €32 million (9M 2014: €39 million) in amortization and impairments of intangible assets and €495 million (9M 2014: €406 million) in depreciation and impairments of property, plant and equipment. The impairments reflect no impairment loss reversals (9M 2014: €1 million). Impairments totaled €29 million (9M 2014: €8 million), of which €25 million (9M 2014: €4 million) were included in special items.

Special Items Reconciliation

	EBIT[1] 3rd quarter 2014	EBIT[1] 3rd quarter 2015	EBIT[1] First nine months 2014	EBIT[1] First nine months 2015	EBITDA[2] 3rd quarter 2014	EBITDA[2] 3rd quarter 2015	EBITDA[2] First nine months 2014	EBITDA[2] First nine months 2015
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Before special items	**177**	**305**	**510**	**883**	**326**	**471**	**951**	**1,385**
Polyurethanes	(1)	(12)	(2)	(73)	(1)	(14)	(2)	(52)
Polycarbonates	(1)	(1)	(14)	(2)	(1)	–	(13)	(1)
Coatings, Adhesives, Specialties	–	(5)	(5)	(9)	1	(2)	(1)	(6)
Others/Consolidation	–	–	–	(39)	(1)	–	(1)	(39)
Total special items	**(2)**	**(18)**	**(21)**	**(123)**	**(2)**	**(16)**	**(17)**	**(98)**
of which cost of goods sold	(1)	(16)	(10)	(99)	(1)	(13)	(10)	(73)
of which selling expenses	–	–	(5)	(1)	–	–	(5)	(1)
of which research and development expenses	–	–	(1)	(1)	–	–	(1)	(1)
of which general administration expenses	–	(57)	(2)	(93)	(1)	(58)	(2)	(94)
of which other operating income/expenses	(1)	55	(3)	71	–	55	1	71
After special items	**175**	**287**	**489**	**760**	**324**	**455**	**934**	**1,287**

[1] EBIT: earnings before financial result and taxes
[2] EBITDA: earnings before financial result, taxes, depreciation and amortization

7 Asset and Financial Position of the Covestro Group

Covestro Group Summary Statements of Cash Flows

	3rd quarter 2014	3rd quarter 2015	First nine months 2014	First nine months 2015
	€ million	€ million	€ million	€ million
Gross cash flow[1]	**274**	**313**	**828**	**1,039**
Changes in working capital/other noncash items	83	66	(317)	(116)
Net cash provided by (used in) operating activities (net cash flow)	**357**	**379**	**511**	**923**
Capital expenditures	134	128	373	352
Free operating cash flow	**223**	**251**	**138**	**571**
Net cash provided by (used in) investing activities	**(138)**	**213**	**(359)**	**(164)**
Net cash provided by (used in) financing activities[2]	**(214)**	**(218)**	**(155)**	**(498)**
Change in cash and cash equivalents due to business activities	**5**	**374**	**(3)**	**261**
Cash and cash equivalents at beginning of period	**30**	**106**	**37**	**201**
Change due to exchange rate movements and to changes in scope of consolidation	1	(56)	2	(38)
Cash and cash equivalents at end of period	**36**	**424**	**36**	**424**

[1] Gross cash flow: operating cash flow disregarding changes in inventories, trade accounts receivable and payable, other working capital and other noncash items
[2] This line includes all financial transactions with Bayer Group companies in the third quarter and first nine months of 2014.

Operating cash flow (net cash flow)

Gross cash flow in the third quarter of 2015 advanced by 14.2% against the prior-year period to €313 million (Q3 2014: €274 million) due to the improvement in EBITDA.

The operating cash flow (net cash flow) moved ahead by 6.2% to €379 million (Q3 2014: €357 million) on account of a smaller release of funds from working capital. This figure reflected income tax payments of €63 million (Q3 2014: €41 million). After deduction of cash outflows for property, plant, equipment and intangible assets, free operating cash flow amounted to €251 million (Q3 2014: €223 million).

In the first nine months of 2015, gross cash flow climbed by 25.5% to €1,039 million (9M 2014: €828 million) due to the increase in EBITDA. Operating cash flow rose against the prior-year period to €923 million (9M 2014: €511 million) on account of the smaller increase in funds tied up in working capital. This figure reflected income tax payments of €143 million (9M 2014: €81 million). Less cash outflows for property, plant, equipment and intangible assets, free operating cash flow amounted to €571 million (9M 2014: €138 million).

Net cash provided by (used in) investing activities

In the third quarter of 2015, net cash inflow from investing activities amounted to €213 million (Q3 2014: cash outflow of €138 million). This development was attributable to cash inflows from other financial assets of €315 million in the period from July to September 2015 (Q3 2014: cash outflows of €6 million), which more than compensated the outflows for property, plant, equipment and intangible assets of €128 million (Q3 2014: €134 million).

Net cash outflow for investing activities in the first nine months of 2015 was €164 million. Cash outflows for property, plant, equipment and intangible assets stood at €352 million (9M 2014: €373 million), which more than offset the cash inflows from other financial assets of €153 million (9M 2014: €5 million).

Net cash provided by (used in) financing activities

Net cash outflow for financing activities of the Covestro Group in the third quarter of 2015 was €218 million (Q3 2014: €214 million). A capital contribution and subsequent capital increase in connection with the legal separation of Covestro AG resulted in cash inflows of €855 million, which were more than offset by payments for the legal transfer of assets and liabilities in 2015. The contribution or withdrawal made by stockholders was recognized in profit or loss. In the period from July to September 2015, loans of €3,245 million (9M 2014: €115 million) were taken out and loans of €2,877 (9M 2014: €16 million) repaid. These borrowings largely pertained to loans from the Bayer Group.

Net cash outflow for financing activities of the Covestro Group in the first nine months of 2015 was €498 million (9M 2014: €155 million). Payments in connection with the separation of Covestro more than offset cash inflows from borrowings of €4,079 million (9M 2014: €151 million) and the repayment of borrowings of €3,386 million (9M 2014: €98 million). Moreover, the net income of Covestro Deutschland AG for fiscal 2014 of €155 million (2013: net loss of €20 million) was paid out to Bayer AG under the profit and loss transfer agreement.

Net Financial Debt

	Dec. 31, 2014	June 30, 2015	Sep. 30, 2015
	€ million	€ million	€ million
Liabilities to banks	516	631	620
Liabilities under finance leases	307	313	305
Liabilities from derivatives	5	4	32
Other financial liabilities	3,894	4,269	4,472
Positive fair values of hedges of recorded transactions	(2)	(3)	(4)
Financial liabilites	**4,720**	**5,214**	**5,425**
Cash and cash equivalents	(201)	(106)	(424)
Current financial assets	(418)	(530)	(6)
Net financial debt	**4,101**	**4,578**	**4,995**

Net financial debt of the Covestro Group increased from €417 million on June 30, 2015, to €4,995 million on September 30, 2015. In August 2015, in connection with the separation of the Covestro business, Covestro AG was established as the parent company of the Covestro Group with a capital stock of €140 million paid in by way of a cash contribution. In the further course of separation, Covestro AG received a capital increase of €715 million from Bayer AG. At the end of September, a loan in the same amount was repaid to the Bayer Group. Also in the third quarter of 2015, a number of payments were made between the Covestro Group and the Bayer Group in connection with the legal transfer of assets and liabilities. Overall, loans of €3,245 million were taken out and loans of €2,877 million repaid in the third quarter of 2015. Most of these loans were made by the Bayer Group and served to cover the short- to medium-term financing of the Covestro Group's day-to-day business.

Covestro Group Summary Statements of Financial Position

	Dec. 31, 2014	June 30, 2015	Sep. 30, 2015
	€ million	€ million	€ million
Noncurrent assets	6,011	6,217	6,280
Current assets	4,381	4,572	4,545
Total assets	**10,392**	**10,789**	**10,825**
Equity	**1,787**	**1,728**	**1,116**
Noncurrent liabilities	2,567	2,357	2,356
Current liabilities	6,038	6,704	7,353
Liabilities	**8,605**	**9,061**	**9,709**
Total equity and liabilities	**10,392**	**10,789**	**10,825**

Total assets in the third quarter of 2015 increased by €36 million to €10,825 million on September 30, 2015.

Noncurrent assets rose slightly by €63 million to €6,280 million. The increase in deferred tax assets was accompanied by a small decline in property, plant and equipment.

Current assets were more or less unchanged. Whereas other financial receivables decreased substantially, other receivables and cash and cash equivalents increased.

Equity contracted by €612 million to €1,116 million between June 30 and September 30, 2015. While equity increased as a result of the cash contribution made in establishing Covestro AG and the subsequent capital increase (together totaling €855 million), this effect was counteracted by stockholders' contributions and withdrawals in connection with the legal transfer of assets and liabilities.

Liabilities rose by €648 million to €9,709 million. This was largely attributable to increases of €155 million in provisions for pensions and other post-employment benefits, €211 million in financial liabilities and €222 million in other liabilities.

Total assets increased by €433 million to €10,825 million in the first three quarters of 2015.

Noncurrent assets advanced by €269 million to €6,280 million, primarily due to an increase of €216 million in deferred taxes to €629 million. Current assets increased by €164 million to €4,545 million, largely because of an increase in trade accounts receivable.

In the first nine months of 2015, equity contracted by a substantial €671 million to €1,116 million. This was largely due to transactions which took place during the third quarter of 2015.

Liabilities rose by €1,104 million to €9,709 million on September 30, 2015. This mainly resulted from increases of €169 million in provisions for pensions and other post-employment benefits, €707 million in financial liabilities and €144 million in other liabilities.

Net Defined Benefit Liability for Post-Employment Benefits

	Dec. 31, 2014	June 30, 2015	Sep. 30, 2015
	€ million	€ million	€ million
Provisions for pensions and other post-employment benefits	1,395	1,409	1,564
Net defined benefit asset	(7)	(8)	(2)
Net defined benefit liability for post-employment benefits	**1,388**	**1,401**	**1,562**

The net defined benefit liability for post-employment benefits increased in the third quarter of 2015 from €1,401 million to €1,562 million, primarily due to the transfer of pension obligations from the Bayer Group to Covestro in connection with transfers of undertaking, the mutually agreed transfer of employees and the slight decline in the long-term capital market interest rate for high-quality corporate bonds.

The net defined benefit liability for post-employment benefits rose by €174 million in the first nine months of 2015 to stand at €1,562 million.

8 Employees

On September 30, 2015, the Covestro Group employed 15,723 people worldwide (December 31, 2014: 14,348). On account of the stock market flotation and the associated legal separation, the number of employees increased by 1,375 over the course of 2015. These were primarily employees from Bayer Group service companies who transferred to Covestro on September 1, 2015. In the past, Covestro purchased the services provided by these employees.

Personnel expenses in the first three quarters of 2015 increased year on year by €146 million to €1,109 million (9M 2014: €963 million) due to currency effects and personnel transfers.

Employees[1] by Function

	Dec. 31, 2014	June 30, 2015	Sep. 30, 2015
Production	9,326	9,838	10,002
Marketing and distribution	3,566	3,561	3,513
Research and development	923	944	995
General administration	533	791	1,213
Total	**14,348**	**15,134**	**15,723**

[1] Employees calculated as full-time equivalents (FTE).

9 Opportunities and Risks Report

With a view to avoiding risks and exploiting relevant opportunities, comprehensive and integrated opportunity and risk management systems are used as an integral component of our business management. Three key internal control and monitoring systems are deployed to enable the Board of Management and Supervisory Board to monitor material business risks as legally required.

Covestro has an internal control system (ICS) to ensure proper and effective financial reporting pursuant to Section 289 Paragraph 5 and Section 315 Paragraph 2 No. 5 of the German Commercial Code (Handelsgesetzbuch). The ICS is designed to guarantee timely, uniform and accurate accounting for all business processes and transactions in accordance with external standards and financial reporting regulations and internal Group directives.

An IT application in use throughout the Covestro Group ensures uniform and audit-proof documentation and transparent presentation of all ICS-relevant business processes, focusing especially on the relevant risks, controls and effectiveness evaluations. Our integrated compliance management system serves to identify potential compliance risks and to ensure systematic prevention of their occurrence. Potential compliance issues can be reported by any employee anonymously or openly to the compliance organization either externally using an anonymous hotline or internally. The head of the Covestro Group's compliance organization is the Group Compliance Officer, who reports directly to the Board of Management.

A structured process has been implemented to enable the early identification of any potential disadvantageous developments that are material and/or could endanger the company's continued existence. This process satisfies the legal requirements regarding an early warning system for risks pursuant to Section 91 Paragraph 2 of the German Stock Corporation Act (Aktiengesetz). A central unit defines, coordinates and monitors the framework and standards for this risk early warning system.

Risks are evaluated using estimates of the potential loss, the likelihood of their occurrence and their relevance for our external stakeholders. All material risks and the respective countermeasures are documented in a Group-wide database. The risk early warning system is continually reviewed throughout the year. Significant changes must be promptly entered in the database and reported immediately to the Board of Management. A report on the risk portfolio is submitted to the Supervisory Board at least once a year.

The risk early warning system is also audited by the external auditor as part of its audit of the annual financial statements to assess its basic suitability for identifying at an early stage any risks that could endanger the company's continued existence.

The following outlines risks that have material effects on the business situation, financial position and results of operations. Risks are deemed material if the potential loss to Covestro is estimated at more than €60 million, even if in some cases the likelihood of their occurrence is assumed to be very low. The sequence in which the risks are listed does not imply any order of significance.

Business environment

Ethical conduct is a matter of essential importance for society. Many stakeholders evaluate companies according to whether they conduct themselves not just "legally" but also "legitimately." The Covestro Group is dedicated to sustainable development in all areas of its commercial activity. Any violations of this voluntary commitment can result in adverse media reporting and thus lead to a negative public perception of the Covestro Group. We counter this risk through responsible corporate management that is geared toward generating not only economic but also ecological and societal benefit.

General economic conditions worldwide and, in particular, in the geographic regions in which Covestro operates are a key factor affecting the company's earnings given that their effect on the industries in which Covestro's direct and indirect customers operate impacts demand for the company's products.

Negative economic developments typically have a negative impact on the sales markets for our products, which usually results in decreases in sales volumes and negatively impacts earnings. However, the extent of the impact of economic developments on sales volumes and earnings also depends on capacity utilization rates in the industry, which, in turn, depend on the balance between supply and demand for the industry's products. Decreases in demand lead to lower sales volumes and, ultimately, to reduced capacity utilization, which negatively impacts margins.

An economic downturn, changes in competitors' behavior or the market entry of new competitors can lead to a more intense competitive situation characterized by overcapacities and increased pressure on prices.

The international nature of Covestro's business exposes it to substantial changes in economic, political and social conditions and related risks that may be detrimental to its business and have a material adverse effect on the company's prospects.

Historically, the markets for most of our products have experienced alternating periods of tight supply, causing prices and profit margins to increase, followed by periods of significant capacity additions, resulting in oversupply and declining prices and profit margins. The cycles often occur at short notice and are in part caused by the capacity additions of new world-scale production facilities or the expansion of existing production facilities, which are necessary to create or sustain economies of scale in the industry segments, and the decline of industry-wide utilization rates that often follows capacity additions.

Where it appears strategically advantageous, we supplement our organic growth by acquiring companies or parts of companies. Failure to successfully integrate a newly acquired business or unexpectedly high integration costs could jeopardize the achievement of qualitative or quantitative targets and adversely impact earnings. Teams of experts therefore manage both the due diligence process and the integration itself. Due diligence includes, for example, reviewing risk-relevant factors such as compliance with applicable environmental regulations and occupational health and safety standards at production sites.

Further opportunities and risks may also arise if actual market developments vary from those we predict in “Economic Outlook.” Where macroeconomic developments deviate from forecasts, this may either positively or negatively impact our sales and earnings expectations. Continuous analysis of the economic environment and of economic forecasts enables us to pursue the identified opportunities and to mitigate risks by adjusting our business strategy.

Innovation

We analyze global trends and develop innovative solutions to address them, thereby mastering the challenges and taking advantage of the opportunities they provide.

Conserving natural resources and protecting the climate

The finite nature of natural resources and efforts to protect the climate are boosting the demand for innovative products and technologies that reduce resource consumption and lead to lower emissions. This trend is being reinforced by increasingly stringent regulatory requirements and growing consumer awareness for the need to use resources sustainably. Covestro is therefore developing new materials that help to raise energy efficiency and reduce emissions. For example, the company’s polyurethane is used in the construction industry for thermal insulation, giving a positive energy balance, while its polycarbonate is used in the automotive industry to reduce vehicle weight.

Products and product stewardship

The Covestro Group is exposed to the risk of negative publicity, press speculation, and potential or actual legal proceedings concerning its business, which may harm its reputation. The development of a negative social perception for the chemical industry in general or Covestro’s processes or products in particular could also have a negative impact on the company’s reputation. The incorrect use and handling of our products by third parties can also harm the company’s reputation.

In addition, concerns about product safety and environmental protection could influence public perceptions regarding Covestro’s products and operations, the viability of certain products, its reputation, and the ability to attract and retain employees. Due to the technical expertise required to fully understand the possible impacts of the chemical compounds used in the products manufactured by Covestro and in their production, the company’s reputation may suffer due to claims, which may prove unsubstantiated, that such compounds are of a harmful nature. Such claims may lead to changes in consumer preferences or additional government regulations even before any harm is scientifically substantiated and possibly despite scientific evidence to the contrary.

Procurement and production

Our Supplier Code of Conduct sets forth our sustainability principles and explains what we expect from our partners along the value chain. The Code requires that our suppliers observe environmental regulations as well as occupational health and safety rules, respect human rights and therefore not employ child labor in any form. Violations of the Code may harm our company’s reputation. Through supplier assessments and audits, we verify whether our partners along the supply chain actually implement and adhere to our Code of Conduct. Covestro’s Supplier Code of Conduct is based on the principles of the United Nations Global Compact and our Human Rights Position. The Code forms the general basis for our collaboration. It is legally binding and integrated into electronic ordering systems and contracts throughout the Covestro Group.

Covestro requires significant quantities of energy and petrochemical feedstocks for its production processes. Procurement prices for energy and raw materials may fluctuate significantly due to market conditions or legislation. Experience has shown that higher production costs cannot always be passed on to our customers through price adjustments.

We place great importance not only on product safety but also on protecting our employees and the environment. Risks associated with the manufacturing, filling, storage or shipping of products are mitigated through an integrated quality, health, environmental protection and safety management. The materialization of such risks may result in personal injury, property and environmental damage, loss of production, business interruptions and/or liability for compensation payments.

Covestro uses large quantities of hazardous substances, generates hazardous wastes and emits wastewater and air pollutants in its production operations. Consequently, its operations are subject to extensive environmental, health and safety (EHS) laws, regulations, rules and ordinances at the supranational, national and local level in multiple jurisdictions across APAC, EMLA and NAFTA. EHS regulations apply to most of Covestro's activities and the company must dedicate substantial resources to complying with them. The cost of compliance with EHS regulations is part of Covestro's operating cost and, ultimately, must be covered by the prices at which the company is able to sell its products. Competitors of Covestro which do not face EHS regulations to the same extent may have lower operating costs and, as a consequence, their products may be priced lower than those of Covestro.

Operations at our sites may be disrupted by natural disasters, fires or explosions, sabotage or supply shortages for our principal raw materials or intermediates. We counter theses risks by distributing production for certain products among multiple sites or by building up safety stocks. Furthermore, an emergency response system has been implemented for all our production sites as a mandatory component of our HSEQ management. It is aimed at protecting employees, neighbors, the environment and production facilities from the risks described. The Group Regulation "Security and Crisis Management" forms the basis for this.

Increased ecological awareness creates opportunities for Covestro in two ways. On the one hand, the development of innovative materials for our customers opens up market potential. On the other hand, if we succeed in increasing the energy efficiency of our own production processes, we can mitigate environmental impacts and achieve cost savings at the same time. By developing new production technologies and applying internationally recognized energy management systems, we aim to help meet increasing environmental requirements, further reduce emissions and waste, and increase energy efficiency. In this way we not only contribute to sustainable climate protection and the conservation of natural resources, but also achieve cost and competitive advantages.

Employees

Skilled and dedicated employees are essential for the company's success. There is keen competition among companies for highly qualified personnel, particularly in countries with full employment. If we are unable to recruit a sufficient number of employees in these countries and retain them within Covestro, this could have significant adverse consequences for the company's future development.

We are planning appropriate employee recruitment and development measures based on the analysis of future requirements. We aim to convince our target groups of the advantages of working for Covestro through comprehensive human resources marketing, including an employer branding campaign. Our human resources policies are based on the principles enshrined in our Human Rights Position, our Corporate Compliance Policy and our corporate values. Essential elements include competitive compensation containing performance-related components as well as an extensive range of training and development opportunities. In addition, our focus on diversity enables us to tap the full potential of the employment market.

Covestro depends on good relations with its employees, unions and employee representatives to avoid industrial action, implement restructurings, amend existing collective agreements and facilitate the negotiation of reasonable and fair wages, as well as other key working conditions.

Information technology

Business and production processes and the internal and external communications of the Covestro Group are increasingly dependent on global IT systems.

A significant technical disruption or failure of IT systems could severely impair our business and production processes. Technical precautions such as data recovery and continuity plans are defined and continuously evolved in close cooperation with our internal IT organization.

The confidentiality of internal and external data is of fundamental importance to us. A loss of data confidentiality, integrity or authenticity could lead to manipulation and/or the uncontrolled outflow of data and expertise. We have measures in place to counter theses risks, including an authorization system.

Furthermore, a Group-wide committee has been established to determine the fundamental strategy, architecture and safety measures for the Covestro Group. These measures are designed to provide optimum protection based on state-of-the-art technology.

Law and Compliance

The Covestro Group is exposed to numerous risks from legal disputes or proceedings to which we are currently a party or which could arise in the future, particularly in the areas of product liability, competition and antitrust law, patent law, tax law and environmental protection.

Investigations of possible legal or regulatory violations, such as potential infringements of antitrust law or the use of certain marketing and/or distribution methods, may result in the imposition of civil or criminal penalties – including substantial monetary fines – and/or other adverse financial consequences, harm Covestro's reputation and ultimately hamper our commercial success.

Legal proceedings currently considered to involve material risks are described in the Notes under "Legal Risks."

Financial Opportunities and Risks

The Covestro Group is exposed to financial opportunities and risks in the form of market price changes, liquidity risks, credit risks and risks resulting from obligations for pensions and other post-employment benefits. The management of financial opportunities and risks takes place using established, documented processes. One component of this is financial planning, which serves as the basis for establishing liquidity needs and future currency risk. Financial planning comprises a planning horizon of 12 months and is regularly updated.

Liquidity Risk

Liquidity risk is the risk of not being able to meet existing or future payment obligations due to a lack of cash or cash equivalents. Until August 31, 2015, the liquidity risk of the Bayer MaterialScience subgroup was determined and managed centrally by the Finance department of the Bayer Group. In order to ensure solvency at all times, liquid assets were provided through cash pooling agreements or internal loans so that all planned payment obligations could be met on their due date. As of September 1, 2015, the management of liquid assets was transferred to the Finance department of the Covestro Group.

Opportunities and Risks Resulting from Market Price Changes

Opportunities and risks result from changes in market currency rates and interest rates. Until August 31, 2015, these were managed centrally by the Finance department of the Bayer Group. As of September 1, 2015, this function was also transferred to the Finance department of the Covestro Group. Risks are eliminated or mitigated partly through the use of derivative financial instruments.

Foreign Currencies

For the Covestro Group, foreign currency opportunities and risks in financial transactions result from changes in exchange rates and the related changes in value.

Receivables and payables in liquid currencies from operating activities and financial items are generally fully hedged through forward exchange contracts.

Anticipated exposure from planned payment receipts and disbursements in the future was hedged by the Finance department of the Bayer Group until August 31, 2015. Hedging took place through forward exchange contracts and currency options. Since September 1, 2015, the anticipated exposure has continued to be measured but is not hedged at present. Should the exchange rate risk increase significantly, the Covestro Group plans to hedge anticipated exposure from planned future payment receipts and disbursements.

Interest Rates

Interest-rate opportunities and risks result for the Covestro Group through changes in capital market interest rates, which in turn could lead to changes in the fair value of fixed-rate financial instruments and changes in interest payments in the case of floating-rate instruments. Until August 31, 2015, interest-rate risk was managed by the Bayer Group. There are currently no significant interest-rate risks in the Covestro Group.

Credit Risks

Credit risks arise from the possibility that the value of receivables or other financial assets of the Covestro Group may be impaired because counterparties cannot meet their payment or other performance obligations. The Covestro Group does not conclude master netting agreements with its customers for nonderivative financial instruments. Here, the total value of the financial assets represents the maximum credit risk exposure. In the case of derivatives, positive and negative market values may be netted under certain conditions.

To manage credit risks from trade receivables, credit managers are appointed who regularly analyze customers' creditworthiness and set credit limits. Some of these receivables are collateralized, and the collateral – including, in particular, advance payments, letters of credit, guarantees and title retention – is used according to local conditions. All credit limits for debtors where total exposure is more than €10 million are also evaluated by local credit management and submitted to the Group Risk Committee.

Risk to Pension Obligations from Capital Market Developments

The Covestro Group has obligations to current and former employees related to pensions and other post-employment benefits. Changes in relevant measurement parameters such as interest rates, mortality rates and salary increase rates may raise the present value of these obligations, resulting in increased costs for pension plans. A large proportion of our pension obligations is covered by plan assets. Declining or even negative returns on the investment of the plan assets may adversely affect their future fair value. Both these effects may negatively impact the company's earnings and/or may necessitate additional payments by the company.

We address the risk of market-related fluctuations in the value of plan assets through balanced strategic investment and by constantly monitoring investment risks with regard to obligations.

Overall assessment of opportunities and risks

The risks reported above do not endanger the company's continued existence. Nor could we identify any risk interdependencies that could combine to endanger the company's continued existence.

Based on our product portfolio, our know-how and our innovation capability, we are convinced that we can use the opportunities resulting from our entrepreneurial activity and successfully master the challenges resulting from the risks stated above.

10 Events After the End of the Reporting Period

On October 1, 2015, in the course of the initial public offering (IPO) process, Covestro AG and Bayer AG adjusted the price range for the issue of Covestro shares and the emission volume to reflect the deterioration and volatility in the capital market environment. The lower proceeds from the transaction were compensated by an increase of €1 billion in the capital contribution made by Bayer AG. The IPO took place on the Frankfurt Stock Exchange on October 6, 2015. The capital contribution was paid on the same date. The gross proceeds from the issue of new shares amounted to €1.5 billion. After deduction of the fees for the share placement, net proceeds from the IPO were €1.49 billion. These and the cash inflow from the capital contribution were mostly used to pay back loans from the Bayer Group. Through the issue of new shares, the share volume of Covestro AG increased to 202,500,000. On the basis of this share volume, earnings per share amounted to €2.11 on September 30, 2015.

Condensed Consolidated Interim Financial Statements

as of September 30, 2015

Covestro Group Consolidated Income Statements

	3rd quarter 2014	3rd quarter 2015	First nine months 2014	First nine months 2015
	€ million	€ million	€ million	€ million
Net sales	**3,062**	**3,020**	**8,781**	**9,284**
Cost of goods sold	(2,486)	(2,273)	(7,102)	(7,105)
Gross profit	**576**	**747**	**1,679**	**2,179**
Selling expenses	(279)	(304)	(797)	(936)
Research and development expenses	(48)	(63)	(159)	(188)
General administration expenses	(82)	(139)	(255)	(348)
Other operating income	20	73	74	124
Other operating expenses	(12)	(27)	(53)	(71)
EBIT[1]	**175**	**287**	**489**	**760**
Equity-method loss	(3)	(4)	(11)	(4)
Result from other affiliated companies	2	–	2	–
Interest income	7	1	23	3
Interest expense	(27)	(24)	(77)	(76)
Other financial result	(14)	(29)	(28)	(66)
Financial result	**(35)**	**(56)**	**(91)**	**(143)**
Income before income taxes	**140**	**231**	**398**	**617**
Income taxes	(40)	(70)	(120)	(184)
Income after income taxes	**100**	**161**	**278**	**433**
of which attributable to noncontrolling interest	1	1	1	6
of which attributable to Covestro AG stockholders (net income)	99	160	277	427
	€	€	€	€
Earnings per share	**0.71**	**1.14**	**1.98**	**3.05**

[1] EBIT: earnings before financial result and taxes

Covestro Group Consolidated Statements of Comprehensive Income

	3rd quarter 2014	3rd quarter 2015	First nine months 2014	First nine months 2015
	€ million	€ million	€ million	€ million
Income after income taxes	**100**	**161**	**278**	**433**
Remeasurements to the net defined benefit liability for post-employment benefit plans	(260)	(103)	(685)	(62)
Income taxes	82	40	216	28
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans	**(178)**	**(63)**	**(469)**	**(34)**
Other comprehensive income that will not be reclassified subsequently to profit or loss	**(178)**	**(63)**	**(469)**	**(34)**
Changes in fair values of derivatives designated as cash flow hedges	(2)	–	(5)	(4)
Reclassified to profit or loss	(1)	–	(8)	3
Income taxes	–	–	2	–
Other comprehensive income from cash flow hedges	**(3)**	**–**	**(11)**	**(1)**
Changes in exchange differences recognized on translation of operations outside the eurozone	264	(93)	274	83
Reclassified to profit or loss	–	–	–	–
Other comprehensive income from exchange differences	**264**	**(93)**	**274**	**83**
Other comprehensive income that may be reclassified subsequently to profit or loss	**261**	**(93)**	**263**	**82**
Effects of changes in scope of consolidation	**–**	**30**	**1**	**20**
Total other comprehensive income[1]	**83**	**(126)**	**(205)**	**68**
of which attributable to noncontrolling interest	1	–	1	(1)
of which attributable to Covestro AG stockholders	82	(126)	(206)	69
Total comprehensive income	**183**	**35**	**73**	**501**
of which attributable to noncontrolling interest	2	1	2	5
of which attributable to Covestro AG stockholders	181	34	71	496

[1] Total changes recognized outside profit or loss

Covestro Group Consolidated Statements of Financial Position

	Jan. 1, 2014	Sep. 30, 2014	Sep. 30, 2015	Dec. 31, 2014
	€ million	€ million	€ million	€ million
Noncurrent assets				
Goodwill	239	240	258	243
Other intangible assets	164	139	138	133
Property, plant and equipment	4,442	4,678	4,922	4,893
Investments accounted for using the equity method	202	211	225	216
Other financial assets	1,021	1,148	43	39
Other receivables	76	80	65	74
Deferred taxes	160	414	629	413
	6,304	**6,910**	**6,280**	**6,011**
Current assets				
Inventories	1,616	1,942	1,912	1,904
Trade accounts receivable	1,363	1,748	1,740	1,561
Other financial assets	546	444	14	431
Other receivables	259	277	447	277
Claims for income tax refunds	8	7	8	7
Cash and cash equivalents	37	36	424	201
	3,829	**4,454**	**4,545**	**4,381**
Total assets	**10,133**	**11,364**	**10,825**	**10,392**
Equity				
Capital stock of Covestro AG	–	–	140	–
Capital reserves of Covestro AG	–	–	2,481	–
Other reserves	2,769	2,854	(1,517)	1,770
Equity attributable to Covestro AG stockholders	**2,769**	**2,854**	**1,104**	**1,770**
Equity attributable to noncontrolling interest	10	11	12	17
	2,779	**2,865**	**1,116**	**1,787**
Noncurrent liabilities				
Provisions for pensions and other post-employment benefits	622	1,316	1,564	1,395
Other provisions	167	181	196	187
Financial liabilities	827	839	416	779
Other liabilities	27	30	27	30
Deferred taxes	193	204	153	176
	1,836	**2,570**	**2,356**	**2,567**
Current liabilities				
Other provisions	238	275	405	307
Financial liabilities	3,726	3,795	5,013	3,943
Trade accounts payable	1,329	1,555	1,459	1,522
Income tax liabilities	8	17	81	18
Other liabilities	217	287	395	248
	5,518	**5,929**	**7,353**	**6,038**
Total equity and liabilities	**10,133**	**11,364**	**10,825**	**10,392**

Covestro Group Consolidated Statements of Cash Flows

	3rd quarter 2014	3rd quarter 2015	First nine months 2014	First nine months 2015
	€ million	€ million	€ million	€ million
Income after income taxes	100	161	278	433
Income taxes	40	70	120	184
Financial result	35	56	91	143
Income taxes paid or accrued	(43)	(113)	(91)	(207)
Depreciation, amortization and impairments	149	168	445	527
Change in pension provisions	(8)	(31)	(16)	(25)
(Gains) losses on retirements of noncurrent assets	1	2	1	(16)
Decrease (increase) in inventories	(33)	(27)	(225)	53
Decrease (increase) in trade accounts receivable	(56)	83	(301)	(80)
(Decrease) increase in trade accounts payable	162	5	193	(180)
Changes in other working capital, other noncash items	10	5	16	91
Net cash provided by (used in) operating activities (net cash flow)	**357**	**379**	**511**	**923**
Cash outflows for additions to property, plant, equipment and intangible assets	(134)	(128)	(373)	(352)
Cash inflows from sales of property, plant, equipment and other assets	1	24	4	45
Cash inflows from divestitures	–	–	3	–
Cash inflows from (outflows for) noncurrent financial assets	(7)	220	4	154
Cash outflows for acquisitions less acquired cash	–	1	–	(13)
Interest and dividends received	1	1	2	3
Cash inflows from (outflows for) current financial assets	1	95	1	(1)
Net cash provided by (used in) investing activities	**(138)**	**213**	**(359)**	**(164)**
Capital contribution	–	855	–	855
Financial transactions with the Bayer Group[1]	(301)	(1,411)	(203)	(1,797)
Cash outflows for (inflows from) profit (loss) transfer to Bayer AG	–	–	20	(155)
Dividend payments and withholding tax on dividends	–	(1)	–	(11)
Issuances of debt	115	3,245	151	4,079
Retirements of debt	(16)	(2,877)	(98)	(3,386)
Interest paid including interest-rate swaps	(12)	(29)	(25)	(83)
Net cash provided by (used in) financing activities	**(214)**	**(218)**	**(155)**	**(498)**
Change in cash and cash equivalents due to business activities	**5**	**374**	**(3)**	**261**
Cash and cash equivalents at beginning of year	**30**	**106**	**37**	**201**
Change in cash and cash equivalents due to exchange rate movements	1	(56)	2	(38)
Cash and cash equivalents at end of year	**36**	**424**	**36**	**424**

[1] This line includes all financial transactions with Bayer Group companies in the third quarter and first nine months of 2014.

Covestro Group Consolidated Statements of Changes in Equity

	Capital stock of Covestro AG	Capital reserves of Covestro AG	Other reserves	Equity attributable to Covestro AG stockholders	Equity attributable to noncontrolling interest	Equity
	€ million	€ million	€ million	€ million	€ million	€ million
Dec. 31, 2013			**2,769**	**2,769**	**10**	**2,779**
Equity transactions with owners						
Profit/loss transfer to Bayer AG			20	20		20
Dividend payments			(22)	(22)	(1)	(23)
Other changes			16	16		16
Total comprehensive income			71	71	2	73
Sep. 30, 2014			**2,854**	**2,854**	**11**	**2,865**
Dec. 31, 2014			**1,770**	**1,770**	**17**	**1,787**
Equity transactions with owners						
Contribution to capital stock	140			140		140
Capital increase/decrease		715		715		715
Contribution of Covestro Deutschland AG		1,766	(1,766)			
Profit/loss transfer to Bayer AG			(5)	(5)		(5)
Dividend payments			(7)	(7)	(6)	(13)
Other changes			(2,005)	(2,005)	(4)	(2,009)
Total comprehensive income			496	496	5	501
Sep. 30, 2015	**140**	**2.481**	**(1,517)**	**1,104**	**12**	**1,116**

Notes to the Condensed Consolidated Interim Financial Statements of the Covestro Group as of September 30, 2015

1 Basis of Preparation of the Consolidated Financial Statements

First-time consolidated financial statements of Covestro AG

On September 18, 2014, Bayer AG, Leverkusen, Germany, announced its plan to contribute the Bayer MaterialScience business – which has been named Covestro since September 1, 2015 – to a stock corporation (Aktiengesellschaft) and to list shares of this stock corporation on a stock exchange in an initial public offering (IPO). For this reason, on August 20, 2015, Covestro AG, Leverkusen, Germany, was established, to which Bayer AG contributed its interests in Covestro Deutschland AG, Leverkusen, Germany, effective September 1, 2015. Until September 1, 2015, Covestro Deutschland AG (formerly Bayer MaterialScience AG) was a wholly owned subsidiary of Bayer AG and the management company of the MaterialScience subgroup. Up to and including August 31, 2015, there was no obligation for Covestro to prepare consolidated financial statements because the net assets of the Combined Covestro Group (the Covestro Group prior to September 1, 2015) were not fully bundled in Covestro Deutschland AG nor controlled within the meaning of IFRS 10 (Consolidated Financial Statements), nor did Covestro AG exist as a group management company. Combined financial statements were prepared for the Combined Covestro Group in line with International Financial Reporting Standards (IFRS) as applicable in the European Union for the fiscal years ended December 31, 2014, December 31, 2013, and December 31, 2012, and for the interim reporting period from January 1, 2015, to June 30, 2015, in accordance with the requirements of IAS 34 (Interim Financial Reporting). The combined annual financial statements and the combined interim financial statements are hereinafter referred to as the Combined Financial Statements. These Combined Financial Statements, which were published for the purposes of the IPO of Covestro AG in a listing prospectus, are available, along with the listing prospectus itself, on the Covestro AG website.

First-time adoption of International Financial Reporting Standards

Covestro has existed as a company within the meaning of IFRS since September 1, 2015. It consists of Covestro AG and its direct and indirect subsidiaries, joint operations, joint ventures and associates. Therefore, first-time consolidated financial statements have been prepared in accordance with the rules of IFRS 1 (First-Time Adoption of International Financial Reporting Standards) for the interim report for the nine months to September 30, 2015. The consolidated interim financial statements presented here are based on uniform IFRS accounting policies. As consolidated financial statements previously were not required to be prepared for the Combined Covestro Group, the reconciliations envisaged in principle pursuant to IFRS 1 are not required for consolidated equity or for consolidated total comprehensive income.

As permitted under IFRS 1.18 in conjunction with IFRS 1 Appendix D16a, Covestro has applied the predecessor accounting approach using the carrying amounts (including goodwill) recognized in the IFRS consolidated financial statements of Bayer AG. Other than that, none of the exemptions provided under IFRS 1 were used in the consolidated financial statements presented here.

Information on the consolidated interim financial statements

Pursuant to Section 37x Paragraph 3 of the German Securities Trading Act (WpHG), the consolidated interim financial statements as of September 30, 2015, have been prepared according to the International Financial Reporting Standards – including IAS 34 – of the International Accounting Standards Board (IASB), London, as endorsed by the European Union and in effect at the reporting date, as well as the Interpretations (IFRICs) of the IFRS Interpretations Committee (IFRS IC) and the Interpretations published by the Standing Interpretations Committee (SIC). Covestro management has made use of the option of reporting the legal transfers of the business activities of Bayer to Covestro as transactions under common control accounted for using the predecessor (book value) accounting method. It also utilized the option of presenting the comparative information required under IFRS as if the legal transfers of the business activities had already previously taken place. This method allows the presentation of prior-period financial information as contained in the published Combined Financial Statements for the purposes of these consolidated interim financial statements.

The consolidated interim financial statements presented here report earnings per share for the first time. These are calculated as the relationship of the number of no-par voting shares of Covestro AG issued as of September 30, 2015, to the income after income taxes (net income) attributable to the stockholders of Covestro AG. Earnings per share are also reported for the reference period, assuming the same number of shares for both the reporting period and the reference period. There were no dilution effects to consider.

The income statement has been prepared using the cost-of-sales method. Assets and liabilities are classified by maturity. They are classified as current if they mature within one year or within the normal business cycle of the companies and operations included in the Covestro Group or are held for sale. The normal business cycle is defined for this purpose as beginning with the procurement of the resources necessary for the production process and ending with the receipt of cash or cash equivalents as consideration for the sale of the goods or services produced in that process. Inventories and trade accounts receivable and payable are generally presented as current. Deferred tax assets and liabilities and pension provisions are generally presented as noncurrent.

The consolidated interim financial statements are drawn up in euros. Amounts are stated in millions of euros (€ million) except where otherwise indicated.

2 Effects of New Financial Reporting Standards

Financial reporting standards applied for the first time in the reporting period

The first-time application of the following amended financial reporting standards had no impact, or no material impact, on the presentation of the Covestro Group's financial position or results of operations.

In December 2013, the IASB published the fifth and sixth sets of "Annual Improvements to IFRS." The amendments essentially address details of the recognition, measurement and disclosure of business transactions and serve to standardize terminology. They consist mainly of editorial changes to existing standards and are to be applied for annual periods beginning on or after July 1, 2014.

Published financial reporting standards that have not yet been applied

The IASB and the IFRS IC have issued the following standards, amendments to standards, exposure drafts of standards and interpretations whose application was not yet mandatory for the 2015 fiscal year. Adoption of these standards (IFRS) or interpretations (SIC and IFRIC) is conditional upon their endorsement by the European Union.

In November 2009, the IASB issued IFRS 9 (Financial Instruments), containing rules for the classification and measurement of financial assets. In October 2010, it issued new requirements (last amended in July 2014) for the classification and measurement of financial liabilities, incorporating them into IFRS 9. The new standard defines two instead of four measurement categories for financial assets, with classification to be based partly on the company's business model and partly on the characteristics of the contractual cash flows from the respective financial asset. In the case of equity investments that are not held for trading, an entity may irrevocably opt at initial recognition to recognize future changes in their fair value outside profit or loss in the statement of comprehensive income. In November 2013, the IASB issued further amendments under the title "Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39." The focus of the amendments is on a thorough revision of hedge accounting rules with the aim of more appropriately reflecting risk management activities in the financial statements. This involves additional disclosures in the notes. In July 2014, the IASB published the new rules for the recognition of impairments on financial instruments. This new impairment model is based on the principle of accounting for expected losses. IFRS 9 is to be applied for annual periods beginning on or after January 1, 2018. It has not yet been endorsed by the European Union. The Covestro Group is currently evaluating the impact the standard will have on the presentation of its financial position and results of operations.

In January 2014, the IASB issued IFRS 14 (Regulatory Deferral Accounts). This standard addresses the accounting for regulatory deferral account balances by first-time adopters of IFRS. IFRS 14 is to be applied for annual periods beginning on or after January 1, 2016. A decision has not yet been made as to when it will be endorsed by the European Union. IFRS 14 will have no impact on the presentation of the Covestro Group's financial position or results of operations.

In May 2014, the IASB published amendments to IFRS 11 (Joint Arrangements) entitled "Accounting for Acquisitions of Interests in Joint Operations." The amendments clarify the accounting for the acquisition of an interest in a joint operation in which the activity constitutes a business. They are to be applied for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The amendments have not yet been endorsed by the European Union. The Covestro Group is currently evaluating the impact the changes will have on the presentation of its financial position and results of operations.

In May 2014, the IASB published amendments to IAS 16 (Property, Plant and Equipment) and IAS 38 (Intangible Assets) entitled "Clarification of Acceptable Methods of Depreciation and Amortization." These amendments clarify that revenue-based depreciation of property, plant and equipment or amortization of intangible assets is inappropriate. The amendments are to be applied for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The amendments have not yet been endorsed by the European Union. The Covestro Group does not currently anticipate a material impact on the presentation of its financial position and results of operations.

In May 2014, the IASB issued IFRS 15 (Revenue from Contracts with Customers). According to IFRS 15, an entity must recognize the expected consideration for goods or services as revenue as soon as control over the goods passes to the customer or the services are rendered. Based on this core principle, there are five steps to revenue recognition. In step 1, the contract with the customer is identified. In step 2, the distinct performance obligations in the contract are identified. In step 3, the transaction price is determined. In step 4, this transaction price is allocated to the distinct performance obligations. In step 5, revenue is recognized either over time or at a point in time. IFRS 15 replaces IAS 11 (Construction Contracts), IAS 18 (Revenue), IFRIC 13 (Customer Loyalty Programs), IFRIC 15 (Agreements for the Construction of Real Estate), IFRIC 18 (Transfers of Assets from Customers) and SIC-31 (Revenue – Barter Transactions Involving Advertising Services). In July 2015, the IASB published an exposure draft which clarifies various points relating to IFRS 15. In September 2015, an amendment was published postponing the date of mandatory application by one year until January 1, 2018. Earlier application is nonetheless permitted. IFRS 15 has not yet been endorsed by the European Union nor has the new date of mandatory application been amended in European law. The Covestro Group is currently evaluating the impact the changes will have on the presentation of its financial position and results of operations.

In June 2014, the IASB issued amendments to IAS 16 (Property, Plant and Equipment) and IAS 41 (Agriculture) entitled "Agriculture: Bearer Plants." The amendments clarify that plants used solely to grow agricultural produce are to be accounted for according to IAS 16. The amendments are to be applied for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The amendments have not yet been endorsed by the European Union. The changes are not expected to have an impact on the presentation of the Covestro Group's financial position or results of operations.

In September 2014, the IASB published the seventh set of annual improvements entitled "Annual Improvements to IFRS 2012-2014 Cycle." The amendments address details of the recognition, measurement and disclosure of business transactions and serve to standardize terminology. They consist mainly of editorial changes to existing standards. They are to be applied for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The amendments have not yet been endorsed by the European Union. The changes are not expected to have a material impact on the presentation of the Covestro Group's financial position or results of operations.

In September 2014, the IASB published amendments to IFRS 10 (Consolidated Financial Statements) and IAS 28 (Investments in Associates and Joint Ventures) entitled "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture." The amendments clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The amendments were to be applied for annual periods beginning on or after January 1, 2016. In July 2015, however, the IASB proposed postponing the date of mandatory application for an indefinite period until the research project on the equity method has been completed. As a consequence, endorsement by the European Union has been postponed for the time being. The Covestro Group is evaluating the impact the changes will have on the presentation of its financial position and results of operations.

In December 2014, further amendments were issued to IFRS 10 (Consolidated Financial Statements), IFRS 12 (Disclosure of Interests in Other Entities) and IAS 28 (Investments in Associates and Joint Ventures) under the title "Investment Entities: Applying the Consolidation Exception." The amendments largely clarify which subsidiaries an investment entity must consolidate and which must be recognized at fair value through profit or loss. The amendments are to be applied for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The amendments have not yet been endorsed by the European Union. The changes are not expected to have a material impact on the presentation of the Covestro Group's financial position or results of operations.

In December 2014, amendments to IAS 1 (Presentation of Financial Statements) were published as a result of the "Disclosure Initiative." The amendments are intended to provide further clarification of the presentation and disclosure requirements formulated in IAS 1 and relate in particular to the materiality and aggregation of items, the presentation of the statements of financial position, of profit or loss and of other comprehensive income, the structure of information in the notes to the financial statements and the information on applicable financial reporting methods. The amendments have not yet been endorsed by the European Union. The amendments to IAS 1 are to be applied for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The Covestro Group is currently evaluating the impact the changes will have on the presentation of its financial position and results of operations.

3 Basic Principles, Methods and Critical Accounting Estimates

Basis of preparation of the consolidated financial statements

Compliance with IFRS

The consolidated interim financial statements presented here were prepared in accordance with IFRS requirements and fully comply with IAS 34. They also satisfy the requirements for first-time consolidated financial statements in accordance with the rules of IFRS 1. As explained under "Information on the consolidated interim financial statements" in Note 1, the predecessor accounting approach was applied in accordance with the rules on business combinations under common control. For further information about the main assumptions, reference is made to the published Combined Financial Statements.

Notes on the scope of consolidation

As of September 30, 2015, the direct and indirect subsidiaries of Covestro AG were fully consolidated in accordance with the principles of IFRS 10. In addition, joint operations as defined by IFRS 11 (Joint Arrangements) were recognized with the share of assets, liabilities, revenues and expenses relating to Covestro's interest in these joint operations or, in the case of joint ventures and associated companies, accounted for in the consolidated financial statements using the equity method in accordance with IAS 28 (Investments in Associates and Joint Ventures). Further information is contained in "Changes in the scope of consolidation" in Note 5.

In the reference period, the scope of combination included companies directly or indirectly controlled by Covestro Deutschland AG along with the net assets (assets and liabilities) of corporate units that have conducted operations for the Combined Covestro Group that were already centrally managed by Covestro management during the reporting period but were not yet legally held, either directly or indirectly, by Covestro but by Bayer. Also included in the scope of combination in the reference period were assets, particularly land, production facilities, office buildings and other real estate, that historically had been used by Covestro or were connected with the business of the Combined Covestro Group but were not legally transferred until the reporting period.

During the reporting period, assets and liabilities of Bayer were transferred to Covestro if they historically fell within the area of responsibility of the Combined Covestro Group. If these transferred assets and liabilities met the definition of a business according to IFRS 3 (Business Combinations), the transfer was made at the carrying amounts outside profit or loss; otherwise they were transferred at market values. Assets and liabilities that were transferred by Covestro to Bayer and did not historically fall within the area of responsibility of the Combined Covestro Group were transferred at the carrying amounts outside profit or loss if they qualified as a business; otherwise they were transferred at market values.

Payments made for the legal transfer of entities (share deals) or business activities (asset deals) are reflected in the reporting period at the time of transfer as withdrawals from or contributions to equity by Bayer AG as stockholder at the time of transfer.

The main share deals and asset deals are explained under "Transactions with Bayer AG and its subsidiaries" in Note 8.

Details of the entities included in the scope of combination are contained in the respective notes to the published Combined Financial Statements.

Treatment of costs for central services

For the first time, the statements of financial position in the consolidated financial statements include certain personnel-related obligations (such as pension obligations) to employees transferred from Bayer Technology Services or Bayer Business Services during the reporting period, and the related assets. In the reference period, only the costs were recognized in the income statements. This applies analogously to certain administrative services in the areas of procurement, accounting and IT, which were provided by Bayer until August 31, 2015, but which are now performed internally by the Covestro Group.

Until August 31, 2015, certain central services were provided to the Combined Covestro Group by Bayer AG and Bayer Corporation, Pittsburgh, United States, in their capacity as holding companies. These services were recognized in the income statements by way of cost allocation or by using appropriate distribution keys. Since September 1, 2015, they have been performed by the central functions of Covestro AG.

Treatment of current and deferred income taxes

As explained below, current and deferred income taxes are recognized in accordance with IAS 12 (Income Taxes). In the reference period, deferred income taxes were determined using the separate tax return approach, based on the assumption that the companies and operations of the Combined Covestro Group constitute separate tax payers. This assumption implied that current and deferred taxes for all companies, operations and tax groups within the Combined Covestro Group are calculated separately and that the recoverability of deferred tax assets is assessed on this basis. Tax receivables and tax liabilities, along with deferred tax assets on loss carryforwards of Combined Covestro Group companies and operations that did not constitute separate tax payers in the reference period, were recognized as noncash contributions or withdrawals by the respective stockholders.

General accounting policies and valuation principles

The consolidated interim financial statements are based on the principle of the historical cost of acquisition, construction or production, with the exception of the items reflected at fair value, such as available-for-sale financial assets and derivatives that are not related to hedge accounting.

In preparing the consolidated interim financial statements, Covestro management has to make assumptions and estimates to a certain extent that may substantially impact the presentation of the Covestro Group's financial position and/or results of operations.

Such estimates, assumptions or the exercise of discretion mainly relate to the following areas: the useful life of noncurrent assets, the discounted cash flows used for impairment testing at least annually, purchase price allocations, the assessment of the value of deferred tax assets and the recognition of provisions, for example for litigation-related expenses, pensions and other benefits, taxes, environmental compliance and remediation costs, sales allowances and product liability.

Consolidation

The consolidated financial statements include subsidiaries, joint operations, joint ventures and associates.

Subsidiaries are companies over which Covestro AG is currently able to directly or indirectly exercise power by virtue of existing rights. Power means the ability to direct the activities that significantly influence a company's profitability. Control is therefore only deemed to exist if Covestro AG is exposed, or has rights, to variable returns from its involvement with a company and has the ability to use its power over that company to affect the amount of that company's returns. The ability to control another company generally derives from Covestro AG's direct or indirect ownership of a majority of the voting rights. In the case of structured entities, however, control is based on contractual agreements. Inclusion of an entity's accounts in the consolidated financial statements begins when the Covestro Group is able to exercise control over the entity and ceases when it is no longer able to do so.

Sales revenues, income and expenses, and gains and losses arising from transactions among the consolidated companies, along with receivables and liabilities existing between them, are eliminated. Deferred income tax effects are reflected in consolidation.

Capital consolidation is performed by offsetting the carrying amounts of subsidiaries against their underlying equity. When a majority interest in a company is acquired, its pro-rated equity is measured at the acquisition date. Identifiable assets and liabilities (including contingent liabilities) are recognized at their fair values along with attributable deferred tax assets and liabilities. Any remaining difference to the purchase price is recognized as goodwill. The purchase prices of acquired companies domiciled outside the eurozone are translated at the exchange rates in effect at the respective dates of acquisition.

The purchase of shares from other owners is presented as an equity transaction. The difference between the equity acquired from other owners and the purchase price is therefore directly offset against equity.

Joint operations and joint ventures

Joint operations and joint ventures are based on joint arrangements. A joint arrangement is deemed to exist if Covestro AG through a contractual agreement indirectly or directly jointly controls an activity together with at least one third party. Joint control is only deemed to exist if decisions regarding the relevant activities require the unanimous consent of the parties sharing control.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Covestro Group recognizes the share of assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with its rights and obligations.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint ventures are accounted for using the equity method.

Associates over which Covestro AG exerts significant influence, generally through an ownership interest between 20% and 50%, are also accounted for using the equity method.

The carrying amount of a company accounted for using the equity method is adjusted annually by the change in its equity corresponding to Covestro's percentage interest in the company. Differences arising upon first-time inclusion using the equity method are accounted for according to full-consolidation principles. Covestro's share of changes in these companies' equities recognized in profit or loss – including impairment losses recognized on goodwill – are reflected in equity-method income/loss. Intercompany profits and losses for these companies were not material in the reporting period.

Companies that do not have a material impact on the Group's financial position or results of operations, either individually or in aggregate, are accounted for at cost of acquisition less any impairment losses.

Foreign currency translation

The financial statements of the individual companies for inclusion in the consolidated financial statements are prepared in their respective functional currencies. A company's functional currency is that of the economic environment in which it primarily generates and expends cash. The majority of consolidated companies carry out their activities autonomously from a financial, economic and organizational point of view, and their functional currencies are therefore the respective local currencies.

In the separate financial statements of the consolidated companies and operations, receivables and liabilities in currencies other than the respective functional currency are translated at closing rates. Related exchange differences are recognized in profit or loss as exchange gains or losses under other financial income and expenses.

In the consolidated financial statements, the assets and liabilities of Covestro companies outside the eurozone at the start and end of the reporting period are translated into euros at closing rates. All changes occurring during the year and all income and expense items and cash flows are translated into euros at average annual rates. The components of equity are translated at the historical exchange rates.

The exchange differences arising between the resulting amounts and those obtained by translating at closing rates are recognized outside profit or loss as "Changes in exchange differences on translation of operations outside the eurozone." If a company ceases to be included in the scope of consolidation, such exchange differences are reclassified from equity to profit or loss.

Subsidiaries whose functional currencies have experienced a cumulative inflation rate of more than 100% over the past three years apply the rules of IAS 29 (Financial Reporting in Hyperinflationary Economies). Gains and losses incurred upon adjusting the carrying amounts of nonmonetary assets and liabilities for inflation are recognized in other operating income and expenses.

In the reporting period, the following exchange rates were used for the major currencies of relevance to the Covestro Group:

Closing Rates for Major Currencies

		Closing rate		
€1/		Sep. 30, 2014	Dec. 31, 2014	Sep. 30, 2015
BRL	Brazil	3.08	3.22	4.48
CNY	China	7.73	7.54	7.12
HKD	Hong Kong	9.77	9.42	8.68
INR	India	77.86	76.72	73.48
JPY	Japan	138.11	145.23	134.69
MXN	Mexico	17.00	17.87	18.98
USD	United States	1.26	1.21	1.12

Average Rates for Major Currencies

		Average rate	
€1/		First nine months 2014	First nine months 2015
BRL	Brazil	3.10	3.48
CNY	China	8.36	6.96
HKD	Hong Kong	10.51	8.64
INR	India	82.28	70.78
JPY	Japan	139.55	134.73
MXN	Mexico	17.78	17.31
USD	United States	1.36	1.11

Net sales and other operating income

All revenues derived from the selling of products or rendering of services or from licensing agreements are recognized as sales. Other operational revenues are recognized as other operating income. Product sales are recognized in profit or loss when the significant risks and rewards of ownership of the goods have been transferred to the customer, the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue and costs incurred or to be incurred can be measured reliably, and it is sufficiently probable that the economic benefits associated with the transaction will flow to the company.

Sales are stated net of sales taxes, other taxes and sales deductions at the fair value of the considerations received or to be received. Sales deductions are estimated amounts for rebates and cash discounts. They are deducted at the time the sales are recognized, and appropriate provisions are recorded. Sales deductions are estimated primarily on the basis of historical experience, specific contractual terms and future expectations of sales development. It is unlikely that factors other than these could materially affect sales deductions in the Covestro Group. Adjustments to provisions for rebates established in prior periods were of secondary importance for income before income taxes in the reporting period.

Research and development expenses

For accounting purposes, research expenses are defined as costs incurred for current or planned investigations undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development expenses are defined as costs incurred for the application of research findings or specialist knowledge to plans or designs for the production, provision or development of new or substantially improved products, services or processes, respectively, prior to the commencement of commercial production or use.

Research and development expenses are incurred in the Covestro Group for in-house research and development activities as well as research and development collaborations and alliances with third parties.

Research costs cannot be capitalized. Development costs, on the other hand, must be capitalized according to closely defined conditions: An intangible asset must be recognized if, and only if, there is reasonable certainty of receiving future cash flows that will cover an asset's carrying amount. Since Covestro's development projects are often subject to uncertainties, the conditions for the capitalization of development costs are not normally satisfied.

Income taxes

Income taxes comprise the taxes levied on taxable income in the individual countries along with changes in deferred tax assets and liabilities that are recognized in profit or loss. The income taxes recognized are reflected at the amounts likely to be payable under the statutory regulations in force, or already enacted in relation to future periods, at the end of the reporting period.

In compliance with IAS 12 (Income Taxes), deferred taxes are recognized for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position prepared according to IFRS and their tax bases. Deferred taxes are also recognized for consolidation measures and for tax loss carryforwards and tax credits that are likely to be usable.

Deferred tax assets relating to deductible temporary differences, tax credits and tax loss carryforwards are recognized where it is sufficiently probable that taxable income will be available within the Covestro Group in the future to enable them to be used. Deferred tax liabilities are recognized on temporary differences taxable in the future. Deferred taxes are calculated at the rates which – on the basis of the statutory regulations in force, or already enacted in relation to future periods, as of the closing date – are expected to apply in the individual countries at the time of realization. Deferred tax assets and deferred tax liabilities are offset if they relate to income taxes levied by the same taxation authority and Covestro has a legal right to settle on a net basis. Material effects of changes in tax rates or tax law on deferred tax assets and liabilities are generally accounted for in the period in which the changes are enacted. Such effects are recognized in profit or loss except where they relate to deferred taxes that were recognized outside profit or loss, in which case they are recognized in other comprehensive income.

Deferred and current taxes are recognized in profit or loss unless they relate to items recognized outside profit or loss in other comprehensive income, in which case they, too, are recognized in other comprehensive income.

The probability that deferred tax assets resulting from temporary differences or loss carryforwards can be utilized in the future is the subject of forecasts by the individual companies regarding the future earnings situation in the respective Covestro companies and other parameters.

Deferred tax liabilities are recognized on planned dividend payments by subsidiaries. Where no dividend payment is planned for the foreseeable future, no deferred tax liability is recognized on the difference between the proportionate net assets according to IFRS and the tax base of the investment in the subsidiary.

Goodwill

In a business combination, goodwill is capitalized at the acquisition date. It is measured at its cost of acquisition, which is the excess of the acquisition price for shares in a company over the acquired net assets. The net assets are the balance of the fair values of the acquired identifiable assets and the assumed liabilities and contingent liabilities.

Goodwill is not amortized. Instead, the carrying amount is subjected to impairment testing annually or more often if there is any indication of possible impairment. Details of impairment testing are contained in the published Combined Financial Statements. Once an impairment loss has been recognized on goodwill, it is not reversed in subsequent periods.

Other intangible assets

An “other intangible asset” is an identifiable nonmonetary asset without physical substance, other than goodwill (such as software or rights). It is capitalized if the future economic benefit attributable to the asset is likely to flow to the company and the cost of acquisition or generation of the asset can be reliably measured.

Other intangible assets are recognized at the cost of acquisition or generation. Those with a determinable useful life are amortized accordingly on a straight-line basis over a period of up to 20 years, except where their actual depletion demands a different amortization pattern. Determination of the expected useful lives of such assets and the amortization patterns is based on estimates of the period for which they will generate cash flows. An impairment test is performed if there are indications of possible impairment.

Any impairments identified are recognized as impairment losses in profit or loss. If the reasons for a previously recognized impairment loss no longer apply, the impairment loss is reversed provided that the reversal does not cause the carrying amount to exceed the (amortized) cost of acquisition or generation.

Property, plant and equipment

Property, plant and equipment are carried at the cost of acquisition or construction and depreciated over their estimated useful life. An impairment loss is recognized in addition if an asset’s recoverable amount falls below its carrying amount.

The cost of acquisition comprises the acquisition price plus ancillary and subsequent acquisition costs, less any reduction received on the acquisition price. The cost of self-constructed property, plant and equipment comprises the direct cost of materials, direct manufacturing expenses, and appropriate allocations of material and manufacturing overheads. Where an obligation exists to dismantle or remove an asset or restore a site to its former condition at the end of its useful life, the present value of the related future payments is capitalized along with the cost of acquisition or construction upon completion and a corresponding liability is recognized.

If the construction phase of property, plant or equipment extends over a period of 12 months or more, the interest incurred on borrowed capital up to the date of completion is capitalized as part of the cost of acquisition or construction in accordance with IAS 23 (Borrowing Costs).

Costs for regular, comprehensive maintenance work (such as the major overhaul of a technical facility) are capitalized as a separate component if they satisfy special recognition criteria.

Property, plant and equipment are depreciated by the straight-line method over an asset’s useful life, except where depreciation based on actual depletion is more appropriate. The depreciation periods applied are shown in the relevant notes of the published Combined Financial Statements.

Significant asset components with different useful lives are accounted for and depreciated separately.

If there are indications that an individual item of property, plant and equipment may be impaired, the recoverable amount is compared to the carrying amount. If the recoverable amount is less than the carrying amount, an impairment loss is recognized for the difference. If the reasons for a previously recognized impairment loss no longer apply, the impairment loss is reversed provided that the reversal does not cause the carrying amount to exceed the cost of acquisition or construction less depreciation.

When assets are sold, closed down or scrapped, the difference between the net proceeds and the net carrying amount of the assets is recognized as a gain or loss in other operating income or expenses, respectively.

Investment property comprises land and buildings not being used for operational or administrative purposes. It is measured using the cost model. The fair value of the investment property reported in the notes to the consolidated annual financial statements is determined using the discounted cash flow method with reference to current market values of similar property, or on the basis of reports from external experts.

Financial assets

Financial assets comprise loans and receivables, acquired equity and debt instruments, cash and cash equivalents, and derivatives with positive fair values.

They are recognized and measured in accordance with IAS 39 (Financial Instruments: Recognition and Measurement). Accordingly, financial assets are recognized in the consolidated financial statements if the Covestro Group has a contractual right to receive cash or other financial assets from another entity. Regular-way purchases and sales of financial assets are generally posted on the settlement date. Financial assets are initially recognized at fair value plus transaction costs. However, the transaction costs incurred for the purchase of financial assets held at fair value through profit or loss are expensed immediately. Interest-free or low-interest receivables are initially reflected at the present value of the expected future cash flows. Upon first-time recognition, each financial asset is assigned to one of the categories prescribed in IAS 39. Subsequent measurement takes place according to the measurement rules for the respective category. The measurement rules for each category are set forth below.

Financial assets held at fair value through profit or loss comprise those financial assets that are held for trading. Such financial assets are mainly acquired for purposes of liquidity management with the intention of reselling them within a short time. Also allocated to this category are the receivables from other derivatives not used in hedge accounting that are included in other financial assets. This applies to certain embedded derivatives and those not designated in hedge accounting (booked exposure). Changes in the fair value of financial assets in this category are recognized in profit or loss when the increase or decrease in fair value occurs.

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are accounted for at amortized cost using the effective interest method. This category comprises trade accounts receivable, the loans and receivables included in other financial assets, the additional financial receivables reflected in other receivables, and cash and cash equivalents. Interest income from items assigned to this category is determined using the effective interest method.

Covestro does not currently hold any financial assets that might be classified as held-to-maturity financial investments.

Available-for-sale financial assets are those nonderivative financial assets that are not assigned to any of the above categories. They mainly include equity instruments, such as shares, and debt instruments not to be held to maturity that are included in other financial assets. After their first-time recognition, available-for-sale financial assets are measured at fair value and any unrealized gains or losses are recognized outside profit or loss in other comprehensive income. These are only reclassified to profit or loss if the assets are sold or if there are objective indications of impairment, in which case the accumulated loss is recognized in profit or loss. An objective indication of impairment is a significant or prolonged decrease in the fair value of an equity instrument to below its acquisition cost. Previously recognized impairment losses are reversed if the reasons for them no longer apply. Impairment loss reversals for equity instruments are recognized outside profit or loss, while those for debt instruments are recognized in profit or loss. Where possible, a fair value for equity instruments is derived from market data. Those financial assets for which no market price is available and whose fair value cannot be reasonably estimated are recognized at cost less any impairment losses.

If there are substantial and objective indications of a decline in the value of loans and receivables or available-for-sale financial assets, an impairment test is performed. Indications of possible impairment include a high probability of insolvency, a significant deterioration in credit standing, a material breach of contract, operating losses reported by a company over several years, a reduction in market value, the financial restructuring of the debtor, or the disappearance of an active market for the asset.

In the case of loans and receivables, an impairment test is performed in which the carrying amount is compared to the present value of the expected future cash flows, discounted at the original effective interest rate. If the carrying amount exceeds the present value, an impairment loss is recognized for the difference between the two amounts. If the reasons for previously recognized impairment losses no longer apply, the impairment losses are reversed provided that this does not cause the carrying amounts to exceed the amortized cost of acquisition.

Financial assets are derecognized when contractual rights to receive cash flows from the financial assets expire or the financial assets are transferred together with all material risks and benefits.

Inventories

In accordance with IAS 2 (Inventories), inventories encompass assets consumed in production or in the rendering of services (raw materials and supplies), assets in the production process for sale (work in process), goods held for sale in the ordinary course of business (finished goods and goods purchased for resale), and advance payments on inventories. Inventories are recognized at their cost of acquisition or production (production-related full cost) – calculated by the weighted-average method – or at their net realizable value, whichever is lower. The net realizable value is the estimated selling price in the ordinary course of business less estimated cost to complete and selling expenses.

Cash and cash equivalents

Cash and cash equivalents comprise cash, checks received and balances with banks. Cash equivalents are highly liquid short-term financial investments that are subject to an insignificant risk of changes in value, are easily convertible into a known amount of cash and have a maturity of three months or less from the date of acquisition or investment.

Provisions for pensions and other post-employment benefits

Within the Covestro Group, post-employment benefits are provided under defined contribution and/or defined benefit plans. In the case of defined contribution plans, the company pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the company has no further payment obligations. The regular contributions constitute expenses for the year in which they are due and as such are included in the functional cost items, and thus in earnings before financial result and taxes (EBIT). All other post-employment benefit systems are defined benefit plans, which may be either unfunded, i.e. financed by provisions, or funded, i.e. financed through pension funds.

The present value of the defined benefit obligations and the resulting expense are calculated in accordance with IAS 19 (Employee Benefits) by the projected unit credit method. The future benefit obligations are valued by actuarial methods and spread over the entire employment period on the basis of specific assumptions regarding beneficiary structure and the economic environment. These relate mainly to the discount rate, future salary and pension increases, variations in health care costs, and mortality rates.

The discount rates used are calculated from the yields of high-quality corporate bond portfolios in specific currencies with cash flows approximately equivalent to the expected disbursements from the pension plans. The uniform discount rate derived from this interest-rate structure is thus based on the yields, at the closing date, of a portfolio of at least AA- or AAA-rated corporate bonds whose weighted residual maturities approximately correspond to the duration necessary to cover the entire benefit obligation.

The selection criteria used to determine the discount rate in the eurozone were modified from fiscal 2015. If the previous selection criteria were applied, the interest rate would have been 20 basis points lower and an actuarial loss of €120 million would have resulted. The change in the way the interest rate is determined reduced pension expenses in fiscal 2015 by €3.5 million. As was previously the case, the bond portfolio consists exclusively of high-quality corporate bonds with a rating of at least AA or AAA. The portfolio does not include any government-guaranteed or secured bonds.

The key interest rates used to determine the present value of defined benefit obligations are as follows:

Discount Rate for Pension Obligations

	Dec. 31, 2014	June 30, 2015	Sep. 30, 2015
	%	%	%
Germany	2.30	2.40	2.30
United States	3.70	4.10	4.00

The fair value of plan assets is deducted from the present value of the defined benefit obligation for pensions and other post-employment benefits to determine the net defined benefit liability. Plan assets in excess of the benefit obligation are reflected in other receivables, subject to the asset ceiling specified in IAS 19. The obligations and plan assets are valued at regular intervals of not more than three years. Comprehensive actuarial valuations for all major plans are performed annually as of December 31.

The balance of all income and expenses relating to defined benefit plans, except the net interest on the net liability, is recognized in EBIT. The net interest is reflected in the financial result under other financial expenses.

The effects of remeasurements of the net defined benefit liability are reflected in other comprehensive income. They consist of actuarial gains and losses, the return on plan assets and changes in the effects of the asset ceiling, less the respective amounts included in net interest for the last two components. Deferred taxes relating to the effects of remeasurements are also recognized in other comprehensive income.

Other provisions

Other provisions are recognized for present legal or constructive obligations arising from past events that will probably give rise to a future outflow of resources, provided that a reliable estimate can be made of the amount of the obligations.

Other provisions are measured in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) or, where applicable, IAS 19. Where the cash outflow to settle an obligation is expected to occur after one year, the provision is recognized at the present value of the expected cash outflow. Claims for reimbursements from third parties are separately reflected in other receivables if their realization is virtually certain.

If the projected obligation declines as a result of a change in the estimate, the provision is reversed by the corresponding amount and the resulting income recognized in the operating expense item(s) in which the original charge was recognized.

To enhance the information content of the estimates, certain provisions that could have a material effect on the financial position or results of operations are selected and tested for their sensitivity to changes in the underlying parameters using sensitivity analysis. To reflect uncertainty about the likelihood of the assumed events actually occurring, the impact of a five-percentage-point change in the probability of occurrence is examined in each case.

Provisions for environmental protection are recorded if future cash outflows are likely to be necessary to ensure compliance with environmental regulations or to carry out remediation work, such costs can be reliably estimated and no future benefits are expected from such measures.

Estimating the future costs of environmental protection and remediation involves many uncertainties, particularly with regard to the status of laws, regulations and the information available about conditions in the various countries and at the individual sites. Significant factors in estimating the costs include previous experiences in similar cases, the conclusions in expert opinions obtained regarding existing environmental programs, current costs and new developments affecting costs. Also taken into consideration are management's interpretation of current environmental laws and regulations, the number and financial position of third parties that may become obligated to participate in any remediation costs on the basis of joint liability, and the remediation methods likely to be deployed. Changes in these assumptions could impact future reported results.

Taking into consideration experience gained to date regarding environmental matters of a similar nature, management believes the existing provisions to be adequate based upon currently available information. Given the businesses in which the Covestro Group operates and the difficulties inherent in accurately estimating liabilities for environmental protection, it remains possible that material additional costs will be incurred beyond the amounts accrued. It may transpire during remediation work that additional expenditures are necessary over an extended period and that these exceed existing provisions and cannot be reasonably estimated.

Provisions for restructuring only cover expenses that arise directly from restructuring measures, are necessary for restructuring and are not related to future business operations. Such expenses include severance payments to employees and compensation payments in respect of rented property that can no longer be used.

Restructuring measures may include the sale or termination of business areas, site closures, relocations of business activities or fundamental reorganizations of business areas.

The respective provisions are established when a detailed restructuring plan has been drawn up, resolved upon by the responsible decision-making level of management and communicated to the employees and/or their representatives. Provisions for restructuring are established at the present value of future disbursements.

Trade-related provisions are recorded mainly for the granting of rebates or discounts, or for obligations in respect of services already received but not yet invoiced.

As a global enterprise, the Covestro Group is exposed to numerous legal risks for which **provisions for litigations** must be established under certain conditions – particularly in the areas of product liability, competition and antitrust law, patent disputes, tax law and environmental law.

Litigation and other judicial proceedings often raise complex issues and are subject to many uncertainties and complexities including, but not limited to, the facts and circumstances of each particular case, the jurisdiction in which each suit is brought and differences in applicable law. The outcomes of pending and future proceedings generally cannot be predicted. Judgment in court proceedings, regulatory decisions or the conclusion of a settlement may result in the Covestro Group incurring charges for which no accounting measures have been taken for lack of reasonable estimate or which exceed established provisions and insurance coverage.

The Covestro Group considers the need for accounting measures in respect of pending or future litigations, and the extent of any such measures, on the basis of the information available to its legal department and in close consultation with legal counsel acting for the Covestro Group.

Where it is more likely than not that such a litigation will result in an outflow of resources that is already reasonably estimable, a provision for litigation is recorded in the amount of the present value of the expected cash outflows. Such provisions cover the estimated payments to the plaintiffs, court and procedural costs, attorney costs and the cost of potential settlements.

It is frequently impossible to reliably determine the existence of a present obligation or reasonably estimate the probability that a potential outflow of resources will result from a pending or future litigation. Due to the special nature of these litigations, provisions generally are not established until initial settlements allow an estimate of potential amounts or judgments have been issued. Provisions for legal defense costs are established if it is probable that material costs will have to be incurred for external legal counsel to defend the legal position of a company or companies in the Covestro Group.

Internal and external legal counsels evaluate the current status of the material legal risks of the Covestro Group at the end of each reporting period. The need to establish or adjust a provision and the amount of the provision or adjustment are determined on this basis. Adjusting events are reflected up to the date of preparation of the consolidated financial statements.

The status of the material legal risks is described in Note 7.

Personnel-related provisions are mainly those recorded for annual bonus payments, variable one-time payments, individual performance awards, long-service awards, severance payments in connection with early retirement arrangements, surpluses on long-term accounts and other personnel costs. Obligations under stock-based compensation programs that provide for awards payable in cash are also included here.

Financial liabilities

Financial liabilities are comprised of primary financial liabilities and negative fair values of derivatives.

Primary financial liabilities are initially recognized in the consolidated financial statements at fair value, taking into account any transaction costs if Covestro has the contractual obligation to transfer cash or other financial assets to another party. In subsequent periods, such liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are derecognized when the contractual obligation is discharged or canceled, or has expired.

Other receivables and liabilities

Accrued items and other nonfinancial assets and liabilities are carried at amortized cost. They are amortized to income by the straight-line method or according to performance of the underlying transaction.

Grants and subsidies from third parties that serve to promote investment are reflected in the statement of financial position under other liabilities and amortized to income over the useful lives of the respective investments.

Derivatives

Derivatives – such as forward exchange contracts – are used to mitigate the risk of fluctuations in exchange rates. Derivatives are recognized at the trade date.

Contracts concluded in order to receive or deliver nonfinancial goods for the company's own purposes are not accounted for as derivatives but treated as pending transactions. Where embedded derivatives are identified that are required to be separated from the pending transactions, they are accounted for separately. To take advantage of market opportunities or cover possible peak demand, a nonmaterial volume of transactions may be entered into for which the possibility of immediate resale cannot be excluded. Such transactions are allocated to separate portfolios upon acquisition and accounted for as derivatives according to IAS 39.

Derivatives are carried at fair value. Positive fair values at the end of the reporting period are reflected in financial assets, negative fair values in financial liabilities. Changes in the fair values of transactions in nonfinancial goods accounted for according to IAS 39 relate to embedded derivatives that were not designated as hedging instruments but classified as stand-alone derivatives that had to be separated from their host contracts. Changes in the fair values of derivatives are recognized directly in profit or loss except where hedge accounting is used. Changes in the fair values of forward exchange contracts and currency options serving as hedging instruments for items in the statement of financial position are reflected in other financial income and expenses as exchange gains or losses. Changes in forward exchange contracts used to hedge forecasted transactions in foreign currencies are recognized in the other operating result, as are changes in the fair values of embedded derivatives.

Changes in the fair values of the effective portion of derivatives designated as cash flow hedges are initially recognized outside profit or loss in accumulated other comprehensive income. They are reclassified to profit or loss when the underlying transaction is realized. If such a derivative is sold or ceases to qualify for hedge accounting, the change in its value continues to be recognized in accumulated other comprehensive income until the forecasted transaction is realized. If the forecasted transaction is no longer probable, the amount previously recognized in accumulated other comprehensive income has to be reclassified to profit or loss. The ineffective portion of gains or losses on derivatives designated as cash flow hedges is recognized either in the other operating result or in the financial result, depending on the type of underlying transaction.

The income and expense reflected in the financial result pertaining to the derivatives and the underlying transactions are shown separately. Income and expense are not offset.

Leasing

A lease is an agreement whereby the lessor assigns to the lessee the right to use an asset for an agreed period of time in return for a payment or series of payments. Leases are classified as either finance or operating leases. Leasing transactions that transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee are treated as finance leases. All other leasing agreements are classified as operating leases. Whether an agreement constitutes a lease or contains a lease is determined upon inception of the contract.

Where the Covestro Group is the lessee in a finance lease, the leased asset is capitalized at the lower of the fair value of the asset and the present value of the minimum lease payments at the beginning of the lease term and simultaneously recognized under financial liabilities. The minimum lease payments are divided into the interest portion and the principal portion of the remaining obligation, which is determined using the effective interest method. The leased asset is depreciated by the straight-line method over the shorter of its estimated useful life or the lease term.

Where a company in the Covestro Group is the lessee in an operating lease, the lease payments are expensed. Where Covestro is the lessor, the lease payments received are recognized as income. Assets leased to third parties under an operating lease continue to be recognized under property, plant and equipment in the Covestro Group's statement of financial position.

Acquisition accounting

Acquired businesses are accounted for using the acquisition method, which requires that the assets acquired and liabilities assumed be recorded at their respective fair values on the date control is obtained. Ancillary acquisition costs are recognized as expenses in the periods in which they occur.

The application of the acquisition method requires certain estimates and assumptions to be made, especially concerning the fair values of the acquired intangible assets, property, plant and equipment and the liabilities assumed at the acquisition date, and the useful lives of the acquired intangible assets, property, plant and equipment.

Measurement is based to a large extent on anticipated cash inflows or outflows. If actual cash inflows or outflows vary from those used in calculating fair values, this may materially affect the future results of operations.

For significant acquisitions, the purchase price allocation is carried out with assistance from independent third-party valuation specialists. The valuations are based on the information available at the acquisition date.

In step acquisitions, the fair values of the acquired entity's assets and liabilities are measured in accordance with IFRS 3 at the date on which control is obtained. Any resulting adjustments to the fair value of the existing interest are recognized in profit or loss. The carrying amount of the assets and liabilities already recognized in the statement of financial position is then adjusted accordingly.

Procedure used in global impairment testing and its impact

Impairment tests are performed at the level of cash-generating units (CGU). A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Covestro Group regards its strategic business entities as cash-generating units and subjects them to global impairment testing. The strategic business entities constitute the first financial reporting level below the reportable segments.

Cash-generating units and unit groups are globally tested if there is an indication of possible impairment. Those to which goodwill is allocated are tested at least annually.

Impairment testing involves comparing the carrying amount of each cash-generating unit to the recoverable amount, which is the higher of its fair value less costs of disposal or value in use. If the carrying amount exceeds the recoverable amount, an impairment loss must be recognized for the difference. If a strategic business entity or entity group is found to be impaired, an impairment loss is first recognized on any goodwill allocated to it. Any remaining part of the impairment loss is then allocated among the other assets of the strategic business entity or entity group in proportion to their carrying amounts. The resulting expense is reflected in the functional item of the income statement in which the depreciation or amortization of the respective assets is recognized. The same applies to income from impairment loss reversals that do not relate to goodwill.

The recoverable amount is generally determined on the basis of the fair value less costs of disposal, taking into account the present value of the future net cash flow as market prices for the individual units are not normally available. These are forecasted on the basis of the Covestro Group's current planning, the planning horizon normally being three to five years. Forecasting involves making assumptions, especially regarding future selling prices, sales volumes and costs. Where the recoverable amount is the fair value less costs of disposal, the cash-generating unit is measured from the viewpoint of an independent market participant. Where the recoverable amount is the value in use, the cash-generating unit is measured as currently used. In either case, net cash flows beyond the planning period are determined on the basis of long-term business expectations using the respective individual growth rates derived from market information. The measurement of fair value less costs of disposal is based on unobservable inputs (Level 3).

The net cash inflows are discounted at a rate equivalent to the weighted average cost of capital, which is calculated as the weighted average cost of equity and cost of debt. To take into account the risk and return profiles of the Covestro Group, an after-tax cost of capital is calculated and a specific capital structure is defined by benchmarking against comparable companies in the same industry sector. The cost of equity corresponds to the return expected by Covestro management, while the cost of debt is based on the conditions on which comparable companies can obtain long-term financing. Both components are derived from capital market information.

The growth rates applied for impairment testing and the capital cost factors used to discount the expected cash flows can be found in the relevant notes of the published Combined Financial Statements.

No impairment losses were recognized on goodwill in the reporting period on the basis of the update of the global annual impairment testing of the cash-generating units.

Although the estimates of the useful lives of certain assets, assumptions concerning the macroeconomic environment and developments in the industries in which the Covestro Group operates, and estimates of the discounted future cash flows are believed to be appropriate, changes in assumptions or circumstances could require changes in the analysis. This could lead to additional impairment losses in the future or – except in the case of goodwill – to reversals of previously recognized impairment losses if developments are contrary to expectations.

Capital management

As of September 30, 2015, the equity of the Covestro Group consists of the equity of Covestro AG, reserves, other equity components and the equity attributable to noncontrolling interests. Until August 31, 2015, Covestro was financed mainly by Bayer. Conclusion of a syndicated credit facility (Syndicated Multicurrency Term and Revolving Credit Facilities Agreement) on September 4, 2015, provided the basis for an independent financing structure. Further information about this and the inter-Group interim financing provided by the Bayer Group is given under "Financing" in Note 8.

4 Segment Reporting

The Board of Management of Covestro AG, as the chief operating decision-maker of the Covestro Group, allocates resources to the operating segments and assesses their performance. The reportable segments and regions are identified, and the disclosures selected, in line with the internal financial reporting system (management approach) and based on the Covestro Group's accounting policies, which are outlined in Note 3. As of September 30, 2015, the Covestro Group comprises three reportable segments with the following activities:

Polyurethanes

Development, production and marketing of high-quality precursors for flexible and rigid polyurethane foam. These components are isocyanates (TDI, MDI) and polyols. Flexible foam is used primarily in the furniture and automotive industries (e.g. cushions, mattresses, automobile seats); rigid foam is used in particular as insulating material in the construction industry and in logistics to optimize refrigeration chains. The segment operates production facilities worldwide as well as systems houses for customer-specific application solutions.

Polycarbonates

Development, production and marketing of the engineering plastic polycarbonate in the form of granules and semi-finished products (sheets). The material is used primarily in the automobile industry (lightweight construction, glazing) and the construction industry (e.g. large roof structures). It is also used in the electrical and electronics industry (e.g. computer cases, DVDs), the medical technology sector and the lighting industry (e.g. for LED components). The Covestro Group produces polycarbonate all around the world and processes it at compounding centers to meet specific customer requirements.

Coatings, Adhesives, Specialties

Development, production and marketing of polyurethane-based, specialty raw materials for coatings, adhesives and sealants as well as specialties. Components include the isocyanates HDI and IPDI. Produced at facilities located throughout the world, these products are used primarily in the transportation and construction industries, where the materials serve as corrosion protection, for instance. Special raw materials are used in the cosmetics, textiles and health care sectors, among others.

Business activities that cannot be allocated to any of the above reportable segments are reported under "All other segments." The external sales from these activities are mainly based on by-products of chlorine production and use.

The costs of Corporate Center functions, the elimination of intersegment transfers, and higher or lower expenses for long-term stock-based compensation arising from fluctuations in the performance of Bayer AG stock are presented in our segment reporting as "Corporate Center and Reconciliation."

The segment data are calculated as follows:

- The intersegment transfers reflect intra-Group transactions, which are primarily measured at cost of production of the goods transferred.
- EBITDA is the EBIT as reported in the income statement plus amortization and impairment losses on intangible assets and depreciation and impairment losses on property, plant and equipment, less impairment loss reversals.
- Although adjusted EBIT and adjusted EBITDA are not defined in the International Financial Reporting Standards, they represent key performance indicators for the Covestro Group. The special items comprise effects that are nonrecurring or do not regularly recur or attain similar magnitudes. These indicators are intended to give a clear picture of the results of operations and ensure the comparability of data over time.

The following tables show segment data for the third quarter and first nine months of 2015.

Segment Reporting Third Quarter

				Other/Consolidation		
	Polyurethanes	Polycarbonates	Coatings, Adhesives, Specialties	All other segments	Corporate Center and Reconciliation	Group
	€ million	€ million	€ million	€ million	€ million	€ million
3rd quarter 2015						
Net sales (external)	1,512	819	519	170	–	3,020
Intersegment transfers	20	5	12	–	(37)	–
Net sales (total)	1,532	824	531	170	(37)	3,020
Adjusted EBIT	72	128	118	(5)	(8)	305
Adjusted EBITDA	175	171	137	(4)	(8)	471
3rd quarter 2014						
Net sales (external)	1,652	725	506	179	–	3,062
Intersegment transfers	22	8	11	–	(41)	–
Net sales (total)	1,674	733	517	179	(41)	3,062
Adjusted EBIT	74	(2)	106	10	(11)	177
Adjusted EBITDA	162	39	124	12	(11)	326

Segment Reporting First Nine Months

				Other/Consolidation		
	Polyurethanes	Polycarbonates	Coatings, Adhesives, Specialties	All other segments	Corporate Center and Reconciliation	Group
	€ million	€ million	€ million	€ million	€ million	€ million
First nine months 2015						
Net sales (external)	4,703	2,413	1,616	552	–	9,284
Intersegment transfers	61	17	37	–	(115)	–
Net sales (total)	4,764	2,430	1,653	552	(115)	9,284
Adjusted EBIT	256	306	346	11	(36)	883
Adjusted EBITDA	561	437	407	16	(36)	1,385
First nine months 2014						
Net sales (external)	4,689	2,080	1,464	548	–	8,781
Intersegment transfers	66	20	36	–	(122)	–
Net sales (total)	4,755	2,100	1,500	548	(122)	8,781
Adjusted EBIT	233	6	289	19	(37)	510
Adjusted EBITDA	491	127	346	24	(37)	951

The following tables show information for geographical areas for the third quarter and first nine months of 2015. The EMLA region consists of Europe, the Middle East, Africa and Latin America except Mexico, which together with the United States and Canada forms the NAFTA region. The APAC region includes Asia and the Pacific. The reconciliation comprises the elimination of intra-Group items and transactions (interregional sales).

Regional Reporting Third Quarter

	EMLA	NAFTA	APAC	Other/ Consolidation	Total
	€ million	€ million	€ million	€ million	€ million
3rd quarter 2015					
Net sales (external) by market	1,352	852	816	–	3,020
Net sales (external) by point of origin	1,350	864	806	–	3,020
Interregional sales	155	125	33	(313)	–
3rd quarter 2014					
Net sales (external) by market	1,396	789	877	–	3,062
Net sales (external) by point of origin	1,393	809	860	–	3,062
Interregional sales	190	167	51	(408)	–

Regional Reporting First Nine Months

	EMLA	NAFTA	APAC	Other/ Consolidation	Total
	€ million	€ million	€ million	€ million	€ million
First nine months 2015					
Net sales (external) by market	4,140	2,571	2,573	–	9,284
Net sales (external) by point of origin	4,127	2,612	2,545	–	9,284
Interregional sales	548	424	101	(1,073)	–
First nine months 2014					
Net sales (external) by market	4,186	2,233	2,362	–	8,781
Net sales (external) by point of origin	4,182	2,278	2,321	–	8,781
Interregional sales	570	460	109	(1,139)	–

Reconciliation

The following table shows the reconciliation of adjusted EBITDA of the segments to income before income taxes of the Covestro Group.

Reconciliation of Segments' Adjusted EBITDA to Group Income Before Income Taxes

	3rd quarter 2014	3rd quarter 2015	First nine months 2014	First nine months 2015
	€ million	€ million	€ million	€ million
Adjusted EBITDA of segments	337	479	988	1,421
Adjusted EBITDA of Corporate Center	(11)	(8)	(37)	(36)
Adjusted EBITDA	**326**	**471**	**951**	**1,385**
Adjusted depreciation, amortization and impairment losses of segments	(149)	(166)	(441)	(502)
Adjusted depreciation, amortization and impairment losses	**(149)**	**(166)**	**(441)**	**(502)**
Adjusted EBIT of segments	188	313	547	919
Adjusted EBIT of Corporate Center	(11)	(8)	(37)	(36)
Adjusted EBIT	**177**	**305**	**510**	**883**
Special items of segments	(2)	(16)	(21)	(84)
Special items of Corporate Center	–	(2)	–	(39)
Special items	**(2)**	**(18)**	**(21)**	**(123)**
EBIT of segments	186	297	526	835
EBIT of Corporate Center	(11)	(10)	(37)	(75)
EBIT	**175**	**287**	**489**	**760**
Financial result	(35)	(56)	(91)	(143)
Income before income taxes	**140**	**231**	**398**	**617**

5 Scope of Consolidation

Changes in the scope of consolidation

The consolidated financial statements as of September 30, 2015, included 49 fully or proportionally consolidated companies (December 31, 2014: 95 companies). Thereof, as in the statements as of December 31, 2014, one joint operation was accounted for in line with Covestro's interest in its assets, liabilities, revenues and expenses in accordance with IFRS 11 (Joint Arrangements). Additionally, as of September 30, 2015, one joint venture (December 31, 2014: two joint ventures) and two associated companies (unchanged from December 31, 2014) were accounted for in the consolidated financial statements using the equity method according to IAS 28 (Investments in Associates and Joint Ventures).

Acquisitions and divestitures

Acquisitions

On March 2, 2015, Covestro successfully completed the acquisition of all shares of Thermoplast Composite GmbH, Markt Bibart, Germany, a technology leader specializing in the production of thermoplastic fiber composites. The aim of the acquisition is to expand the range of polycarbonate materials for major industries to include composites made from continuous fiber-reinforced thermoplastics. A purchase price of €18 million was agreed. This includes a variable component of €4 million. The purchase price pertained mainly to patents, technologies and goodwill.

The effect of this transaction on the Covestro Group's assets and liabilities in the first nine months of 2015 as of the acquisition or adjustment date is shown in the following table. Net of acquired cash and cash equivalents, the transaction resulted in the cash outflow as shown.

Acquired Assets and Assumed Liabilities (Fair Values at the Respective Acquisition Date)

	Thermoplast Composite GmbH
	€ million
Goodwill	7
Patents and technologies	18
Other liabilities	(1)
Deferred tax liabilities	(6)
Net assets	**18**
Purchase price	**18**
Liabilities for future payments	(4)
Net cash outflow for acquisitions	**14**

In the period from March 2 to September 30, 2015, Thermoplast Composite GmbH contributed €0 million to sales and minus €2 million to income after income taxes of the Covestro Group. Had the acquisition already been made on January 1, 2015, there would be no substantial change to sales and earnings after income taxes of the Covestro Group for the first nine months of 2015.

Divestitures

No significant divestitures were made in the first nine months of 2015.

6 Financial Instruments

The following tables show the carrying amounts and fair values of financial assets and liabilities by category of financial instrument. The line items "Other receivables," "Trade accounts payable" and "Other liabilities" contain both financial instruments and nonfinancial assets or liabilities (such as other tax receivables or liabilities and advance payments for services to be received in the future).

Carrying Amounts of Financial Instruments According to IAS 39 and Their Fair Values

	Sep. 30, 2015				
		Valuation according to IAS 39			
	Carrying amount Sept. 30, 2015	Amortized cost	Fair value recognized outside profit or loss	Fair value recognized in profit or loss	Fair value
	€ million	€ million	€ million	€ million	€ million
Assets					
Trade accounts receivable	1,740				
Loans and receivables	1,740	1,740			1,740
Other financial assets	57				
Loans and receivables	25	25			25
Available-for-sale financial assets	5	4	1		5
Derivatives that do not qualify for hedge accounting	27			27	27
Other receivables	512				
Loans and receivables	239	239			237
Nonfinancial assets	273				
Cash and cash equivalents	424				
Loans and receivables	424	424			424
Liabilities					
Financial liabilities	5,429				
Carried at amortized cost	5,397	5,397			5,484
Derivatives that do not qualify for hedge accounting	32			32	32
Trade accounts payable	1,459				
Carried at amortized cost	1,437	1,437			1,437
Nonfinancial liabilities	22				
Other liabilities	422				
Carried at amortized cost	276	276			270
Derivatives that do not qualify for hedge accounting	8			8	8
Nonfinancial liabilities	138				

Carrying Amounts of Financial Instruments According to IAS 39 and Their Fair Values

	Dec. 31, 2014				
		Valuation according to IAS 39			
	Carrying amount Dec. 31, 2014	Amortized cost	Fair value recognized outside profit or loss	Fair value recognized in profit or loss	Fair value
	€ million	€ million	€ million	€ million	€ million
Assets					
Trade accounts receivable	1,561				
Loans and receivables	1,561	1,561			1,561
Other financial assets	470				
Loans and receivables	428	428			428
Available-for-sale financial assets	6	5	1		6
Derivatives that qualify for hedge accounting	7		7		7
Derivatives that do not qualify for hedge accounting	29			29	29
Other receivables	351				
Loans and receivables	94	94			94
Nonfinancial assets	257				
Cash and cash equivalents	201				
Loans and receivables	201	201			201
Liabilities					
Financial liabilities	4,722				
Carried at amortized cost	4,717	4,717			4,729
Derivatives that do not qualify for hedge accounting	5			5	5
Trade accounts payable	1,522				
Carried at amortized cost	1,498	1,498			1,498
Nonfinancial liabilities	24				
Other liabilities	278				
Carried at amortized cost	114	114			114
Derivatives that qualify for hedge accounting	3		3		3
Derivatives that do not qualify for hedge accounting	11			11	11
Nonfinancial liabilities	150				

Because of the generally short maturities of cash and cash equivalents, trade accounts receivable and payable, and other receivables and liabilities, their carrying amounts do not significantly differ from their fair values.

Other financial assets and liabilities include receivables and liabilities under finance leases in which Covestro is the lessor or lessee and which are measured in accordance with IAS 17.

The fair values stated for noncurrent financial assets and liabilities are the present values of the respective future cash inflows or outflows. These are determined by discounting the cash flows at a closing-date interest rate that takes into account the term of the assets or liabilities and the creditworthiness of the counterparty. Where a market price is available, however, this is deemed to be the fair value.

The fair values of available-for-sale financial assets correspond to quoted prices in active markets for identical assets (Level 1).

The fair values of derivatives for which no publicly quoted market prices exist are determined using valuation techniques based on observable market data as of the ends of the reporting periods (Level 2). In applying valuation techniques, credit value adjustments are determined to allow for the contracting party's credit risk. The respective currency forward contracts are measured individually at their forward rates or forward prices on the closing date. These depend on spot rates or prices including time spreads.

Fair values measured using unobservable inputs are categorized within Level 3 of the fair value hierarchy.

The following table reflects the system for determining fair values in accordance with IFRS 13.

Fair Value Hierarchy of Financial Instruments

	Fair value Dec. 31, 2014	Level 1	Level 2	Level 3	Fair value Sep. 30, 2015	Level 1	Level 2	Level 3
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Financial assets carried at fair value								
Derivatives that qualify for hedge accounting	7		7					
Derivatives that do not qualify for hedge accounting	29		6	23	27		4	23
Available for sale financial assets	1	1			1	1		
Financial liabilities carried at fair value								
Derivatives that qualify for hedge accounting	3		3					
Derivatives that do not qualify for hedge accounting	16		8	8	40		32	8

The financial assets and liabilities recognized at fair value based on unobservable inputs (Level 3) are primarily embedded derivatives.

Embedded derivatives are separated from their respective host contracts, which are generally sales or purchase agreements relating to the operational business. The embedded derivatives cause the cash flows from the contracts to vary with fluctuations in exchange rates, commodity prices or other prices, for example. The internal measurement of embedded derivatives is mainly performed using the discounted cash flow method, which is based on unobservable inputs. These included planned sales and purchase volumes, and prices derived from market data.

Changes in the Net Amount of Financial Assets and Liabilities Recognized at Fair Value Based on Unobservable Inputs

	2015
	€ million
Net carrying amounts, Jan. 1	**15**
Gains/(losses) recognized in profit or loss	–
Gains/(losses) recognized outside profit or loss	–
Additions of assets/(liabilities)	–
Settlements of (assets)/liabilities	–
Reclassifications	–
Net carrying amounts, Sep. 30	**15**

No gains or losses from divestments were recorded in the first nine months of 2015.

7 Legal Risks

As an international enterprise, the Covestro Group is exposed to numerous legal risks, particularly in the areas of product liability, competition and antitrust law, patent disputes, tax law and environmental law. The outcome of any current or future proceedings cannot be predicted. It is therefore possible that legal judgments or regulatory decisions or future settlements could give rise to expenses that are not covered, or not fully covered, by insurers' compensation payments and could significantly affect the earnings of the Covestro Group.

Carbon monoxide pipeline from Dormagen to Uerdingen

The carbon monoxide pipeline is intended to connect the chemical production sites at Dormagen and Krefeld-Uerdingen and complement the network already existing between Dormagen and Leverkusen. The aim is to ensure a safe and reliable supply of carbon monoxide to and across all sites. Although the pipeline was almost completed by the end of 2009, it cannot currently be put into operation because of court proceedings and an ongoing planning amendment procedure. Following confirmation by the Düsseldorf Administrative Court in 2011 that there were no grounds to challenge the material aspects of the planning permission decision, in particular the safety of the materials used and the legal conformity of the relevant pipeline act (Rohrleitungsgesetz), the plaintiffs and the regional government against which legal proceedings had been instituted lodged appeals before the Higher Administrative Court in Münster. In 2014, the Münster Higher Administrative Court raised no objections in principle to the safety and routing of the pipeline, but questioned the constitutionality of the pipeline act which forms the legal basis for the project. The decision on the constitutionality of the pipeline act is now a matter for the German Federal Constitutional Court. The Covestro Group does not share the doubts of the Münster Higher Administrative Court as to the constitutionality of the pipeline act and believes there are good prospects for putting the pipeline into operation.

Carbon monoxide pipeline from Dormagen to Leverkusen

In 2014, an action was brought against the Cologne Regional Administration before the Administrative Court in Cologne in which the individual plaintiff is demanding that approval for operation of the carbon monoxide pipeline between Dormagen and Leverkusen be revoked. The plaintiff fears acute danger to nearby residents on account of alleged safety deficiencies. The Covestro Group believes there is a high probability that the action will be dismissed, since the safety of the pipeline has been demonstrated by an expert opinion of the German Technical Inspection Association (Technischer Überwachungsverein, TÜV).

Reimbursement of the costs for CO_2 (carbon dioxide) certificates obtained by Lyondell Bayer Manufacturing Maasvlakte VOF, Rotterdam, Netherlands

In 2013, following unsuccessful negotiations, the company Utility Centre Maasvlakte Leftbank (UCML), Rotterdam, Netherlands, an E.ON Group company, asserted a claim for reimbursement against the joint venture Lyondell Bayer Manufacturing Maasvlakte VOF. UCML is claiming the cost of CO_2 certificates that UCML had to purchase under the EU emissions trading system in order to perform its supply agreement with Lyondell Bayer Manufacturing Maasvlakte VOF. The Covestro Group, as a partner in the joint venture, bears 50% of any liability for potential reimbursement claims against Lyondell Bayer Manufacturing Maasvlakte VOF. Since negotiations with UCML and E.ON also failed to result in an agreement, arbitration proceedings were instigated in 2014.

8 Related Parties

Related parties as defined in IAS 24 (Related Party Disclosures) are those legal entities and natural persons that are able to exercise at least significant influence over Covestro AG and its subsidiaries or over which Covestro AG or its subsidiaries are able to exercise control or a significant influence. They include, in particular, Bayer AG and its subsidiaries which are not part of the Covestro scope of consolidation, nonconsolidated subsidiaries, joint ventures, associates, post-employment benefit plans and the corporate officers of Covestro AG.

Receivables from and Liabilities to Related Parties

	Dec. 31, 2014		Sep. 30, 2015	
	Receivables	Liabilities	Receivables	Liabilities
	€ million	€ million	€ million	€ million
Bayer AG	374	108	15	118
Bayer Group companies	113	4,005	69	4,756
Nonconsolidated subsidiaries and associates	2	5	4	7
Joint ventures	2	–	1	–
Associates	4	–	4	–

Sales and Purchases of Goods and Services to/from Related Parties

	First nine months 2014		First nine months 2015	
	Sales of goods and services	Purchases of goods and services	Sales of goods and services	Purchases of goods and services
	€ million	€ million	€ million	€ million
Bayer AG	15	34	11	34
Bayer Group companies	71	792	58	697
Nonconsolidated subsidiaries and associates	12	–	29	2
Joint ventures	12	–	6	–
Associates	7	553	9	791

Transactions with Bayer AG and its subsidiaries

The sale of products and goods and other typical business activities result in revenues from Bayer AG and its subsidiaries.

The goods and services received mainly comprise operational goods and service transactions and services performed by the service companies Bayer Business Services GmbH, Leverkusen, Bayer Technology Services GmbH, Leverkusen, and Currenta GmbH & Co. OHG, Leverkusen.

Receivables and payables vis-à-vis related parties mainly comprise leasing and financing matters, trade in goods and services and other transactions.

Pursuant to the shareholder resolution of August 14, 2015, and an agreement of August 14, 2015, the control and profit and loss transfer agreement between Bayer AG and Covestro Deutschland AG was terminated with effect from August 31, 2015.

By way of an agreement signed on August 28, 2015, Bayer AG and Covestro Deutschland AG agreed to release Covestro Deutschland AG, against a one-time payment, from all further obligations in connection with existing pension entitlements of employees who left the company prior to July 1, 2002, and who worked in what was then the Polymers business area of Bayer AG. These pension provisions remained with Bayer AG following the carve-out of the former Polymers business from Bayer AG on January 1, 2003. Covestro Deutschland AG had previously been obliged to reimburse the proportional expense attributable to it, provided it was not covered by a corresponding provision, as well as the proportional administrative expense.

Through the legal reorganization, new central corporate functions – such as finance, taxes, corporate accounting, internal auditing and investor relations – have been created within the Covestro Group. Covestro has also assumed functions – primarily payroll accounting, accounting, IT and engineering services - that were previously performed by the Bayer service companies. In this connection, assets and liabilities were transferred to Covestro companies by way of purchase agreements.

Legal separation of the Covestro Group led to an €1,162 million decline in equity of Covestro AG. The consideration agreed for share deals and asset deals has the effect of reducing equity in the case of acquisitions and of increasing equity in the case of divestitures. The following significant asset deals and share deals took place during the reporting period:

- Acquisition of 100% of the shares of Covestro S.L., Sant Joan Despi, Spain, from Bayer AG at a purchase price of €83 million.
- Acquisition of 100% of the shares of Covestro Polyurethanes B.V., Nieuwegein, Netherlands, from Bayer B.V., Mijdrecht, Netherlands, at a purchase price of €202 million.
- Acquisition of 100% of the shares of Covestro B.V., Foxhol, Netherlands, from Bayer B.V., Mijdrecht, Netherlands, at a purchase price of €37 million and with a capital increase of €81 million.
- Acquisition of 100% of the shares of Covestro Polymers (Qingdao) Co. Ltd., Quingdao, China, from Bayer (China) Limited, Shanghai, China, at a purchase price of €7 million.
- Acquisition of 100% of the shares of Covestro A/S, Otterup, Denmark, from Bayer A/S, Copenhagen, Denmark, at a purchase price of €39 million.
- Acquisition of 95.6% of the shares of Covestro (Taiwan) Ltd., Taipei, Taiwan, from Bayer B.V., Mijdrecht, Netherlands, at a purchase price of €70 million.
- Acquisition of 100% of the shares of Guangzhou Covestro Polymers Co. Ltd., Guangzhou, China, from Bayer (China) Limited, Shanghai, China, at a purchase price of €23 million.
- Acquisition of 100% of the shares of Covestro NV, Antwerp, Belgium, from Bayer Antwerpen NV, Antwerp, Belgium, at a purchase price of €537 million.
- Acquisition of 100% of the shares of Covestro S.r.l., Milan, Italy, from Bayer S.p.A., Milan, Italy, at a purchase price of €107 million.
- Acquisition of 99% of the shares of Covestro S.p.A., Milan, Italy, from Bayer S.p.A., Milan, Italy, at a purchase price of €6 million.
- Acquisition of 100% of the shares of Covestro Indústria e Comércio de Polimeros Ltda., São Paulo, Brazil, from Bayer Hispania, S.L., Sant Joan Despi, Spain, at a purchase price of €4 million and with a capital increase of €12 million under retention of certain assets and liabilities, including particularly future payment obligations in connection with the closure of the production site at Belford Roxo, Brazil, announced in March 2015.
- Capital increase of €116 million by way of a cash contribution in Bayer MaterialScience (China) Company Limited, Shanghai, China, by Bayer (China) Limited, Shanghai, China, upon the transfer of Covestro business operations to Bayer MaterialScience (China) Company Limited at a purchase price of €639 million.
- Transfer of 99.99% of the shares of Bayer Thai Company Limited, Bangkok, Thailand, by Covestro Deutschland AG to Bayer Holding (Thailand) Co., Ltd., Bangkok, Thailand, at a transaction price of €499 million and transfer of business operations from Bayer Thai Company Limited, Bangkok, Thailand, to Covestro (Thailand) Co. Ltd., Bangkok, Thailand, at a transaction price of €370 million.
- Transfer of Covestro business operations from Bayer de México, Mexico City, Mexico, to Covestro S.A. de C.V., Mexico City, Mexico, at a purchase price of €169 million. €36 million were recognized as deferred tax assets.
- Cash contributions by Bayer AG of €140 million to the capital stock and €715 million to the capital reserves of Covestro AG.
- With economic effect from September 1, 2015, land, production facilities, office buildings and other real estate were transferred by Bayer to Covestro. A purchase price of €80 million was agreed for these assets which were previously used by Covestro or for Covestro's business operations. On account of the increased tax base, €86 million were recognized as deferred tax assets.

While the aforementioned share deals and asset deals impacted equity, the following transactions made during the reporting period had no effect on the Covestro Group's equity:

- Contribution in kind of 100% of the shares of Covestro LLC, Pittsburgh, United States, by Bayer Corp., Pittsburgh, United States, to Covestro B.V., Foxhol, Netherlands, with a transaction volume of €1,107 million.
- Contribution in kind of 99.30% of the shares of Covestro (India) Private Limited, Thane, India, by Bayer AG with a transaction volume of €42 million.
- Contribution of 100% of the shares of Covestro Deutschland AG to the capital reserves of Covestro AG with a transaction volume of €1,766 million.

With the exception of those transactions involving cash contributions, the aforementioned transactions were classified as transactions under common control.

Financing

As of September 30, 2015, the Covestro Group is financed by loan agreements with Bayer Antwerpen NV, Antwerp, Belgium, comprising a total credit volume of €4,435 million. These loans are intended to cover the short- to medium-term financing of the Covestro Group's day-to-day business; interest is due upon maturity and the loans are accounted for at amortized cost using the effective interest method. They are related to a Syndicated Multicurrency Term and Revolving Credit Facilities Agreement (facilities agreement) with a total volume of €2,700 million concluded on September 4, 2015, between Covestro AG as the borrower and Deutsche Bank Luxembourg S.A., Bank of America Merrill Lynch International Limited, Citigroup Global Markets Limited, Deutsche Bank AG and Unicredit Bank AG as the creditors.

No loans had been drawn against the facilities agreement as of September 30, 2015. Transaction costs associated with the facilities agreement were accounted for as deferred expense of €2.7 million. They will be allocated using the effective interest method once loans are drawn and utilized.

In preparation for the stock market flotation, Covestro incurred costs of €12 million through September 30, 2015 for external consulting and for fees and other expenses.

9 Events After the End of the Reporting Period

On October 2, 2015, the Stockholders' Meeting of Covestro AG resolved to increase the capital stock of €140 million by €62.5 million to €202.5 million by issuing 62,500,000 no-par bearer shares. The new shares of Covestro AG were placed on the regulated market of the Frankfurt Stock Exchange on October 6, 2015, with subsequent admission to trading in the Prime Standard segment. The issue price was €24.00 per share. Fees for the placement amounted to €15 million. In the consolidated financial statements as of December 31, 2015, these transaction costs, net of income taxes, will be deducted from consolidated equity as a reduction of the issue proceeds.

On October 6, 2015, Bayer AG made a cash contribution of €1,000 million to the capital reserves of Covestro AG.

On October 7, 2015, Covestro AG received proceeds of €1,485 million from the stock market flotation (IPO net proceeds). The cash inflows were used by October 7, 2015, to pay back loans from the Bayer Group totaling €2,375 million.

Leverkusen, November 10, 2015
Covestro AG
The Board of Management

Patrick Thomas   Frank H. Lutz   Dr. Klaus Schäfer   Dr. Markus Steilemann

Glossary

€, EUR	Euro: The consolidated interim financial statements are drawn up in euros. Amounts are stated in millions of euros (€ million) except where otherwise indicated.
AktG	Aktiengesetz – German Stock Corporation Act
APAC	Asia and Pacific region
Adjusted EBIT	Earnings before financial result and taxes before special items
Adjusted EBITDA	Earnings before financial result, taxes, depreciation and amortization before special items
CFRoI	The cash flow return on investment is the difference between the gross cash flow in the period and the cost of reproducing depletable assets, divided by the capital invested. It is thus a measure of the return on capital employed in the period.
Core volume growth	Core volume growth refers to the core products in the Polyurethanes, Polycarbonates and Coatings, Adhesives, Specialties segments. It is calculated as the percentage change in externally sold volumes in thousand tons compared to the prior year. Covestro also takes advantage of business opportunities outside its core business, for example the sale of raw materials and intermediates such as hydrochloric acid, sodium hydroxide solution and styrene. These transactions are not included in core volume growth.
Cost of capital	Weighted average cost of capital calculated from the cost of equity and the cost of debt
CVA	The cash value added is the difference between the gross cash flow and gross cash flow hurdle. It is therefore the amount by which the gross cash flow exceeds the return and reproduction requirements. If the cash value added is positive, the investors' return and reproduction requirements have been satisfied and value has been created for the company.
Due diligence	Comprehensive appraisal of a company, especially regarding its economic, legal, tax and financial situations
EBIT	Earnings before financial result and taxes
EBITDA	Earnings before financial result, taxes, depreciation and amortization
EEG	Erneuerbare Energie-Gesetz – German Renewable Energies Act
EHS	Environment, health and safety
EMEA	Europe, Middle East and Africa region
EMLA	Europe, Middle East, Africa and Latin America (excl. Mexico) region
EU	European Union
Financing cash flow	Cash flow from financing activities according to IAS 7
Free operating cash flow (FOCF)	Operating cash flow less cash outflows for property, plant, equipment and intangible assets
Gross cash flow	Operating cash flow disregarding changes in inventories, trade accounts receivable and payable, other working capital and other noncash items
GDP	Gross domestic product
HDI	Hexamethylene diisocyanate, a chemical compound from the aliphatic isocyanates group
HGB	Handelsgesetzbuch – German Commercial Code
HSEQ	Health, safety, environment and quality
IAS	International Accounting Standards as adopted by the EU
ICS	Internal control system

IFRS	International Financial Reporting Standards as adopted by the EU
Investing cash flow	Cash flow from investment activities according to IAS 7
IPDI	Isophorone diisocyanate, a chemical compound from the aliphatic isocyanates group
IPO	Initial public offering
IT	Information technology
LATAM	Latin America (excl. Mexico) region
MDI	Diphenylmethane diisocyanate, a chemical compound from the aromatic isocyanates group
NAFTA	USA, Canada and Mexico region
Net income	Income after income taxes attributable to the stockholders of Covestro AG
OPEC	Organization of the Petroleum Exporting Countries
Operating cash flow (net cash flow)	Cash flow from operating activities according to IAS 7
Return on capital employed (ROCE)	Ratio of adjusted earnings after taxes to the capital employed
TDI	Toluene diisocyanate, a chemical compound from the aromatic isocyanates group
UCML	Utility Centre Maasvlakte Leftbank
USA	United States of America
Value contribution	Difference between the adjusted earnings after taxes and the cost of capital employed; a positive value contribution means that value has been created.
World-scale plants	Covestro defines world-scale facilities on the basis of their annual production capacity in kilotons: MDI plants: from 400 kilotons per year TDI plants: from 300 kilotons per year Polyether polyol plants: from 300 kilotons per year Polycarbonate plants comprising individual production lines: from 100 kilotons per year
WphG	Wertpapierhandelsgesetz – German Securities Trading Act

Financial Calendar

2015 Annual Report.................................**February 23, 2016***

Q1 2016 Interim Report............................**April 25, 2016***

Annual Stockholders' Meeting 2016............**May 3, 2016***

*To be confirmed

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