

INTERIM REPORT

Financial Report as of March 31, 2016
First Quarter 2016



Covestro Group Key Data

	1st quarter 2015	1st quarter 2016	Change
	€ million	€ million	%
Sales	3,054	2,875	-5.9
Change in sales			
Volume	+2.3%	+5.3%	
Price	-4.4%	-10.5%	
Currency	+10.2%	-0.7%	
Portfolio	0.0%	0.0%	
Core volume growth¹	+1.7%	+8.5%	
Sales by region			
EMLA ²	1,368	1,301	-4.9
NAFTA ³	831	782	-5.9
APAC ⁴	855	792	-7.4
EBITDA⁵	393	508	+29.3
Adjusted EBITDA⁶	416	508	+22.1
EBIT⁷	206	340	+65.0
Adjusted EBIT⁸	251	340	+35.5
Financial result	(41)	(78)	-90.2
Net income⁹	115	182	+58.3
Earnings per share (in €)¹⁰	0.57	0.90	+58.3
Operating cash flow¹¹	184	124	-32.6
Cash outflows for additions of property, plant, equipment and intangible assets	94	47	-50.0
Free operating cash flow¹²	90	77	-14.4

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 with the prior year. Covestro also takes advantage of business opportunities outside its core business, for example the sale of raw materials and by-products 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 as of March 31, 2016

¹¹ Operating cash flow: cash flow from operating activities according to IAS 7

¹² Free operating cash flow: operating cash flow less cash outflows for property, plant, equipment and intangible assets

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About this Report

Forward-Looking Statements

This interim 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 Group 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 Group 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.

Percentage Deviations

Percentage deviations are only calculated and reported if they are no more than 100%. Larger deviations are reported as >100%, >200%, etc. If a deviation changes from positive to negative or vice versa or if it is greater than 1,000%, this is shown by a period.

Reference Period

Covestro has existed as a company within the meaning of IFRS since September 1, 2015. Therefore, all data for the reference period are as contained in the Combined Financial Statements. Please see the Notes to the Consolidated Financial Statements as of December 31, 2015, for further information about the Combined Financial Statements. The Covestro Annual Report 2015 can be downloaded free of charge at www.covestro.com.

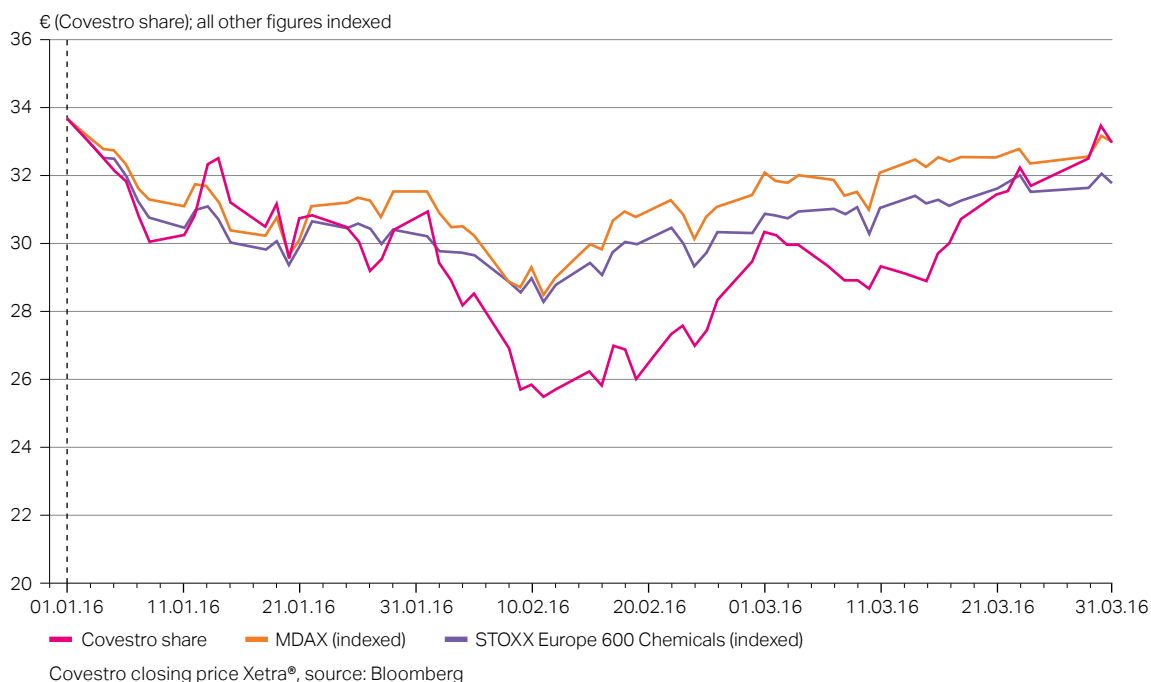
Abbreviations

The abbreviations used in this report are explained in the glossary of the Covestro Annual Report 2015.

This Interim Report was published in German and English on April 25, 2016. Only the German version is binding.

Covestro on the Capital Market

Performance of Covestro Stock Versus the Market in the First Quarter of 2016



Admittance to the STOXX Index

On April 1, 2016, around three months after its inclusion in the MDAX stock index, Covestro was admitted to another major index family – the STOXX Europe 600 and associated sector indices. Comprising 600 companies from 18 European countries, the STOXX Europe 600 is the first international index to include Covestro, thus enhancing its visibility on the stock markets.

Successful bond placement

Covestro has raised its profile with a broad spectrum of investors on the international capital market as well. In the first quarter of 2016, the company established a debt issuance program and, on March 3, 2016, successfully placed its first bonds with a total volume of €1.5 billion.

The liquidity acquired in this way was used particularly to replace financial liabilities to the Bayer Group. This included repaying a loan of €1.25 billion from Bayer that fell due in March 2016.

Stock moves in a volatile environment

On the international stock markets, share price performance was turbulent in the first quarter of 2016. The European markets particularly weakened at the start but then stabilized again in the last weeks of the quarter. Compared with the end of 2015, the MDAX was down 1.8% at 20,397.68 points, while the STOXX Europe 600 Chemicals declined 5.5% over the same period.

The Covestro share ended the first quarter of 2016 at a Xetra closing price of €32.96, which was 2.0% below the price at the end of 2015. Its performance was thus in line with the MDAX and better than the STOXX Europe 600 Chemicals.

The Board of Management and the Supervisory Board of Covestro AG will propose a dividend of €0.70 per share to the Annual Stockholders' Meeting on May 3, 2016. This corresponds to a dividend yield of 2.1% relative to the closing price of Covestro stock on December 30, 2015.

Buy recommendations from 13 analysts

In the first quarter of 2016, four more analysts included Covestro stock in their assessments. It was thus being assessed by 16 investment firms at the end of the quarter. 13 analysts issued buy recommendations, two gave neutral assessments and one had a negative opinion. The median target price for the stock was €37.

Interim Group Management Report

as of March 31, 2016

- Strong core volume growth at Polyurethanes and Polycarbonates
- Substantial EBITDA improvement with contributions from all segments
- Forecast for 2016 confirmed
- Successful placement of first bonds with a volume of €1.5 billion

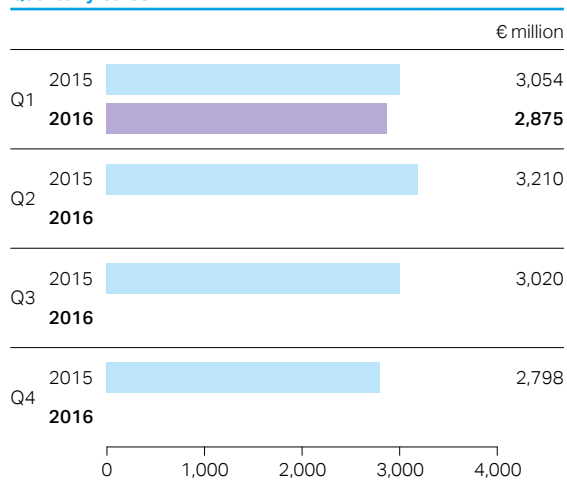
1. Business Development

Group sales in the first quarter of 2016 decreased year on year by 5.9% to €2,875 million (Q1 2015: €3,054 million). This resulted above all from declining selling prices in all three operating segments, especially Polyurethanes. The price decline was largely due to lower raw material prices. Higher volumes raised sales by 5.3% in the first quarter. Polycarbonates and Polyurethanes posted substantial gains, while the development of volumes at Coatings, Adhesives, Specialties had a slightly negative effect on sales, as anticipated.

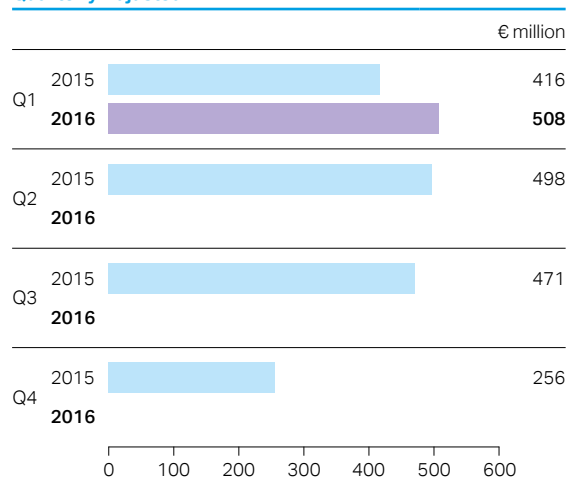
Sales in the Polyurethanes segment decreased by 9.7% in the first quarter of 2016, to €1,403 million (Q1 2015: €1,554 million). The Polycarbonates segment raised sales by 2.7% to €786 million (Q1 2015: €765 million). Sales in the Coatings, Adhesives, Specialties segment declined by 4.3% to €512 million (Q1 2015: €535 million).

At Group level, the core volume (in kilotons) increased by 8.5%. This was mainly attributable to the Polyurethanes and Polycarbonates segments, which posted strong growth of 10.4% and 8.5%, respectively. Core volume growth at Coatings, Adhesives, Specialties was impacted by the contractual termination of trading operations. This is why core volumes in this segment were reduced by 2.8%.

Covestro Group Quarterly Sales



Covestro Group Quarterly Adjusted EBITDA



In the first quarter of 2016, Group EBITDA increased by 22.1% to €508 million from an adjusted EBITDA of €416 million in the prior-year quarter. There were no special items requiring adjustment (Q1 2015: minus €23 million). The improvement in earnings was mainly due to higher volumes in the Polyurethanes and Polycarbonates segments. In addition, the decline in raw material prices outweighed the lower selling prices, especially in the Polycarbonates segment.

The Polycarbonates segment increased adjusted EBITDA by 52.6% to €177 million (Q1 2015: €116 million). In the Polyurethanes segment, adjusted EBITDA rose by 31.3% to €214 million (Q1 2015: €163 million). Adjusted EBITDA for the Coatings, Adhesives, Specialties segment was €139 million, 4.5% higher than the figure of €133 million in the prior-year quarter.

In the first quarter of 2016, the Covestro Group improved EBIT by 65.0% to €340 million (Q1 2015: €206 million). No expenses or proceeds were recognized as special items in the first quarter (Q1 2015: minus €45 million).

Research and development expenses in the first quarter of 2016 rose by 3.3% to €63 million (Q1 2015: €61 million).

After a financial result of minus €78 million (Q1 2015: minus €41 million), income before income taxes climbed to €262 million (Q1 2015: €165 million). After tax expense of €78 million (Q1 2015: €47 million), income after income taxes was €184 million (Q1 2015: €118 million). After noncontrolling interests, net income amounted to €182 million (Q1 2015: €115 million).

In the first quarter of 2016, operating cash flow decreased by 32.6% to €124 million (Q1 2015: €184 million). The main factors in this decrease were an increase in cash tied up in working capital and higher income tax payments, which significantly outweighed the improvement in EBITDA.

Starting in fiscal 2016, the Covestro Group is using free operating cash flow as a significant key performance indicator for controlling the Group. This parameter reflects the company's internal financing capability.

In the first quarter of 2016, free operating cash flow decreased to €77 million (Q1 2015: €90 million). Lower cash outflows for property, plant, equipment and intangible assets partly offset the decline in operating cash flow.

Net financial debt decreased by €124 million against December 31, 2015, to €2,087 million. The liquidity acquired by placing bonds with a total volume of €1,500 million in March was mainly used to repay a loan of €1,250 million from Bayer Antwerpen NV, Diegem, Belgium.

Calculation of EBIT(DA)

Alongside the key indicators of core volume growth, return on capital employed (ROCE) and free operating cash flow (FOCF), Covestro also determines EBIT and EBITDA. In order to facilitate a more accurate assessment of business operations, EBIT and EBITDA for the reference period were adjusted for special items (see table below). The special items comprise effects that are nonrecurring or do not regularly recur or attain similar magnitudes. EBITDA, EBIT, adjusted EBITDA and adjusted EBIT are not defined in the International Financial Reporting Standards and should therefore be regarded only as supplementary information. EBITDA allows the comparison of operating performance over time since it is not affected by depreciation, amortization, impairment losses or impairment loss reversals.

Depreciation and amortization for the first quarter of 2016 decreased by 10.2% to €168 million (Q1 2015: €187 million) and comprised €159 million (Q1 2015: €176 million) in depreciation on property, plant and equipment and €9 million (Q1 2015: €11 million) in amortization of intangible assets. No impairment loss reversals were recognized in either the reporting or reference periods. Depreciation and amortization included impairment losses of €1 million (Q1 2015: €22 million). While no expenses or proceeds were recognized as special items in the first quarter of 2016, the impairment losses incurred in the reference period were fully recognized as special items.

Special Items Reconciliation

	EBIT 1st quarter 2015	EBIT 1st quarter 2016	EBITDA 1st quarter 2015	EBITDA 1st quarter 2016
	€ million	€ million	€ million	€ million
Before special items	251	340	416	508
Polyurethanes	(32)	-	(10)	-
Polycarbonates	-	-	-	-
Coatings, Adhesives, Specialties	(2)	-	(2)	-
Others / Consolidation	(11)	-	(11)	-
Total special items	(45)	-	(23)	-
of which cost of goods sold	(52)	-	(30)	-
of which selling expenses	-	-	-	-
of which research and development expenses	-	-	-	-
of which general administration expenses	(12)	-	(12)	-
of which other operating income / expenses	19	-	19	-
After special items	206	340	393	508

2. Business Development by Segment

2.1 Polyurethanes

Polyurethanes Key Data

	1st quarter 2015	1st quarter 2016	Change
	€ million	€ million	%
Sales	1,554	1,403	-9.7
Change in sales			
Volume	+0.6%	+6.9%	
Price	-7.4%	-15.7%	
Currency	+9.9%	-0.9%	
Portfolio	0.0%	0.0%	
Core volume growth¹	-0.4%	+10.4%	
Sales by region			
EMLA	674	615	-8.8
NAFTA	483	446	-7.7
APAC	397	342	-13.9
EBITDA	153	214	+39.9
Adjusted EBITDA	163	214	+31.3
EBIT	31	117	>200
Adjusted EBIT	63	117	+85.7
Operating cash flow	121	16	-86.8
Cash outflows for additions of property, plant, equipment and intangible assets	33	24	-27.3
Free operating cash flow	88	(8)	.

¹ Reference values recalculated effective March 31, 2016

Sales at Polyurethanes in the first quarter of 2016 declined by 9.7% against the prior-year quarter to €1,403 million.

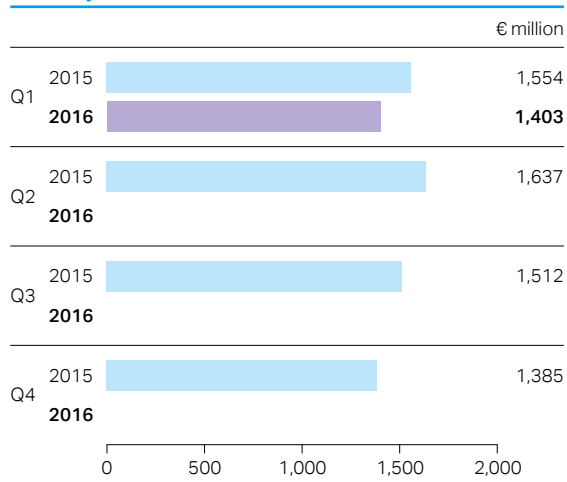
Core volume growth rose by a substantial 10.4%, having declined by 0.4% in the prior-year quarter. This increase was especially attributable to the MDI and TDI product groups, which delivered significant volume growth in all regions compared with the low volumes achieved in some cases in the prior-year quarter.

Overall volume development added 6.9% to sales. The difference between this and the core volume growth of 10.4% is accounted for by stable volumes outside the core business.

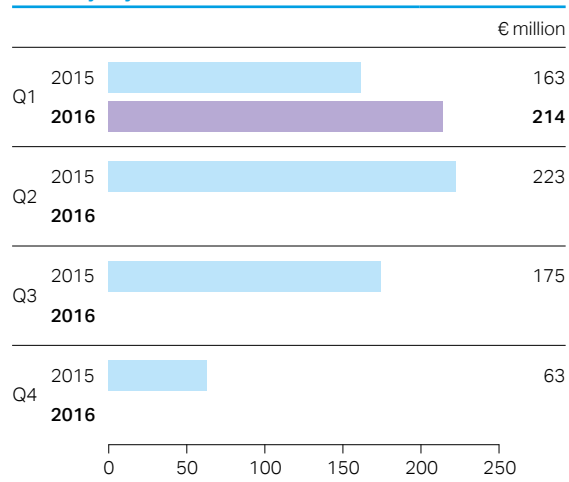
Selling prices at Polyurethanes were down 15.7% on the prior-year quarter. Due to a largely stable supply-and-demand situation, selling prices in all regions declined approximately in line with raw material prices.

Sales in the EMLA region declined by 8.8% to €615 million, largely on account of significantly lower selling prices coupled with higher volumes. Sales in NAFTA decreased by 7.7% to €446 million. Although volumes increased substantially, this could not offset the effect of lower selling prices. Sales in APAC receded by 13.9% to €342 million. This was primarily due to much lower selling prices, which outweighed the effect of higher volumes.

Polyurethanes Quarterly Sales



Polyurethanes Quarterly Adjusted EBITDA



In the first quarter of 2016, EBITDA of Polyurethanes increased by 31.3% to €214 million from an adjusted EBITDA of €163 million in the prior-year quarter. There were no special items requiring adjustment (Q1 2015: minus €10 million). The improvement in earnings was mainly attributable to higher volumes. First-quarter earnings were also positively influenced by an insurance reimbursement for a claim dating back to 2012.

EBIT more than tripled, increasing to €117 million (Q1 2015: €31 million). No expenses or proceeds were recognized as special items in the first quarter (Q1 2015: minus €32 million).

Free operating cash flow decreased to minus €8 million (Q1 2015: €88 million). This was mainly due to an increase in cash tied up in working capital, which significantly outweighed the contribution from increased EBITDA.

2.2 Polycarbonates

Polycarbonates Key Data

	1st quarter 2015	1st quarter 2016	Change
	€ million	€ million	%
Sales	765	786	+2.7
Change in sales			
Volume	+5.4%	+8.7%	
Price	-2.1%	-5.4%	
Currency	+12.6%	-0.6%	
Portfolio	0.0%	0.0%	
Core volume growth¹	+5.4%	+8.5%	
Sales by region			
EMLA	278	285	+2.5
NAFTA	182	192	+5.5
APAC	305	309	+1.3
EBITDA	116	177	+52.6
Adjusted EBITDA	116	177	+52.6
EBIT	73	127	+74.0
Adjusted EBIT	73	127	+74.0
Operating cash flow	31	94	>200
Cash outflows for additions of property, plant, equipment and intangible assets	43	12	-72.1
Free operating cash flow	(12)	82	.

¹ Reference values recalculated effective March 31, 2016

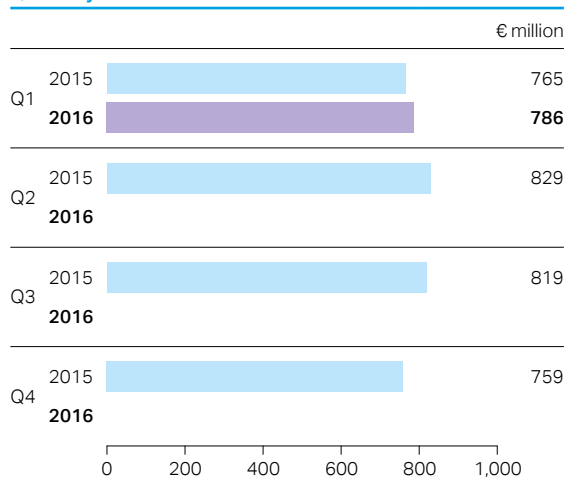
In the first quarter of 2016, sales in the Polycarbonates segment rose by 2.7% against the prior-year quarter to €786 million.

Core volume growth amounted to 8.5%. The expansion in volumes added 8.7% overall to sales, which improved in all three regions, especially due to higher demand from the automotive and construction industries. In addition, sales in the APAC region increased on account of substantially higher sales volumes to the electrical industry.

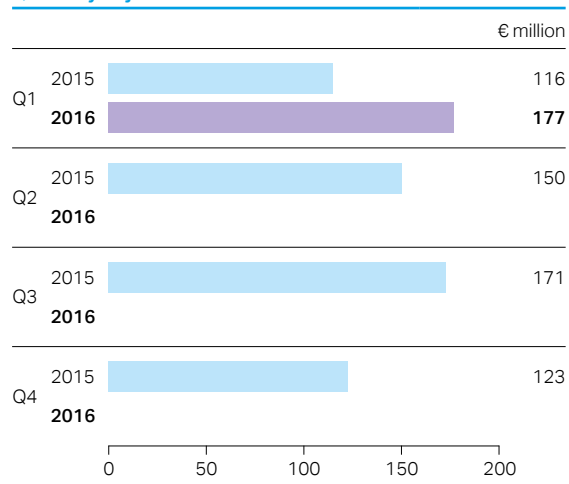
Selling prices declined by 5.4% overall compared with the prior-year quarter. Whereas lower raw material prices in the NAFTA and APAC regions were passed on in part to customers, selling prices in the EMLA region were above the level of the prior-year quarter despite the lower raw material prices.

Overall, sales in the EMLA region increased by 2.5% to €285 million owing to a slight increase in volumes and selling prices. The NAFTA region improved sales by 5.5% to €192 million. Volumes had a significantly positive influence on sales, outweighing the effect of lower selling prices. Sales in APAC were almost unchanged at €309 million because substantially higher volumes, greatly reduced selling prices and the slight impact of shifts in exchange rates had a more or less zero net effect.

Polycarbonates Quarterly Sales



Polycarbonates Quarterly Adjusted EBITDA



EBITDA of Polycarbonates in the first quarter of 2016 increased by 52.6% against the prior-year quarter to €177 million (Q1 2015: €116 million). There were no special items requiring adjustment in either the quarter just ended or the prior-year quarter. Margins were higher than in the first quarter of 2015. Higher volumes also had a positive effect on earnings.

EBIT advanced by 74.0% to €127 million (Q1 2015: €73 million). No expenses or proceeds were recognized as special items in either the quarter just ended or the prior-year quarter.

The free operating cash flow increased to €82 million (Q1 2015: minus €12 million). This resulted largely from the improvement in EBITDA and from the planned reduction in expenditures for property, plant, equipment and intangible assets.

2.3 Coatings, Adhesives, Specialties

Coatings, Adhesives, Specialties Key Data

	1st quarter 2015	1st quarter 2016	Change
	€ million	€ million	%
Sales	535	512	-4.3
Change in sales			
Volume	+4.1%	-1.6%	
Price	-0.1%	-2.4%	
Currency	+9.6%	-0.3%	
Portfolio	0.0%	0.0%	
Core volume growth¹	+6.3%	-2.8%	
Sales by region			
EMLA	269	262	-2.6
NAFTA	123	114	-7.3
APAC	143	136	-4.9
EBITDA	131	139	+6.1
Adjusted EBITDA	133	139	+4.5
EBIT	111	119	+7.2
Adjusted EBIT	113	119	+5.3
Operating cash flow	35	54	+54.3
Cash outflows for additions of property, plant, equipment and intangible assets	18	11	-38.9
Free operating cash flow	17	43	>100

¹ Reference values recalculated effective March 31, 2016

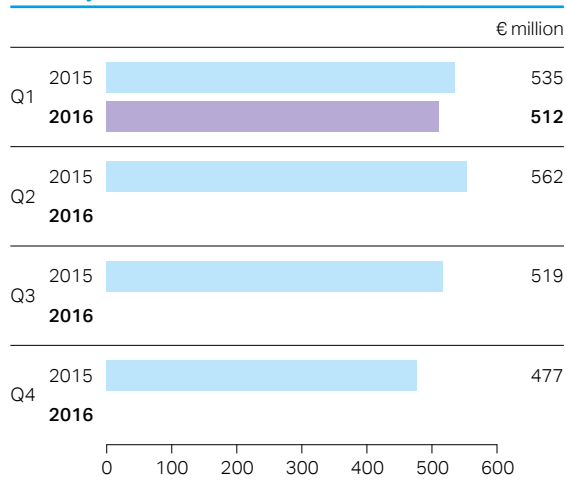
In the first quarter of 2016, sales at Coatings, Adhesives, Specialties declined by 4.3% against the prior-year quarter, to €512 million.

Core volume growth for the segment declined by 2.8% compared with the prior-year quarter, which had been characterized by an exceptionally large increase of 6.3%. As anticipated, core volume growth was impacted by the contractual termination of trading operations. It would otherwise have been slightly positive compared to the prior-year quarter. Overall, lower volumes reduced sales by 1.6%. While sales volumes were stable in the APAC and EMLA regions, they were below the prior-year quarter in the NAFTA region.

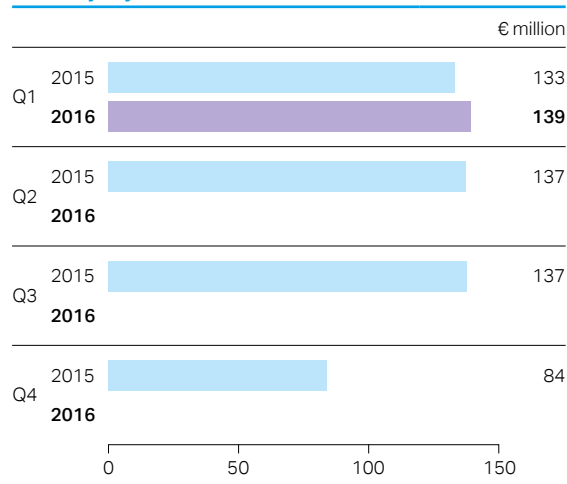
Selling prices were 2.4% lower on average than in the prior-year quarter, which was attributable to lower prices in APAC. Prices in the NAFTA region remained stable, while those in the EMLA region were only slightly down on the prior-year quarter.

Overall, sales in EMLA declined by 2.6% to €262 million, largely due to the slightly lower selling prices on average. In the NAFTA region, lower volumes especially resulted in a decline in sales of 7.3% overall to €114 million. Sales in APAC declined by 4.9% to €136 million, primarily on account of lower selling prices. The termination of trading operations as mentioned above is reflected in a decline in sales in these regions.

Coatings, Adhesives, Specialties Quarterly Sales



Coatings, Adhesives, Specialties Quarterly Adjusted EBITDA



In the first quarter of 2016, EBITDA of Coatings, Adhesives, Specialties increased by 4.5% to €139 million from an adjusted EBITDA of €133 million in the prior-year quarter. There were no special items requiring adjustment (Q1 2015: minus €2 million). Lower raw material prices had a positive effect on the development of EBITDA and outweighed the effect of lower selling prices and volumes.

EBIT increased by 7.2% to €119 million (Q1 2015: €111 million). There were no special items in the quarter just ended (Q1 2015: minus €2 million).

The free operating cash flow increased to €43 million (Q1 2015: €17 million) due to the improved EBITDA, the decrease in cash tied up in working capital and reduced expenditures for property, plant, equipment and intangible assets.

3. Asset and Financial Position of the Covestro Group

Covestro Group Summary Statements of Cash Flows¹

	1st quarter 2015	1st quarter 2016
	€ million	€ million
EBITDA	393	508
Income taxes paid	(7)	(80)
Changes in pension provisions	3	4
(Gains) losses on retirements of noncurrent assets	(19)	–
Changes in working capital / other noncash items	(186)	(308)
Net cash provided by (used in) operating activities	184	124
Cash outflows for additions of property, plant, equipment and intangible assets	94	47
Free operating cash flow	90	77
Net cash provided by (used in) investing activities	(230)	(37)
Net cash provided by (used in) financing activities	(68)	300
Change in cash and cash equivalents due to business activities	(114)	387
Cash and cash equivalents at beginning of period	201	642
Change due to exchange rate movements and to changes in scope of consolidation	20	1
Cash and cash equivalents at end of period	107	1,030

¹ Presentation changed to provide more relevant information pursuant to IAS 1.41 et seqq.

Net cash provided by operating activities

At €124 million, operating cash flow was below the level of the prior-year quarter. An increase in EBITDA was diminished by higher income tax payments and an increase in cash tied up in working capital. Less cash outflows for property, plant, equipment and intangible assets, free operating cash flow amounted to €77 million (Q1 2015: €90 million).

Net cash provided by (used in) investing activities

The net cash outflow for investing activities in the first quarter of 2016 was €37 million. Expenditures for property, plant, equipment and intangible assets decreased as expected to €47 million (Q1 2015: €94 million).

Net cash provided by (used in) financing activities

The net cash provided by the Covestro Group's financing activities in the first quarter of 2016 was €300 million (Q1 2015, net cash used in financing activities: €68 million). Borrowings of €1,698 million more than outweighed debt repayments of €1,385 million. They included net proceeds of €1,493 million from the placement of the first bonds under the newly established debt issuance program described below. These were mainly used to repay a loan of €1,250 million from Bayer Antwerpen NV, Diegem, Belgium.

Net Financial Debt

	Dec. 31, 2015	March 31, 2016
	€ million	€ million
Bonds	–	1,493
Liabilities to banks	482	543
Liabilities under finance leases	298	281
Liabilities from derivatives	31	36
Other financial liabilities	2,070	817
Positive fair values of hedges of recorded transactions	(27)	(52)
Financial liabilities	2,854	3,118
Cash and cash equivalents	(642)	(1,030)
Current financial assets	(1)	(1)
Net financial debt	2,211	2,087

Between December 31, 2015, and March 31, 2016, net financial debt of the Covestro Group decreased by €124 million to €2,087 million.

In the first quarter of 2016, Covestro AG established a debt issuance program with a volume of €5,000 million as a framework for obtaining flexible financing from the capital market. The company is thus in the position to issue fixed- and variable-rate bonds as well as to undertake private placements. The first bonds with a total volume of €1,500 million were successfully placed on March 3, 2016.

Covestro Group Summary Statements of Financial Position

	Dec. 31, 2015	March 31, 2016
	€ million	€ million
Noncurrent assets	6,294	6,149
Current assets	4,237	4,780
Total assets	10,531	10,929
Equity	3,612	3,430
Noncurrent liabilities	2,355	4,208
Current liabilities	4,564	3,291
Liabilities	6,919	7,499
Total equity and liabilities	10,531	10,929

Total assets increased by €398 million to €10,929 million in the first quarter of 2016.

Noncurrent assets declined by €145 million to €6,149 million, primarily due to the reduction of €257 million in property, plant and equipment to €4,677 million. By contrast, deferred taxes increased by €133 million to €773 million. Current assets rose by €543 million to €4,780 million, largely due to an increase in cash, cash equivalents and trade accounts receivable.

Equity in the first quarter of 2016 decreased by €182 million to €3,430 million. This mainly resulted from the remeasurement of pension obligations because of the lower interest rates compared with December 31, 2015.

Liabilities increased by €580 million to €7,499 million as of March 31, 2016. Provisions for pensions and other post-employment benefits rose by €414 million. Noncurrent financial liabilities grew by €1,471 million to €1,845 million, largely due to the placement of the first bonds under the debt issuance program. Current financial liabilities declined by €1,182 million to €1,325 million, mainly because of the aforementioned repayment of the loan from Bayer Antwerpen NV, Diegem, Belgium.

Net Defined Benefit Liability for Post-Employment Benefits

	Dec. 31, 2015	March 31, 2016
	€ million	€ million
Provisions for pensions and other post-employment benefits	1,462	1,876
Net defined benefit assets	–	–
Net defined benefit liability for post-employment benefits	1,462	1,876

The net defined benefit liability for post-employment benefits rose by €414 million in the first three months of 2016 to €1,876 million on March 31, 2016. This was because of the decline in the long-term capital market interest rate for high-quality corporate bonds.

4. Economic Outlook

Economic Outlook

	Growth ¹ 2015	Growth ¹ forecasted 2016 (Annual Report 2015)	Growth ¹ forecast 2016
	%	%	%
World	2.6	2.8	2.6
European Union	1.8	1.9	1.8
of which Germany	1.4	2.0	1.9
United States	2.4	2.7	2.3
Asia	4.7	4.6	4.5
of which China	6.9	6.3	6.3

¹ Real growth of gross domestic product, source: IHS (Global Insight)
As of March 2016

In 2016 – like 2015 – the global economy is expected to grow by 2.6%. This is a slight reduction from the growth of 2.8% forecast in the Annual Report 2015. Especially in the United States, we are now assuming that economic growth will be slower than previously anticipated. This is due to the longer inventory cycle, lower investment and persistent export weakness.

For our main customer industries, we are now forecasting slightly weaker development than in the Annual Report 2015. This is because of the slightly dampened expectations for the development of the automotive industry and of the entertainment electronics and household appliances segments of the electrical and electronics industry. Growth of around 4% had been assumed for these two industries in the Annual Report 2015. We do not anticipate any significant changes from the growth rates of around 2% and around 4%, respectively, which we had forecast for the global construction and furniture industries.

5. Report on Future Perspectives

On the basis of the business development described in this report and taking into account the potential risks and opportunities, we confirm the forecast for the current fiscal year that we made in the Annual Report 2015.

We continue to expect core volume growth in the mid-single-digit percentage range, largely driven by development in the Polyurethanes and Polycarbonates segments. As noted in the Annual Report 2015, growth in the Coatings, Adhesives, Specialties segment is expected to be impacted by the contractual termination of trading operations. Adjusted for this effect, we would also expect core volume growth for Coatings, Adhesives, Specialties to be in the mid-single-digit percentage range.

We continue to predict that free operating cash flow in 2016 will be at a high level and above the average for previous years. We also continue to expect a substantial increase for the Polycarbonates segment and a substantial decrease for the Polyurethanes segment. The development in these two segments is primarily due to changes in working capital and expenditures for property, plant and equipment.

We also anticipate that our ROCE for fiscal 2016 will be above our capital costs.

6. Employees

On March 31, 2016, the Covestro Group employed 15,738 people worldwide (December 31, 2015: 15,761). Personnel expenses in the first quarter of 2016 increased by €99 million to €475 million (Q1 2015: €376 million), due among other things to the substantially larger number of employees compared with March 2015.

Employees by Corporate Function¹

	Dec. 31, 2015	March 31, 2016
Production	9,988	9,954
Marketing and distribution	3,528	3,503
Research and development	1,005	1,015
General administration	1,240	1,266
Total	15,761	15,738

¹ The number of employees on either permanent or temporary contracts is stated in full-time equivalents, with part-time employees included on a pro-rated basis in line with their contractual working hours.

7. Opportunities and Risks

As a global enterprise with a diversified portfolio, the Covestro Group is exposed to a wide range of opportunities and risks.


Covestro regards opportunity and risk management as an integral part of corporate governance. Our opportunity and risk management system and the opportunity and risk situation are outlined in detail in Chapter 21 of the Covestro Annual Report 2015 and there have been no material changes since December 31, 2015.

At the time this interim report was prepared, the company still faced no risks that could endanger its continued existence.

Significant developments that have occurred in respect of the legal risks since publication of the Covestro Annual Report 2015 (Note 28 to the Consolidated Financial Statements) are described in Note 10 to the Condensed Consolidated Interim Financial Statements. The Covestro Annual Report 2015 can be downloaded free of charge at www.covestro.com.

8. Events After the End of the Reporting Period

Since April 1, 2016, no events of special significance have occurred that we expect to materially affect the earnings and financial position of the Covestro Group.



**Condensed
Consolidated Interim
Financial Statements**

as of March 31, 2016

Covestro Group Consolidated Income Statements

	1st quarter 2015	1st quarter 2016
	€ million	€ million
Net sales	3,054	2,875
Cost of goods sold	(2,414)	(2,077)
Gross profit	640	798
Selling expenses	(296)	(314)
Research and development expenses	(61)	(63)
General administration expenses	(93)	(114)
Other operating income	42	50
Other operating expenses	(26)	(17)
EBIT¹	206	340
Equity-method income (loss)	6	(5)
Interest income	1	3
Interest expense	(27)	(15)
Other financial result	(21)	(61)
Financial result	(41)	(78)
Income before income taxes	165	262
Income taxes	(47)	(78)
Income after income taxes	118	184
of which attributable to noncontrolling interest	3	2
of which attributable to Covestro AG stockholders (net income)	115	182
	€	€
Basic earnings per share	0.82	0.90
Diluted earnings per share	0.82	0.90

¹ EBIT: earnings before financial result and taxes

Covestro Group Consolidated Statements of Comprehensive Income

	1st quarter 2015	1st quarter 2016
	€ million	€ million
Income after income taxes	118	184
Remeasurements of the net defined benefit liability for post-employment benefit plans	(316)	(415)
Income taxes	102	134
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans	(214)	(281)
Other comprehensive income that will not be reclassified subsequently to profit or loss	(214)	(281)
Changes in fair values of derivatives designated as cash flow hedges	(2)	–
Reclassified to profit or loss	1	–
Income taxes	0	–
Other comprehensive income from cash flow hedges	(1)	–
Changes in exchange differences recognized on translation of operations outside the eurozone	298	(85)
Reclassified to profit or loss	–	–
Other comprehensive income from exchange differences	298	(85)
Other comprehensive income that may be reclassified subsequently to profit or loss	297	(85)
Effects of changes in scope of consolidation	(9)	–
Total other comprehensive income¹	74	(366)
of which attributable to noncontrolling interest	3	(1)
of which attributable to Covestro AG stockholders	71	(365)
Total comprehensive income	192	(182)
of which attributable to noncontrolling interest	6	1
of which attributable to Covestro AG stockholders	186	(183)

¹ Total changes recognized outside profit or loss

Covestro Group Consolidated Statements of Financial Position

	March 31, 2015	March 31, 2016	Dec. 31, 2015
	€ million	€ million	€ million
Noncurrent assets			
Goodwill	261	257	261
Other intangible assets	149	124	132
Property, plant and equipment	5,247	4,677	4,934
Investments accounted for using the equity method	240	212	227
Other financial assets	54	38	40
Other receivables	71	68	60
Deferred taxes	552	773	640
	6,574	6,149	6,294
Current assets			
Inventories	1,982	1,711	1,783
Trade accounts receivable	1,791	1,640	1,486
Other financial assets	554	56	33
Other receivables	263	329	277
Claims for income tax refunds	7	14	16
Cash and cash equivalents	107	1,030	642
	4,704	4,780	4,237
Total assets	11,278	10,929	10,531
Equity			
Capital stock of Covestro AG	-	203	203
Capital reserves of Covestro AG	-	4,908	4,908
Other reserves	1,529	(1,698)	(1,515)
Equity attributable to Covestro AG stockholders	1,529	3,413	3,596
Equity attributable to noncontrolling interest	17	17	16
	1,546	3,430	3,612
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	1,764	1,876	1,462
Other provisions	197	292	309
Financial liabilities	636	1,845	374
Other liabilities	36	25	29
Deferred taxes	197	170	181
	2,830	4,208	2,355
Current liabilities			
Other provisions	369	505	429
Financial liabilities	4,632	1,325	2,507
Trade accounts payable	1,482	1,234	1,403
Income tax liabilities	48	73	56
Other liabilities	371	154	169
	6,902	3,291	4,564
Total equity and liabilities	11,278	10,929	10,531

Covestro Group Consolidated Statements of Cash Flows¹

	1st quarter 2015	1st quarter 2016
	€ million	€ million
Income after income taxes	118	184
Income taxes	47	78
Financial result	41	78
Income taxes paid	(7)	(80)
Depreciation, amortization and impairments	187	168
Change in pension provisions	3	4
(Gains) losses on retirements of noncurrent assets	(19)	0
Decrease (increase) in inventories	83	30
Decrease (increase) in trade accounts receivable	(111)	(192)
(Decrease) increase in trade accounts payable	(196)	(142)
Changes in other working capital, other noncash items	38	(4)
Net cash provided by (used in) operating activities	184	124
Cash outflows for additions to property, plant, equipment and intangible assets	(94)	(47)
Cash inflows from sales of property, plant, equipment and other assets	20	3
Cash inflows from divestitures	0	–
Cash outflows for noncurrent financial assets	(39)	(1)
Cash inflows from noncurrent financial assets	27	2
Cash outflows for acquisitions less acquired cash	(15)	0
Interest and dividends received	0	5
Cash inflows from (outflows for) other current financial assets	(129)	1
Net cash provided by (used in) investing activities	(230)	(37)
Financial transactions with the Bayer Group	(297)	–
Dividend payments and withholding tax on dividends	(11)	0
Issuances of debt	462	1,698
Retirements of debt	(200)	(1,385)
Interest paid	(22)	(13)
Net cash provided by (used in) financing activities	(68)	300
Change in cash and cash equivalents due to business activities	(114)	387
Cash and cash equivalents at beginning of year	201	642
Change in cash and cash equivalents due to exchange rate movements	20	1
Cash and cash equivalents at end of year	107	1,030

¹ Presentation changed to provide more relevant information pursuant to IAS 1.41 et seqq.

Covestro Group Consolidated Statements of Changes in Equity

	Capital stock of Covestro AG			Retained earnings incl. total income			Accumulated other comprehensive income				Equity	
	€ million	Capital reserves of Covestro AG € million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Dec. 31, 2014			1,427	340	2	1	1,770	17			1,787	
Dividend payments			-								(6)	
Other changes			(427)			0	(427)	0			(427)	
Income after income taxes			115				115	3			118	
Other comprehensive income			(223)	295	(1)		71	3			74	
March 31, 2015			892	635	1	1	1,529	17			1,546	
Dec. 31, 2015	203	4,908	(1,999)	484	0	0	3,596	16			3,612	
Dividend payments			-								0	
Other changes			0			0	0	0			0	
Income after income taxes			182				182	2			184	
Other comprehensive income			(281)	(84)	0		(365)	(1)			(366)	
March 31, 2016	203	4,908	(2,098)	400	-	-	3,413	17			3,430	

NOTES

to the Condensed Consolidated Interim Financial Statements of the Covestro Group

1. General Information

Information on the consolidated interim financial statements

Pursuant to Section 37w of the German Securities Trading Act (WpHG), the consolidated interim financial statements of Covestro AG, Leverkusen, (Covestro AG) as of March 31, 2016, have been prepared according to the International Financial Reporting Standards (IFRS) – including IAS 34 (Interim Financial Reporting) – of the International Accounting Standards Board (IASB), London, United Kingdom, endorsed by the European Union and in effect at the closing date, as well as the Interpretations (IFRICs) of the IFRS Interpretations Committee (IFRS IC) and the Interpretations published by the Standing Interpretations Committee (SIC).

As explained in the consolidated financial statements as of December 31, 2015, the predecessor accounting approach was applied in the Combined Financial Statements¹ in accordance with the rules on business combinations under common control. We 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. The “Treatment of costs for central services” and the “Treatment of current and deferred income taxes” in the reference period are described in detail in the consolidated financial statements as of December 31, 2015. For further information about the main assumptions, reference is additionally made to the published Combined Financial Statements.²

The accounting policies and valuation principles described in the consolidated financial statements as of December 31, 2015, were applied unchanged in preparing the consolidated interim financial statements as of March 31, 2016, subject to the effects of financial reporting standards adopted for the first-time in the current fiscal year as described in Note 2.

The earnings per share reported in these consolidated interim financial statements are calculated as the relationship of the income after income taxes (net income) for the reporting period that is attributable to the stockholders of Covestro AG to the weighted average number of no-par voting shares of Covestro AG in issue. Earnings per share are also reported for the reference period for informational purposes. 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 consistently presented as current. Deferred tax assets and liabilities and pension provisions are consistently 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.

¹ Combined IFRS financial statements were prepared for the Combined Covestro Group for the fiscal years ended December 31, 2014, December 31, 2013, and December 31, 2012, and for the interim reporting period from January 1 to June 30, 2015, in accordance with the requirements of IAS 34. The combined annual financial statements and the combined interim financial statements are hereinafter referred to as the Combined Financial Statements.

² The Combined Financial Statements, which were published for the purposes of the Initial Public Offering (IPO) of Covestro AG in a listing prospectus, are available, along with the listing prospectus itself, on the Covestro AG website.

Exchange rates

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

€1 /	Closing rate		
	March 31, 2015	Dec. 31, 2015	March 31, 2016
BRL Brazil	3.50	4.31	4.12
CNY China	6.67	7.06	7.36
HKD Hong Kong	8.34	8.44	8.83
INR India	67.27	72.02	75.43
JPY Japan	128.95	131.07	127.90
MXN Mexico	16.51	18.91	19.59
USD United States	1.08	1.09	1.14

Average Rates for Major Currencies

€1 /	Average rate	
	1st quarter 2015	1st quarter 2016
BRL Brazil	3.21	4.30
CNY China	7.04	7.20
HKD Hong Kong	8.75	8.56
INR India	70.25	74.32
JPY Japan	134.42	127.02
MXN Mexico	16.86	19.85
USD United States	1.13	1.10

2. Effects of First-Time Adoption of Financial Reporting Standards in the Current Fiscal Year

The amendments to IFRS 11 (Joint Arrangements) entitled “Accounting for Acquisitions of Interests in Joint Operations” clarify in particular that IFRS 3 must be applied when accounting for the acquisition of an interest in a joint operation in which the activity constitutes a business, insofar as this does not contradict the provisions of IFRS 11. They are being applied prospectively and have no material impact on the presentation of the Covestro Group’s financial position or results of operations.

The amendments to IAS 16 (Property, Plant and Equipment) and IAS 38 (Intangible Assets) entitled “Clarification of Acceptable Methods of Depreciation and Amortisation” clarify that revenue-based depreciation of property, plant and equipment or amortization of intangible assets is inappropriate. They have no impact on the presentation of the Covestro Group’s financial position or results of operations.

In accordance with the amendments to IAS 16 (Property, Plant and Equipment) and IAS 41 (Agriculture) entitled “Agriculture: Bearer Plants”, fruit-bearing plants used solely to grow agricultural produce are to be accounted for according to IAS 16. These amendments have no impact on the presentation of the Covestro Group’s financial position or results of operations.

The “Annual Improvements to IFRSs 2012 – 2014 Cycle” were published in September 2014. These address details of the recognition, measurement and disclosure of business transactions and serve to standardize terminology. They consist mainly of editorial changes to and clarifications of existing standards. As a result, amendments were made to IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), IFRS 7 (Financial Instruments: Disclosures), IAS 19 (Employee Benefits) and IAS 34 (Interim Financial Reporting). Their application has no material impact on the presentation of the Covestro Group’s financial position or results of operations.

The “Disclosure Initiative” published in December 2014 contains amendments to IAS 1 (Presentation of Financial Statements). These 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 no material impact on the presentation of the consolidated financial statements.

The IASB published “IFRS 14 (Regulatory Deferral Accounts)” in January 2014 and amendments to IFRS 10 (Consolidated Financial Statements), IFRS 12 (Disclosure of Interests in Other Entities) and IAS 28 (Investments in Associates and Joint Ventures) entitled “Investment Entities: Applying the Consolidation Exception” in December 2014, which were to have been applied for the first time from January 1, 2016. As neither have yet been endorsed by the European Union, they have not been applied to date. The changes are not expected to have an impact on the presentation of the Covestro Group’s financial position or results of operations.

3. Segment and Regional 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 consolidated financial statements as of December 31, 2015, subject to the effects of the first-time adoption of financial reporting standards in the current fiscal year as described in Note 2 above.

As of March 31, 2016, the Covestro Group comprises three reportable segments with the following activities:

Polyurethanes

The Polyurethanes segment develops, produces and markets high-quality precursors – isocyanates (TDI, MDI) and polyether polyols – for polyurethanes. Flexible polyurethane 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 refrigeration chains. The segment operates production facilities worldwide as well as systems houses for formulating and supplying customized polyurethane systems.

Polycarbonates

The Polycarbonates segment develops, produces and markets the engineering plastic polycarbonate in the form of granules and semifinished products (sheets). The material is used primarily in the automotive industry (e.g. in the passenger compartment and for vehicle lighting) and in the construction industry (e.g. for roof structures). It is also used in the electrical and electronics industry (e.g. for connector housings, computer cases and 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

The Coatings, Adhesives, Specialties segment develops, produces and markets raw materials – primarily polyurethane systems – for coatings, adhesives and sealants as well as specialties. They include polymer materials and aqueous dispersions based on the isocyanates HDI and IPDI, which are produced at facilities located throughout the world. The main areas of application are automotive and transportation, infrastructure and construction, wood processing and furniture. The specialties comprise elastomers, high-quality films and raw materials for the cosmetics, textiles and health care sectors.

Business activities that cannot be allocated to any of the aforementioned 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 Covestro 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 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.
- EBIT, EBITDA, adjusted EBIT and adjusted EBITDA are not defined in the International Financial Reporting Standards. The special items comprise effects that are nonrecurring or do not regularly recur or attain similar magnitudes. Adjusted EBIT and adjusted EBITDA are intended to give a clear picture of the results of operations and ensure their comparability over time. Adjusted EBITDA is used to assess the profitability of the reportable segments. There were no special items in the first three months of fiscal 2016 so adjusted EBIT and adjusted EBITDA in this period are equivalent to EBIT and EBITDA, respectively.
- Working capital comprises inventories plus trade accounts receivable and less trade accounts payable.

The following tables show the segment reporting data for the first quarter of 2016 and as of March 31, 2016, respectively.

Segment Reporting First Quarter

				Other / Consolidation		Group
	Polyurethanes	Polycarbonates	Coatings, Adhesives, Specialties	All other segments	Corporate Center and Reconciliation	
	€ million	€ million	€ million	€ million	€ million	
1st quarter 2016						
Net sales (external)	1,403	786	512	174	–	2,875
Intersegment transfers	17	6	10	0	(33)	–
Net sales (total)	1,420	792	522	174	(33)	2,875
(Adjusted) EBITDA	214	177	139	(1)	(21)	508
(Adjusted) EBIT	117	127	119	(2)	(21)	340
1st quarter 2015						
Net sales (external)	1,554	765	535	200	–	3,054
Intersegment transfers	18	7	13	0	(38)	–
Net sales (total)	1,572	772	548	200	(38)	3,054
Adjusted EBITDA	163	116	133	21	(17)	416
Adjusted EBIT	63	73	113	19	(17)	251

Working Capital by Segment

	Dec. 31, 2015	March 31, 2016
	€ million	€ million
Polyurethanes	918	1,067
Polycarbonates	494	546
Coatings, Adhesives, Specialties	373	432
All other segments	86	74
Corporate center	(5)	(2)
Working capital	1,866	2,117

Information on geographical areas

The following table shows information for geographical areas. 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 region. The "Consolidation" column shows the elimination of inter-regional sales.

Regional Reporting First Quarter

	EMLA	NAFTA	APAC	Consolidation	Total
	€ million	€ million	€ million	€ million	€ million
1st quarter 2016					
Net sales (external) by market	1,301	782	792	–	2,875
Net sales (external) by point of origin	1,293	794	788	–	2,875
Interregional sales	178	143	25	(346)	–
1st quarter 2015					
Net sales (external) by market	1,368	831	855	–	3,054
Net sales (external) by point of origin	1,363	844	847	–	3,054
Interregional sales	203	167	32	(402)	–

Reconciliation

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

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

	1st quarter 2015	1st quarter 2016
	€ million	€ million
(Adjusted) EBITDA of segments	433	529
(Adjusted) EBITDA of Corporate Center	(17)	(21)
(Adjusted) EBITDA	416	508
(Adjusted) depreciation, amortization and impairment losses of segments	(165)	(168)
(Adjusted) depreciation, amortization and impairment losses of Corporate Center	–	–
(Adjusted) depreciation, amortization and impairment losses	(165)	(168)
(Adjusted) EBIT of segments	268	361
(Adjusted) EBIT of Corporate Center	(17)	(21)
(Adjusted) EBIT	251	340
Special items of segments	(34)	–
Special items of Corporate Center	(11)	–
Special items	(45)	–
EBIT of segments	234	361
EBIT of Corporate Center	(28)	(21)
EBIT	206	340
Financial result	(41)	(78)
Income before income taxes	165	262

4. Scope of Consolidation

4.1 Changes in the Scope of Consolidation

As of March 31, 2016, the scope of consolidation comprises Covestro AG and 48 consolidated companies. As in the statements as of December 31, 2015, one joint operation is accounted for in line with Covestro's interest in its assets, liabilities, revenues and expenses in accordance with IFRS 11 (Joint Arrangements). The numbers of joint ventures (one) and associated companies (two) accounted for in the consolidated financial statements using the equity method according to IAS 28 (Investments in Associates and Joint Ventures) were unchanged as of March 31, 2016.

There have been no changes to the scope of consolidation since January 1, 2016.

4.2 Acquisitions and Divestitures

No significant acquisitions or divestitures were made in the first quarter of 2016.

5. Earnings per Share

Earnings per share are calculated according to IAS 33 (Earnings per Share) as the relationship of income after income taxes (net income) for the reporting period that is attributable to the stockholders of Covestro AG to the weighted average number of no-par voting shares of Covestro AG in issue. For the first quarter of 2015, 140,000,000 shares were used as the basis for calculating earnings per share.

Earnings per Share

	1st quarter 2015	1st quarter 2016
	€ million	€ million
Income after income taxes	118	184
of which attributable to noncontrolling interest	3	2
of which attributable to Covestro AG stockholders (net income)	115	182
	Shares	Shares
Weighted average number of ordinary shares in issue	140,000,000	202,500,000
	€	€
Basic earnings per share	0.82	0.90
Diluted earnings per share	0.82	0.90

6. Provisions for Pensions and Other Post-Employment Benefits

The following parameters were used to calculate the present value of the benefit obligations.

Discount Rate for Pension Obligations

	Dec. 31, 2015	March 31, 2016
	%	%
Germany	2.60	1.90
United States	4.00	3.60

7. Stock-Based Compensation Program

Effective January 1, 2016, Covestro established a new long-term compensation program named Prisma for the 2016 – 2019 performance period. Like the Bayer Group's Aspire program, Prisma is a stock-based compensation program with a cash settlement as defined by IFRS 2 (Share-based Payment). Those entitled to participate are senior executives and other managerial employees. Unlike Aspire, no distinction is made between the different employee groups.

A percentage of the employee's annual base salary – based on his/her position – is defined as a target for variable payments (Prisma target opportunity). Depending on the absolute performance of Covestro stock, including the dividends paid out (total shareholder return), and the stock's performance relative to the STOXX Europe 600 Chemicals benchmark index, both during a four-year performance period, participants will be granted an award of up to 200% of their individual Prisma target opportunity. For the performance period ending on December 31, 2019, payment of the award will be made in January 2020 on the basis of the performance of Covestro stock, based on the initial price at the start of the performance period through to the final price determined as the average price for the last 30 days of trading in 2019.

The fair value of the obligation under the Prisma stock-based compensation program was €2 million as of March 31, 2016, and was calculated using the Monte Carlo simulation method on the basis of parameters pertaining to the reporting date.

8. Financing

In the first quarter of 2016, Covestro AG established a Debt Issuance Program with a volume of €5,000 million as a framework to facilitate obtaining flexible financing from the capital market. The company is thus in the position to issue fixed- and variable-rate bonds as well as to undertake private placements.

Under the program, Covestro AG successfully placed its first bonds with a total volume of €1,500 million on March 3, 2016. The bonds comprise two fixed-rate tranches with terms of five-and-a-half years (a coupon of 1.00% and a volume of €500 million) and eight-and-a-half years (a coupon of 1.75% and a volume of €500 million) and a variable-rate tranche with a volume of €500 million, a term of two years and a coupon of 0.60% above the three-month Euribor.

The liquidity acquired in this way is being used particularly to refinance the loans (Inter-Group Loan Agreements) from Bayer Antwerpen NV, Diegem, Belgium. Some of the liquidity was used to repay the Inter-Group Loan of €1,250 million that fell due in March 2016. Therefore, as of March 31, 2016, financial liabilities of €810 million remain under the Inter-Group Loan Agreements.

In September 2015, Covestro AG concluded a syndicated multicurrency term and revolving credit facilities agreement (facilities agreement) for €2,700 million with a consortium of banks. In the course of the successful bond placement in March 2016, Covestro AG dissolved the term loan facility of €1,200 million that was part of this facilities agreement, as planned. The multicurrency revolving credit facility of €1,500 million with a term until September 2020 remains in place. No loans had been drawn against this syndicated credit facility as of March 31, 2016.

9. 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 Categories of IAS 39 and Their Fair Values

	March 31, 2016				
	Carrying amount	Valuation according to IAS 39			Fair value
		Carried at amortized cost	Fair value recognized outside profit or loss	Fair value recognized in profit or loss	
	€ million	€ million	€ million	€ million	€ million
Assets					
Trade accounts receivable	1,640				
Loans and receivables	1,640	1,640			1,640
Other financial assets	94				
Loans and receivables	16	16			16
Available-for-sale financial assets	6	5	1		6
Derivatives that do not qualify for hedge accounting	65			65	65
Receivables under finance lease agreements ¹	7				16
Other receivables	397				
Loans and receivables	65	65			65
Nonfinancial assets	332				
Cash and cash equivalents	1,030				
Loans and receivables	1,030	1,030			1,030
Liabilities					
Financial liabilities	3,170				
Carried at amortized cost	2,853	2,853			2,901
Derivatives that do not qualify for hedge accounting	36			36	36
Liabilities under finance lease agreements ¹	281				343
Trade accounts payable	1,234				
Carried at amortized cost	1,215	1,215			1,215
Nonfinancial liabilities	19				
Other liabilities	179				
Carried at amortized cost	31	31			31
Carried at fair value (nonderivative)	5			5	5
Derivatives that do not qualify for hedge accounting	7			7	7
Nonfinancial liabilities	136				

¹ Valuation in accordance with IAS 17

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

	Dec. 31, 2015				
	Carrying amount	Valuation according to IAS 39			Fair value
		Carried at amortized cost	Fair value recognized outside profit or loss	Fair value recognized in profit or loss	
	€ million	€ million	€ million	€ million	€ million
Assets					
Trade accounts receivable	1,486				
Loans and receivables	1,486	1,486			1,486
Other financial assets	73				
Loans and receivables	16	16			17
Available-for-sale financial assets	6	5	1		6
Derivatives that do not qualify for hedge accounting	44			44	44
Receivables under finance lease agreements ¹	7				18
Other receivables	337				
Loans and receivables	65	65			65
Nonfinancial assets	272				
Cash and cash equivalents	642				
Loans and receivables	642	642			642
Liabilities					
Financial liabilities	2,881				
Carried at amortized cost	2,552	2,552			2,573
Derivatives that do not qualify for hedge accounting	31			31	31
Liabilities under finance lease agreements ¹	298				364
Trade accounts payable	1,403				
Carried at amortized cost	1,386	1,386			1,386
Nonfinancial liabilities	17				
Other liabilities	198				
Carried at amortized cost	45	45			45
Carried at fair value (nonderivative)	4			4	4
Derivatives that do not qualify for hedge accounting	8			8	8
Nonfinancial liabilities	141				

¹ Valuation in accordance with IAS 17

The fair values of financial instruments are determined and reported in accordance with IFRS 13 (Fair Value Measurement) on the basis of the fair value hierarchy described below:

Level 1 covers fair values determined on the basis of unadjusted prices which exist in active markets.

Level 2 comprises fair values determined on the basis of parameters which are observable in an active market.

Level 3 applies to fair values determined using parameters whose input factors are not based on observable market data.

The following table shows the assignment of the financial instruments to the three-level fair value hierarchy.

Fair Value Hierarchy of Financial Instruments

	Fair value Dec. 31, 2015				Fair value March 31, 2016			
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Financial assets carried at fair value								
Available-for-sale financial assets	1	1			1	1		
Derivatives that do not qualify for hedge accounting	44		27	17	65		52	13
Financial assets not carried at fair value								
Receivables under leasing agreements	18			18	16			16
Financial liabilities carried at fair value								
Derivatives that do not qualify for hedge accounting	39		31	8	43		36	7
Other liabilities carried at fair value (nonderivative)	4			4	5			5
Financial liabilities not carried at fair value								
Bonds					1,525	1,525		
Other financial liabilities	2,937		2,937		1,719		1,719	

In the first three months of fiscal 2016, no transfers were made between the levels of the fair value hierarchy.

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 the fair values.

The fair value of the bonds is based on quoted, unadjusted prices in active markets and therefore assigned to Level 1 of the fair value hierarchy.

Interests in nonconsolidated companies are categorized as available-for-sale financial assets. These equity instruments are recognized at cost because their fair value cannot be determined from a stock exchange or other market price or by discounting reliably determinable cash flows. The fair values of other remaining assets categorized as available-for-sale financial assets correspond to quoted prices in active markets (Level 1).

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. For this reason, these values are assigned to Level 2 of the fair value hierarchy.

The fair values of derivatives for which no publicly quoted market prices existed are determined using valuation techniques based on observable market data as of the ends of the reporting period (Level 2). In applying valuation techniques, credit value adjustments are determined to allow for the contracting party's credit risk. The 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 fair values of noncurrent leasing liabilities, reported for information purposes, are calculated on the basis of interest curves observable in the market. Additionally, a discount for cash flows that are very far in the future is applied as an unobservable factor.

The financial assets and liabilities recognized at fair value based on individual unobservable inputs (Level 3) comprise embedded derivatives and a contingent purchase price obligation recognized in connection with the acquisition of Thermoplast Composite GmbH, Markt Bibart. The variable portion of the purchase price is due once key personnel have fulfilled certain documentation requirements pertaining to the agreed transfer of knowledge.

The 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 include planned sales and purchase volumes, and prices or price indices derived from market data.

The table below shows the reconciliation of Level 3 financial instruments for the first quarter of 2016.

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

	2016
	€ million
Net carrying amounts, Jan. 1	5
Gains (losses) recognized in profit or loss	(4)
of which related to assets / liabilities recognized in the statements of financial position	(4)
Gains (losses) recognized outside profit or loss	–
Additions of assets / (liabilities)	–
Settlements of (assets) / liabilities	–
Reclassifications	–
Net carrying amounts, March 31	1

10. 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, environmental law and compliance issues such as corruption and export control. 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.

The legal risks that are material to the Covestro Group were described in Note 28 to the consolidated financial statements as of December 31, 2015. In the current fiscal year, there have been changes and / or new developments in respect of the legal proceedings described below.

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 demanded that approval for operation of the carbon monoxide pipeline between Dormagen and Leverkusen be revoked. The plaintiff feared acute danger to nearby residents on account of alleged safety deficiencies. The Covestro Group pointed out that the safety of the pipeline had been demonstrated by an expert opinion of the German Technical Inspection Association (TÜV). The action has meanwhile been dismissed as inadmissible and no appeal was lodged within the statutory deadline.

11. Related Companies and Persons

Related companies and persons as defined in IAS 24 (Related Party Disclosures) are those legal entities and natural persons that are able to exert influence on Covestro AG and its subsidiaries or over which Covestro AG or its subsidiaries exercise control or have a significant influence. They include, in particular, Bayer AG which, as defined in IAS 24, is classified as the ultimate controlling company on account of its majority interest in Covestro AG, and the Bayer AG subsidiaries which are not part of the Covestro scope of consolidation, as well as nonconsolidated subsidiaries, joint ventures and associated companies, post-employment benefit plans and the corporate officers of Covestro AG.

Receivables from and Liabilities to Related Parties

	Dec. 31, 2015		March 31, 2016	
	Receivables	Liabilities	Receivables	Liabilities
	€ million	€ million	€ million	€ million
Bayer AG	2	14	1	2
Bayer Group companies	51	2,243	50	995
Nonconsolidated subsidiaries and associates	1	4	1	4
Joint ventures	1	0	1	–
Associates	4	0	5	–

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

	1st quarter 2015		1st quarter 2016	
	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	6	12	0	0
Bayer Group companies	18	228	21	128
Nonconsolidated subsidiaries and associates	10	–	8	1
Joint ventures	3	–	1	0
Associates	4	167	4	118

Transactions with Bayer AG and its subsidiaries

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

The **goods and services received** mainly comprise operational goods and service transactions with Currenta GmbH & Co. OHG, Leverkusen, (Currenta) and its subsidiaries. These transactions relate to the Chempark sites operated by Currenta, which are used jointly by Bayer and Covestro. The decline in goods and services received compared with the prior-year quarter resulted from the fact that certain services procured from Bayer Group service companies before the legal and economic independence of Covestro have now been transferred to Covestro Group companies within the context of independence.

Receivables from and payables to related parties mainly comprise leasing and financing matters, trade in goods and services and other transactions. As a result of the adjustments to Covestro's debt structure described in Note 8 above, liabilities to Bayer Group companies were reduced to €995 million (December 31, 2015: €2,243 million).

12. Events After the End of the Reporting Period

Since April 1, 2016, no events have occurred that we expect to materially affect the earnings and financial position of the Covestro Group.

Leverkusen, April 25, 2016

Covestro AG
The Board of Management



Further Information

Segment and Quarterly Overview

Segment Information 1st Quarter

	Polyurethanes		Polycarbonates		Coatings, Adhesives, Specialties		Others / Consolidation		Covestro Group	
	1st quarter 2015	1st quarter 2016	1st quarter 2015	1st quarter 2016	1st quarter 2015	1st quarter 2016	1st quarter 2015	1st quarter 2016	1st quarter 2015	1st quarter 2016
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales	1,554	1,403	765	786	535	512	200	174	3,054	2,875
Change in sales										
Volume	+0.6%	+6.9%	+5.4%	+8.7%	+4.1%	-1.6%	+0.2%	-2.7%	+2.3%	+5.3%
Price	-7.4%	-15.7%	-2.1%	-5.4%	-0.1%	-2.4%	+1.2%	-10.3%	-4.4%	-10.5%
Currency	+9.9%	-0.9%	+12.6%	-0.6%	+9.6%	-0.3%	+5.0%	0.0%	+10.2%	-0.7%
Portfolio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Core volume growth¹	-0.4%	+10.4%	+5.4%	+8.5%	+6.3%	-2.8%			+1.7%	+8.5%
Sales by region										
EMLA	674	615	278	285	269	262	147	139	1,368	1,301
NAFTA	483	446	182	192	123	114	43	30	831	782
APAC	397	342	305	309	143	136	10	5	855	792
EBITDA	153	214	116	177	131	139	(7)	(22)	393	508
Adjusted EBITDA	163	214	116	177	133	139	4	(22)	416	508
EBIT	31	117	73	127	111	119	(9)	(23)	206	340
Adjusted EBIT	63	117	73	127	113	119	2	(23)	251	340
Depreciation, amortization, impairment losses and impairment loss reversals	122	97	43	50	20	20	2	1	187	168
Operating cash flow	121	16	31	94	35	54	(3)	(40)	184	124
Cash outflows for additions of property, plant, equipment and intangible assets	33	24	43	12	18	11	-	-	94	47
Free operating cash flow	88	(8)	(12)	82	17	43	(3)	(40)	90	77

¹ Reference values recalculated effective March 31, 2016

Quarterly Overview

	1st quarter 2015	2nd quarter 2015	3rd quarter 2015	4th quarter 2015	1st quarter 2016
	€ million	€ million	€ million	€ million	€ million
Sales	3,054	3,210	3,020	2,798	2,875
Polyurethanes	1,554	1,637	1,512	1,385	1,403
Polycarbonates	765	829	819	759	786
Coatings, Adhesives, Specialties	535	562	519	477	512
Core volume growth¹	+1.7%	+6.7%	-0.6%	+3.0%	+8.5%
Adjusted EBITDA	416	498	471	256	508
Polyurethanes	163	223	175	63	214
Polycarbonates	116	150	171	123	177
Coatings, Adhesives, Specialties	133	137	137	84	139
EBIT	206	267	287	(80)	340
Polyurethanes	31	92	60	(157)	117
Polycarbonates	73	104	127	70	127
Coatings, Adhesives, Specialties	111	113	113	60	119
Financial result	(41)	(46)	(56)	(32)	(78)
Income before income taxes	165	221	231	(112)	262
Income after taxes	118	154	161	(81)	184
Net income	115	152	160	(84)	182
Operating cash flow	184	360	379	550	124
Cash outflows for additions of property, plant, equipment and intangible assets	94	130	128	157	47
Free operating cash flow	90	230	251	393	77

¹ Reference values recalculated effective March 31, 2016

Financial Calendar

Annual Stockholders' Meeting 2016	May 3, 2016
Half-Year Financial Report 2016	July 26, 2016
Q3 2016 Interim Report	October 25, 2016
Annual Report 2016	February 20, 2017

Masthead



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