2015

ANNUAL REPORT

covestro

Key Data of Covestro Group

	2014	2015	Change
	€ million	€ million	%
Sales	11,761	12,082	+2.7
Change in sales			
Volume		+2.6%	
Price		-7.7%	
Currency		+7.8%	
Portfolio		0.0%	
Core volume growth[1]	+4.8%	+2.7%	
Sales by region			
EMLA[2]	5,493	5,357	–2.5
NAFTA[3]	3,022	3,356	+11.1
APAC[4]	3,246	3,369	+3.8
EBITDA[5]	1,122	1,419	+26.5
Adjusted EBITDA[6]	1,161	1,641	+41.3
EBIT[7]	517	680	+31.5
Adjusted EBIT[8]	561	942	+67.9
Financial results	(136)	(175)	–28.7
Net income[9]	272	343	+26.1
Adjusted earnings per share[10]	1.50	2.66	+77.3
Gross cash flow[11]	1,016	1,155	+13.7
Operating cash flow (net cash flow)[12]	925	1,473	+59.2
Cash outflows for capital expenditures	612	509	-16.8
Free operating cash flow[13]	313	964	>200
Net financial debt[14,17]	4,101	2,211	–46.1
ROCE[15]	6.2%	9.5%	
Employees (in FTE)[16,17]	14,348	15,761	+9.8

[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] Adjusted earnings per share: The calculation of adjusted earnings per share is explained in the Combined Management Report, Chapter 16.1 "Calculation of adjusted earnings per share."
[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] ROCE: The return on capital employed 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.
[16] Employees calculated as full-time equivalents (FTE)
[17] As of December 31, 2015 compared with December 31, 2014

Percentage deviations are only calculated and reported if they are less than or equal to 100%. Larger deviations are reported as >100% or >200% etc. If a deviation changes from positive to negative or vice versa, or if a deviation is greater than 1,000%, this is shown by a period.

This usage applies to all the tables in this report.

COVESTRO – A LEADER IN

MATERIAL SOLUTIONS

CURIOUS | COURAGEOUS | COLORFUL

To make the world a brighter place

CONTENTS

About this Report

Forward-Looking Statements
This Annual 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 adjust 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 less than or equal to 100%. Larger deviations are reported as >100% or >200% etc. If a deviation changes from positive to negative or vice versa, or if a deviation 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 and for parts of the 2015 reporting period are as contained in the Combined Financial Statements. Please see Note 3.1 in Notes to the Consolidated Financial Statements (Basis of preparation of the consolidated financial statements) for further information about the Combined Financial Statements.

Equal Treatment
We consider equal treatment to be important. To ensure legibility, this Annual Report avoids gender-specific wordings. All terms should be taken to apply equally to both genders.

Sustainability
Further information about sustainability can be found in our separate Sustainability Reporting on our website at **www.covestro.com.**

Key
References to an online annexes
↗ Cross-references within the Annual Report

This Annual Report was published in German and English on February 23, 2016. Only the German version is binding.

PATRICK THOMAS

Chairman of the Board of Management

Patrick Thomas has been CEO of Covestro and its predecessor Bayer MaterialScience since 2007. Prior to that, the engineer with a degree from Oxford University held various positions including CEO of the Polyurethanes division at Imperial Chemical Industries in the United Kingdom and President of the Polyurethanes, Performance Products and Advanced Materials divisionsat the U.S. chemical company Huntsman.

Thomas, who was born in Portsmouth, United Kingdom, in 1957, is president of PlasticsEurope – the European association of plastics producers – and of the Oxford University Business Economics Programme. He is also a Fellow of the Royal Academy of Engineering (United Kingdom).

FRANK H. LUTZ

Chief Financial Officer

Frank H. Lutz has been CFO of Covestro since 2014 and was appointed the company's Labor Director in September 2015.

Born in Stuttgart, Germany, in 1968, Lutz studied economics and business administration at the University of St. Gallen in Switzerland. After holding various positions at Goldman Sachs and Deutsche Bank, he was Senior Vice President for Finance and later CFO at German vehicle and equipment manufacturer MAN.

In 2013, Lutz was appointed to the Coordination Council of the Aldi Süd group of companies, where as CFO he had responsibility for the German retailer's finances. Lutz then joined Bayer MaterialScience, now Covestro.

From left to right:
Patrick Thomas (seated),
Dr. Klaus Schäfer,
Dr. Markus Steilemann,
Frank H. Lutz (seated)

DR. KLAUS SCHÄFER

Board member responsible for production and technology

Dr. Klaus Schäfer became Chief Industrial Operations Officer at Covestro in 2015 and is responsible for production and technology. Previously, Schäfer held the same responsibility in the Polyurethanes segment, was the Country Representative in China for predecessor company Bayer MaterialScience, and Managing Director of German site operator Currenta, which provides services to Covestro at the Dormagen, Krefeld-Uerdingen and Leverkusen sites.

Born in Brühl, Germany, in 1962, Schäfer studied physics at the University of Cologne. After obtaining his PhD, he worked for Erdölchemie and BP, before joining the Bayer Group in 2001.

DR. MARKUS STEILEMANN

Board member responsible for innovation

Dr. Markus Steilemann assumed responsibility for innovation at Covestro in 2015. He additionally became head of the Polyurethanes segment in 2016.

Born in Geilenkirchen, Germany, in 1970, Steilemann graduated with a PhD in chemistry from RWTH Aachen University. He began his career with the Bayer Group in 1999. From 2008, he held various management positions in the Polycarbonates segment at Bayer MaterialScience, the predecessor company of Covestro. Among other things, he was head of Global Industrial Marketing. Between 2013 and 2015, Steilemann headed the entire segment before being appointed to the Covestro Board of Management.

Dear stockholders,

Pushing the boundaries of what is possible is part of what we do at Covestro. In 2015, we tested our own boundaries and moved fast to clear a number of hurdles as we opened a new chapter in our company's history. We have been independent since September, listed on the stock market since October and in the MDAX since December. The subgroup Bayer MaterialScience has now become the listed enterprise Covestro – a global player in the polymer industry and a new, unmistakable and colorful brand. As an independent polymers producer, we can deploy our strengths faster, more effectively and more flexibly.

At Covestro, we aim to work together and stay true to our vision: "To make the world a brighter place." In addition to developing products that benefit society, we work on materials, solutions and technologies that help reduce our impact on the environment. Our C^3 corporate values embody our approach: We are curious, courageous and colorful.

In 2015, we delivered proof that these corporate values enable us to create financial value for our stockholders. In a generally difficult business environment characterized by slower growth in the emerging economies and declining selling prices, Covestro was able to significantly improve profitability overall. Adjusted EBITDA in 2015 increased by 41 percent to 1.6 billion euros. This was due to higher volumes, which raised sales to 12.1 billion euros, and a more favorable supply and demand situation. Currency effects of 230 million euros also had a positive impact. A further milestone in our success was the new record of 964 million euros for free

CEO Patrick Thomas is very pleased with the way business has developed and believes Covestro is well positioned to achieve further growth.

operating cash flow, which reflects Covestro's substantial internal financing capability.

Our stock benefited from this positive business development with the share price increasing by 40 percent in just three months between our stock market listing and the end of the year. And our stockholders will also benefit from the dividend of 70 euro cents that we intend to pay for the fiscal year 2015 – a total dividend payout of about 142 million euros.

We are well positioned to achieve further profitable growth. Our three segments hold leadership positions, enabling them to benefit in particular from the growth in our customer industries. Independent experts believe these industries will grow faster than the global economy overall, driven by macro trends such as climate change, the diminishing availability of fossil resources, the expanding global population, urbanization and increasing mobility. Whether in the generation of alternative energies such as wind power, efficient insulation in buildings or electric vehicles, we are seeking to use our material solutions in helping to master the challenges that lie ahead.

Sustainability is a central aspect of our work which determines our actions along the entire value added chain. We underscored this commitment in 2015 by joining the U.N. Global Compact – a United Nations initiative for companies which voluntarily undertake to implement sustainable and responsible business practices. For us, this includes finding alternatives to the petrochemical derivatives we use. In addition, we are continuously working to optimize our production processes with a view to using renewable materials and reducing both CO_2 emissions and energy consumption. We are also convinced that the safety, health and satisfaction of our some 15,800 employees worldwide are further factors in our success. I would like to take this opportunity to thank them most sincerely for their tireless efforts during the establishment of Covestro.

In recent years, we have invested several billion euros in new and improved production facilities and process technologies so we now rank among the best – not just in terms of sustainability, but also in terms of cost. Our Coatings, Adhesives, Specialties segment is actually a real hidden champion with an adjusted EBITDA margin that has been stable for many years at more than 20 percent.

We are strongly relying on innovations to enable us to sustain these positions. Worldwide we employ around 1,000 people in major innovation centers in Germany, the United States and China. As well as developing new products and applications, they also focus on cost-saving and sustainable process technologies. Last year, for example, we continued to drive the use of the greenhouse gas carbon dioxide in plastics production so as to reduce the dependence of our industry on petrochemical raw materials. This year, we aim to launch a new form of the polyurethane component polyol with a CO_2 content of around 20 percent.

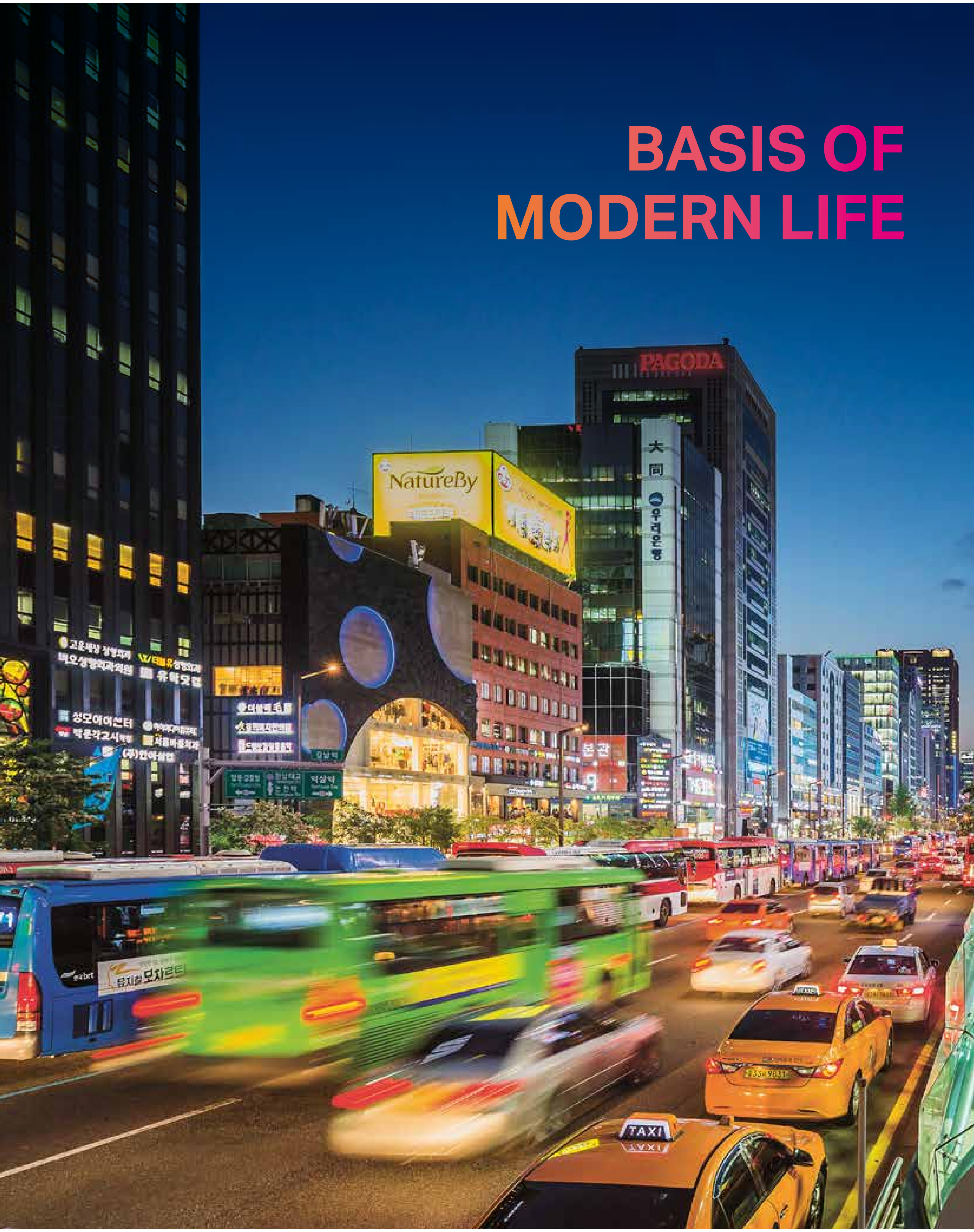
As far as our financial data are concerned, we anticipate a positive performance overall in fiscal 2016. We are expecting core volume growth to be in the mid-single-digit percentage range. In the future too, we aim to further optimize our free operating cash flow. It is likely to remain at a high level in 2016. As far as the return on capital employed (ROCE) is concerned, we expect to earn a premium on our cost of capital. At the same time, we are working to improve our competitiveness so that we can sustain our cost position. Measures include the ongoing optimization of production with the goal of operating the most efficient, most reliable and safest facilities worldwide.

Together with our shareholders, customers, suppliers and other business partners, we aim to be curious, courageous and colorful as we work in the future to make the world a brighter place. With a clear focus on value creation, we will do everything we can to build on our good start and continue the success story of Covestro.

Sincerely,

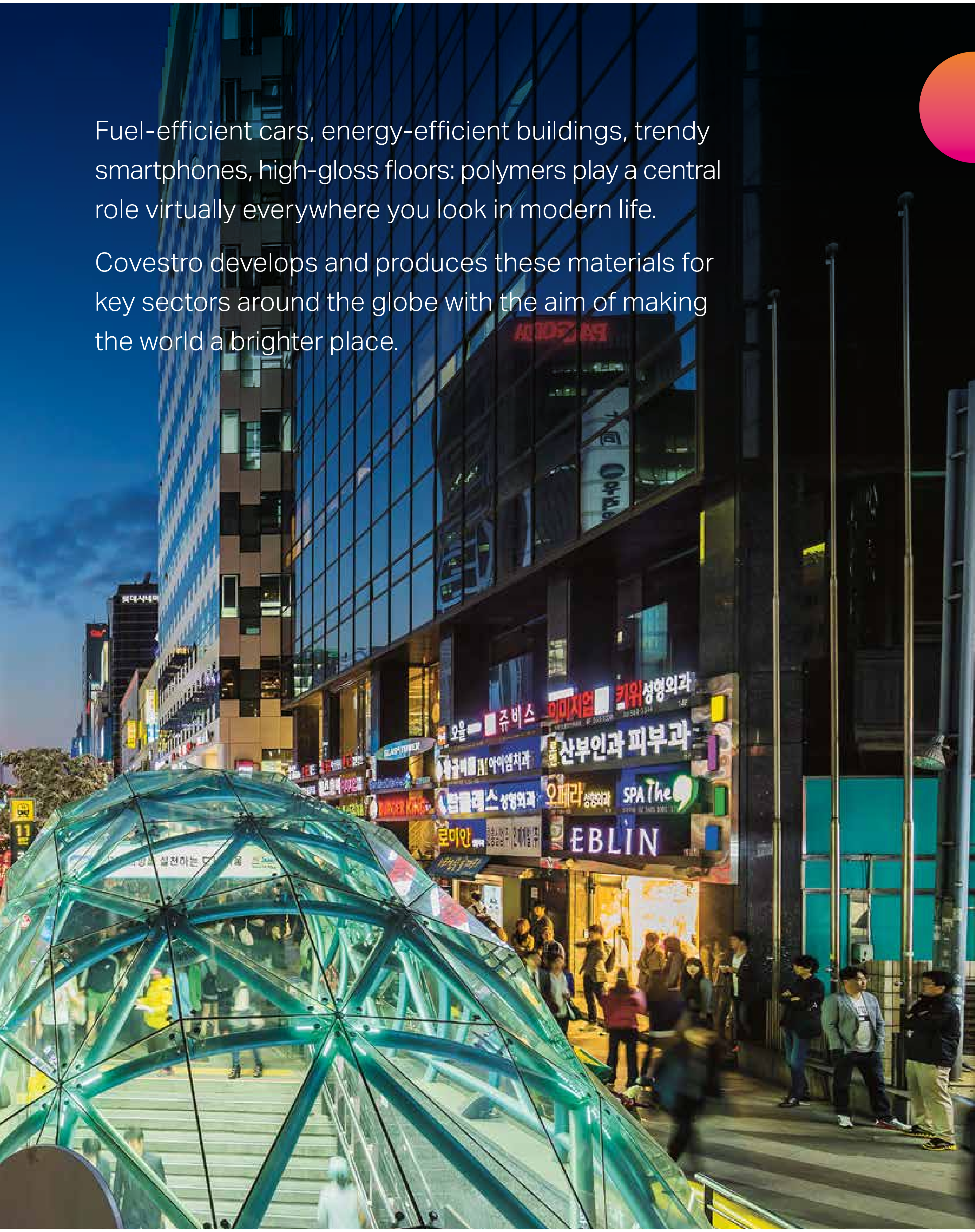
Patrick Thomas

BASIS OF MODERN LIFE



Fuel-efficient cars, energy-efficient buildings, trendy smartphones, high-gloss floors: polymers play a central role virtually everywhere you look in modern life.

Covestro develops and produces these materials for key sectors around the globe with the aim of making the world a brighter place.



A push of the button and, like a giant insect, the robotic arm begins to move: a shimmering silver structure of pipes, hoses, valves and fittings. From behind the glass window, Dirk Steinmeister, a process engineer at Covestro's headquarters in Leverkusen, Germany, watches as the mixing head travels along the long metal box. A porridge-like mixture oozes from the nozzle and slowly rises like yeast dough. The multi-ton cover of the computer-controlled unit is then lowered. 15 minutes later, it opens to reveal a finished slab that is the width of a hand, eggshell white and surprisingly lightweight – rigid polyurethane foam.

The material is one of the core products made from Covestro raw materials. Among other places, it can be found wherever the goal is to keep food fresh: in containers and trucks, at the supermarket and in the consumer's refrigerator. "Rigid polyurethane foam is the best insulating material currently available on an industrial scale. Around 95% of all refrigerators are insulated with it," says chemist Dr. Reinhard Albers. The devices are more energy efficient as a result. The aim of the experiments Albers is conducting with Steinmeister at the Polyurethane Technical Center is to further improve the insulating performance while at the same time reducing the amount of material required.

With Baytherm Microcell™, their latest advancement, the Covestro experts were able to reduce the foam's pore size by 40%. But Albers and his colleagues are not stopping there. "We are working to advance from the micro to the nano dimension, which means magnitudes of one millionth of a millimeter." That's because the more pores the foam slab contains, the better the insulation and the lower the electricity consumption. This is an important consideration, as refrigeration equipment accounts for roughly one-fifth of a household's total energy requirement. There also continues to be significant potential improvement when it comes to the transport of food. In developing countries, for instance, roughly half the food spoils on the way from farm to fork because it can't be stored at sufficiently cool temperatures.

Another key area of application for rigid polyurethane foam is the insulation of buildings against heat and cold. In combination with renewable energies and the use of modern building services technologies, the material can reduce energy consumption and emissions significantly. With a large number of adequately insulated, prospects are bright for polyurethanes – and for Covestro.

With sales of roughly €12 billion and approximately 15,800 employees, the company is one of the world's leading manufacturers of polymers, which are chemical-based materials needed not just for highly efficient insulation, but also many other areas of modern life. Covestro materials help to make automobiles lighter and thus more fuel-efficient, and also enhance the performance of elec-

Improving product properties, perfecting processing methods – this is what drives Covestro's work at its technical centers such as the one here in Leverkusen: Dirk Steinmeister (left) and Steffen Hoffmann inspect a sample insulating panel of rigid polyurethane foam.

Polyurethanes: warm and comfortable

In the form of rigid foam, polyurethane is used primarily as thermal insulation for buildings and refrigeration appliances. As flexible foam, the material is most often found in car seats, upholstered furniture and mattresses. Covestro is the world's leading manufacturer of polyurethane raw materials: isocyanates and polyether polyols. In 2015, the segment posted sales of around €6 billion – or a good 50% of Group sales.

Typical mushroom shape: a lab sample of polyurethane foam. Covestro develops and manufactures the liquid primary components – isocynates and polyols.

In its rigid form, polyurethane is an excellent insulating material. It keeps buildings warm and in the refrigeration chain ensures that food remains fresh, from farm to fork.

As a flexible foam, polyurethane stands for comfort and is therefore used in upholstered furniture, mattresses and car seats.

tronic devices. They are used in coatings and adhesives, in furniture, textiles and shoes, and they are the basis for sporting goods, cosmetics, lighting systems, security solutions and medical equipment.

To make the world a brighter place

"Thousands of customers in a wide range of industries the world over depend on our products and solutions," says CEO Patrick Thomas. "We are addressing global trends such as climate change, the depletion of natural resources, increasing mobility and urbanization. Our corporate vision succinctly expresses what we are seeking to achieve: "To make the world a brighter place."

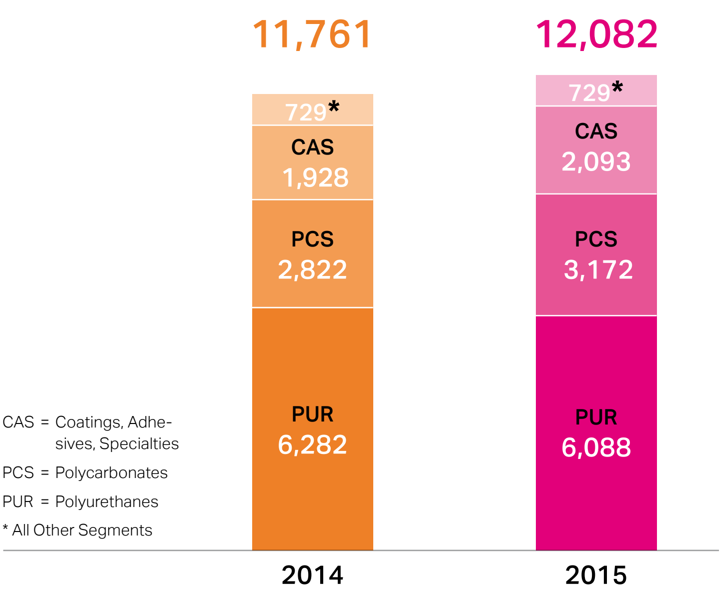
But Covestro's position among the leaders in the global polymers industry is due not only to having the right answers for the diverse challenges of our time or the company's traditional innovative strength. Other success factors include the systematic focus on sustainability, global presence, customer proximity, cost discipline and state-of-the-art plants that are safe, efficient, cost-effective and environmentally compatible.

The majority of the company's production operations are based at eight locations in Europe, the United States and Asia. One of the larger sites is Caojing, near Shanghai on the East China Sea. Swampland just 15 years ago, it is now an enormous chemical production complex →

“We are looking optimistically to the future and are gearing up for further profitable growth.”

Covestro CEO Patrick Thomas

Sales by Segments in € million

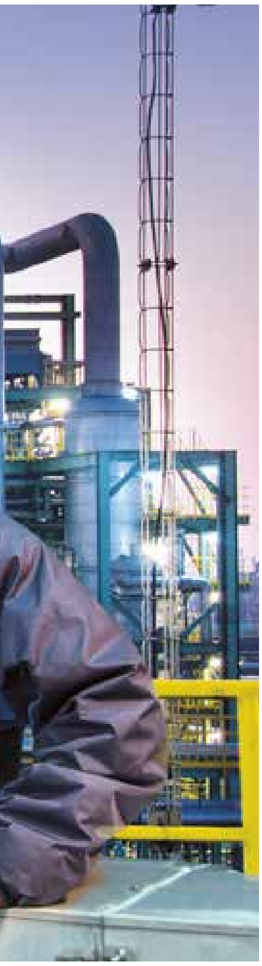


the size of 210 soccer fields and one of the company’s most modern facilities. Jack Ming is on the management team of a plant that produces precursors for flexible foam. “Thanks to one of our own technological innovations, we require 80% less solvent and 60% less energy in the last process step than we would using conventional processes,” he says with a look at the plant, which has the exterior dimensions of a multifamily home. Many such production facilities for various Covestro products have been built in recent years.

On course for growth

Overall, the company has already invested more than €3 billion in Caojing. Here as elsewhere, it is well positioned to meet the rising demand expected in the years ahead. “We are looking optimistically to the future and are gearing up for further profitable growth,” says CEO Thomas. He expects a strong boost from independence and the IPO. “We are becoming faster, more flexible and more efficient; our name recognition is increasing; and we can assert ourselves better than ever in the global competitive arena.”

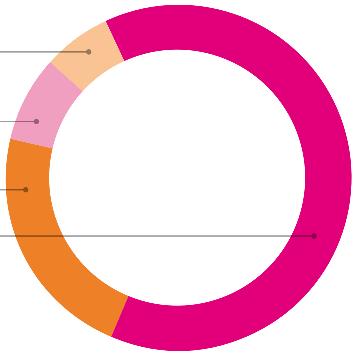
A major strength of the company is the close dialogue it maintains with its customers. This enables Covestro to recognize early on what its customers and ultimately



Covestro's production operations are particularly safe, efficient, cost-effective and environmentally friendly. A case in point is the plant for flexible foam precursors in Caojing near Shanghai, China. Here, Jack Ming conducts a safety inspection.

Employees by Function[1]

Research and development	1,005
General administration	1,240
Marketing and distribution	3,528
Production	9,988
Total	**15,761**



They research, develop, plan, manufacture and advise: approximately 15,800 well-trained and highly motivated employees around the world are the backbone of Covestro.

[1] full-time equivalents
December 31, 2015

consumers really need, now and in the future. Another is developing methods by which the materials can be processed by the downstream industries even more efficiently and with as little environmental pollution as possible. "Covestro offers us substantial added value," says Michael Olosky, Head of Innovation at Henkel Adhesive Technologies. "For example, they make new technologies available to us very early in the development process."

Covestro maintains close contacts not only with its customers, but also with academic and scientific institutions, such as Tongji University in China and RWTH Aachen University in Germany. The company operates a research center with the latter. "Thanks to the collaboration with Covestro, we were able to make significant progress in catalysis research," says Professor Walter Leitner, who teaches technical chemistry in Aachen. The greatest success to come out of this partnership so far is a new method that enables the use of the greenhouse gas CO_2 for the production of plastics. "This gives us the opportunity to reduce the use of petroleum and contribute to sustainability," says Leitner.

Innovative and sustainable

Covestro researchers and developers – the company employs around 1,000 of them the world over – have now advanced the new method close to market readiness. Covestro plans to produce CO_2-based products on an industrial scale for the first time ever in the near future: components for flexible polyurethane foam. "This exemplifies how innovation and sustainability mesh at Covestro," says Patrick Thomas emphatically. "We are anchoring sustainability on all levels of the company as we seek to help preserve the environment, advance society and generate value." →

Henkel is one of the thousands of customers around the globe. "Covestro offers us substantial added value," says Michael Olosky, who is responsible for innovation at Henkel's adhesives division.

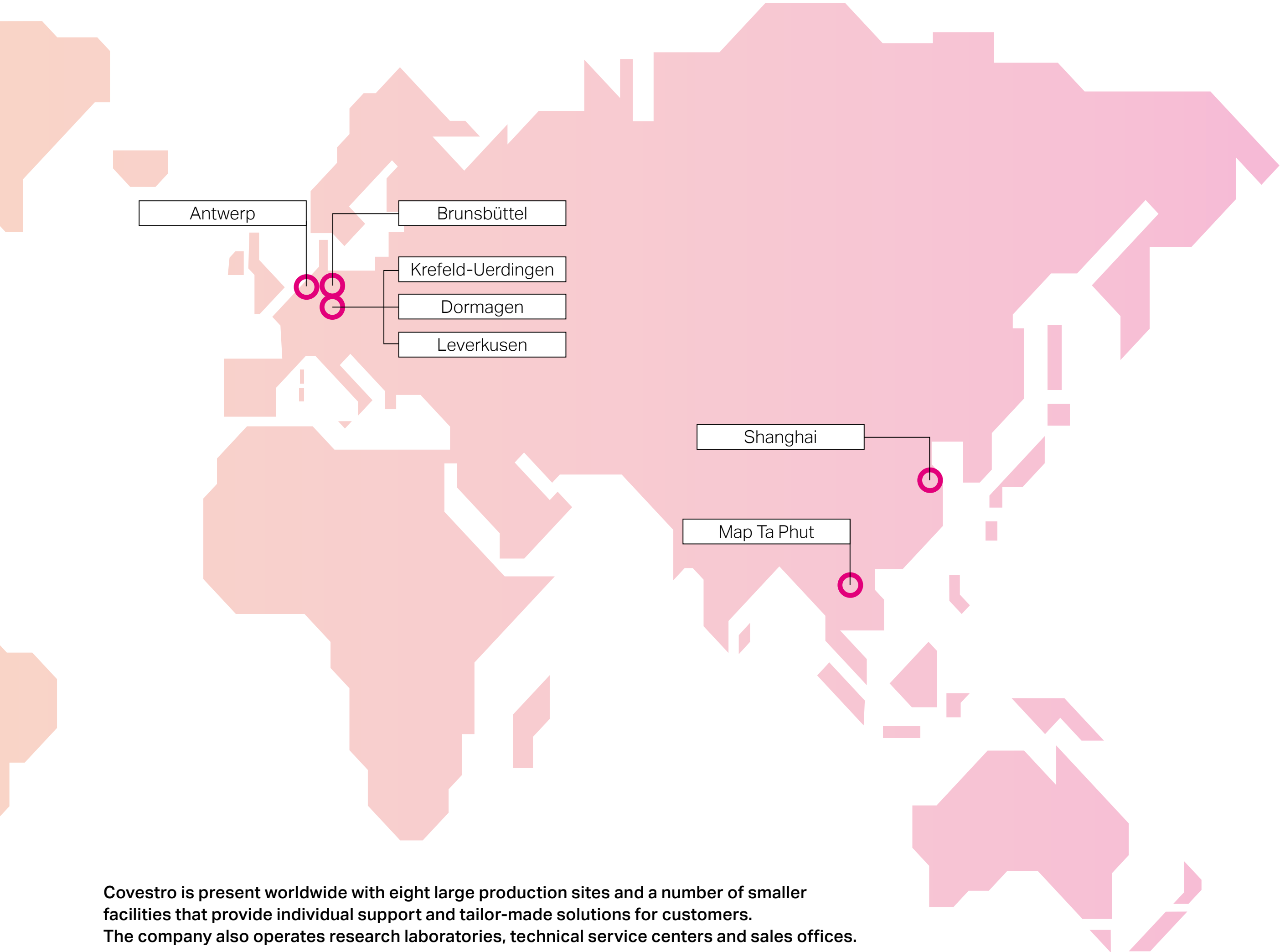
Polycarbonates: lightweight and tough

The transparent high-performance plastic is virtually indispensable in the automotive, lighting and construction industries as well as in the consumer electronics and medical technology sectors. It is lightweight, impact-resistant and can withstand heat and cold, wind and weather. Furthermore, the material offers virtually unlimited design freedom, is easy to process and can be recycled many times. Covestro is one of the leading global suppliers of polycarbonates and produces granules, composite materials and semifinished products. The segment accounted for some 26% of Group sales in 2015 – around €3.2 billion.

Polycarbonate combines numerous good properties. ovestro produces the high-performance plastic in the form of granules or semifinished products.

For challenging architecture and futuristic design, polycarbonate can be used as roofing for athletic stadiums, such as here in Beijing, China.

Electronic devices such as smartphones, laptops and tablets are becoming lighter, smaller and more attractive thanks to polycarbonate.

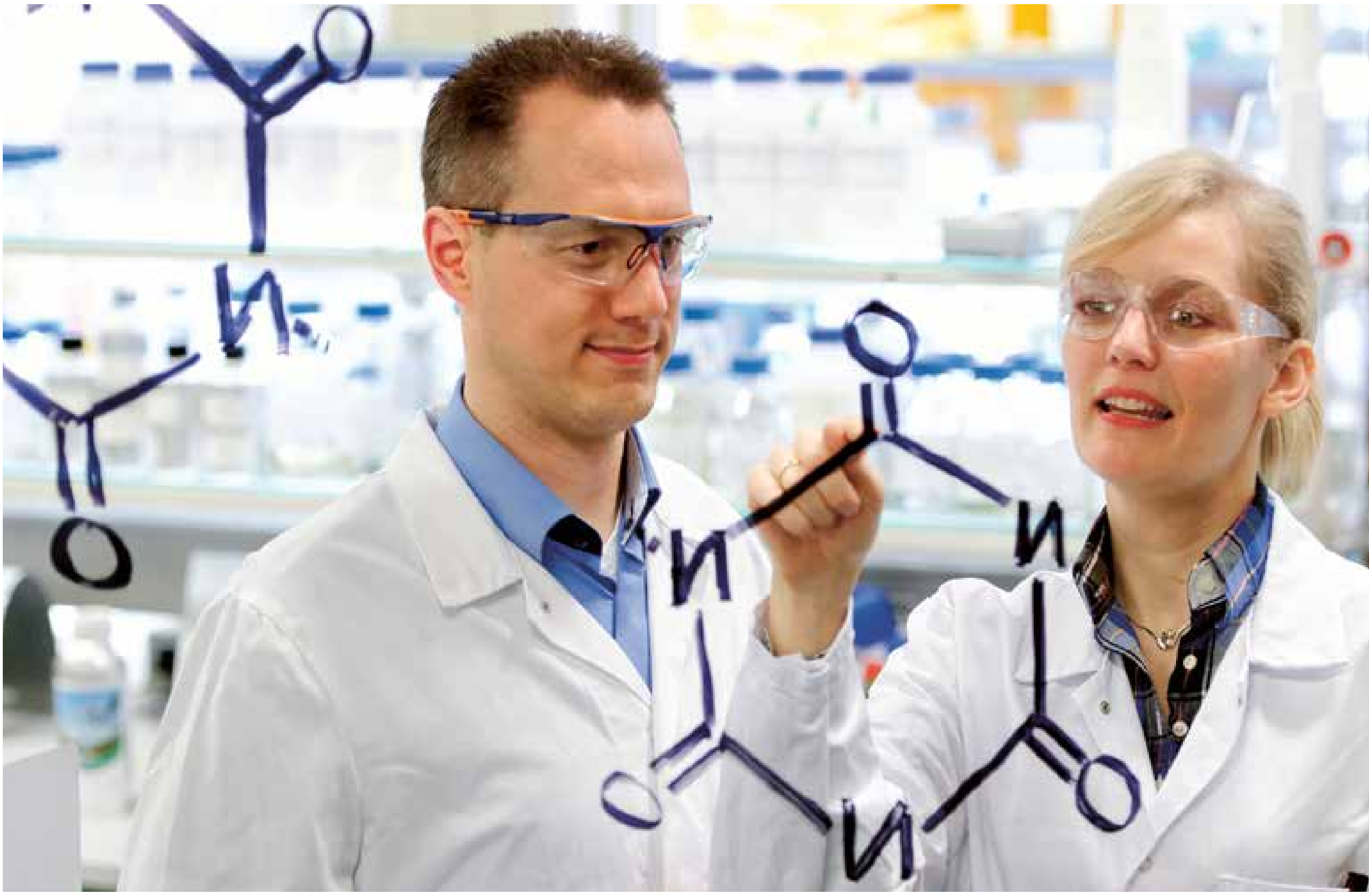


Covestro is present worldwide with eight large production sites and a number of smaller facilities that provide individual support and tailor-made solutions for customers. The company also operates research laboratories, technical service centers and sales offices.

A promise on which Covestro intends to deliver with another core product, the high-performance plastic polycarbonate, which like polyurethane the company invented decades ago. For example, the material is facilitating the further development of light-emitting diodes (LED), which are substantially more efficient and consume less energy than other lighting systems. One of the most recent innovations in this field comes from Pittsburgh in the United States, from where Covestro manages its activities in the Americas. Application developer Jessica Boyer reports, "Together with manufacturer Phantom Frames, we have used polycarbonate to create the first transparent bicycle frame internally illuminated with LEDs."

Besides niche segments like this, the plastic and Covestro's other products are used primarily in major market sectors. Polycarbonate, for instance, is particularly interesting for the automotive industry. Lightweight, tough and freely formable, the plastic has proved superior to other materials such as metal and glass in numerous applications in vehicles. And it is facilitating the spread of electric mobility. It can be used to make components for batteries and charging stations, or even panorama roofs with infrared protection. That reduces the load on the heating and air conditioning systems, leaving more battery capacity available for the motor. →

New uses are constantly being discovered for Covestro products. One example is the illuminated polycarbonate frame for children's bicycles codeveloped by Jessica Boyer, an applications technician in Pittsburgh, United States.



"I am proud of the fact that our materials are helping Solar Impulse to fly around the world without fuel."

Dirk Steinmeister, process engineer, Leverkusen, Germany

Showing the way for clean technologies, Solar Impulse aims to fly around the world without a single drop of fuel. Covestro products are on board.

In these times of increasing mobility, polycarbonate is also proving useful in another area. The material supports the trend toward unlimited communication by helping to make electronic devices such as smartphones and notebooks easier to handle, safe and more stylish.

"To protect and beautify" could be the motto of Covestro's Coatings, Adhesives, Specialties segment. It offers a range of specialty raw materials and solutions for coatings, adhesives and other products that make such things as bridges and wind turbines more durable in the face of wind and weather, keep floors shiny, make cars more decorative and identity cards more difficult to counterfeit.

Covestro is also helping the apparel and footwear industry address its challenges, especially regarding sustainability. The company recently introduced INSQIN™, a new technology for the production of synthetic materials. "Harmful organic solvents are no longer needed," says Head of Textile Coatings Nick Smith in Shanghai. "At the same time, water and energy consumption are drastically reduced when compared with conventional processes."

For a bright future

Innovative, sustainable and visionary. The essence of Covestro is particularly evident in a special partnership: the support of the Swiss Solar Impulse project. A manned aircraft is to circumnavigate the world for the first time

Research is very important at Covestro. In Leverkusen, Dr. Gesa Behnken and Dr. Christoph Eggert have developed an innovative coating raw material made with 70% biomass that is not in competition with food production.

Coatings, Adhesives, Specialties: Gleaming Protection

Cars, bridges, parquet floors… all are protected with coatings that have most likely been formulated with raw materials from Covestro. Specialty chemicals from the Coatings, Adhesives, Specialties Segment are also used for the manufacture of adhesive and sealants, high-quality films, elastomers and other specialty products for the cosmetics, textile and medical industries, among others. As one of the leading global suppliers and a technology leader, Covestro achieved 2015 sales of about €2.1 billion in this segment, representing around 17% of Group sales.

More than 2,300 products for over 4,300 customers in ten industries – the Coatings, Adhesives, Specialties Segment does all of that with just six chemical building blocks.

Protect and beautify are key functions of coatings formulated with Covestro materials used on floors, furniture, buildings and bridges as well as in many other areas.

The main area of application is automotive coatings. Thanks to new Covestro products, they can now be applied faster and with less energy consumption.

on solar power alone, showing the world what is already possible with existing clean technologies and paving the way to a resource-friendly future.

On board are high-tech materials from every segment at Covestro. They include extremely thin sheets of polycarbonate for the cockpit window and raw materials for adhesives and for the shimmering silvery coating that covers large portions of the aircraft. "The Solar Impulse aircraft is a symbol for Covestro's innovative strength and our ability to develop innovative solutions," says Thomas.

One innovation in particular is of critical importance for the scheduled completion of the around-the-world flight in 2016: Baytherm Microcell™. With its highly efficient insulating effect, the innovative rigid foam compensates for the extreme temperature fluctuations to which the aircraft is subjected. External temperatures can drop down to minus 40 degress Fahrenheit at night, while plus 104 degrees is possible during the day – a grueling test for the pilots in the tiny cockpit.

And motivation for Dirk Steinmeister. "We want to make Baytherm Microcell even better," says the process expert at the technical center in Leverkusen. "When I think about the insulating material and other materials we developed which are helping Solar Impulse to fly around the world without a single drop of fuel – that makes me proud." ■

BE DIFFERENT, DARE TO TRY NEW THINGS

Covestro's employees want to drive change, are open to new things, constantly seek to improve and are hungry for progress. They recognize opportunities where others see limitations.

Covestro values different viewpoints and diverse ideas that lead to creative approaches. This is reflected in our three corporate values: curious, courageous and colorful. Each person at Covestro translates these values in their own way. Here, three employees talk about why curiosity, courage and diversity are important for their work.

CURIOUS *"Curiosity is essential for breaking new ground. I hope we can all retain our ability to be curious, because that is crucial for an innovative company."*

Annika Stute, innovation manager, Leverkusen, Germany

COURAGEOUS *"In my job, I have to have the courage to convince my managers and colleagues to sometimes explore new avenues for the optimal operation of our plants."*

Peter Clerens, polyether production engineer, Antwerp, Belgium

COLORFUL *"Being colorful means listening to and addressing the different needs of the customers."*

Wichittra Supangkaratana, sales and marketing expert Coatings, Adhesives, Specialties, Bangkok, Thailand

Diversity, optimism and strength are also expressed in the company's colorful logo and new name. The prefix "Co" stands for collaboration, and for team orientation and strong partnerships inside and outside the company. The center portion is derived from the word "investment" and conveys that the company is well positioned, in particular with its modern and safe plants, and looks with confidence to the future. The last part of the name resonates with "strong," an allusion to Covestro's many strengths: innovative strength, outstanding positioning, global presence and a first-class team.

Dr. Richard Pott heads Covestro's twelve-member Supervisory Board which advises and oversees the Board of Management.

Dear Stockholders,

During the reporting year, the Supervisory Board monitored the conduct of the company's business by the Board of Management on a regular basis with the aid of detailed written and oral reports received from the Board of Management, and also acted in an advisory capacity. In addition, the Chairman of the Supervisory Board and the Chairman of the Board of Management regularly exchanged information. In this way the Supervisory Board was kept continuously informed about the company's intended business strategy, corporate planning (including financial, investment and human resources planning), earnings performance, the state of the business and the situation in the company and the Group as a whole.

Where Board of Management decisions or actions required the approval of the Supervisory Board, whether by law or under the Articles of Incorporation or the rules of procedure, the draft resolutions were inspected by the members at the meetings of the full Supervisory Board, sometimes after preparatory work by the committees, or approved on the basis of documents circulated to the members. The Supervisory Board was involved in decisions of material importance to the company. It discussed at length the business trends described in the reports from the Board of Management and the prospects for the development of the Covestro Group as a whole, the individual business areas and the regions.

Six meetings of the full Supervisory Board took place during 2015, three of them constituent meetings on account of changes to the Supervisory Board's membership. One resolution was passed in a conference call because a decision connected with the company's initial public offering was required at short notice.

The average attendance rate by Supervisory Board members at the meetings of the full Supervisory Board and of its committees held in 2014 was substantially higher than 90%. One member was absent from one meeting and provided a written vote on the resolutions in advance.

The members of the Board of Management regularly attended the meetings of the Supervisory Board.

Principal topics discussed by the Supervisory Board

The deliberations of the Supervisory Board focused on questions relating to the business activities of the Group as a whole and the stock market listing. Its meetings in 2015 centered on various topics.

At its four meetings held in August and September (August 20 and September 3, 17 and 30), the Supervisory Board – at that time consisting of three members – discussed issues connected with the formation of the company and, especially, a post-formation as well as the compensation of the Board of Management, the takeover of business activities from various Bayer companies and the stock market listing that was then pending. In respect of these issues, the Supervisory Board passed the necessary resolutions. At the constituent meeting of the Supervisory Board on August 20, 2015, the rules of procedure of both the Board of Management and the Supervisory Board were passed. Dr. Richard Pott was elected Chairman of the Supervisory Board.

The expansion of the Supervisory Board to 12 members (following a corresponding amendment to the Articles of Incorporation) resulted in a further constituent meeting on October 1, 2015, at which Dr. Richard Pott was elected as Chairman of the newly expanded Supervisory Board. Resolutions were also passed concerning the membership of the Supervisory Board committees and the rules of procedure of the Supervisory Board. Also at this meeting, the members of the Board of Management introduced themselves to the expanded Supervisory Board. A further issue discussed at this meeting was the report on the resolutions concerning the initial public offering (IPO) of Covestro AG.

On October 26, 2015, the members of the Supervisory Board met for the constituent meeting of the company's Supervisory Board after it had entered the phase of statutory codetermination. The Supervisory Board elected Dr. Richard Pott as its chairman, adopted new rules of procedure and determined the membership of the committees. The Supervisory Board appointed Frank H. Lutz as Labor Director of Covestro AG.

At its meeting on December 4, 2015, the Supervisory Board discussed the objectives of the composition of the Supervisory Board, the efficiency audit of its work, the declaration concerning the German Corporate Governance Code and the reports from its committees. It resolved upon the variable compensation system for the Board of Management prepared by the Human Resources Committee and upon the target gender ratio for the Board of Management. Also at this meeting, the Board of Management presented its planning for the business operations, the finances and the asset and liability structure of the Covestro Group in the years 2016 through 2018. In this connection, the Supervisory Board approved the company's financing framework. Two further resolutions were passed concerning the Polycarbonates segment (conclusion of a key supply and purchase agreement) and the Polyurethanes segment (concerning the planned shutdown of MDI production at the site in Tarragona, Spain).

Committees of the Supervisory Board

The Supervisory Board has a Presidial Committee, an Audit Committee, a Human Resources Committee and a Nominations Committee. The tasks and responsibilities of the committees are described in “Corporate Governance” and “Committees of the Supervisory Board.” The current membership of the committees is shown in the “Further Information” section under “Governance Bodies.“

The meetings and decisions of the committees, and especially the meeting of the Audit Committee, were prepared on the basis of reports and other information provided by the Board of Management. Reports on the committee meetings were presented at the meetings of the full Supervisory Board.

In 2015, the Presidial Committee was not required to convene in its capacity as the mediation committee.

One meeting of the Audit Committee took place in October to discuss current financial reporting, the accounting process, the internal control system, the risk management system and the internal audit system, as well as the auditor’s risk assessment and review strategy.

At one meeting in December the Human Resources Committee prepared the issues for the Supervisory Board meeting on December 4, 2015 (variable compensation system and target gender ratio for the Board of Management).

No meetings of the Nominations Committee took place in the reporting period.

Financial Statements and Audits

The financial statements of Covestro AG were prepared according to the requirements of the German Commercial Code and Stock Corporation Act. The consolidated financial statements of the Covestro Group were prepared according to the German Commercial Code and the International Financial Reporting Standards (IFRS). The combined management report was prepared according to the German Commercial Code. The auditor, PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Essen, has audited the financial statements of Covestro AG, the consolidated financial statements of the Covestro Group and the combined management report. The conduct of the audit is explained in the auditor’s reports. The auditor finds that Covestro has complied, as appropriate, with the German Commercial Code, the German Stock Corporation Act and / or the

International Financial Reporting Standards endorsed by the European Union, and issues an unqualified opinion on the financial statements of Covestro AG and the consolidated financial statements of the Covestro Group. The financial statements of Covestro AG, the consolidated financial statements of the Covestro Group, the combined management report and the audit reports were submitted to all members of the Supervisory Board. They were discussed in detail by the Audit Committee and at a meeting of the full Supervisory Board. The auditor submitted a report on both occasions and was present during the discussions.

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

The Supervisory Board approved the financial statements of Covestro AG and the consolidated financial statements of the Covestro Group prepared by the Board of Management. The financial statements of Covestro AG are thus confirmed. The Supervisory Board is in agreement with the combined management report and, in particular, with the assessment of the future development of the enterprise. It also concurs with the dividend policy and the decisions concerning earnings retention by the company. It assents to the proposal for use of the distributable profit, which provides for payment of a dividend of 70 euro cents per share.

The Supervisory Board would like to thank the Board of Management and all employees for their dedication and hard work in 2015.

Related Parties Report for Fiscal 2015

Bayer AG still holds around 69% of the shares of Covestro AG. There is no control and / or profit and loss transfer agreement between these two companies. For this reason, the Board of Management of Covestro AG prepared a report for the reporting period from August 20 to December 31, 2015 on the company's relationships with related companies pursuant to Section 312 of the German Stock Corporation Act (related parties report). This report was audited by the company's external auditors which raised no objections and issued the following report in accordance with Section 313, Paragraph 3 of the German Stock Corporation Act: “In accordance with our mandate, we have audited the report by the Board of Management pursuant to Section 312 of the German Stock Corporation Act in respect of the relationships with related companies in accordance with Section 313 of the German Stock Corporation Act for the period from August 20 to December 31, 2015. Since the definitive result of our audit led to no reservations, we hereby issue the following report in accordance with Section 313, Paragraph 3, Sentence 1 of the German Stock Corporation Act. After due consideration and assessment, we confirm that 1) the actual information in the report is correct and 2) the consideration to the company in the legal transactions described in the report was not inappropriately high.

The related parties report and the auditor’s report were submitted to the Audit Committee and the Supervisory Board for their review. No objections were raised as a result. There were also no objections to the declaration by the Board of Management at the end of the related parties report.

Membership of the Board of Management and Supervisory Board

In connection with the formation of the company on August 20, 2015, Johannes Dietsch, Prof. Dr. Rolf Nonnenmacher and Dr. Richard Pott were elected members of the Supervisory Board by the Extraordinary Stockholders’ Meeting of the company. In its meeting held on the same day, the Supervisory Board elected Dr. Richard Pott as its chairman.

Since October 1, 2015, additional members of the Supervisory Board elected by the Extraordinary Stockholders’ Meeting on September 1, 2015, are Dr. Christine Bortenlänger, Ferdinando Falco Beccalli, Dr. Thomas Fischer, Peter Hausmann, Petra Kronen, Irena Küstner, Michael Mostert, Regine Stachelhaus and Sabine Wirtz. A corresponding amendment to the rules of procedure relating to the expansion of the Supervisory Board was resolved by the Stockholders’ Meeting on September 1, 2015, with effect from October 1, 2015. At its constituent meeting held on October 1, 2015, the Supervisory Board elected Dr. Richard Pott as its chairman. A resolution on the composition of the Supervisory Board committees was taken at the same meeting.

Subsequent status proceedings in accordance with the German Stock Corporation Act showed that the composition of the Supervisory Board of Covestro AG is in accordance with the German Codetermination Act of 1976. Since October 8, 2015, the members of the Supervisory Board include Dr. Christine Bortenlänger, Ferdinando Falco Beccalli, Johannes Dietsch, Prof. Dr. Rolf Nonnenmacher, Dr. Richard Pott and Regine Stachelhaus, who were already elected as stockholder representatives by the Extraordinary Stockholders' Meeting on September 1, 2015. On October 14, 2015, Dr. Thomas Fischer, Peter Hausmann, Petra Kronen, Irena Küstner, Michael Mostert and Sabine Wirtz were appointed by the Local Court of Cologne as the employee representatives on the Supervisory Board. At its meeting held on October 26, 2015, the Supervisory Board elected Dr. Richard Pott as its chairman.

Since August 20, 2015, the Board of Management has comprised Patrick Thomas, Frank H. Lutz, Dr. Klaus Schäfer and Dr. Markus Steilemann. Patrick Thomas was appointed Chairman of the Board of Management and Frank H. Lutz Labor Director.

Leverkusen, Germany, February 22, 2016

For the Supervisory Board

R. Pott

Dr. Richard Pott

Chairman

COVESTRO ON THE CAPITAL MARKET

- New issue and placement of 62.5 million shares
- Initial public offering on the Frankfurt Stock Exchange
- Investment-grade issuer rating
- Admission to MDAX index
- Year-end price 40.1% above issue price

Trading floor decorated in Covestro's colors

The shares of Covestro AG were first listed in the Prime Standard on the Frankfurt Stock Exchange on October 6, 2015. The opening price of €26.00 was exactly two euros higher than the issue price of €24.00 set by the company for the new shares offered in the course of a capital increase on October 2, 2015. Since the listing, around 31% of the 202,500,000 no-par ordinary bearer shares have been in circulation. Bayer AG continues to hold around 69% of the shares in Covestro.

Ringing the bell at the start of trading

On October 7, 2015, London-based Moody's Investors Service gave Covestro the targeted investment-grade rating of Baa2 with stable outlook. The company's first credit rating therefore confirmed its creditworthiness on the international capital market.

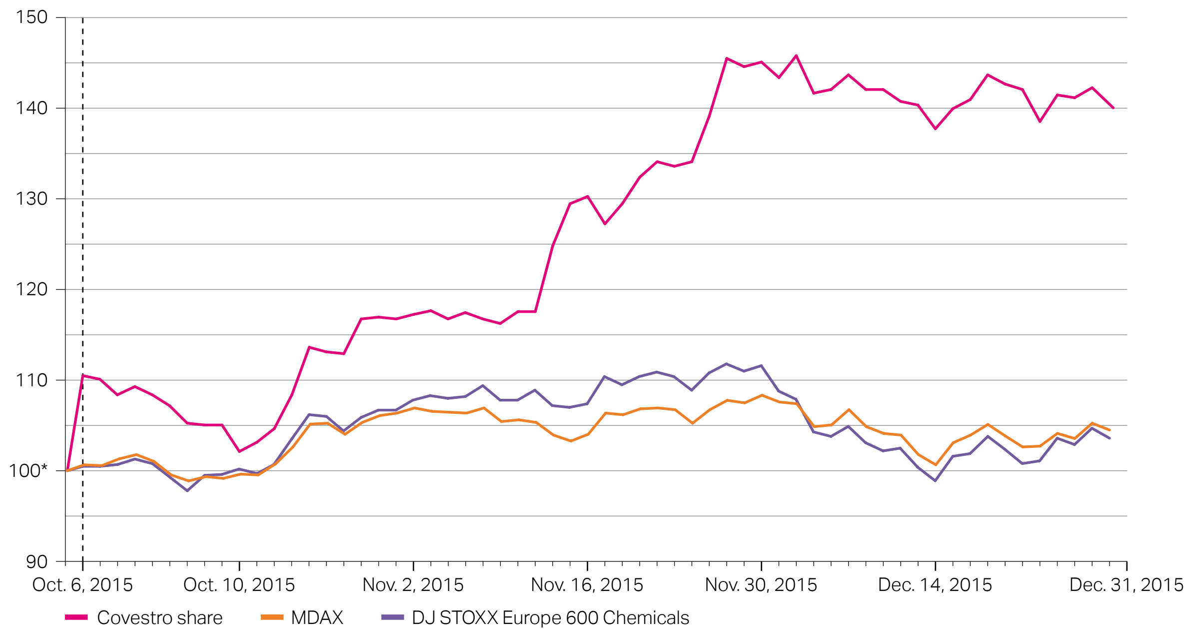
Admission to MDAX

On December 21, 2015, Deutsche Börse AG admitted Covestro to the MDAX index, ranking it among the 80 most important listed companies in Germany. At that time, Covestro stock was traded not only in Frankfurt but on all German regional stock exchanges in Berlin, Düsseldorf, Hamburg, Hanover, Stuttgart and Munich.

Substantial gain

Covestro stock ended 2015 at a closing price in XETRA® trading of €33.64. The low for the year was a closing price of €24.50 on October 19; the highest price of €34.90 was recorded on December 2. Compared with the issue price of €24.00, Covestro stock gained 40.1%

Performance of Covestro Stock in 2015 since the First Day of Trading



* October 5, 2015=100; exchange rates indexed; Xetra® closing price; source: Bloomberg

Follow our current share price on our Investor Relations webite at http://investor.covestro.com/en/shareprice

by year end, thus outperforming important reference indices. Over the same period, the MDAX increased by 4.8% and the DJ STOXX Europe 600 Chemicals by 3.2%.

At the end of the reporting year, Covestro's market capitalization stood at €6.8 billion. In the MDAX ranking, the company therefore placed 29th in terms of trading volume and 23rd in terms of market capitalization.

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 represents a dividend yield of 2.1% based on the closing price for Covestro stock on December 30, 2015.

Nine analysts with buy recommendations

At the end of 2015, the Covestro share was assessed by 12 investment firms. Nine analysts advised buying the stock while three gave a neutral assessment. The median target price for the stock was €37.

Covestro Stock Data

Capital stock	€202,500,000
Number of shares	202,500,00
Share class	No-par ordinary bearer shares
ISIN	DE0006062144
WKN	606214
Ticker symbol	1COV
Reuters symbol	1COV.DE
Bloomberg symbol	1COV GY
Market segment	Regulated market
Transparency level	Prime Standard
Sector	Chemicals
Index (since Dec. 21, 2015)	MDAX
IPO	October 6, 2015
Issue price	€24.00
Opening price (Oct. 6, 2015)	€26.00
Year-end closing price (Dec. 30, 2015)	€33.64
High (Dec. 2, 2015)	€34.90
Low (Oct. 19, 2015)	€24.50

COMBINED MANAGEMENT REPORT

Combined Management Report of the Covestro Group and Covestro AG as of December 31, 2015

- All targets achieved: sales and profitability increase
- Free operating cash flow at record level of €964 million
- Adjusted EBITDA increases by 41.3% to €1,641 million
- Sound financing: repayments reduce net indebtedness by €1.9 billion
- Successful working capital management contributes to improved cash flow
- Outlook for 2016: further growth, free operating cash flow at a high level and ROCE above cost of capital

FUNDAMENTAL INFORMATION ABOUT THE GROUP

1. Corporate Structure

Corporate profile

Covestro is among the leading global suppliers of high-tech polymer materials and application solutions for many areas of modern life.

Covestro AG, headquartered in Leverkusen, Germany, was established on August 20, 2015, and is the parent company of the Covestro Group. The Board of Management of Covestro AG manages the operational businesses and defines and monitors corporate targets. In line with its product portfolio, Covestro is divided into three operational segments: Polyurethanes, Polycarbonates and Coatings, Adhesives, Specialties. They are supported by central functions.

Since October 6, 2015, the company has been listed in the Prime Standard on the Frankfurt Stock Exchange. It holds all the shares in Covestro Deutschland AG (formerly Bayer MaterialScience AG), which, until September 1, 2015, was a wholly-owned subsidiary of Bayer AG and the management company of the MaterialScience subgroup. By way of an agreement made between Bayer AG and Covestro Deutschland AG on August 24, 2015, the corporate functions and human resources were transferred to Covestro Deutschland AG effective September 1, 2015.

On September 18, 2014, Bayer AG, Leverkusen, announced its intention to place the business operations of Bayer MaterialScience in a stock corporation and to place shares of this company on the stock exchange. As of December 31, 2015, Bayer AG held 69% of the shares in Covestro AG and the free float was 31%.

Organizational structure and sites

Covestro has a presence at 30 sites worldwide. The company's eight largest production sites with world-scale facilities are in Germany (Brunsbüttel, Dormagen, Krefeld-Uerdingen and Leverkusen); Belgium (Antwerp); China (Shanghai); Thailand (Map Ta Phut), and the United States (Baytown). Additionally, there are a number of smaller sites providing individual support and tailor-made solutions for customers. The company also operates research laboratories, technical service centers and sales offices.

Business model

Covestro's innovative products are used in key sectors such as the automotive, construction, wood processing and furniture, sport and leisure, and electrical and electronics industries. The core portfolio mainly comprises raw materials for polyurethane foams, the high-tech plastic polycarbonate and raw materials for coatings, adhesives and sealants, as well as specialty products such as special films and elastomers. Covestro also manufactures important chemical by-products such as chlorine, styrene, sodium hydroxide solution and hydrochloric acid. Covestro operates in predominantly consolidated areas of the global polymer industry, which are characterized by stable structures and high entry barriers including high capital expenditure requirements, substantial innovation pressure and the need for a world-spanning presence. Differentiation is achieved by means of product and process innovations as well as the ability to develop customer-specific solutions.

Growth in the polymer industry is driven by factors such as the demand for energy-efficient mobility, sustainable buildings, comfort and convenience, a higher standard of living, and inexpensive and long-lasting materials. As a result, independent experts are forecasting that Covestro's products will see growth rates above the average for the global economy in the period between 2014 and 2020.

Covestro's end markets are largely cyclical in nature. Among the factors affecting our activity are economic development and the disposable incomes of end consumers. However, the degree of cyclicality varies between markets and regions.

Please see Chapter 21 „Opportunities and Risks Report" for other external factors.

Polyurethanes segment

In the Polyurethanes (PUR) segment, Covestro primarily produces toluene diisocyanate (TDI), diphenylmethane diisocyanate (MDI) and polyether polyols, all of which are precursors for polyurethanes and are subject to ongoing optimization. Flexible variants of polyurethane foam are used in products such as mattresses, upholstered furniture and car seats, thus making day-to-day life more comfortable. One of the applications of rigid polyurethane foam is as an efficient insulating material for buildings and refrigeration appliances. It thus contributes to reducing energy consumption. Covestro also markets thermoplastic polyurethanes for use in diverse product groups such as clothing, mobile electronic devices and sports equipment.

With a production capacity of 3.5 million tons in 2015, Covestro is the leading supplier of raw materials and systems in the global polyurethanes industry. In terms of this indicator, the company is the top-ranking producer of TDI and the second-largest manufacturer of MDI and polyether polyols. Production is spread across 18 facilities in Europe, the United States and Asia. In addition, the company has 12 systems houses for formulating and supplying customized polyurethane systems.

State-of-the-art processes ensure a high level of efficiency, safety and environmental compatibility. At the end of 2014, a new world-scale TDI plant was commissioned at the Dormagen, Germany, site. Thanks to Covestro's proprietary gas-phase technology, the last stage in the process uses up to 80% less solvent and 60% less energy than conventional processes.

Polycarbonates segment

The Polycarbonates (PCS) segment develops, manufactures and markets the high-performance plastic of the same name. This is particularly light, highly transparent, very robust and heat resistant; it can also be molded and colored in any way. Available as granules, composite materials and semi-finished products, the material is used in a wide variety of end products such as vehicles, buildings, electrical, electronic and household appliances, medical equipment and optical data storage media.

With an annual production capacity of 1.3 million tons, Covestro was one of the two leading suppliers of polycarbonate in 2015. The company has a total of five world-scale production facilities in Europe, the United States and Asia. Polycarbonate-based blends, composite materials and sheets are manufactured at other sites.

Covestro deploys efficient processes in the manufacture and use of this plastic. Melt condensation, for example, reduces specific electricity consumption by an average of around 20% compared with conventional processes. The specific wastewater volume is around 60% lower.

Coatings, Adhesives, Specialties segment

The Coatings, Adhesives, Specialties (CAS) segment develops, manufactures and markets mainly polyurethane-based raw materials for coatings, adhesives, sealants and specialties. Covestro is the world's leading supplier in this field. These materials include polymers and aqueous dispersions based on hexamethylene diisocyanate (HDI) and isophorone diisocyanate (IPDI), which are produced in facilities around the world. The main areas of application for CAS products are automotive and transportation, infrastructure and construction, wood processing and furniture. The materials serve to protect, bond, seal or functionalize a wide variety of surfaces, making them more resistant to weathering, stone chipping and abrasion or protecting them against corrosion. The segment's specialties include elastomers, high-quality films and raw materials for the cosmetics, textile and medical products industries.

Covestro is the leading supplier of aliphatic and aromatic isocyanates and their derivatives, polyurethane dispersions and thermoplastic films. Most of this segment's versatile products are manufactured in three large-scale facilities in Europe, the United States and Asia, supported by nine customer-focused technical service centers.

Covestro also works to develop new technologies, for example using bio-based raw materials. In 2015, for example, a new component for polyurethane coatings was introduced for which 70% of the raw materials are derived from biomass that does not compete with food production.

2. Strategy

Achieving long-term profitable growth is Covestro's primary goal and the foundation of its corporate strategy. Firstly, we are implementing coordinated measures in our quest to share in the growth predicted for our customer industries in the future. Secondly, the company is systematically focused on sustainability and innovation and on the continuous optimization of production and cost structures. We are pursuing this approach in all areas of the company.

Utilizing the growth potential of the polymer industry

According to independent experts, Covestro's customer industries will grow faster than the global economy in the years ahead. We see macro trends such as climate change, the diminishing availability of fossil resources, the expanding global population, urbanization and increasing mobility as the main drivers of growth. Through our products and solutions, we aim to help master these challenges in line with our vision: "To make the world a brighter place."

Focus on sustainability

Sustainability is one of our main priorities. Through our business activities, we aim not just to create economic value by growing profitably, but also to help protect the environment and achieve progress in society. This holistic approach defines operations along the entire value chain – from the procurement of raw materials through production, distribution and sales, to the use of our products and their disposal or recycling.

In particular, we firmly believe that the safety, health and satisfaction of our employees are as crucial to long-term success as the responsible use of nonrenewable resources. In this connection, we are endeavoring to find alternatives to the petrochemical derivatives we use and to diversify our raw material base. Covestro continuously reviews its production processes to identify reusable materials and works to achieve reductions in its specific CO_2 emissions and specific energy consumption. The safety of our production processes is a key priority for us and we aim to maintain our very positive safety record in the future as well. In this way, we are fulfilling central requirements specified by our customers.

Innovation as a core element

Through focused research and development, we aim to maintain and expand our position in the global competitive arena. Our activities are aimed at enhancing the performance of our products, developing solutions for new applications and improving production and business processes. To this end, we work closely with our customers and end users as well as with scientific partners.

Please see Chapter 7 "Research, Development and Innovation" for further information.

Efficient production

In order to sustainably improve profitability, we are continuously working to increase the efficiency of individual facilities while maintaining the highest technological standards with respect to safety, reliability and environmental compatibility.

Competitive costs

Covestro is continuously working to improve efficiency and effectiveness across the company and thus ensure competitive cost structures. It is our goal to rank among the cost leaders in our industry sector. We aim to achieve this, for example, by the further and consistent optimization of our service functions and the IT infrastructure and by streamlining the sales organization at segment level.

Covestro continuously reviews the structure of its production base. In the past year, for example, we closed the MDI production facility in Belford Roxo, Brazil. We also intend to discontinue MDI production in Tarragona, Spain, by the end of 2017. Moreover, in the polycarbonate sheet business, we have consolidated individual production sites and activities in several countries in recent years. In the polycarbonate sheets business, we will continue to review our cost structures.

Polyurethanes segment

In the Polyurethanes segment, Covestro is seeking to use its MDI and TDI production capacities to participate in the above-average growth in demand for polyurethanes. We are aiming to accelerate growth through broad participation in strategically important core markets and areas of application that are as yet not fully served.

Moreover, with a view to increasing efficiency, Covestro is constantly examining additional opportunities for collaborating with other companies and for further optimizing production plants and sites. As the segment mainly offers standardized products, cost management, innovation and business model development are of great importance.

Polycarbonates segment

With its extensive applications expertise and global focus, the Polycarbonates segment is in a good position to benefit from the demand for polycarbonates, which is also growing at an above-average pace.

Covestro is seeking to further extend its technological leadership in polycarbonates, particularly with a view to growing in high-end customer and application segments. Innovative fiber-reinforced composite materials are one focus here. At the same time, the segment is optimizing its production processes in order to maintain its cost leadership.

Coatings, Adhesives, Specialties segment

In the Coatings, Adhesives, Specialties segment we aim to secure and build our position in the main area of business: the production of raw materials for coatings and adhesives. To this end, we are working to achieve the highest possible level of vertical integration, customer-centric innovation and selective capacity expansions. In the specialties business, we are targeting accelerated growth on the basis of our extensive technological expertise and our formulation know-how, which allow us to develop new applications.

3. Internal Management System

One of the prime objectives of the Covestro Group is to steadily increase enterprise value. In order to plan, steer and monitor the development of our business, we use steering parameters which enable a comprehensive and holistic evaluation of the company's business performance. Covestro measures economic success in terms of growth, profitability and contribution to cash flow. We use core volume growth[1] as an indicator of growth. In 2015, for the first time, profitability was measured by the return on capital employed (ROCE). Adjusted EBITDA is used as an additional indicator of profitability. The contribution to cash flow is assessed using free operating cash flow (FOCF). Since the start of fiscal 2016, core volume growth, return on capital employed and free operating cash flow have been integral elements of all planning, management and control processes.

The growth of the Covestro Group is measured by the increase in core volume growth because this indicator, in contrast to sales, is less influenced by raw material prices or currency effects and excludes the company's noncore businesses.

The return on capital employed is the indicator used to assess the profitability of the Covestro Group. This measures the return the company achieves on the capital it uses and is then compared with the weighted average cost of capital (WACC), which is the minimum return expected by equity and debt capital providers. If ROCE is greater than WACC, then the company has created value. Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) is the other indicator used to assess the profitability of Covestro and its reporting segments. This is a meaningful indicator of operating performance since it is not affected by depreciation, amortization, impairment losses, impairment loss reversals or special items. It is intended to give a clear picture of the results of operations which is comparable over time. The ability to generate a cash surplus is measured by FOCF. This is an indicator of our company's capacity to finance itself and is calculated by subtracting outflows for property, plant and equipment and intangible assets from the operating cash flow. A positive FOCF serves in particular to pay dividends and interest and to repay debt.

Please see Chapter 8 "Integrated Sustainability Management" for further information about the alignment and management of Covestro's sustainability strategy.

[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 from the prior year in externally sold volumes in thousand tons. 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 part of the company's core business.

4. Procurement

Our procurement function ensures the timely, global supply of goods and services at suitable market conditions, in the required quality and in accordance with Covestro's ethical, ecological and social standards. The principles of our procurement policy are set down in a directive that is binding on all employees throughout the Covestro Group.

In 2015, goods and services were procured from some 15,100 (2014: some 14,100) suppliers in 69 (2014: 68) countries for approximately €8.2 billion (2014: €8.7 billion) and recorded in the Group-wide reporting system.

Main procurement products

The main precursors for our products are petrochemical substances such as benzene, toluene, phenol and acetone. In addition to petrochemical feedstocks, the operation of our production facilities also requires large amounts of energy, mostly in the form of electricity and steam.

In 2015, strategic raw materials accounted for a procurement spend of €2.4 billion (2014: €3.0 billion). This is equivalent to approximately 45% of our total expenditures for raw materials and energies in 2015, which amounted to around €5.3 billion (2014: €5.8 billion).

Procurement spends in Germany, the United States and China accounted for just under 78% of Covestro's global procurement spend in 2015. Most of this amount – around 77% – was accounted for by local suppliers in the individual countries.

Procurement at Covestro is centrally steered and managed by the Procurement unit.

Important raw materials are procured on the basis of long-term supply agreements and an active supplier management to minimize procurement risks such as supply shortages or substantial price fluctuations. In steam and electricity generation, we aim for market-based price indexing, a diversification of fuels and a mix of external procurement and captive production to minimize the price fluctuation risk for energies. Regular sustainability and quality audits of our suppliers ensure compliance with internal and external standards.

Covestro is seeking to reduce its dependence on petroleum-based raw materials and is developing specific substitution processes. In 2016, for instance, the company plans to start producing and marketing pentamethylene diisocyanate (PDI), an isocyanate based on a renewable raw material.

Sustainability in supplier management

Covestro regards adherence to sustainability standards within the supply chain as a crucial factor in value creation and also an important lever for minimizing risks. For this reason, we apply not just economic standards but also social, ethical, environmental and governance standards in selecting new suppliers and in our continuing relationships with existing suppliers. These standards are defined in Covestro's Supplier Code of Conduct, which is available online in 13 languages and provides the basis for collaboration. The Code is derived from the principles of the U.N. Global Compact and our Human Rights Position. It is integrated into electronic ordering systems and contracts across the Covestro Group. Furthermore, relevant new and renewed supply agreements contain special clauses requesting suppliers to observe the sustainability requirements contained in the Code of Conduct and entitling Covestro to monitor their compliance.

Covestro (deriving from its past as Bayer MaterialScience and part of the Bayer Group) is one of the six founding members of Together for Sustainability (TfS), a joint initiative of the chemical industry with a current membership of 16 companies that aims to harmonize the assessment and auditing of suppliers worldwide. Covestro supports the TfS principles concerning the areas of ethics, employee rights, health and safety and the environment, as well as the associated management systems.

In order to consistently drive sustainability in supplier management, Covestro has set ambitious targets. By 2020, we plan to evaluate all strategic suppliers and those suppliers with significant Covestro spend that are regarded as potential high-risk suppliers with respect to sustainability-relevant aspects. Another objective of our collaboration in the TfS initiative is the development and establishment of a new sustainability standard for the chemical industry.

Evaluating the sustainability performance of our suppliers

Covestro regularly verifies compliance with the specified sustainability standards through online assessments and on-site audits of suppliers. The assessments are carried out on Covestro's behalf by the established provider EcoVadis, which is accredited by TfS. Suppliers receive a web-based, modular questionnaire with accompanying verification documents that result in 360° screening. They are assessed in the areas of environmental protection, working conditions, social responsibility, fair business practices and sustainable procurement. Covestro conducts the on-site supplier audits – based on the TfS sustainability criteria – together with external, independent auditors accredited by TfS. In addition, our own procurement specialists and auditors monitor suppliers' performance in the areas of health, safety, environmental protection and sustainability. In 2015, 146 assessments of Covestro suppliers were performed by EcoVadis, in addition to eight audits. These include assessments initiated by Covestro and others shared via TfS (see www.covestro.com for further information).

In selecting the suppliers for these assessments, we consider a combination of country and material risks as well as strategic importance in accordance with our Group targets. The country and material group risk scales we use for our risk analysis are provided by EcoVadis.

Additionally, TfS members can exchange comparable, independent and high-quality supplier assessments and audits using a dedicated IT platform. In 2015, within the scope of the TfS initiative, a total of 2,580 supplier assessments were carried out by EcoVadis and 179 audits were successfully completed in countries including China, India and Brazil.

All online assessments and audits are comprehensively analyzed and documented so that – should results be unsatisfactory – specific improvement measures can be defined together with the suppliers. The corrective measures established together with the suppliers in 2015 mainly related to the areas of environmental protection, occupational safety and fair business practices.

In 2015, critical results were recorded for three suppliers (2% of those assessed), prompting Covestro to implement measures ranging from specific action plans to reducing its spend. In the reporting year, Covestro had no cause to terminate a business relationship because the assessment revealed an unsatisfactory sustainability performance or a serious sustainability deficit.

Training measures and dialogue on the issue of sustainability

Comprehensive understanding of the significance of sustainability in the supply chain is also important for our own procurement specialists. Covestro therefore provides Group-wide training to help them implement our sustainability requirements. Close collaboration is essential in enabling suppliers to successfully comply with Covestro's sustainability requirements. For them too, we offer a range of training and dialogue opportunities as the basis for building reliable relationships that enable us to identify and eliminate any obstacles to collaboration at an early stage.

For instance, the Supplier Days held by the global procurement functions are an important platform for dialogue at which Covestro's procurement specialists and suppliers can meet in person to discuss sustainability.

Supplier development and dialogue are also a particular focus of the aforementioned TfS initiative, which offers extensive supplementary information material and online training courses on its website.

Verification of management processes

All the processes discussed here are described in standard operating procedures and are incorporated in Covestro's management system. They are subject to ongoing review and continuous improvement and are regularly verified and certified on a global basis by both internal and external audits.

Further information about supplier assessments can be found on our website at www.covestro.com.

5. Production

Covestro operates a number of production sites in Europe, Asia and the United States, eight of which are world-scale production facilities that serve particularly to ensure efficient and reliable supply across national borders. The company also maintains dozens of smaller and more flexible technical centers around the world that offer customers individually tailored solutions. In this way, Covestro achieves a balance between highly efficient world-scale facilities and customer proximity – evidenced by short lead times, flexible service and competitive product offerings. Through extensive capital investment, Covestro has in recent years established state-of-the-art production facilities, thereby strengthening the company's long-term competitiveness. In its production operations, Covestro continues to pursue the ambitious goal of achieving and further expanding leadership positions in terms of volumes, quality, efficiency and safety. Innovative and environmentally friendly production processes are employed to ensure the ongoing technological optimization of the company's facilities. Selectively backwards-integrated production processes enable Covestro to procure critical raw materials such as chlorine and propylene oxide from within the company or through joint ventures so as to reduce the dependency on external supply sources.

Sites

The company's eight largest production sites with world-scale facilities are in Germany (Brunsbüttel, Dormagen, Krefeld-Uerdingen and Leverkusen); Belgium (Antwerp); China (Shanghai); Thailand (Map Ta Phut), and the United States (Baytown).

Key Production Sites

Site	Main activity
Leverkusen, Germany	Production for Coatings, Adhesives, Specialties; technical laboratories; chlorine production
Krefeld-Uerdingen, Germany	Production for Polycarbonates and Polyurethanes (MDI); chlorine production; CO facility
Dormagen, Germany	Production for Polyurethanes (TDI, polyether polyols) and Coatings, Adhesives, Specialties; chlorine and nitric acid production
Brunsbüttel, Germany	Production for Polyurethanes (MDI); chlorine production
Antwerp, Belgium	Production for Polyurethanes (polyether polyols) and Polycarbonates
Baytown, U.S.A.	Production for all segments (MDI, TDI, Polycarbonates, Coatings, Adhesives, Specialties); chlorine production
Shanghai Chemical Industry Park, China	Production for all segments (MDI, TDI, Polycarbonates, Coatings, Adhesives, Specialties); chlorine production
Map Ta Phut, Thailand	Production for Polycarbonates and Coatings, Adhesives, Specialties

Alongside these world-scale facilities, we operate production plants in selected countries that include systems houses where we formulate and supply customized polyurethane systems, as well as plants where we compound polycarbonate granules to meet specific customer requirements or manufacture semi-finished products (polycarbonate sheets). Additionally, the company operates regional production facilities for derivatives of the Coatings, Adhesives, Specialties segment and for polycarbonate and thermoplastic polyurethane films.

Quality management

Covestro has very high expectations when it comes to the quality of the raw materials it uses and sets standards for their processing into high-tech plastics and polymer precursors. A quality management system has been implemented for this purpose that is certified to the international standard ISO 9001. In terms of total energy consumption, 99.97% of Covestro's reporting production and nonproduction sites worldwide are certified. They are regularly evaluated in internal and external audits.

Capital expenditures for property, plant and equipment

We invest continuously in our global production network in order to maintain our production facilities and their infrastructure, to optimize manufacturing processes and to expand capacities in line with profitable growth. Following the significant expansion of our capacities in recent years, we plan to reduce our levels of investment through 2020 and focus on maintaining and improving existing production facilities.

In the reporting year, cash outflows for capital expenditures totaled €509 million and were primarily used in maintaining and optimizing production facilities and in ongoing expansion for Polycarbonates and Coatings, Adhesives, Specialties. The principal strategic capital expenditures for property, plant and equipment in the operational reporting segments during the past two years are listed in the following table.

Strategic Capital Expenditures by Segment

Segment	Description
Capital expenditures 2015:	
Polyurethanes	• Construction of a production line for CO_2-based polyols in Dormagen, Germany
Polycarbonates / Coatings, Adhesives, Specialties	• Continuation of capital expenditure projects from 2014 (see below)
Capital expenditures 2014:	
Polyurethanes	• Completion of capacity expansion for MDI in Shanghai, China • Completion of a world-scale production facility for TDI using gas phase technology in Dormagen, Germany
Polycarbonates	• Doubling of polycarbonate production capacity in Shanghai, China
Coatings, Adhesives, Specialties	• Doubling of HDI (aliphatic isocyanate) production capacity in Shanghai, China

6. Distribution and Logistics

Covestro has a regional distribution and marketing structure. Each operational reporting segment manages the distribution and marketing of its products, both through its own distribution organization and through trading houses and local distributors which are primarily responsible for business with small customers. Major customers with global operations are serviced directly by our key account managers. The sale and marketing of certain chemical by-products, such as hydrochloric acid, are managed centrally within the Covestro Group whereas the sale of other by-products, for example styrene, is the responsibility of the respective operational segment.

In marketing our products through regional and local distribution channels, three regional Supply Chain Centers for the EMLA, NAFTA and APAC regions serve as the central interface to customers. This is where all information streams come together – from order acceptance to dispatch planning, delivery and complaint acceptance. This organization enables us to process orders particularly smoothly and swiftly. We make use of channels such as e-commerce platforms for handling orders. Our customers can check the status of their orders at any time through the Order@Covestro online information platform.

In order to ensure a high level of customer satisfaction, error-free distribution is our foremost quality target. Customer satisfaction worldwide is systematically analyzed. To this end, we regularly evaluate customer complaints that are entered and processed in a global management system. We also request feedback from our customers from which we derive corrective and preventive measures in order to further increase quality and customer satisfaction and thereby lower the error rate and the incidence of complaints. In 2015, a total of 5,178 complaints from around 2,088 customers worldwide were recorded. This is a rate of 7.61 complaints per 1,000 deliveries, about the same as in 2014 (7.75 complaints per 1,000 deliveries).

Responsible business practices in sales and marketing

In the marketing of our products, we also take into account all the requirements of Covestro's directive on responsible sales and marketing. The importance of observing antitrust law and preventing corruption is regularly emphasized in training programs, internal communications and discussions with management. In 2015, export control and conflicts of interest were a particular focus of our training measures. Worldwide, 4,981 Covestro managers took part in web-based compliance training and supplementary face-to-face training for specific target groups.

Transportation

The transport of our products to customers is handled by logistics service providers that are selected and evaluated according to stringent safety, environmental and quality criteria. Alongside the protection of people and the environment, delivery reliability is particularly important. The preferred mode of transport is by rail or intermodal – in other words using a combination of different modes of transport. When selecting the mode of transport, we also consider resource efficiency and seek to minimize associated CO_2 emissions. Customers are supplied from close-to-production warehouses, wherever permitted by transport times and delivery reliability. In the case of longer distances, goods are temporarily stored in regional distribution centers and then dispatched at short notice.

7. Research, Development and Innovation

Research and development (R&D) are core elements of Covestro's corporate strategy so that the company can maintain and build on its own competitive position. We continuously work to evolve and improve our products and our manufacturing, processing and business procedures. Our continuous innovation process is managed uniformly and effectively across the company. In this way, we ensure that our ongoing projects and our project pipeline satisfy the current and future needs of our customers and user industries and ultimately the consumer markets.

The focus is on maintaining existing applications and developing more high-end uses. Other priorities are improved product performance, design flexibility, cost-reducing production processes and sustainability, whereby the company also endeavors to find alternatives to petrochemical raw materials.

Research and development expenses rose in 2015 by 21.2% to €257 million.

In 2015, around 1,000 people worked in Covestro's global research and development network, many of them at major innovation centers in Leverkusen, Germany; Pittsburgh, United States; and Shanghai, China. Through its global presence, Covestro is able to respond to regional market trends and customer requirements.

Alongside the company's close cooperation with customers and users, collaboration with external scientific institutions, start-ups and academic spin-offs is also very important. These collaborations are mainly based in Germany, the United States, China and Japan. Covestro's partners in Germany include RWTH Aachen University, while in China the company maintains a close alliance with Tongji University, and in the United States supports research activities at renowned universities.

Polyurethanes segment

In the Polyurethanes segment, our developments include new materials such as microcellular foams for insulating buildings and refrigeration chains. We are also working to enhance the flame-retardant properties of polyurethane foams. Lightweight composite materials are a further focus. They have applications in the automotive industry, resulting in lower weight, greater productivity and improved comfort.

In the area of process development, we are progressing with the use of carbon dioxide as a new source of carbon in order to reduce dependence on petrochemical raw materials. In 2016, we aim to launch a novel CO_2-based polyol component for polyurethanes.

Polycarbonates segment

In the Polycarbonates segment we mainly develop products for the automotive, electrical and electronics industries with a view to reducing weight, improving energy efficiency and safety, and increasing design freedom.

One focus is lighting engineering, where we are seeking to advance LED technology. Light-emitting diodes require significantly less energy and last longer than traditional light sources. We have developed special materials for channeling, scattering and reflecting LED light and for discharging the generated heat. We are also working on the evolution of fiber-reinforced polycarbonate-based composite materials that can improve the performance especially of high-quality IT products and automotive components.

Coatings, Adhesives, Specialties segment

In the Coatings, Adhesives, Specialties segment we primarily develop polyurethane raw materials for high-performance coatings, adhesives, sealants and specialty products. One of our goals here is to access new potential applications and markets for our core products.

We are also working on solutions based on renewable raw materials. In 2015, for example, we launched an innovative curing agent for polyurethane coatings based on pentamethylene diisocyanate (PDI) for which 70% of the raw materials are derived from biomass that does not compete with food production.

We have also developed a thermolatent curing agent for automotive coatings that can be processed at significantly lower temperatures than standard products. This cuts energy consumption and shortens production times. For textiles and polyurethane synthetic materials, we offer a new generation of polyurethane dispersions that conserve natural resources and do not require the use of any organic solvents.

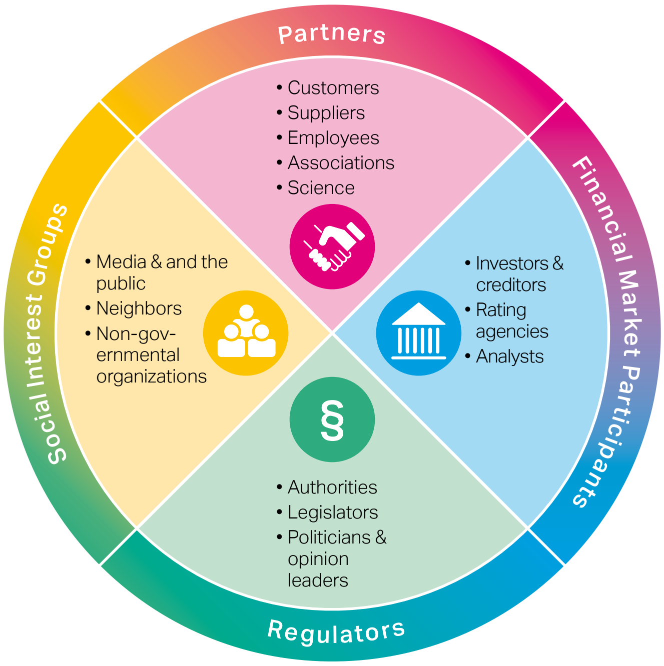
8. Integrated Sustainability Management

Sustainability is an element of Covestro's corporate strategy and underpins many of our activities in respect to our products, our processes and our conduct toward different stakeholders.

Social environment

As a commercial enterprise, Covestro is part of society – regionally, nationally and globally. Our stakeholders evaluate the company not only in terms of legal aspects but also with regard to our ethical behavior. For this reason, our business activities focus not only on commercial considerations but also on environmental and social factors. Evaluating stakeholders' interests and expectations provides significant impetus for the alignment of our business, our risk management and our reporting.

Covestro's Main Stakeholders



Integrating sustainability into corporate governance

By integrating sustainability into our corporate governance, we aim to help protect the environment, conserve our planet's limited resources, achieve progress in society and create value. These three objectives of people, planet and profit must be balanced at all times. They are the basis for our sustainability position, which applies in all our day-to-day working procedures.

A range of nonfinancial targets and indicators serves to ensure that our corporate strategy is implemented along the value chain and makes it measurable. When Covestro became independent in September 2015, we initiated a review of these targets. We expect to present an updated target program in the first half of 2016. In fiscal 2015, Covestro continued to apply the sustainability targets reported by the Bayer Group.

To underscore its identity as a sustainably operating company, in September 2015 Covestro signed up to the U.N. Global Compact and adopted its ten internationally recognized principles. We are also committed to the industry-led Responsible Care™ initiative and are involved in global sustainability forums such as the World Business Council for Sustainable Development (WBCSD).

The Chairman of the Board of Management and the head of Sustainability are responsible for developing and defining Covestro's corporate sustainability strategy. The Sustainability, Marketing and Sales Council (SMS Council), which is made up of representatives from the sales and marketing areas and the head of Sustainability, coordinates and optimizes individual strategies and targets.

The SMS Council also encompasses the segments and the three regions in which Covestro operates: EMLA, NAFTA and APAC. The Sustainability Community, which comprises the Sustainability department together with global and regional sustainability representatives from the segments, is responsible for implementation of the strategy. As the central coordinator of all Covestro's sustainability projects, the Sustainability Community drives and monitors targets and initiatives and supports the SMS Council. This integrated structure ensures that sustainability issues and projects throughout the orga-

Further information about Covestro's target program can be found on our website at www.covestro.com.

nization are optimized, communicated, reviewed and incorporated into day-to-day operations.

Alongside the Sustainability Community, the Health, Safety, Environment and Quality (HSEQ) Community is a further part of the organization. The task of developing and defining the HSEQ strategy lies with the Board member responsible for Industrial Operations, assisted by the HSEQ department which includes Product Safety and Regulatory Affairs. Targets, initiatives and management systems covering a range of issues are developed and defined in various HSEQ committees. Execution and monitoring in the business units and functions are the task of officers appointed by management who are responsible for occupational safety, environmental, energy and quality management. Support is provided by experts with responsibility for core issues such as process and plant safety.

Sustainability Management at Covestro

	Sustainability Community	HSEQ[1] Community
Direction and guidance for the sustainability strategy	• CEO • Sustainability department	• Chief Industrial Operations Officer • Central function HSEQ
Development and definition of targets and initiatives	Sustainability, Marketing & Sales (SMS) Council	Global Process Owner Council Quality, Environment & Safety Manager Meeting Safety Council
Implementation and monitoring in functions and business segments	• Segment sustainability officers • Regional sustainability representatives • Regional SMS teams	• Officers appointed by management for occupational safety, environmental, energy and quality management • HSEQ officers in business segments and regions

[1] Health, Safety, Environment and Quality

The sustainability principles are anchored in Group regulations. Appropriate management systems and processes ensure compliance with these regulations and their implementation in business operations.

The Group regulations include the Sustainable Development Policy and the Corporate Compliance Policy. Other regulations cover responsible lobbying, human rights and a Supplier Code of Conduct for governing the interaction with suppliers. HSEQ regulations deal with issues such as quality assurance, safety, environmental protection and waste management.

Core processes, which can be viewed by all employees on the Covestro intranet, set out clear rules and responsibilities for sustainability-related management processes, including product stewardship, environmental and energy management, and safety. Core processes are binding on all relevant areas of the organization. Compliance with our regulations and processes is regularly reviewed, for example, by means of internal and external audits whose findings are used in continuous management evaluations.

Material sustainability issues

We perform Group-wide analyses of stakeholders' expectations and requirements in order to identify at an early stage any opportunities and risks relevant to sustainability, along with key nonfinancial areas of activity, and to react to them.

The relevance for our external stakeholders regionally, nationally and internationally is determined using industry criteria from third parties such as the sector-specific sustainability indicators drawn up by the Deutsche Vereinigung für Finanzanalyse und Asset Management (DVFA) and the European Federation of Financial Analysts Societies (EFFAS) and the analysis of material issues produced by the Sustainability Accounting Standards Board (SASB). We also carried out a media analysis to identify relevant sustainability issues for Covestro. In addition, we plan in the future to involve our external stakeholders and proactively obtain their feedback for review purposes.

Compliance, innovation, employees, product stewardship, the reduction of greenhouse gas emissions, resource efficiency, energy management and safety have been identified as being of particular relevance. Our material issues are the basis for sustainability reporting, which is prepared in accordance with the international standard drawn up by the Global Reporting Initiative (GRI). They are applicable Group-wide and cover the issues of relevance to our stakeholders, which are described under "Social Environment."

More detailed information can be found in our Sustainability Reporting, which is available on our website at www.covestro.com.

9. Employees

Covestro's business success is based on the skills and commitment of our employees. Their curiosity in constantly searching out new solutions and their courage in leaving familiar paths are qualities that Covestro values in its employees and also seeks to find in new hires. The company's vision – To make the world a brighter place – serves to guide our employees in their day-to-day collaboration. This vision is closely tied to Covestro's three corporate values: curious, courageous and colorful.

The strategy at Human Resources (HR) is derived from Covestro's overarching corporate strategy. Efficient human resources management, expertise and customer-focused strategic advice form the basis of our services.

Present employee data

Employees per Corporate Function[1]

	Dec. 31, 2014	Dec. 31, 2015
Production	9,326	9,988
Marketing and distribution	3,566	3,528
Research and development	923	1,005
General administration	533	1,240
Total	**14,348**	**15,761**
Trainees	103	404

[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.

As of December 31, 2015, Covestro had around 15,800 employees worldwide. In fiscal 2015, headcount grew by 10%, mainly as a result of the separation from the Bayer Group. More than 1,200 new employees were hired worldwide. In addition, 404 trainees (2014: 103) worked at Covestro on the closing date.

Personnel Expenses and Pension Obligations

	2014	2015
	€ million	€ million
Personnel expenses	1,322	1,629
of which pension and social security contributions	251	310
Pension obligations[1]	1,395	1,462

[1] Provisions for pensions and other post-employment benefits as of December 31

In 2015, our personnel expenses amounted to €1,629 million (2014: €1,322 million). This increase was largely due to the expanded headcount, higher expenses for performance-related compensation and currency effects.

Recruitment

We are seeking to ensure that our company will remain in a position to attract skilled employees. In September 2015, a global campaign was launched to establish our new employer brand. It is based on our three corporate values and on the motto "WE MAKE the world a brighter place."

Our approach to the foreseeable consequences of demographic change differs from region to region. We are expanding measures to promote our employees' health and activities to recruit new people – especially promising career starters – as a means of safeguarding and transferring knowledge within the company.

Employees by Age Group as of December 31, 2015

	Women	Men	Total
Age in years			
< 20	1	8	9
20 – 29	561	1,324	1,885
30 – 39	1,284	3,138	4,422
40 – 49	967	3,562	4,529
50 – 59	625	3,588	4,213
> 60	89	614	703
Total	**3,527**	**12,234**	**15,761**

In keeping with our values, our corporate culture embraces diversity. We prize different ideas, experiences and viewpoints and support our employees on the basis of their individual strengths. We create an environment in which they can fulfill their potential. Through this culture we aim to appeal to potential new employees worldwide and to bind them to our company.

In our search for skilled employees, we focus on forward-looking human resources marketing in all the countries in which Covestro operates. For instance, we maintain close contact with leading universities in all regions in order to draw the opportunities offered by Covestro to the attention of students as early as possible. This enables us to selectively cover our recruitment needs.

Alongside our training programs, we offer school and university students an early insight into working for our company. Overall, Covestro provided around 346 demanding professional internships to university students around the world in 2015. We will sustain this commitment in the coming years in line with our needs.

Employee development in a high-performance culture

At Covestro we are convinced of the value of lifelong learning and build on individual development options. This is the only way to advance our company and to challenge and motivate our employees. We are seeking to create a high-performance culture characterized by effective communication, information, constructive criticism, the acceptance of errors and open feedback.

All our development programs and activities are guided by our corporate values. In the area of People Development, we have implemented a competency model with clearly defined core and leadership skills that serve as a reference in all fields of employee leadership. They ensure that supervisors and their reports speak the same language and apply uniform criteria in evaluating performance in everything from an interview to a Development Dialogue.

Based on corporate goals, employees and supervisors agree objectives. At the end of the fiscal year, they discuss the extent to which these objectives have been attained. In this way, they both also receive feedback from various perspectives on how well they have served our corporate goals.

In addition, employees and supervisors regularly engage in a Development Dialogue. This offers an opportunity for employees to discuss their personal strengths and development needs, career expectations and professional aspirations with their supervisors.

We aim to continue rolling out the Development Dialogue around the world and anchor it even more firmly in our high-performance culture.

Advancing specialist and leadership skills

Fostering employees' individual abilities, talents and strengths is a key factor for Covestro's success. We will achieve lasting success if we can create a working environment in which all employees can optimally apply their skills, contribute to innovation and thus safeguard our quality. That is why we actively encourage lifelong learning by our employees. Our aim is to empower them to broaden their knowledge and skills and keep up with the latest changes throughout their working lives. We provide optimal support for this learning process through our training and continuing education programs for all employees.

Direct dialogue with our employees is particularly important to us. It includes informing our staff promptly and extensively about any upcoming changes, in compliance with the applicable national and international regulations.

At the same time, we actively involve our employees in dialogue through a range of offerings and encourage open discussion. Employees from all levels, segments and sites around the world were also involved in evolving our corporate values.

Diversity and internationality

"Colorful" is one of Covestro's three corporate values and is an expression of the central role that diversity plays in our corporate culture. A large variety of backgrounds and competencies based on aspects such as different life experiences, educational backgrounds, talents, cultures and religions ensures a multicultural mix that fosters unconventional thinking, creative ideas and greater openness. And that is the lifeblood of an innovation-driven company such as Covestro.

Our activities in this area are brought together in our Diversity & Inclusion (D&I) program. Employees from all organizational units and functions around the world work together to develop global action plans for Covestro and to define the specific areas of responsibility.

Covestro employs people from 80 different countries. Of the members of the senior management level, in which 13 nationalities are currently represented, around 68% come from the country in which they are employed.

Work-life balance

Our employees' lifestyles are as diverse as they are. That is why Covestro offers a range of opportunities that enable them to balance professional interests with their private and family lives, going well beyond legal requirements in many countries. At our main sites in Europe, the United States and China, for instance, we offer solutions such as flexible working hours, part-time working and home office if this is compatible with operational requirements. In Germany, all employees are able to transfer salary and time components (converted into money) to a long-term account. The accumulated salary balance can be used at a later point in time for legally defined purposes such as caring for children or close relatives or pre-retirement leave.

Employee compensation and benefits

Covestro combines a base salary reflecting the duties of a position with performance-related compensation components and extensive additional benefits. In this way, we offer our employees working conditions that give them a high degree of security and reliability. We ensure that our compensation is internationally competitive. We also attach great importance not only to ensuring fair compensation for our employees worldwide but also to informing them transparently about the overall structure of their compensation.

At managerial level, the base salary is determined by uniform evaluation of all positions throughout the Group using the internationally recognized Hay method. We align our compensation with local market conditions in all countries. There is currently a uniform Group-wide, stock-based compensation program named Aspire for senior management. For members of senior management, an appropriate personal investment in Covestro stock is the prerequisite for participating in this program. In 2016, it will be replaced by a stock-based cash compensation program with four-year performance periods that is linked to the development of Covestro's share price.

Human rights and social responsibility

Covestro's social responsibility as a company and an employer is based on our corporate values and our unreserved commitment to supporting and fostering human rights in our sphere of influence.

In keeping with our human rights position, we pursue the goal of paying adequate salaries that ensure a suitable standard of living for our employees and their families.

Within the framework of Integrated Compliance Management (ICM), compliance risks are systematically identified and evaluated and compliance processes are defined. This also applies to the area of fair and respectful working conditions. If there are signs of violation, employees can contact their Compliance Officer at any time, anonymously if required. All suspected compliance cases are recorded worldwide in accordance with uniform criteria. That also applies to violations associated with working conditions. Any risks connected with legal disputes and litigations are published in Note 28 to the Consolidated Financial Statements.

At Covestro, social responsibility includes ensuring safe working conditions which means creating an environment in which employees worldwide can work and move without fear. In 2015, the working conditions for around 54% of our employees worldwide were governed by collective or company agreements. The contractually agreed working hours of our employees did not exceed 48 hours per calendar week in any country.

At various country companies, the interests of the workforce are represented by elected employee representatives who have a right to receive information and / or be consulted on many personnel-related decisions. In Germany, Covestro practices codetermination in close collaboration with the trade unions and employers' associations. Our commitment to the collective bargaining agreements that apply to us, expressed in our membership of the relevant employers' associations, is coupled with an active codetermination policy at company level. There are employee representative bodies at all our sites in Germany. Respectful and open collaboration with these bodies is an essential element of our human resources policy.

Our sustainable human resources policy also includes ensuring a high level of social protection for our employees. As well as competitive compensation, we offer our employees numerous additional benefits. For example, nearly all our employees worldwide either have statutory health insurance or can obtain health insurance through the company. In 2015, Covestro expanded or improved the quality of the health benefits provided for employees in many countries. As of December 31, 2015, over 75% of the workforce had access to a company pension plan.

Please see Chapter 24 "Compliance" for further information.

In addition, Covestro actively encourages awareness of healthy lifestyles, especially in view of the challenges facing us as a result of demographic change and the raising of the retirement age in many countries.

We have introduced workplace health management programs at all levels, which are consistently expanding offerings in this area in response to employee surveys. The intention is to ensure that employees have access to adequate and affordable health offerings such as sports programs, regular medical check-ups, help in overcoming illness and on-site medical care, varying across regions and localities. The nature and scope of the health promotion programs differ around the world depending on local circumstances and access to national health systems. In many places, the company's voluntary social welfare provision includes measures to prevent illness.

We want our employees to feel at home at Covestro from the outset, and offer them a modern working environment with a wealth of opportunities. We are determined to further improve what we do on an ongoing basis.

10. Product Stewardship

Product stewardship for Covestro means the comprehensive evaluation of health and environmental risks. It is imperative to minimize the risks our products present to health, safety and the environment throughout their life cycle – from research, production, marketing and use by the customer through to disposal. The safe application of our products has the highest priority for our company.

Transparent communication and the transfer of product safety information are important to ensure the safe handling and use of our products. For this reason, in addition to the legally required documentation, we also provide further safety information and offer corresponding training in line with the Global Product Strategy of the International Council of Chemical Associations (ICCA).

With a view to ensuring the safe handling of products, experts in all areas of the company work closely with customers, industry associations, distributors and the public. The aim is to ensure the effective communication and observance of health, safety and environmental information along the supply chain.

Management of product stewardship

Product stewardship involves both compliance with statutory requirements and voluntary commitment. Here, we also take into account the precautionary principle as explained in Principle 15 of the Rio Declaration of the United Nations and communiqué COM(2000) 1 of the European Commission.

The precautionary principle is a potential means of protecting consumers and the environment within the context of risk management. It may be applicable if, according to an objective and comprehensive scientific evaluation, material or irreversible harm to people and the environment may occur, but the risk of this cannot be established with sufficient certainty. In this, we follow the general principles of the European Commission for application of the precautionary principle. These are especially the proportionality of the measures taken, examination of the benefits and costs of all relevant options, and review of the measures taken in light of new scientific developments.

In particular, arbitrary decisions cannot be justified by invoking the precautionary principle.

We have established processes for addressing inquiries about product safety or indications of problems with our products. This feedback is systematically factored into our risk evaluation – as are the assessments of potentially hazardous substances by authorities and independent institutions.

As a contribution to the safe handling of chemicals, risk assessments are carried out applying recognized scientific principles such as those described by the ECHA (European Chemicals Agency) in its Guidance on Information Requirements and Chemical Safety Assessment.

Should the assessment or new findings reveal that it is not safe to use a certain chemical, we take the necessary steps to mitigate risks. Such measures can range from revised application recommendations through the withdrawal of support for a certain application to the substitution of a substance. In this case, a replacement substance must be sought whose manufacture is economically and technically feasible. The optimization of products and processes is basically a continuous task of the chemical industry. This is the basis of the REACH regulation (Registration, Evaluation, Authorisation and Restriction of Chemicals), and is also integral to our commitment to Responsible Care™. We are also actively involved in the further development of scientific risk assessment through our work in associations and initiatives.

International associations such as the European Chemical Industry Council, the International Council of Chemical Associations (ICCA) and the Organisation for Economic Co-operation and Development (OECD), as well as initiatives such as the European Centre for Ecotoxicology and Toxicology of Chemicals (ECETOC), are working to evolve the scientific assessment of chemicals, research new testing methods and monitor the implementation of statutory regulations. Covestro actively contributes to these efforts through its association activities. We are also involved in the Long-Range Research Initiative of the ICCA and endorse the goals of the World Health Organization (WHO) and EU action plans for improving health and the environment, for example with the further development of human biomonitoring through an alliance with the German Chemical Industry Association (VCI) and the German Federal Ministry of the Environment.

Implementation of regulations and voluntary programs pertaining to chemicals

We operate in accordance with the European chemicals regulation REACH. It affects all our activities as a manufacturer, importer and user. We have established Group regulations to adequately address the scope and complexity of the REACH requirements. The registration obligation under REACH applies irrespective of marketing activities for all substances that we produce or import in quantities of more than one metric ton.

Substances registered already are now being evaluated by the regulatory authorities. In the future, this could result, for example, in additional testing requirements, new risk management measures or inclusion in the authorization procedure.

A number of Covestro substances are also affected by the REACH authorization procedure, which restricts the use of particularly hazardous substances or can lead to their replacement or prohibition.

By 2020, Covestro intends to conclude the assessment of hazard potential for all substances used in quantities exceeding one metric ton per annum. In this way we exceed statutory requirements and are ensuring that substance assessments comparable to those established under REACH will also be applied at Covestro sites that are not subject to this European regulation. The relevant procedure is established in the Group Regulation "Substance Information and Availability."

At the same time, we are implementing the Globally Harmonized System (GHS) for the classification and labeling of chemicals, which came into force in the European Union in 2009 and in the United States in 2015. The purpose of this regulation is to achieve a globally standardized system for classifying chemicals and labeling them appropriately on packaging and in material safety data sheets. We also require the same such declarations from our suppliers to ensure the availability of all relevant information concerning product safety, environmental compatibility and disposal.

Support for the Global Product Strategy

We also support the Global Product Strategy (GPS), a voluntary commitment by the chemical industry initiated by the ICCA. Its objective is to improve knowledge about chemical products, especially in emerging and developing countries, and thus increase safety in the handling of these products. The ICCA has established an information portal through which summarized details on products (GPS Safety Summaries) are made available. As part of this initiative, we are assessing substances we use. GPS is accessible at Covestro through the Product Safety First internet portal, and is available worldwide in seven languages. Through this website, we inform customers and other interest groups about our activities and product safety assessments.

A product safety assessment at Covestro takes place in several steps. First, chemicals that are subject to statutory regulations are identified and the corresponding regulation documented. We then examine our products in terms of their risk potential so as to provide a basis for the effective minimization of risks. Such steps can include proposals for technical measures such as protective clothing, or marketing restrictions. Finally, we produce the legally required material safety data sheets, technical information sheets and labeling for the chemicals. In this, we go beyond what is required and also compile these documents for chemicals that are not subject to this legal obligation. This process is applied for all product groups.

Substances that are the subject of public debate

With regard to substances that are the subject of public debate, Covestro is following the scientific discussion about the chemical bisphenol A (BPA), a feedstock for various plastics. Critics are concerned that health risks could result for users if traces of BPA are released from products. As documented by numerous scientifically valid studies, we are convinced that BPA can be safely used in its existing areas of application, particularly in applications involving contact with food. This assessment is consistent with evaluations by the authorities responsible for food safety in Europe, the United States, Australia, Japan and other countries. In cooperation with the PlasticsEurope association, we are working to make the discussion more objective based on all the scientific data. Covestro is itself actively involved in the debate, providing information to customers and the public.

Further information about the available scientific data can be found on our website at www.covestro.com.

11. Safety

Safety management and the continuous development of safety culture are a cornerstone of our corporate responsibility. In our work dealing with dangerous substances, we need the trust of society, the public and the authorities. All injuries and incidents we record are analyzed and evaluated in detail to enable appropriate measures to be put in place for the future. Preventing accidents and incidents in day-to-day work, when operating production facilities, and on work-related travel and transportation routes where people or the environment could suffer harm or damage has top priority for us. Responsibility for health, safety, environmental protection and quality (HSEQ) is thus directly assumed by the Board of Management. Our HSEQ activities are geared toward ensuring the occupational health and safety of our employees and contractors.

Management approaches to ensuring safety

An HSEQ policy and the associated regulations form part of Covestro's integrated management system, which defines globally applicable minimum requirements in line with internationally recognized standards such as OHSAS (Occupational Health and Safety Assessment Series) 18001.

In order to protect employees, suppliers and service providers and to ensure uninterrupted operations, we have defined detailed rules and regulations within the framework of global core processes. These cover the safety of production facilities and manufacturing processes, the reporting and analysis of accidents and environmental and transport incidents, health screening and occupational safety, and emergency management at Covestro. They are regularly reviewed by means of internal and external (certification) audits. The findings from these audits and any modifications to the management system they necessitate are included in regular management assessments. Within the context of a continuous improvement process, accidents and product releases are recorded and systematically evaluated in order to identify potential hazards and avoid them in the future. As a result, each core process is subject to ongoing monitoring. In 2015, this evaluation did not result in any changes to the management system.

Occupational health and safety

We record all injuries to Covestro employees and contractors requiring medical treatment that goes beyond simple first aid. Injuries to Covestro employees – both with and without lost workdays – are indicated by the Recordable Incident Rate (RIR). In 2015, this rate stood at 0.34 injuries per 200,000 hours worked (2014: 0.30), corresponding to 51 recordable incidents worldwide. This means that, in statistical terms, one recordable incident occurred for around every 588,000 hours worked. The corresponding value for contractors was 0.20 injuries per 200,000 hours worked (2014: 0.36)[2]. We recorded no accident-related fatalities in 2015.

As in previous years, we recorded very few sector-typical accidents involving contact with chemicals in 2015. The absolute number of injuries increased slightly. In order to prevent behavior-related accidents, Covestro is seeking to raise employee awareness through its Human Factor initiative. This teaches employees to derive the correct preventive measures from such accidents and near misses. The program was rolled out at all major sites in 2015.

In addition, as in previous years, Covestro invited all employees to submit their suggestions for the company's CEO Safety Award. All the ideas submitted were evaluated by an expert jury, which also included external safety specialists. The winners were presented with their awards by the Chairman of the Covestro Board of Management (CEO) Patrick Thomas.

Process and plant safety

We aim to ensure the safety of our processes and plants in a way that avoids unacceptable risks to our employees, the environment and our neighbors.

Within the context of continuously improving safety, we further optimized the training program for all Covestro employees who can influence process and plant safety in their professional environment. Comprising face-to-face and web-based training, the program addresses craftsmen and chemical technicians in the production facilities.

A globally standardized KPI for plant safety incidents, Loss of Primary Containment (LoPC), applies to all Covestro plants and is integrated into Group-wide safety reporting. LoPC refers to, for example, chemicals in amounts above defined thresholds leaking from their primary containers, such as pipelines, pumps, tanks or drums. We use the LoPC Incident Rate (LoPC-IR) to determine the number of LoPC incidents per 200,000 working hours in areas relevant to plant safety. In 2015, the rate was 0.68 (2014: 0.78).

The reporting level is set so low that even material and energy leaks that have no impact on employees, neighbors or the environment are systematically recorded and reported. This approach is in line with our commitment to maintaining the integrity of our facilities at all times.

Every LoPC incident as well as minor and near-miss incidents are carefully analyzed to determine their causes. The results of the cause analysis and the corrective measures taken are published Group-wide to improve employees' safety awareness.

Transportation safety

A Group Policy specifies how all transported materials must be handled in line with their hazard potential. Logistics service providers are selected following a defined procedure, and their fulfillment of safety and quality standards is regularly assessed. People are appointed in every organizational unit concerned to take responsibility for implementing the regulations.

[2] The figure for hours worked used to calculate the incident rate for contractors was based in part on estimates.

Covestro has drawn up a seven-point plan for transportation safety that focuses on the following topics: Behavior-Based Safety (BBS); transport risk assessment; learning from incidents; safety during unloading operations; service provider evaluation; training / interactive learning; sharing best practices. The Near Miss campaign launched at the start of 2015 is producing positive results. It encourages employees to report near-miss incidents as well, thus facilitating preventive action.

Environmental and transport incidents

In 2015, 13 incidents were reported of which 2 were classified as environmental incidents and 12 were classified as transport incidents. One incident fell into both categories.

We classify critical incidents during the transportation of our products as transport incidents. These are recorded according to specific criteria. Assessment is based on the leaked load and graded according to the volume and hazardous material class, personal injury and blocked transportation routes. We take into account both our own chemical transport movements and those we commission and pay third parties to perform on our behalf.

In 2015, Covestro recorded 12 transport incidents in relation to almost 800,000 units transported by road, rail, water and air.

We define environmental incidents as incidents which result in the release of substances into the environment. In line with our internal directive, we report such incidents for all sites operated by Covestro worldwide. Factors that determine whether there is a reporting obligation include, in particular, the nature and quantity of the substance, the amount of damage caused or any consequences for people and the environment. In accordance with our internal voluntary commitment, we report any leakage of substances with a high hazard potential from a quantity of 100 kg upward.

12. Environmental Protection

We are constantly working to lessen environmental impact and to develop innovative product solutions that support our customers in improving their resource efficiency and reducing emissions. Eco-efficient processes help to protect the environment and at the same time cut the costs associated with materials, energy, emissions and disposal.

Management approaches to implementing environmental requirements

For the operational implementation of this commitment, we have established an integrated management system and defined corresponding global minimum standards in the form of rules and regulations that comply with internationally recognized standards such as ISO 14001 (environmental management) and ISO 50001 (energy management).

Compliance with the relevant processes is regularly reviewed by means of internal and external (certification) audits. The findings from these audits and any modifications to the management system they necessitate are included in regular management assessments. As a result, each process is subject to ongoing monitoring. In 2015, this evaluation did not result in any changes to the global management system.

Energy consumption

Energy and material consumption and emission levels are highly dependent on production volumes.

In 2015, we reduced Covestro's total energy consumption by 0.9% to 58.5 petajoules although production volumes increased by 1.5%. Total equivalent primary energy consumption, calculated by translating all energy data into primary energy to achieve comparability, remained more or less at the prior-year level. Specific energy consumption, i.e. the total equivalent primary energy consumption for a given production volume, thus declined slightly compared with the previous year. This was attributable to our efficiency programs and the global STRUCTese™ energy management system, which will remain in place in the years ahead.

When recording energy consumption, we differentiate between primary energy consumption at our sites – mainly of fossil fuels for our own generation of electricity and steam – and secondary energy consumption that reflects the purchase of electricity, steam and refrigeration energy and the use of process heat. Primary energy consumption fell by 1.3% and secondary energy consumption by 0.8%.

Energy Consumption of Covestro

	2014	2015
Primary energy consumption for the in-house generation of electricity & steam (net, TJ)	7,439	7,345
Secondary energy consumption (net, TJ)	51,590	51,161
Total energy consumption (TJ)	**59,029**	**58,506**
Equivalent primary energy consumption[1] (TJ)	72,340	72,570
Production volume[2] (million metric tons)	13.0	13.2
Energy efficiency[3] (MWh / t)	**1.55**	**1.53**

[1] Sum of all individual energies used at our main production sites (responsible for more than 95% of our energy consumption), converted into primary energy
[2] All in-spec key products manufactured at our main production sites (responsible for more than 95% of our energy consumption)
[3] Quotient of equivalent primary energy and in-spec production volume at our main production sites

Greenhouse gas emissions

At Covestro, greenhouse gas emissions are caused mainly by the generation and consumption of energy. By constantly improving resource and energy efficiency, we can reduce both costs and emissions. We also offer market solutions aimed at protecting the climate and adapting to climate change.

Before Covestro was carved out of the Bayer Group on September 1, 2015, it already pursued ambitious targets as part of the Bayer Climate Program. For example, the company aims to cut its specific carbon dioxide (CO_2) emissions by 40% by 2020 and to improve its energy efficiency by 30% compared with 2005. In 2015, specific greenhouse gas emissions amounted to 0.421 metric tons of CO_2 equivalents per metric ton of product and energy efficiency was 1.53 mWh of primary energy equivalents per metric ton. These figures equate to reductions of 38.7% and 30.4%, respectively, compared with 2005. We have thus already achieved our energy efficiency target for 2020. The targets will be updated, probably in the first half of 2016, as part of our review of our sustainability targets.

More efficient production

We are reducing emissions at our own production facilities by increasing energy efficiency and by developing and utilizing new, innovative technologies.

Covestro developed STRUCTese™ (Structured Efficiency System for Energy) which has been introduced progressively since 2008 and compares actual energy consumption in production with the realistic potential optimum. In this way, production plants can be operated at their optimum, yielding average energy savings of 10%.

Energy efficiency projects derived from the STRUCTese™ energy management system result in annual reductions. Taking into account all sustainable effects achieved since the introduction of STRUCTese™ in 2008, these had amounted to 1.55 million mWh in primary energy consumption and 450,000 metric tons in CO_2 emissions by year end 2015. STRUCTese™ is now actively deployed in 58 energy-intensive production plants worldwide. The system is soon to be introduced in other facilities, including the aniline and nitrobenzene plants in Baytown, United States, which were acquired at the beginning of 2014.

In 2015, Covestro implemented projects that resulted in an overall reduction of 317,000 mWh in primary energy consumption and 109,000 metric tons in CO_2 emissions. Measures implemented within the context of STRUCTese™ accounted for 73,000 MWh of the reduction in primary energy consumption and 22,000 metric tons of the lower CO_2 emissions. The energy management system at all Covestro's German sites was successfully certified to ISO 50001 for the fourth time in 2015.

Direct and indirect greenhouse gas emissions

Covestro reports Group greenhouse gas emissions in line with the requirements of the Greenhouse Gas Protocol (GHG Protocol). Direct emissions from our own power plants, waste incineration plants and production facilities (corresponding to Scope 1 of the GHG Protocol) are determined at all production locations and relevant administrative sites. To calculate indirect emissions (corresponding to Scope 2 of the GHG Protocol), the energy consumption at a given production site is multiplied by its specific emissions factor, which corresponds to the individual electricity mix for the site, in line with the method specified by the GHG Protocol until 2015. If no specific factor is available, an average emissions factor is used, such as the one produced by the International Energy Agency (IEA).

Dual reporting was introduced in 2015 with the updating of the GHG guidelines for Scope 2. Indirect emissions must now be reported using both the location-based and the market-based method. The location-based method uses regional or national average emissions factors, while the market-based method takes into account the provider- or product-specific emissions factors. From 2015, in order to ensure comparability of the data, we will be reporting on the basis of the system used to date and in line with the new guidelines.

While direct emissions increased by 9.8%, indirect emissions declined by 1.1%. Relative to the production volume at our main sites, the specific volume of greenhouse gases was just below the prior-year level.

Group Greenhouse Gas Emissions[1]

	Million metric tons of CO_2 equivalents		
	Base year: 2005	2014	2015
Direct greenhouse gas emissions[2]	–	1.93	2.12
Indirect greenhouse gas emissions[3] (until 2014 calculated by the GHG Protocol method)	–	3.73	3.69
in accordance with the location-based method (GHG Protocol 2015)	–	–	4.99
in accordance with the market-based method (GHG Protocol 2015)	–	–	5.14
Total greenhouse gas emissions	**6.57**	**5.66**	**5.81**
Specific greenhouse gas emissions (metric tons of CO_2 equivalents per metric ton of production volume)[4]	0.687	0.423	0.421
Production volume (million metric tons)[5]	**8.9**	**13.0**	**13.2**

[1] Portfolio-adjusted in accordance with the GHG Protocol; financial control approach; GWP (Global Warming Potential) factors in accordance with the IPCC 2nd Assessment Report; no valid calculation of direct and indirect emissions possible for the base year
[2] In 2015, 78.3% of emissions were CO_2 emissions, 21.1% N_2O emissions, just under 0.6% partially fluorinated hydrocarbons and 0.02% methane.
[3] Typically, CO_2 in incineration processes accounts for more than 99% of all greenhouse gas emissions. We therefore base our calculation of indirect emissions on CO_2 only. The method previously used for this calculation has been applied here as it would not have been possible to produce a valid calculation of total emissions for the base year using the new guideline.
[4] Total greenhouse gas emissions (5.56 million metric tons of CO_2 equivalents in 2015) at the main production sites (responsible for more than 95% of our energy consumption) divided by the in-spec production volume
[5] All in-spec key products manufactured at our main production sites (responsible for more than 95% of our energy consumption)

Use of water and wastewater

The continuous availability of clean water is of elementary importance for humankind and industry. However, it is a challenge in many parts of the world. In addition to cooling water, the availability of clean water is essential for our production operations. We work to ensure that our water usage does not lead to local problems, i.e. water shortages.

Covestro regulates the efficient use of water in its HSEQ Policy (see Integrated Sustainability Management). We have used the Global Water Tool™ from the World Business Council for Sustainable Development (WBCSD) to screen all Covestro's environmentally relevant sites in terms of water scarcity. As a result, we identified sites whose location in water-scarce areas exposes them to particular risks in terms of water availability and quality. These sites are to establish water management with local targets by 2017.

Water consumption and usage

In 2015, total water consumption in the Group fell by 4.1% to 236 million cubic meters. Significant reductions were recorded at the sites in South Charleston, United States, and in Brunsbüttel and Uerdingen, both Germany. Production at the Anyer, Indonesia, site was discontinued.

Net Water Intake of Covestro

	2014	2015
Water consumption (million m³ p.a.)	246	236

81.8% of all water used by Covestro is once-through cooling water. This water is only heated and does not come into contact with products. It can be returned to the water cycle without further treatment in line with the relevant official permits. The total volume of once-through cooling water was 193 million cubic meters in 2015.

Wastewater

The total volume of process wastewater decreased by 8.1% in 2015. All wastewater is subject to strict monitoring and analysis before it is discharged into disposal channels. 82.2% of Covestro's process wastewater worldwide was purified at wastewater treatment plants (Covestro or third-party facilities). Following careful analysis, the remaining 17.8% was categorized as environmentally safe and returned to the water cycle.

Volume of Process Wastewater

	2014	2015
Volume of process wastewater (million m³ p.a.)	37	34

Waste and recycling

Systematic waste management minimizes material consumption and disposal volumes at Covestro. Safe disposal channels with separation according to the type of waste and economically expedient recycling processes serve this purpose. Production fluctuations, building demolition and refurbishment, and land remediation also influence waste volumes and recycling paths.

The total volume of hazardous waste generated was almost at the same level as in the previous year.

Hazardous Waste[1] Generated by Type of Disposal

	2014	2015
Total waste generated[2] (1,000 metric tons p.a.)	**110**	**110**
thereof removed to landfill	2	2
thereof incinerated	108	108

[1] Waste generated by Covestro only
[2] Definition of hazardous waste in accordance with the local laws in each instance

Recycling

Covestro supports the recycling and treatment of its materials, seeking to satisfy economic and environmental criteria and to comply with legal requirements. This is part of our sustainability strategy and our stance on the end-of-life product phase.

In its own production operations, too, Covestro uses material recycled from plastic waste. These kinds of high-quality secondary raw materials are used to manufacture certain grades of engineering thermoplastics, such as a flame-retardant plastic compound for television set housings that is produced using 30% material from recycled PET water bottles.

Furthermore, Covestro supports recycling through its involvement in associations such as PlasticsEurope and as a shareholder of BKV GmbH, the German industry's competence platform for plastics recycling. We also embrace PlasticsEurope's Zero Pellet Loss initiative, with the goal of preventing the loss of plastic pellets on the way from production to the finished article. In 2015, we pursued a range of measures in this connection. They included especially introducing further measures to eliminate potential sources of pellet loss, strengthening our employees' awareness of the issue, integrating the campaign in established HSEQ processes and working with PlasticsEurope to include external partners.

REPORT ON ECONOMIC POSITION

13. Economic Environment

Global economic growth in 2015 was at the level of the previous year and therefore below expectations. The U.S. economy fared better than had been anticipated at the start of 2015, posting stronger growth than the average for the past four years. However, development was very volatile, with widely differing growth rates in each quarter. The pace of growth in the European Union accelerated substantially in the first half of 2015 before weakening in the second half of the year. The positive effects of the weaker euro were partly canceled out by reduced demand in the emerging economies. There, the pace of growth slackened due in particular to recessions in the two major economies of Russia and Brazil. China continued to record a comparatively high, though weaker, rate of growth. Positive stimuli for the world economy came mainly from ongoing expansionary monetary policies in the industrialized countries and the drop in the oil price, which strengthened private consumption.

Economic Environment

	Growth[1] 2014	Growth[1] 2015
	%	%
World	**2.7**	**2.5**
European Union	1.4	1.8
of which Germany	1.6	1.5
United States	2.4	2.4
Asia	4.7	4.7
of which China	7.3	6.9

[1] Real growth in gross domestic product, source: IHS (Global Insight). As of January 2016

Slower growth in the global automotive industry in 2015 was attributable in particular to a temporary decline in demand in China. There, the automotive industry recovered in the fourth quarter thanks to a government subsidy program. Strong demand across all vehicle segments led to robust growth in North America and Western Europe. By contrast, demand in Latin America fell again, particularly in Brazil and Argentina.

Growth momentum in the global construction industry slackened slightly in 2015 compared with previous years. This was mainly due to significantly slower growth in China and negative growth in Latin America. In Western Europe, on the other hand, the construction sector continued its recovery; the North American market also saw ongoing positive development.

The global electrical / electronics industry posted robust but weaker growth in 2015. The slowdown affected the consumer electronics and household appliance segments in particular. Sales of notebooks, tablets and conventional cellphones fell and growth in demand for smartphones slowed yet remained in the double-digit range.

The global furniture industry posted slightly slower growth in 2015 than in the previous year; however, development overall was still positive. The ongoing recovery in the North American and European markets contrasted with negative growth in Latin America. In Asia, market growth slowed somewhat but remained positive due to the weaker economy, especially in China, and lower consumer spending in particular.

Economic Environments of Main Customer Industries

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

[1] Covestro's estimate based on the following sources: LMC Automotive Limited, IHS (Global Insight), B+L, CSIL (Centre for Industrial Studies)
[2] Growth rate for construction in 2014 restated following change to calculation model. As of January 2016

14. Business Development

Covestro Group Key Data

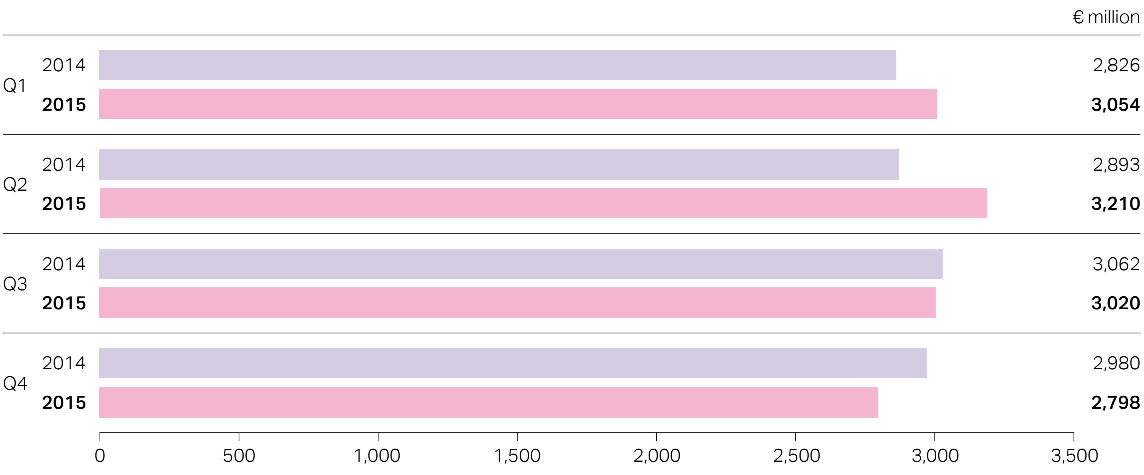
	4th quarter 2014	4th quarter 2015	Change	2014	2015	Change
	€ million	€ million	%	€ million	€ million	%
Sales	**2,980**	**2,798**	**–6.1**	**11,761**	**12,082**	**+2.7**
Change in sales						
Volume		+1.5%			+2.6%	
Price		–12.4%			–7.7%	
Currency		+4.8%			+7.8%	
Portfolio		0.0%			0.0%	
Core volume growth	**+1.9%**	**+3.3%**		**+4.8%**	**+2.7%**	
Sales by region						
EMLA	1,307	1,217	–6.9	5,493	5,357	–2.5
NAFTA	789	785	–0.5	3,022	3,356	+11.1
APAC	884	796	–10.0	3,246	3,369	+3.8
EBITDA	**188**	**132**	**–29.8**	**1,122**	**1,419**	**+26.5**
Adjusted EBITDA	**210**	**256**	**+21.9**	**1,161**	**1,641**	**+41.3**
EBIT	**28**	**(80)**	**.**	**517**	**680**	**+31.5**
Adjusted EBIT	**51**	**59**	**+15.7**	**561**	**942**	**+67.9**
Financial result	**(45)**	**(32)**	**+28.9**	**(136)**	**(175)**	**–28.7**
Net income	**(5)**	**(84)**	**.**	**272**	**343**	**+26.1**
Gross cash flow	**188**	**116**	**–38.3**	**1,016**	**1,155**	**+13.7**
Operating cash flow (net cash flow)	**414**	**550**	**+32.9**	**925**	**1,473**	**+59.2**
Cash outflows for capital expenditures	**239**	**157**	**–34.3**	**612**	**509**	**–16.8**
Free operating cash flow	**175**	**393**	**>100**	**313**	**964**	**>200**
Net financial debt[1]	**4,101**	**2,211**	**–46.1**	**4.101**	**2,211**	**–46.1**
ROCE				**6.2%**	**9.5%**	

[1] As of December 31, 2015 compared with December 31, 2014

Full year 2015

Fiscal 2015 was very successful for Covestro and the company achieved all its objectives.

Covestro Group Quarterly Sales



Group sales in 2015 increased by 2.7% against the prior-year period to €12,082 million (2014: €11,761 million). Volumes expanded in all three operational reporting segments. Currency effects also had a positive impact, which overall more than offset the decline in selling prices, especially at Polyurethanes. Selling prices were down on the prior year, mainly as a result of lower raw material prices.

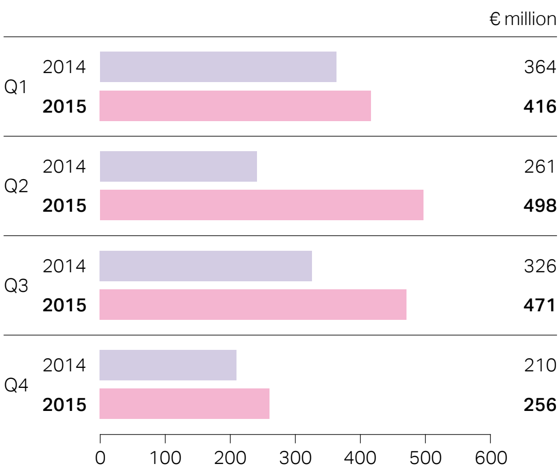
Sales in the Polyurethanes segment decreased by 3.1% to €6,088 million (2014: €6,282 million). The Polycarbonates segment raised sales by 12.4% to €3,172 million (2014: €2,822 million). Sales in the Coatings, Adhesives, Specialties segment advanced by 8.6% to €2,093 million (2014: €1,928 million).

Growth of the Covestro Group is also measured in terms of core volume growth. 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 the Group.

At Group level, the core volume increased by 2.7%. This was mainly attributable to the Polycarbonates segment, which posted strong growth of 5.2%. For the Coatings, Adhesives, Specialties segment, core volume growth was 2.7% and for the Polyurethanes segment 1.8%.

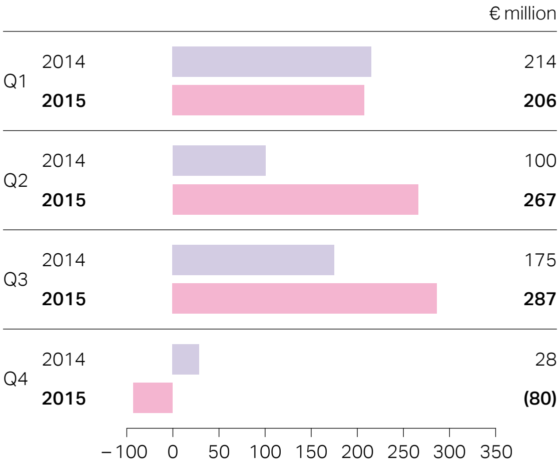
Adjusted EBITDA at Group level climbed by 41.3% in 2015 to €1,641 million (2014: €1,161 million). This was due to a more advantageous supply and demand situation along with expanded volumes, particularly at Polycarbonates. Currency effects of some €230 million also had a positive impact on earnings.

Covestro Group Quarterly Adjusted EBITDA



In the Polyurethanes segment, adjusted EBITDA rose by 5.4% to €624 million (2014: €592 million). The Polycarbonates segment more than tripled adjusted EBITDA to €560 million (2014: €160 million). Adjusted EBITDA for the Coatings, Adhesives, Specialties segment was €491 million, 12.4% higher than the prior-year figure of €437 million.

Covestro Group Quarterly EBIT



In fiscal 2015, the Covestro Group improved EBIT by 31.5% to €680 million (2014: €517 million). Special items amounted to minus €262 million (2014: minus €44 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 €942 million (+67.9%; 2014: €561 million).

After a financial result of minus €175 million (2014: minus €136 million), income before income taxes climbed to €505 million (2014: €381 million). After tax expense of €153 million (2014: €104 million), income after income taxes was €352 million (2014: €277 million). After non-controlling interests, net income amounted to €343 million (2014: €272 million).

Gross cash flow in fiscal 2015 rose by 13.7% to €1,155 million (2014: €1,016 million) and operating cash flow (net cash flow) by 59.2% to €1,473 million (2014: €925 million). This figure reflected income taxes paid (excluding amounts for accruals and provisions) of €194 million (2014: €73 million).

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

In 2015, free operating cash flow reached a record of €964 million (2014: €313 million).

Net financial debt was substantially reduced to €2,211 million (2014: €4,101 million). Cash inflows from a capital contribution and subsequent capital increase by Bayer AG and the net proceeds from the stock market listing at the beginning of October were used to repay loans from the Bayer Group.

Target Attainment 2015

Target Attainment 2015

	2014	Forecast 2015[1]	Target attainment 2015
External sales	€11,761 million	Slight increase	Increase by 2.7%
Core volume growth	+4.8%	Low-single-digit percentage growth	Increase by 2.7%
Adjusted EBITDA	€1,161 million	Substantial increase	Increase by 41.3%
Free operating cash flow	€313 million	Substantial increase	Increase by 208.0%

[1] Published in November 2015

2015 was therefore a very successful year for Covestro and the company achieved all the objectives it had set. Sales increased slightly by 2.7% in line with expectations. Core volume growth, at 2.7%, also confirmed our forecast. Both adjusted EBITDA – up 41.3% – and free operating cash flow, which tripled, exceeded expectations of a substantial increase.

Additionally, we earned a substantial premium on our capital costs in 2015. In fiscal 2015, Covestro determined profitability on the basis of the return on capital employed (ROCE[2]) for the first time. At 9.5%, ROCE was substantially higher than the capital costs of 7.2%.

In 2016, we will continue to measure Covestro's economic success on the basis of growth, profitability and cash flow contribution. To this end, core volume growth, return on capital employed and free operating cash flow became integral elements of all planning, management and control processes at the start of 2016. Covestro forecasts attainment of the target values for these indicators in 2016.

Please see Chapter 20. "Report on Future Perspectives" for further information.

[2] 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.

14.1 Calculation of Adjusted EBIT(DA)

Alongside the key indicators of core volume growth, return on capital employed (ROCE) and free operating cash flow (FOCF), Covestro also determines adjusted EBIT and adjusted EBITDA. In order to facilitate a more accurate assessment of business operations, EBIT and EBITDA are adjusted for special items (see table). 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. Adjusted EBITDA allows the comparison of operating performance over time since it is not affected by depreciation, amortization, impairment losses, impairment loss reversals or special items.

Depreciation, amortization and impairments for the full year 2015 increased by 22.1% to €739 million (2014: €605 million). They comprised €43 million (2014: €51 million) in amortization and impairments of intangible assets and €696 million (2014: €554 million) in depreciation and impairments of property, plant and equipment. The impairments reflect no impairment loss reversals (2014: €1 million). Impairments totaled €67 million (2014: €11 million), of which €40 million (2014: €5 million) was included in special items.

Please see Chapter 14.2 "Return on Capital Employed" for details of Covestro's value management system.

Special Items Reconciliation

	EBIT 4th quarter 2014	EBIT 4th quarter 2015	EBIT 2014	EBIT 2015	EBITDA 4th quarter 2014	EBITDA 4th quarter 2015	EBITDA 2014	EBITDA 2015
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Before special items	**51**	**59**	**561**	**942**	**210**	**256**	**1,161**	**1,641**
Polyurethanes	(7)	(102)	(9)	(175)	(6)	(85)	(8)	(137)
Polycarbonates	(15)	–	(29)	(2)	(15)	(1)	(28)	(2)
Coatings, Adhesives, Specialties	–	–	(5)	(9)	(1)	(1)	(2)	(7)
Others / Consolidation	(1)	(37)	(1)	(76)	–	(37)	(1)	(76)
Total special items	**(23)**	**(139)**	**(44)**	**(262)**	**(22)**	**(124)**	**(39)**	**(222)**
of which cost of goods sold	(9)	(98)	(19)	(197)	(8)	(84)	(18)	(157)
of which selling expenses	(10)	–	(15)	(1)	(10)	–	(15)	(1)
of which research and development expenses	3	–	2	(1)	3	–	2	(1)
of which general administration expenses	(2)	(38)	(4)	(131)	(2)	(37)	(4)	(131)
of which other operating income / expenses	(5)	(3)	(8)	68	(5)	(3)	(4)	68
After special items	**28**	**(80)**	**517**	**680**	**188**	**132**	**1,122**	**1,419**

14.2 Return on Capital Employed

Value management

The foremost objective of the Covestro Group is to steadily increase enterprise value. Value is generated if Group earnings exceed the cost of capital. Covestro uses the return on capital employed (ROCE) as the central value-based management metric.

Return on capital employed and value contribution

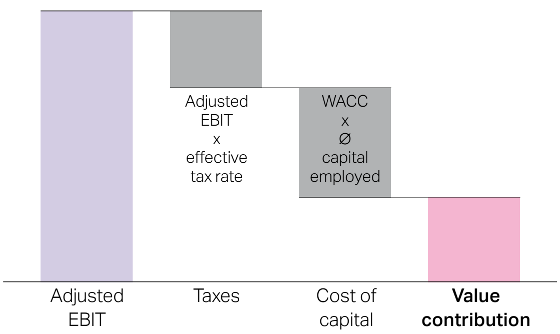
ROCE measures profitability and is calculated as the ratio of adjusted operating result (adjusted EBIT) after taxes (NOPAT= Net operating profit after taxes) to the average capital employed. Taxes are determined by multiplying the effective tax rate by adjusted EBIT. The capital employed is the capital used by the company. It is calculated from operating noncurrent and current assets less non-interest-bearing liabilities. Interest-free liabilities include, for example, trade accounts payable and current provisions. If ROCE exceeds the weighted average cost of capital (WACC), the company is earning a premium on its cost of capital.

Calculation of the Return on Capital Employed

$$\text{Return on capital employed (ROCE)} = \frac{\text{Net operating profit after taxes (NOPAT)}}{\text{Capital employed}}$$

The absolute value generation of the company is measured by the metric value contribution (VC). This is the difference between NOPAT and the cost of capital. The latter is calculated by multiplying the average capital employed by WACC. A positive VC means that value has been generated. At the beginning of 2016, ROCE as the main value management indicator became an integral part of all Covestro's planning, management and control processes.

Calculation of Value Contribution



Calculation of WACC

WACC reflects the expected return on the company's capital comprising both equity and debt. The cost of equity factor used in WACC is calculated by addition of the risk-free interest rate and the risk premium for an equity investment. We derive this risk premium from capital market information for comparable listed companies. The cost of debt factor is calculated by addition of the risk-free interest rate and a risk premium. Covestro uses the returns on long-term German government bonds as the risk-free interest rate. The risk premium is calculated from the financing costs for comparable companies. Calculation of WACC generally has a long-term perspective; short-term fluctuations are evened out. The capital cost factor for value management purposes for the Covestro Group in 2015 was 7.2%.

Covestro earned a premium on its capital costs in 2015. At 9.5%, ROCE was substantially higher than WACC of 7.2%. VC was positive at €159 million.

Covestro Value Management Indicators at a Glance

	2014	2015
	€ million	€ million
NOPAT	407	654
Average capital employed	6,525	6,883
WACC	6.9%	7.2%
ROCE	6.2%	9.5%
VC	(43)	159

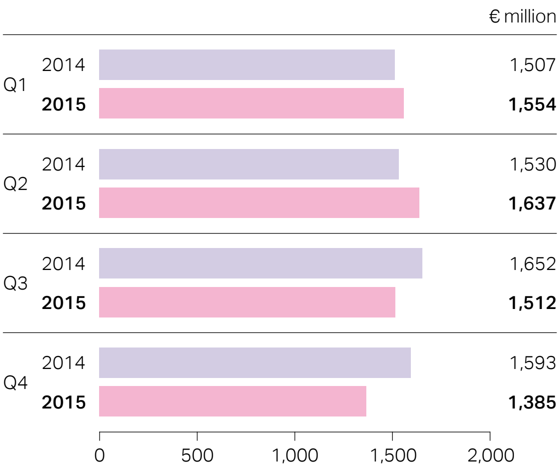
15. Business Development by Segment

15.1 Polyurethanes

Polyurethanes Key Data

	4th quarter 2014	4th quarter 2015	Change	2014	2015	Change
	€ million	€ million	%	€ million	€ million	%
Sales	**1,593**	**1,385**	**–13.1**	**6,282**	**6,088**	**–3.1**
Change in sales						
Volume		+2.7%			+2.1%	
Price		–20.0%			–12.4%	
Currency		+4.2%			+7.2%	
Portfolio		0.0%			0.0%	
Core volume growth	**– 0.9%**	**+4.9%**		**+3.9%**	**+1.8%**	
Sales by region						
EMLA	695	583	–16.1	2,866	2,631	–8.2
NAFTA	463	453	–2.2	1,817	1,956	+7.6
APAC	435	349	–19.8	1,599	1,501	–6.1
EBITDA	**95**	**(22)**	**.**	**584**	**487**	**–16,6**
Adjusted EBITDA	**101**	**63**	**–37.6**	**592**	**624**	**+5.4**
EBIT	**2**	**(157)**	**.**	**233**	**26**	**–88.8**
Adjusted EBIT	**9**	**(55)**	**.**	**242**	**201**	**–16.9**
Operating cash flow (net cash flow)	**194**	**407**	**>100**	**405**	**863**	**>100**
Cash outflows for capital expenditures	**94**	**80**	**–14,9**	**280**	**209**	**–25.4**
Free operating cash flow	**100**	**327**	**>200**	**125**	**654**	**>400**

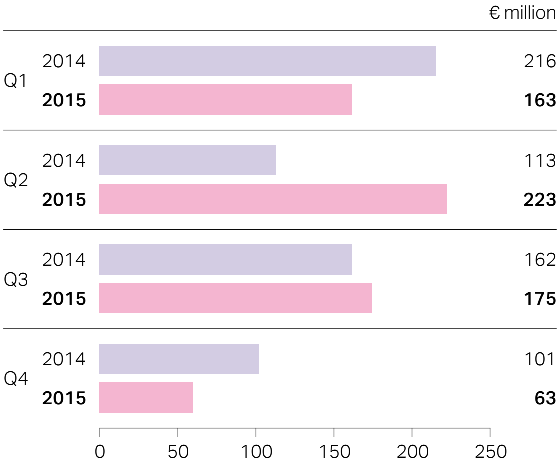
Polyurethanes Quarterly Sales



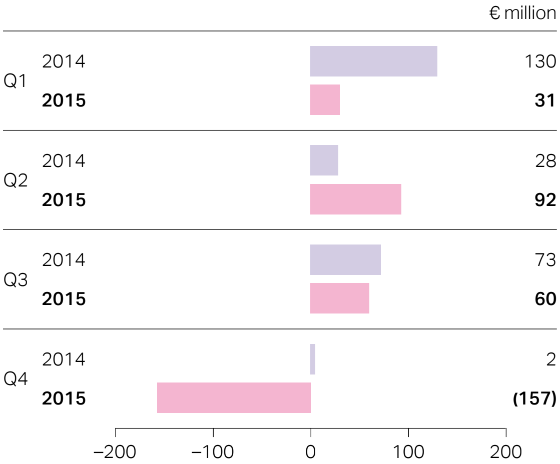
Sales at Polyurethanes for the full year 2015 declined by 3.1 % to €6,088 million. Exchange rate developments had a positive impact on sales.

Core volume growth amounted to 1.8 %. Higher volumes raised sales by 2.1 % overall. Volumes had a positive impact on sales in the TDI and polyether polyols product groups, and a slightly negative impact on MDI owing to lower noncore volumes. Volumes rose somewhat in EMLA, which was attributable in particular to expanded TDI capacities at the Dormagen production site in Germany. The increase in volumes in NAFTA was mainly the result of an expansion in sales of polyether polyols. In the APAC region, demand contracted slightly compared with a year earlier. This was mainly due to a reduction in polyether polyol volumes in connection with global margin optimization measures.

Polyurethanes
Quarterly Adjusted EBITDA



Polyurethanes
Quarterly EBIT



Selling prices at Polyurethanes were down 12.4% on the prior year. The decline in raw material prices was the principal cause of lower selling prices in the MDI, TDI and polyether polyols product groups across all regions. In the case of TDI, the lower price level was also attributable to increased competition owing to higher product availability.

In EMLA, sales declined by 8.2% to €2,631 million on account of lower selling prices at slightly higher margins. By contrast, NAFTA saw sales expand by 7.6% to €1,956 million. Favorable exchange rate developments and higher volumes offset the substantial price declines. Despite the positive impact of currency effects, sales in APAC decreased by 6.1% to €1,501 million. This was due to slightly lower volumes and a substantial drop in selling prices.

Adjusted EBITDA rose by 5.4% to €624 million (2014: €592 million). Alongside the improvement in earnings from currency effects, increased margins in the polyether polyols product group – particularly for the by-product styrene – had a positive impact in Europe. However, these effects were more than offset by slimmer margins for TDI. Maintenance costs were reduced to below the prior-year level as planned. Owing to Covestro's increased headcount and its successful business performance, the costs for performance-related compensation grew. In addition, prior-year earnings had been positively influenced by insurance reimbursements. These were lower in 2015.

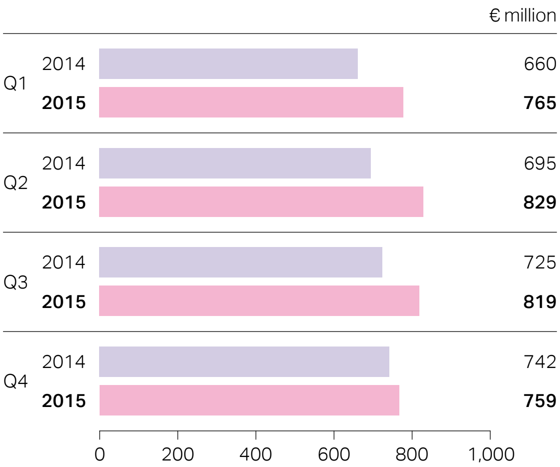
EBIT decreased by 88.8% to €26 million (2014: €233 million), reflecting special charges of €175 million for restructuring (2014: €9 million) relating particularly to the closure of the production site at Belford Roxo, Brazil, and the announced closure of MDI production in Tarragona, Spain, at the end of 2017.

15.2 Polycarbonates

Polycarbonates Key Data

	4th quarter 2014	4th quarter 2015	Change	2014	2015	Change
	€ million	€ million	%	€ million	€ million	%
Sales	**742**	**759**	**+2.3**	**2,822**	**3,172**	**+12.4**
Change in sales						
Volume		– 0.3%			+4.6%	
Price		– 3.9%			– 2.6%	
Currency		+6.5%			+10.4%	
Portfolio		0.0%			0.0%	
Core volume growth	**+8.5%**	**+0.8%**		**+9.0%**	**+5.2%**	
Sales by region						
EMLA	261	268	+2.7	1,065	1,134	+6.5
NAFTA	177	185	+4.5	646	765	+18.4
APAC	304	306	+0.7	1,111	1,273	+14.6
EBITDA	**18**	**122**	**>500**	**132**	**558**	**>300**
Adjusted EBITDA	**33**	**123**	**>200**	**160**	**560**	**>200**
EBIT	**(24)**	**70**	**.**	**(32)**	**374**	**.**
Adjusted EBIT	**(9)**	**70**	**.**	**(3)**	**376**	**.**
Operating cash flow (net cash flow)	**118**	**179**	**+51.7**	**186**	**328**	**+76.3**
Cash outflows for capital expenditures	**87**	**39**	**–55.2**	**210**	**190**	**–9.5**
Free operating cash flow	**31**	**140**	**>300**	**(24)**	**138**	**.**

Polycarbonates Quarterly Sales

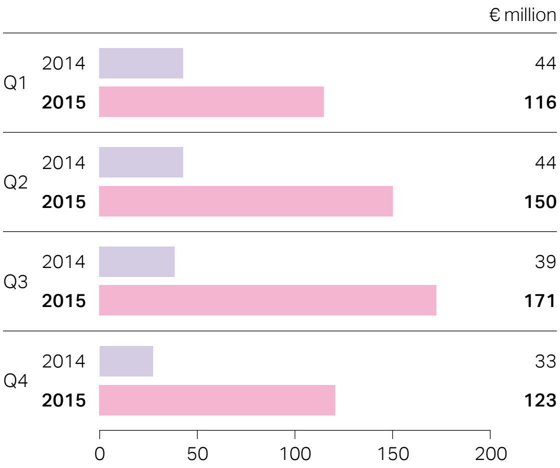


In the Polycarbonates segment, sales in fiscal 2015 rose by 12.4% against the prior year to €3,172 million (2014: €2,822 million). Shifts in exchange rates had a positive effect on sales.

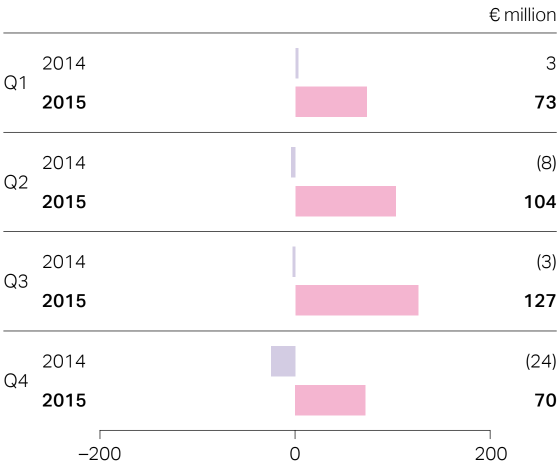
Core volume growth amounted to 5.2%. The expansion in volumes added 4.6% overall to sales. Sales improved in all three regions, due especially to higher demand from the automotive industry. In NAFTA, demand from the construction industry also expanded substantially. In APAC and NAFTA, in particular, volumes for intermediates were down on the prior year.

Selling prices decreased 2.6% overall compared with the prior year because of lower prices in NAFTA and APAC. This decline reflected the substantial drop in raw material prices. Selling prices in the EMLA region remained at the same level as 2014 despite the drop in raw material prices.

Polycarbonates
Quarterly Adjusted EBITDA



Polycarbonates
Quarterly EBIT



Sales in EMLA rose by 6.5% to €1,134 million, mainly on account of larger volumes. The NAFTA region improved sales by 18.4% to €765 million. Both the movement in exchange rates and volumes had a positive impact on sales, outweighing the effect of lower selling prices. Sales in the APAC region increased by 14.6% to €1,273 million as the result of positive currency effects and slightly larger volumes, which made up for price reductions.

Adjusted EBITDA for Polycarbonates more than tripled in 2015 to €560 million (2014: €160 million). This increase resulted from a more favorable supply and demand situation that enabled us to improve our margins as well as from currency effects and higher volumes. Owing to Covestro's increased headcount and its successful business performance, the costs for performance-related compensation grew.

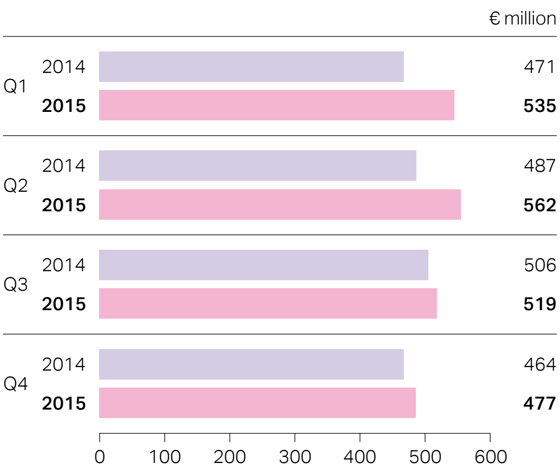
EBIT advanced very substantially to €374 million (2014: minus €32 million). This figure reflected special items of minus €2 million (2014: minus €29 million).

15.3 Coatings, Adhesives, Specialties

Coatings, Adhesives, Specialties Key Data

	4th quarter 2014	4th quarter 2015	Change	2014	2015	Change
	€ million	€ million	%	€ million	€ million	%
Sales	**464**	**477**	**+28**	**1,928**	**2,093**	**+8.6**
Change in sales						
Volume		0.0%			+2.1%	
Price		–2.2%			–1.1%	
Currency		+5.0%			+7.6%	
Portfolio		0.0%			0.0%	
Core volume growth	**+4.2%**	**+0.2%**		**+1.3%**	**+2.7%**	
Sales by region						
EMLA	230	229	–0.4	1,034	1,043	+0.9
NAFTA	99	112	+13.1	394	486	+23.4
APAC	135	136	+0,7	500	564	+12,8
EBITDA	**90**	**83**	**–7.8**	**435**	**484**	**+11.3**
Adjusted EBITDA	**91**	**84**	**–7.7**	**437**	**491**	**+12.4**
EBIT	**70**	**60**	**–14.3**	**354**	**397**	**+12.1**
Adjusted EBIT	**70**	**60**	**–14.3**	**359**	**406**	**+13.1**
Operating cash flow (net cash flow)	**103**	**155**	**+50.5**	**307**	**426**	**+38.8**
Cash outflows for capital expenditures	**49**	**38**	**–22.4**	**113**	**107**	**–5.3**
Free operating cash flow	**54**	**117**	**>100**	**194**	**319**	**+64.4**

Coatings, Adhesives, Specialties Quarterly Sales

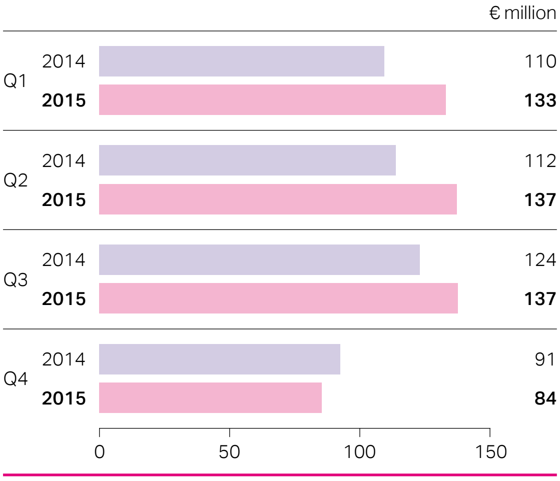


Sales at Coatings, Adhesives, Specialties for the full year 2015 rose by 8.6% to €2,093 million. This reflected positive exchange rate effects.

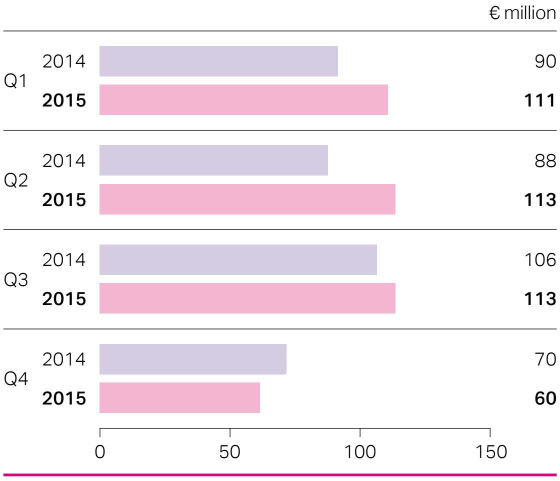
Core volume growth for the segment as a whole amounted to 2.7% on the prior year. Higher volumes raised sales by 2.1% overall, mainly due to volume growth in the NAFTA region. Volumes in EMLA and APAC rose slightly. Selling prices were 1.1% lower on average than a year earlier. This was due to a lower price level in APAC; the price level in NAFTA and EMLA remained stable.

Overall, sales in EMLA rose by 0.9% to €1,043 million due to slightly higher volumes and a stable price level. In NAFTA, the favorable development of exchange rates and higher volumes, along with stable selling prices, improved sales by 23.4% to €486 million. Sales in APAC increased by 12.8% to €564 million as a result of positive

Coatings, Adhesives, Specialties
Quarterly Adjusted EBITDA



Coatings, Adhesives, Specialties
Quarterly EBIT



exchange rate effects and slightly higher volumes coupled with lower average selling prices.

Adjusted EBITDA at Coatings, Adhesives, Specialties improved by 12.4% in 2015 to €491 million (2014: €437 million). Lower raw material prices had a positive impact. Currency effects and expanded volumes also contributed to earnings growth. Additional costs in connection with planned maintenance shutdowns and capacity expansions diminished earnings. Owing to Covestro's increased headcount and its successful business performance, the costs for performance-related compensation grew.

EBIT rose by 12.1% to €397 million (2014: €354 million), reflecting special items of minus €9 million for restructuring (2014: minus €5 million).

16. Earnings Performance

Covestro Group Summary Income Statements

	2014	2015	Change
	€ million	€ million	%
Sales	11,761	12,082	+2.7
Cost of goods sold	(9,609)	(9,438)	–1.8
Selling expenses	(1,097)	(1,257)	+14.6
Research and development expenses	(212)	(257)	+21.2
General administration expenses	(343)	(480)	+39.9
Other operating expenses (-) and income (+)	17	30	+76.5
EBIT	**517**	**680**	**+31.5**
Financial result	**(136)**	**(175)**	**–28.7**
Income before income taxes	**381**	**505**	**+32.5**
Income taxes	(104)	(153)	+47.1
Income after income taxes	**277**	**352**	**+27.1**
of which attributable to noncontrolling interest	5	9	+80.0
of which attributable to Covestro AG stockholders (net income)	**272**	**343**	**+26.1**

Group sales in 2015 grew by 2.7% to €12,082 million (2014: €11,761 million). Currency changes increased the functional costs of manufacturing, marketing, research and development, and general administration. Overall, the cost of goods sold declined by 1.8% to €9,438 million (2014: €9,609 million) due to lower raw material costs. The ratio of the cost of goods sold to sales thus decreased to 78.1% (2014: 81.7%). This figure included special items for restructuring measures of €197 million (2014: €19 million).

Selling expenses rose by 14.6% to €1,257 million (2014: €1,097 million), yielding a ratio of selling expenses to sales of 10.4% (2014: 9.3%). Research and development expenses increased by 21.2% to €257 million (2014: €212 million) for a ratio to sales of 2.1% (2014: 1.8%). These funds were mainly deployed in accessing new areas of application for our products and in optimizing process technologies and products.

General administration expenses rose by 39.9% to €480 million (2014: €343 million), which equates to a ratio of these expenses to sales of 4.0% (2014: 2.9%). The €137 million increase was primarily attributable to special items associated with restructuring measures amounting to €131 million (2014: €4 million). Other operating income exceeded other operating expenses by €30 million (2014: €17 million). The reason for this was a reimbursement from Bayer for termination of the agreement on the joint use of Bayer trademarks.
EBIT for the reporting year increased by 31.5% to €680 million (2014: €517 million), thus improving more strongly than sales. As a consequence, Covestro achieved a significantly higher EBIT margin of 5.6% (2014: 4.4%).

After a financial result of minus €175 million (2014: minus €136 million), income before income taxes rose by 32.5% to €505 million (2014: €381 million). Despite the increased income tax expense of €153 million resulting from higher earnings (2014: €104 million), net income after taxes and income attributable to noncontrolling interests was up by 26.1% to €343 million (2014: €272 million).

16.1 Calculation of Adjusted Earnings per Share

Core earnings per share is not a direct internal steering parameter. It is not defined in the International Financial Reporting Standards and should therefore be considered here as supplementary information.

Core earnings per share is determined by eliminating special items from net income to ensure comparability over time.

In 2015, core earnings per share amounted to €2.66 calculated from core net income of €538 million and 202,500,000 outstanding shares.

Adjusted Earnings per Share

	2014	2015
	€ million	€ million
EBIT (as per income statements)	**517**	**680**
Impairment losses / loss reversals on property, plant and equipment	7	67
Special items (other than amortization and impairment losses / loss reversals)	39	222
“Adjusted operating result”	**563**	**969**
Financial result (as per income statements)	(136)	(175)
Special items in the financial result	–	–
Income taxes (as per income statements)	(104)	(153)
Tax effects related to impairment losses / loss reversals and special items	(15)	(94)
Adjusted income after income taxes	**308**	**547**
Income after income taxes attributable to noncontrolling interest (as per income statment)	(5)	(9)
Adjusted net income	**303**	**538**
	Shares	Shares
Number of issued ordinary shares[1]	202,500,000	202,500,000
Adjusted earnings per share (€)	**1.50**	**2.66**

[1] As of December 31, 2015

17. Financial Condition

Covestro Group Summary Statements of Cash Flows

	4th quarter 2014	4th quarter 2015	2014	2015
	€ million	€ million	€ million	€ million
Gross cash flow	**188**	**116**	**1,016**	**1,155**
Changes in working capital / other noncash items	226	434	(91)	318
Net cash provided by (used in) operating activities (net cash flow)	**414**	**550**	**925**	**1,473**
Capital expenditures	239	157	612	509
Free operating cash flow	**175**	**393**	**313**	**964**
Net cash provided by (used in) investing activities	**(226)**	**(216)**	**(585)**	**(380)**
Net cash provided by (used in) financing activities[1]	**(37)**	**(147)**	**(192)**	**(645)**
Change in cash and cash equivalents due to business activities	**151**	**187**	**148**	**448**
Cash and cash equivalents at beginning of period	**36**	**424**	**37**	**201**
Change due to exchange rate movements and to changes in scope of consolidation	14	31	16	(7)
Cash and cash equivalents at end of period	**201**	**642**	**201**	**642**

[1] This line includes all financial transactions with Bayer Group companies in the fourth quarter and full year of 2014.

Gross cash flow for the reporting year rose by 13.7% to €1,155 million (2014: €1,016 million) because of the substantial increase in EBITDA. Operating cash flow (net cash flow) climbed 59.2% to €1,473 million (2014: €925 million), primarily due to a decrease in cash tied up in working capital. This figure included income tax payments of €194 million (2014: €73 million).

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

Free operating cash flow more than tripled to €964 million (2014: €313 million).

Net cash used in investing activities declined substantially to €380 million (2014: €585 million).

Net cash used in financing activities rose considerably to €645 million (2014: €192 million). A capital contribution and subsequent capital increases in connection with the legal independence and formation of Covestro AG resulted in cash inflows of €1,855 million. In addition, net proceeds from the stock market listing amounted to €1,485 million. These were offset by payments entailed by the contractual transfer of assets and liabilities made in 2015. In the reporting year, financial debt of €4,241 million was assumed and financial debt of €6,310 million was repaid. These liabilities largely pertained to loans from the Bayer Group. Moreover, the net income of Covestro Deutschland AG for fiscal 2014 and that company's net loss for fiscal 2015 amounting to €5 million in total (2013: net loss of €20 million) was paid out to Bayer AG under the profit and loss transfer agreement. On account of the termination of the control and profit and loss transfer agreement between Covestro Deutschland AG and Bayer AG on August 31, 2015, the profit transferred in 2015 was for a period of eight months.

Please see Chapter 5 "Production" for further information about major capital expenditures for property, plant and equipment.

The liquidity and financing of the Covestro Group were ensured at all times in the reporting year. Future liquidity bottlenecks are not foreseeable.

Net Financial Debt

	Dec. 31, 2014	Dec. 31, 2015
	€ million	€ million
Liabilities to banks	516	482
Liabilities under finance leases	307	298
Liabilities from derivatives	5	31
Other financial liabilities	3,894	2,070
Positive fair values of hedges of recorded transactions	(2)	(27)
Financial liabilites	**4,720**	**2,854**
Cash and cash equivalents	(201)	(642)
Current financial assets	(418)	(1)
Net financial debt	**4,101**	**2,211**

Net financial debt decreased by €1,890 million in fiscal 2015 to €2,211 million (2014: €4,101 million). As of December 31, 2015, Covestro had available cash and cash equivalents of €642 million (2014: €201 million) and current financial assets of €1 million (2014: €418 million). Financial liabilities decreased by €1,866 million to €2,854 million (2014: €4,720 million).

The other financial liabilities largely pertained to loans from the Bayer Group. These serve to cover the shortterm financing of the Covestro Group's day-to-day operations. The refinancing of the financial liabilities due to mature has already been secured by way of the credit facilities concluded in September 2015.

17.1 Financial Management

The main purpose of financial management is to ensure solvency at all times, continuously optimize capital costs and reduce the risks of financing measures. Until August 31, 2015, these tasks were performed by the Finance department of the Bayer Group. Since September 1, 2015, financial management for the Covestro Group has been performed centrally by Covestro AG.

On October 7, 2015, a day after its stock market listing, Covestro received a rating of Baa2 with stable outlook from rating agency Moody's, which confirmed the company's creditworthiness on the international capital market.

As of December 31, 2015, the Covestro Group was financed by loans (Inter-Group Loan Agreements) with a total volume of €2.1 billion from Bayer Antwerpen NV, Diegem, Belgium. These serve to cover the short-term financing of day-to-day operations.

A syndicated multicurrency term and revolving credit facilities agreement with a volume of €2.7 billion – consisting of a revolving credit facility and a bullet loan – was concluded in September 2015 and serves to provide general corporate finance and ensure an adequate liquidity reserve. The syndicate is made up of Covestro's main banks.

The revolving credit facility for €1.5 billion has a term until September 2020, with two one-year extension options. It may be drawn in various currencies and serves primarily to provide a liquidity reserve and to finance liquidity peaks.

The facilities agreement also includes the option of taking out a bullet loan for €1.2 billion with a term until September 2018. It is available as an alternative source of refinancing to replace existing financial liabilities to Bayer.

No loans had been drawn against the syndicated credit facility as of December 31, 2015.

In the medium and long terms, the Covestro Group will be pursuing a prudent debt management strategy to ensure flexibility, drawing on a balanced financing portfolio. Following replacement of the Inter-Group Loan Agreements, this portfolio will be based for the most part on bonds, syndicated credit facilities and bilateral loan agreements.

As a global enterprise, the Covestro Group is exposed to financial opportunities and risks which are continuously monitored within the context of financial management. Derivative financial instruments are used to minimize risks.

Please see Chapter 21 "Opportunities and Risks Report" for further details of financial opportunities.

18. Statement of Financial Position

Covestro Group Summary Statements of Financial Position

	Dec. 31, 2014	Dec. 30, 2015
	€ million	€ million
Noncurrent assets	6,011	6,294
Current assets	4,381	4,237
Total assets	**10,392**	**10,531**
Equity	**1,787**	**3,612**
Noncurrent liabilities	2,567	2,355
Current liabilities	6,038	4,564
Liabilities	**8,605**	**6,919**
Total equity and liabilities	**10,392**	**10,531**

Total assets as of December 31, 2015, increased by 1.3% to €10,531 million (2014: €10,392 million). Noncurrent assets rose by 4.7% to €6,294 million (2014: €6,011 million), and accounted for 59.8% of total assets (2014: 57.8%). Current assets declined by 3.3% to €4,237 million (2014: €4,381 million), and their ratio to total assets was 40.2% (2014: 42.2%).

Equity as of December 31, 2015, increased by €1,825 million to €3,612 million (2014: €1,787 million). The equity ratio at the reporting date was 34.3% (2014: 17.2%). This increase resulted from the cash contribution made in establishing Covestro AG and the subsequent capital increases, together totaling €1,855 million, as well as from the net proceeds of the stock market listing. It was counteracted by contributions and withdrawals made by stockholders in connection with the legal transfers of assets and liabilities.

Liabilities decreased by 19.6% to €6,919 million (2014: €8,605 million). The debt ratio at the reporting date was 65.7% (2014: 82.8%). Noncurrent liabilities fell by 8.3% to €2,355 million (2014: €2,567 million), while current liabilities dropped by 24.4% to €4,564 million (2014: €6,038 million). One reason for the reduction in liabilities was the repayment of loans to the Bayer Group. The ratio of noncurrent liabilities to total liabilities thus increased to 34.0% (2014: 29.8%).

Net Defined Benefit Liability for Post-Employment Benefits

	Dec. 31, 2014	Dec. 31, 2015
	€ million	€ million
Provisions for pensions and other post-employment benefits	1,395	1,462
Net defined benefit asset	(7)	0
Net defined benefit liability for post-employment benefits	**1,388**	**1,462**

In the reporting year, the net defined benefit liability for post-employment benefits increased by €74 million to €1,462 million (2014: €1,388 million), primarily due to the transfer of pension obligations from the Bayer Group to Covestro in connection with transfers of undertakings and the mutually agreed transfer of employees. This effect was counteracted by the slight increase in the capital market interest rate for high-quality corporate bonds.

19. Earnings; Asset and Financial Position of Covestro AG

Covestro AG was established on August 20, 2015, and has been the parent company and strategic management holding company of the Covestro Group since September 1, 2015. The principal management functions for the entire Group are performed by the Board of Management of Covestro AG. These include strategic planning, resource allocation, executive management and financial management. The performance of Covestro AG is largely determined by the business performance of its subsidiaries.

The financial statements of Covestro AG are prepared in accordance with the German Commercial Code (HGB) and Stock Corporation Act (AktG).

Since Covestro AG was first established in 2015, no prior-year figures are given.

On the basis of an agreement on the transfer of shares dated August 27, 2015, Bayer AG, Leverkusen, Germany, contributed all shares in Covestro First Real Estate GmbH, Monheim am Rhein, Germany, to the capital reserves of Covestro AG. The value of the contribution was equivalent to the carrying amount determined for the shares as recorded in the commercial balance sheet of Bayer AG, Leverkusen, Germany.

With economic effect from September 1, 2015, Bayer AG, Leverkusen, Germany, contributed its shares in Covestro Deutschland AG (formerly Bayer MaterialScience AG), Leverkusen, Germany, to the capital reserves of Covestro AG. The value of the contribution was equivalent to the carrying amount determined for the shares of Covestro Deutschland AG, Leverkusen, Germany, as recorded in the commercial balance sheet of Bayer AG, Leverkusen, Germany. With effect from September 1, 2015, a control and profit and loss transfer agreement was also concluded between Covestro AG and Covestro Deutschland AG, Leverkusen, Germany.

In the course of legal restructuring, the Finance, Taxes, Portfolio & Project Management, Law, Patent Administration and Compliance functions together with the Corporate Office were consolidated in Covestro AG. In this connection, the company acquired the assets and liabilities of Covestro Deutschland AG, Leverkusen, Germany, effective September 15, 2015. The employees assigned to these functions transferred to Covestro AG effective the same date.

19.1 Earnings Performance

Covestro AG Summary Income Statements according to the German Commercial Code

	Aug. 21 – Dec. 31, 2015
	€ million
Income from investments in affiliated companies – net	231
Interest expense – net	1
Other financial income – net	(17)
Net sales	9
Cost of services provided	(9)
General administration expenses	(10)
Other operating expenses	(7)
Income before income taxes	**198**
Income taxes	(17)
Net income	**181**
Allocation to retained earnings	(39)
Retained earnings brought forward from prior year	–
Distributable profit	**142**

In the abbreviated fiscal year from August 21, 2015, to December 31, 2015, Covestro AG posted net income of €181 million. This resulted primarily from investments in affiliated companies of €231 million, which were solely attributable to income achieved on the basis of the control and profit and loss transfer agreement with Covestro Deutschland AG, Leverkusen.

General administrative expenses totaling €10 million primarily consisted of personnel expenses for the employees of the holding company. Other operating expenses of €7 million included special items incurred in the course of the legal separation of the Covestro Group. Other financial expenses amounting to €17 million resulted mainly from underwriting fees paid to banks in connection with the initial public offering. Other income and expense items had no notable effect on earnings. Income before income taxes was €198 million and resulted in income taxes of €17 million. An allocation of €39 million was made to other retained earnings, leaving a distributable profit of €142 million.

19.2 Asset and Financial Position

Covestro AG Summary Statements of Financial Position according to the German Commercial Code

	Dec. 31,2015
	€ million
ASSETS	
Noncurrent assets	**1,766**
Intangible assets, property, plant and equipment	0
Financial assets	1,766
Current assets	**3,608**
Receivables from subsidiaries	3,577
Remaining receivables, other assets	31
Cash and cash equivalents, marketable securities	0
Total assets	**5,374**
EQUITY AND LIABILITIES	
Equity	**5,302**
Provisions	**45**
Liabilities	**27**
Bonds and notes, liabilities to banks	–
Payables to subsidiaries	21
Remaining liabilities	6
Total equity and liabilities	**5,374**

The asset and liability structure of Covestro AG is dominated by its role as a holding company in managing the subsidiaries and financing corporate activities. This is primarily reflected in the high carrying amount of the interest in affiliated companies and of the receivables from, and payables to, Group companies.

Total assets of Covestro AG as of December 31, 2015, were €5,374 million. They were principally made up of receivables from subsidiaries (66.6%) and financial assets (32.9%). All receivables and other assets had a term of less than one year.

Property, plant and equipment and intangible assets were of secondary importance. Including the deferred charges, other receivables reflected in current assets amounted to €11 million, while other assets totaled €20 million. These, too, were of secondary importance in relation to total assets.

Covestro AG had equity of €5,302 million, giving an equity ratio of 98.7%. The company was therefore almost fully financed by equity.

In the abbreviated fiscal year 2015, the following capital procurement measures affected the company's capital stock and capital reserves. On October 2, 2015, the Stockholders' Meeting of Covestro AG approved a capital increase of €63 million to €203 million through the issue against cash contributions of 63 million new no-par bearer shares, each with a proportionate interest of €1 in the capital stock. In addition, a total of €4,919 million was paid into the capital reserves in the form of noncash and cash contributions as other additional contributions.

Equity was diminished by provisions amounting to €45 million and other liabilities of €27 million.

Provisions were made up of pension provisions (€12 million), tax provisions (€21 million) and other provisions (€12 million). All liabilities had a term of less than one year and 79.4% of the total was payable to affiliated companies.

REPORT ON FUTURE PERSPECTIVES AND ON OPPORTUNITIES AND RISKS

20. Future Perspectives

20.1 Economic Outlook

Economic Outlook

	Growth[1] 2015	Growth[1] forecast 2016
	%	%
World	**2.5**	**2.8**
European Union	1.8	1.9
of which Germany	1.5	2.0
United States	2.4	2.7
Asia	4.7	4.6
of which China	6.9	6.3

[1] Real growth of gross domestic product, source: IHS (Global Insight), As of January 2016.

The global economy will probably grow more quickly in 2016 than in the previous year, supported as before by a generally expansionary monetary policy. The persistently low oil price is expected to buoy the economy by reducing costs to private households and encouraging consumption. On the other hand, growth will probably continue to be hampered by the high level of private and public indebtedness in many countries.

We expect the economic recovery in the European Union to continue. Alongside low inflation and the depreciation of the euro, the main factors in this recovery are likely to be the ongoing upswing in the United Kingdom and stronger growth in Germany.

In the United States, we anticipate continued solid growth in 2016 that is likely to be driven mainly by private consumption and increased public spending.

A slight recovery is forecast for the emerging economies for 2016. In light of industry overcapacities and a high level of indebtedness, China is likely to post slower growth. We expect slightly stronger development in India. The recessions in Russia and Brazil look set to continue in 2016. Raw material prices are likely to bottom out and support growth in the other emerging economies.

Economic Outlook for Main Customer Industries

	Growth[1] 2015	Growth[1] forecast 2016
	%	%
Automotive	2	4
Construction	2	2
Electrical / electronics	3	4
Furniture	4	4

[1] Covestro's estimate based on the following sources: LMC Automotive Limited, IHS (Global Insight), B+L; CSIL (Centre for Industrial Studies), As of January 2016.

We expect automotive industry growth to return to a normal level of between 3% and 4% in 2016, with Asia and North America probably remaining the drivers of this growth. The automotive sector in Russia is likely to face continuing challenges, while South America is believed to have reached the bottom of the cycle.

The global construction industry is likely to post slight growth in 2016. We expect continued recovery in Europe. North America and Asia, excluding China, should benefit from a stable investment climate. In Latin America and China, we anticipate a slight improvement in the construction sector in 2016.

We expect the global electrical / electronics industry to post stronger growth in 2016 on the back of product innovation. On this basis, Asia will remain the primary growth driver in the consumer electronics and household appliance segments, with India and the countries of Southeast Asia likely to become the principal contributors to growth. European demand for IT equipment should recover, while the very mature U.S. market is expected to record only slow but stable growth in 2016. Weak purchasing power means that the environment in South America is likely to remain difficult.

We are expecting slightly slower growth in the global furniture industry in 2016. In North America, we anticipate a robust increase in demand from which furniture manufacturers in Asia should also continue to benefit. Development of the Asian furniture market will probably be slightly weaker, with demand in China in particular impacted by slower economic growth. We expect ongoing recovery in the European furniture industry and a less challenging situation in Latin America.

20.2 Forecast for Key Data

Sales and Earnings Forecast

	2015	Forecast 2016
Core volume growth	+2.7%	Mid-single-digit percentage increase
Free operating cash flow	€964 million	At a high level, above the average for past years
ROCE	+9.5%	Premium on the cost of capital (but lower than in 2015)

Covestro Group

The following forecast for the Covestro Group is based on the business development described in this Annual Report and the assumption that the exchange rate between the euro and the U.S. dollar will remain at a similar level to that seen since the start of 2016, taking into account the potential risks and opportunities.

We expect core volume growth in the mid-single-digit-percentage range, largely driven by development in the Polyurethanes and Polycarbonates segments. Growth in the Coatings, Adhesives, Specialties segment is likely to be held back by the contractual termination of trading operations. Adjusted for these effects, we would also expect core volume growth in the mid-single-digit-percentage range for Coatings, Adhesives, Specialties.

In fiscal 2016, we anticipate that free operating cash flow will again be at a high level and above the average seen in past years. We 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.

In 2016, we again expect ROCE to exceed our capital costs. However, it will be below the level for 2015.

Covestro AG

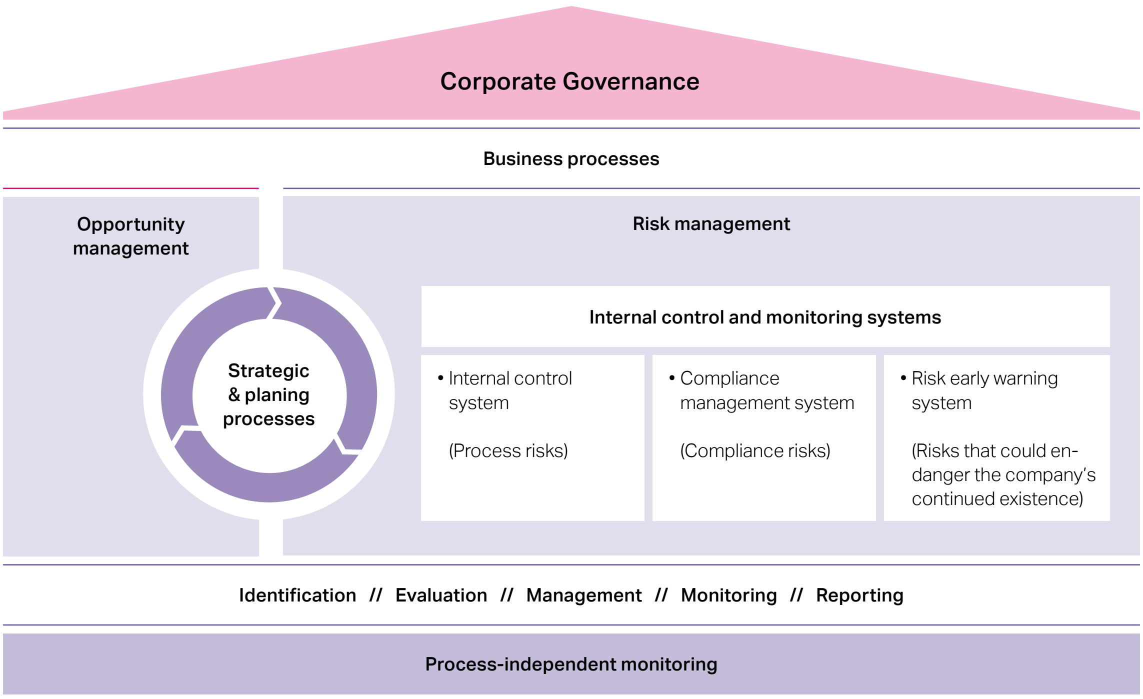
The earnings of Covestro AG, as the parent company of the Covestro Group, largely comprise the earnings of that company's subsidiaries. The earnings of the subsidiaries in Germany, especially Covestro Deutschland AG, are transferred directly to Covestro AG under profit and loss transfer agreements. The earnings of Covestro AG are therefore expected to reflect the positive business development anticipated in the Covestro Group. Based on these factors, we expect Covestro AG to report a distributable profit that will again enable our stockholders to adequately participate in the Covestro Group's earnings for fiscal 2016. The company's dividend policy envisages the payout of between 30% and 50% of net income (in accordance with IFRS) from 2016. The company assumes that its efficient capital structure and strong free operating cash flow will enable it to sustain this policy. The Board of Management and the Supervisory Board are proposing a dividend of €0.70 for the 2015 abbreviated fiscal year to the Annual Stockholder's Meeting.

21. Opportunities and Risks Report

Risk management is integral to Covestro's Group-wide corporate governance system.

No risks that could endanger the Covestro Group's continued existence are currently identified.

Corporate Governance



21.1 Group-Wide Opportunities and Risk Management System

Corporate governance forms the basis for sustainable growth and economic success. One factor for corporate governance is the ability to systematically identify and take advantage of opportunities while avoiding risks to the company's success.

The entrepreneurial decisions we make daily in the course of business processes are based on balancing opportunities and risks. We therefore regard risk management as an integral part of our business management system rather than the task of a specific organizational unit. Our risk management begins with our strategy and planning processes, from which relevant external and internal opportunities and risks of an economic, ecological or social nature are derived. Opportunities and risks are identified by observing and analyzing trends along with macroeconomic, industry-specific, regional and local developments. The identified opportunities and risks are subsequently evaluated and incorporated into our strategic and operational frameworks. We attempt to avoid or mitigate risks by taking appropriate countermeasures, or to transfer them to third parties (such as insurers) to the extent possible and economically acceptable. We consciously accept and bear manageable and controllable risks that are in reasonable proportion to the anticipated opportunities. We regard them as a general risk of doing business. Opportunities and risks are continuously monitored using indicators so that, for example, changes in the economic or legal environment can be identified at an early stage and suitable countermeasures can be initiated if necessary.

To enable the Board of Management and the Supervisory Board to monitor material business risks as legally required, the following systems are in place: an internal control system ensuring proper and effective financial reporting pursuant to Section 289, Paragraph 5 and Section 315, Paragraph 2, No. 5 of the German Commercial Code; a compliance management system; and a risk early warning system pursuant to Section 91, Paragraph 2 of the German Stock Corporation Act.

The various management systems are based on different risk types, risk levels and timelines. Different processes, methods and IT systems are therefore applied to identify, evaluate, manage, and monitor risks. The principles underlying the various systems are documented in Group directives that are integrated into our central document control process and are accessible to all employees via the Covestro intranet. The overall responsibility for the effectiveness and appropriateness of the systems lies with the Chief Financial Officer. The various systems are described below.

Internal control system for (Group) accounting and financial reporting (Report pursuant to Section 289, Paragraph 5 and Section 315, Paragraph 2, No. 5 of the German Commercial Code)

Covestro has an internal control system (ICS) in place for the (Group) accounting and financial reporting process. This process comprises defined structures and workflows implemented throughout the organization and corresponds to the ICS of the Bayer Group. The purpose of our ICS is to ensure proper and effective accounting and financial reporting in accordance with Section 289, Paragraph 5 and Section 315, Paragraph 2, No. 5 of the German Commercial Code.

The ICS is designed to guarantee timely, uniform and accurate accounting for all business processes and transactions based on applicable statutory regulations, accounting and financial reporting standards and the internal Group directives that are binding on all consolidated companies.

The ICS is based on the COSO I (Committee of the Sponsoring Organizations of the Treadway Commission) and COBIT (Control Objectives for Information and Related Technology) frameworks and addresses misreporting risks in the consolidated financial statements. Risks are identified and evaluated, and steps are taken to counter them. Mandatory ICS standards such as system-based and manual reconciliation processes and functional separation have been derived from these frameworks and promulgated throughout the Covestro Group by the Accounting unit of Covestro Deutschland AG.

The management of each Covestro Group company holds responsibility for implementing the ICS standards at the local level. Using Bayer's and Covestro's own shared service centers, the Covestro Group companies prepare their financial statements locally and transmit them with the aid of a data model that is standardized throughout the Covestro Group and based on the Group accounting directive. This ensures the regulatory compliance of the consolidated financial statements.

The effectiveness of the ICS processes for accounting and financial reporting is evaluated on the basis of a cascaded self-assessment system that starts with the persons directly involved in the processes, then involves the principal responsible managers and ends with the Board of Management. The system also makes use of external audits. An IT system in use throughout the Covestro Group ensures the uniform and audit-proof documentation and transparent presentation of the risks, controls and effectiveness evaluations associated with all ICS-relevant business processes. However, it should be noted that an internal control system, irrespective of its design, cannot provide absolute assurance that material misstatements in the accounting will be avoided or identified.

The Board of Management of Covestro AG has confirmed the criteria and the effective functioning of the internal control system for accounting and financial reporting for fiscal 2015.

Compliance management system

Until August 2015, the Covestro Group participated in the compliance system of Bayer AG. After carve-out from the Bayer Group, Covestro established its own compliance system that to a large extent corresponds to the Bayer AG system.

Our compliance management system is aimed at ensuring lawful, responsible and sustainable conduct by our employees. It is designed to permit the advance identification of potential violations and the systematic prevention of their occurrence. The compliance management system thus contributes significantly to the integration of compliance into our business. This holistic system enhances the systematic and preventive identification and assessment of risks. Based on risk assessment, compliance risk mitigation measures are defined. To ensure risk awareness and successful implementation of these mitigation measures, extensive face-to-face and web-based training has been conducted for our employees. Some issues, such as conflicts of interest, were addressed to a large number of employees. Others were relevant only to those employees exposed to a high level of risk, including those at the management level. To date this compliance management system has been implemented in large areas of the Covestro Group to prevent breaches of antitrust law, corruption, insider trading and violations of foreign trade and payments legislation. Our compliance regulations and processes are regularly evaluated with a view to continuous improvement.

An externally hosted, anonymous whistle-blower hotline exists for reporting potential violations. Furthermore, all employees may report violations, anonymously or openly, to the company's compliance organization. All suspected compliance cases are recorded and processed in accordance with uniform criteria applicable across the Covestro Group. The Compliance Officer reports on a monthly base to Covestro's Board of Management and to the management committees of the business and service units.

Risk early warning system pursuant to Section 91, Paragraph 2 of the German Stock Corporation Act

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. A central unit defines, coordinates and monitors the framework and standards for this risk early warning system.

A group of global subcommittees are responsible for continuously reporting new and updated information on a defined range of risks throughout the year. The Covestro Corporate Risk Committee meets several times a year to review and discuss the risk landscape as well as the various risk management and monitoring mechanisms that are in place.

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 company-wide database. The risk portfolio 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 following matrix illustrates the financial criteria for rating a risk as high, medium or low.

Rating Matrix According to Financial Criteria

	Likelihood of Occurrence Within 1 Year				
	Very Low	Low	Medium	High	Very High
Accumulated impact (€ million)					
≥ 116	M	M	M	H	H
61–115	L	M	M	H	H
≤ 60	L	L	L	L	L

H = high risk, M = medium risk, L = low risk

Process-independent monitoring

The effectiveness of our management systems is audited and evaluated at regular intervals by the Corporate Audit unit, which performs an independent and objective audit function focused on verifying compliance with laws and directives. Corporate Audit also supports the company in achieving its goals by systematically evaluating the efficiency and effectiveness of governance, risk management and control processes and helping to improve them. The selection of audit targets follows a risk-based approach. Corporate Audit performs its tasks according to internationally recognized standards and delivers reliable audit services. A report on the internal control system and its effectiveness is presented annually to the Audit Committee of the Supervisory Board.

Risks in the areas of occupational health and safety, plant safety, environmental protection and product quality are assessed through specific HSEQ (health, safety, environment and quality) audits.

In addition, the external auditor, as part of its audit of the annual financial statements, assesses the basic suitability of the early warning system for identifying at an early stage any risks that could endanger the company's continued existence. The auditor regularly reports to the Board of Management and the Supervisory Board on the identification of any weaknesses in the internal control system. Audit outcomes are taken into account in the continuous enhancement of our management processes.

21.2 Opportunities and Risks

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. The risks are more highly aggregated than in our internal documentation.

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 are often 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.

As of September 1, 2015, the management of financial opportunities and risks was transferred in full to the Finance department of the Covestro Group.

Liquidity risk

Liquidity risk, which is managed centrally, is the risk of not being able to meet existing or future payment obligations due to a lack of cash or cash equivalents. In order to ensure the solvency of all Group companies at all times, liquid assets are provided through cash pooling agreements or internal loans so that all planned payment obligations can be met on their due date.

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.

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

Anticipated exposure from planned and transacted 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 planned and transacted exposure has continued to be measured but is not hedged at present. Should the exchange rate risk increase significantly, hedging of planned and transacted future payment receipts and disbursements will be resumed.

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.

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. Interest-rate risk is managed by equalizing interest rate and cash outflows on an annual basis.

Credit riks

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 Financial 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 postemployment 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 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.

EVENTS AFTER THE END OF THE REPORTING PERIOD

No events of special significance took place after January 1, 2016 that we expect to materially affect the financial position of the Covestro Group.

TAKEOVER-RELEVANT INFORMATION

Explanatory report pursuant to Sections 289, Paragraph 4 and 315, Paragraph 4 of the German Commercial Code (HGB)

Composition of the capital stock

The capital stock of Covestro AG amounted to €202,500,000 as of December 31, 2015 and is composed of 202,500,000 no-par bearer shares. Each share confers equal rights and one vote at the Stockholders' Meeting.

Investments in the capital exceeding 10% of total voting rights

At the closing date, Bayer AG held an interest of 69%. We have received no notification nor are we otherwise aware of other direct or indirect investments in the capital equal to or exceeding 10% of the voting rights.

During the lockup period ending six months after the first day of trading in Covestro shares, Bayer AG has undertaken to not sell any further shares.

Appointment and dismissal of members of the Board of Management; changes to the Articles of Incorporation

The appointment and dismissal of members of the Board of Management are subject to the provisions of Sections 84 and 85 of the German Stock Corporation Act, Section 31 of the German Codetermination Act and Section 6 of the company's Articles of Incorporation. Pursuant to Section 84, Paragraph 1 of the German Stock Corporation Act, the members of the Board of Management are appointed and dismissed by the Supervisory Board. Since Covestro AG falls within the scope of the German Codetermination Act, the appointment or dismissal of members of the Board of Management requires a majority of two thirds of the votes of the members of the Supervisory Board on the first ballot pursuant to Section 31, Paragraph 2 of that act. If no such majority is achieved, the appointment is resolved pursuant to Section 31, Paragraph 3 of the Codetermination Act on a second ballot by a simple majority of the votes of the members of the Supervisory Board. If the required majority still is not achieved, a third ballot is held. Here again, a simple majority of the votes of the members suffices, but in this ballot the Chairman of the Supervisory Board has two votes pursuant to Section 31, Paragraph 4 of the Codetermination Act. Under Section 6, Paragraph 1 of the Articles of Incorporation of Covestro AG, the number of members of the Board of Management is determined by the Supervisory Board but must be at least two. The Supervisory Board may appoint one member of the Board of Management to be its Chairman and one member to be the Vice Chairman pursuant to Section 84, Paragraph 2 of the German Stock Corporation Act and Section 6, Paragraph 1 of the Articles of Incorporation.

Any amendments to the Articles of Incorporation are made pursuant to Section 179 of the German Stock Corporation Act and Sections 10 and 17 of the Articles of Incorporation. Under Section 179, Paragraph 1 of the German Stock Corporation Act, amendments to the Articles of Incorporation require a resolution of the Stockholders' Meeting. Pursuant to Section 179, Paragraph 2 of the German Stock Corporation Act, this resolution must be passed by a majority of three quarters of the voting capital represented at the meeting, unless the Articles of Incorporation provide for a different majority. However, where an amendment relates to a change in the object of the company, the Articles of Incorporation may only specify a larger majority. Section 17, Paragraph 2 of the Articles of Incorporation of Covestro AG utilizes the scope for deviation pursuant to Section 179, Paragraph 2 of the German Stock Corporation Act and provides that resolutions may be passed by a simple majority of the votes cast or, where a capital majority is required, by a simple majority of the capital represented. Pursuant to Section 10, Paragraph 9 of the Articles of Incorporation, the Supervisory Board may resolve on amendments to the Articles of Incorporation that relate solely to their wording.

Authorized capital

Provisions of the Articles of Incorporation concerning an authorized capital are entered in the commercial register of Covestro AG. With the approval of the Supervisory Board and until October 2, 2020, the Board of Management may use the authorized capital to increase the capital stock by up to a total of €101,250,000. New shares may be issued against cash contributions and / or contributions in kind. If the authorized capital is used to issue shares in return for cash contributions, stockholders must normally be granted subscription rights. However, the Board of Management is authorized – with the consent of the Supervisory Board – to exclude subscription rights for stockholders:

(a) Where the subscription ratio gives rise to fractional amounts.

(b) To the extent necessary to grant holders or creditors of bonds (including jouissance rights) with warrants or conversion rights or obligations issued by the company or its group companies the right to subscribe to new shares to the extent to which they would be entitled after exercise of their warrants or conversion rights, or performance of their exercise or conversion obligations.

(c) If the capital is increased by granting shares against contributions in kind.

(d) If the new shares are issued at a price that is not significantly below the stock market price and the total interest in the capital stock attributable to the new shares for which subscription rights are excluded pursuant to Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act (AktG) does not exceed 10% of the existing capital stock either on the date this authorization takes effect or the date it is utilized. The sale of own shares shall count towards this limit if they are sold during the term of this authorization and subscription rights are excluded pursuant to Section 71, Paragraph 1, No. 8, Sentence 5 in conjunction with Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act. Further, shares issued or to be issued to service bonds (including jouissance rights) with warrants or conversion rights or obligations shall also count toward this limit where such bonds or jouissance rights were issued during the term of this authorization and stockholders' subscription rights were excluded in analogous application of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act.

(e) To issue a scrip dividend in which stockholders are given the option of contributing their dividend entitlements to the company (either in full or in part) as a noncash contribution in return for the granting of new shares in the company out of the authorized capital.

Conditional capital

The company's capital stock shall be conditionally increased by up to € 70,000,000, divided into up to 70,000,000 no-par bearer shares (conditional capital). The conditional capital increase shall only be implemented to the extent that the holders of warrants or conversion rights attached to bonds (including jouissance rights) issued or guaranteed by the company or its group companies up to August 31, 2020 on the basis of the authorization of the Stockholders' Meeting of September 1, 2015 exercise their warrant or conversion rights or perform their warrant or conversion obligations, and to the extent that such warrants or conversion rights or obligations cannot be serviced by own shares, shares issued out of the Authorized Capital or other forms of settlement.

The new shares shall be issued at the warrant or conversion price to be determined in accordance with the authorizing resolution referred to above. The new shares shall participate in the profit from the beginning of the fiscal year in which they come into existence; however, the Board of Management, with the consent of the Supervisory Board, may decide that the new shares shall participate in the profit from the beginning of the fiscal year for which, at the time when the warrants or conversion rights are exercised or the exercise or conversion obligations are performed, the Stockholders' Meeting has not yet adopted a resolution on the use of the distributable profit. The Board of Management is authorized, with the consent of the Supervisory Board, to set further details of the terms of the conditional capital increase.

Acquisition and use of the own shares

By a resolution adopted by the Stockholders' Meeting on September 1, 2015, the Board of Management is authorized to acquire and use own shares, also using derivatives. The individual details of the resolution are as follows:

1. Authorization granted to the Board of Management to acquire and use own shares

1.1 The Board of Management is authorized until August 31, 2020, to acquire own shares with a proportionate interest in the capital stock totaling up to 10% of the company's capital stock existing at the date of the resolution, subject to the proviso that the shares acquired as a result of this authorization, together with other shares of the company that the company has already acquired and still holds, or which are attributable to it under Sections 71d and 71e of the German Stock Corporation Act, at no time exceed 10% of the capital stock of the company. The provisions in Section 71, Paragraph 2, Sentences 2 and 3 of the German Stock Corporation Act must be complied with.

The acquisition may only take place via the stock exchange or by means of a public purchase offer and must satisfy the principle of equal treatment of stockholders (Section 53a of the German Stock Corporation Act). If the acquisition takes place via the stock exchange, the purchase price paid by the company (excluding transaction costs) may neither exceed, nor be lower than, the company's share price, as determined by the opening auction in XETRA® trading (or a comparable successor system) on the Frankfurt Stock Exchange on the trading day, by more than 10%. If the acquisition takes place by means of a public purchase offer, the offer price paid by the company (excluding transaction costs) may neither exceed, nor be lower than, the company's share price, as determined by the closing auction in XETRA® trading (or a comparable successor system) on the Frankfurt Stock Exchange on the last trading day before the publication of the purchase offer, by more than 10%. If the total number of the shares tendered in response to a public purchase offer exceeds the offer volume, purchases may be made in proportion to the number of shares tendered (tender ratios); in addition, preferential acceptance of small numbers of shares (up to 50 shares per stockholder), as well as rounding in accordance with commercial principles to avoid notional share fractions, may be provided for. Any further stockholder tender rights are disapplied to this extent.

1.2 The authorization may be exercised in full, or in a number of partial amounts split across several acquisition dates, until the maximum purchase volume has been reached. The acquisition may also be carried out by group companies that are dependent on the company within the meaning of Section 17 of the German Stock Corporation Act, or by third parties on behalf of the company or such group companies. The authorization may, subject to compliance with the statutory requirements, be exercised for any purpose permissible in law, especially in pursuit of one or more of the purposes listed in 1.3, 1.4, 1.5 and 1.6. Trading in own shares is not permitted.

If the own shares acquired are used for one or more of the purposes described under 1.3 or 1.4, the stockholders' subscription rights are disapplied. The Board of Management is authorized to disapply subscription rights if the own shares acquired are used for the purpose specified in 1.6. Stockholders also do not have any subscription rights if the own shares acquired are sold via the stock exchange. In the event that the own shares acquired are sold by means of a public offer to stockholders and this public offer complies with the principle of equal treatment, the Board of Management is authorized to disapply the stockholders' subscription rights for fractions.

1.3 The Board of Management is authorized to also sell the own shares acquired under the above authorization in a manner other than via the stock exchange or via an offer to all stockholders, provided that the sale takes place against cash consideration and at a price which, at the date of sale, is not significantly lower than the market price for the same class of shares in the company. This authorization concerning the use of shares is restricted to shares whose proportionate interest in the capital stock may not in total exceed 10% of the capital stock either at the date when this authorization becomes effective or, if this amount is lower, at the date when the present authorization is exercised. The upper limit of 10% of the capital stock is reduced by the proportionate interest in the capital stock which is attributable to those shares which are issued or sold while disapplying subscription rights under or in accordance with Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act on or after September 1, 2015. The upper limit of 10% of the capital stock is further reduced by the proportionate interest in the capital stock which is attributable to those shares which are to be issued to service bonds with warrants or conversion rights or obligations, provided that these bonds are issued while disapplying subscription rights in application of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act, with the necessary modifications, on or after September 1, 2015.

1.4 The Board of Management is authorized to transfer the own shares acquired under the above authorization to third parties, provided this is done for the purpose of acquiring companies, parts of companies, equity interests in companies, or other assets, or to effect business combinations.

1.5 The Board of Management is authorized to retire the own shares acquired under the above authorization without a further resolution by the Stockholders' Meeting. The shares may also be retired without reducing the capital by adjusting the proportionate interest of the remaining no-par value shares in the capital stock of the company. In this case, the Board of Management is authorized to amend the number of no-par value shares in the Articles of Incorporation.

1.6 The Board of Management is authorized to use the own shares acquired as a result of the above-mentioned authorization to pay a scrip dividend.

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

1.8 Overall, the above authorizations concerning the use of shares may be utilized on one or several occasions, individually or together, in relation to partial volumes of the own shares or all own shares held in total.

2. Authorization for acquisition using derivatives

2.1 Own shares being acquired as part of the authorization under 1.1 may also be acquired using put or call options. In this case, the option transactions must be entered into with a credit institution, or a company which operates in accordance with Section 53, Paragraph 1, Sentence 1 or Section 53b, Paragraph 1, Sentence 1 or Paragraph 7 of the German Banking Act, that is independent of the company (financial institution), provided that this financial institution, when the option is exercised, only delivers shares which were previously acquired via the stock exchange at a market-driven price in compliance with the principle of equal treatment.

2.2 The acquisition of shares using put or call options is limited to a maximum of 5% of the capital stock in existence as of the date of the resolution by the Stockholders' Meeting or, if this value is lower, as of the date when the authorization is exercised.

2.3 The option premium paid by the company in the case of call options and received in the case of put options may not be materially lower than the theoretical fair value of the options concerned calculated using accepted valuation techniques. The exercise price agreed in the option transaction (in each case not including transaction costs, but taking into account the option premium received or paid) may not be more than 10% higher or lower than the price of the company's shares as determined by the opening auction in XETRA® trading (or a comparable successor system) on the Frankfurt Stock Exchange on the trading day on which the option transaction was entered into.

2.4 The term of the individual derivatives may not, in each case, exceed 18 months; it must end at the latest on August 31, 2020, and must be selected so that the acquisition of the shares using derivatives does not take place after August 31, 2020.

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

3. Authorization to issue convertible bonds, warrant bonds and / or profit-participation rights and to disapply subscription rights to these convertible bonds, warrant bonds and / or profit participation certificates

3.1 Authorization period; object; nominal value; term; number of shares

The Board of Management is authorized, with the approval of the Supervisory Board, to issue – in one or more installments – warrant bonds, convertible bonds and / or profit-participation rights (collectively referred to as **"bonds"**) – as either registered or bearer bonds – with a total nominal value of up to €1,500,000,000, with or without limited maturity, and to grant to the creditors of these bonds warrants or conversion rights in respect of up to 70,000,000 bearer shares of the company representing a total pro-rated increase of up to €70,000,000 in the company's capital stock (hereinafter referred to as **"shares of the company"**) on the terms to be defined for these bonds (hereinafter referred as the **"terms of the bond"**). The authorization can be used in one or more installments. Bonds may also be issued against consideration in kind.

3.2 Currency; issue by Group companies

The bonds may be issued in euros or in the legal currency of any OECD country up to the equivalent value in euros. If bonds are issued in a currency other than the euro, the value shall be calculated using the European Central Bank's reference price for that currency on the date the resolution concerning the bond issue was taken.

The bonds may also be issued by a Group company as defined in Section 18 of the German Stock Corporation Act. In such case, the Board of Management is authorized, with the approval of the Supervisory Board, to assume the guarantee for redemption of the bonds and to grant to the creditors of these bonds warrants or conversion rights to shares of the company.

3.3 Conversion rights / obligations; conversion ratio

In the case of bonds with conversion rights, creditors may exchange their bonds for shares of the company in accordance with the terms of the bond. The proportionate interest in the capital stock upon conversion into shares may not exceed the nominal value or a lower issue price for the bond with conversion rights. The conversion ratio is the nominal value of a bond with conversion rights divided by the conversion price for a share in the company. This applies analogously if the price of the bond with conversion rights is lower than the nominal value. The conversion ratio may be rounded up or down to the nearest whole number. Moreover, an additional cash payment may be determined. It may also be determined that fractions are aggregated and / or paid out in cash. The terms of the bond may provide for a fixed or variable conversion ratio.

The terms of the bond may also specify a conversion obligation. Moreover, they may entitle the company to grant the creditors of bonds with conversion rights upon or before maturity shares in the company in full or partial place of the cash amount due (company's substitution right).

The terms of the bond may also authorize the company to compensate by cash in full or in part any difference between the nominal value of the bond with conversion rights and the product of the conversion ratio and a price for the share at the time of conversion that is to be specified in the terms of the bond. The share price used in the calculation in accordance with the preceding sentence must be at least 80% of the share price relevant for the lower limit of the conversion price in accordance with the following No. 3.6.

3.4 Warrants / exercise obligations

In the case of bonds with warrants or exercise obligations, one or several warrants are attached to each bond entitling the creditors to subscribe to shares in the company in accordance with the terms of the bond that are to be defined by the Board of Management. The subscription ratio is the nominal value of a bond with warrants divided by the subscription price for a share in the company. The proportionate interest in the capital stock represented by the shares of the company to be issued on exercise of the options may not exceed the nominal value of the bonds. The terms of the bond may also provide for subscription to a variable number of shares on exercise of the warrants. They may also permit settlement of the subscription price by way of a transfer of bonds and, if necessary, an additional cash payment.

3.5 Granting of new or existing shares; cash payment

When warrants or conversion rights are exercised or exercise or conversion obligations performed, the company may choose to either grant new shares issued from conditional capital or existing shares in the company or shares in another listed corporation. The terms of the bond may entitle the company, in the case that warrants or conversion rights are exercised or exercise or conversion obligations performed, to pay the cash value instead of granting shares.

3.6 Conversion / exercise price

The conversion / exercise price must be at least 80% of the volume-weighted average closing price for the company's shares in XETRA® trading (or a comparable successor system) on the Frankfurt Stock Exchange on the last ten trading days before the day on which the Board of Management passes the resolution concerning the bond issue or at least 80% of the average closing price for the company's shares in XETRA® trading (or a comparable successor system) during the days on which the subscription rights are traded on the Frankfurt Stock Exchange, with the exception of the last two trading days of subscription rights trading.

In the case of bonds that are subject to mandatory conversion or if the company exercises its substitution right, the conversion price for one share must be either the aforementioned minimum price or at least the average closing price for the company's shares in XETRA® trading on the ten trading days before the day on which the conversion takes effect.

The terms of the bond may provide for changes to the conversion or exercise price over the course of its term, taking account of the minimum prices as described above within a range specified by the Board of Management depending on the development of the share price.

The terms of the bond may include dilution clauses for the case that, during the conversion or exercise period, the company increases the capital stock with subscription rights for its stockholders or issues further conversion bonds, warrant bonds or jouissance rights or grants or guarantees other option rights and disapplies the subscription rights to which the holders of warrants or conversion rights would be entitled on exercise of their warrants or conversion rights or on performance of their conversion obligations. The terms of the bond may also allow a value-preserving adjustment of the conversion or exercise price or of the option ratio or payment of a cash component in the event of other measures taken by the company or events which entail an economic dilution of the value of the warrants or conversion rights (e.g. dividends). Under no circumstances may the proportionate interest in the capital stock per share attached to a bond exceed the nominal value of the bond itself.

This shall not affect Section 9, Paragraph 1 and Section 199 of the German Stock Corporation Act.

3.7 Other terms of the bond

The Board of Management is authorized, with the consent of the Supervisory Board, to set further details for the issue and class of the bonds.

3.8 Subscription rights; disapplying subscription rights

When bonds are issued, stockholders must be granted subscription rights as a matter of principle. The bonds may be taken up by one or more banks with the obligation to offer them for subscription to stockholders. However, when issuing bonds, the Board of Management is authorized – with the consent of the Supervisory Board – to disapply stockholders' subscription rights:

3.8.1 For fractions.

3.8.2 Insofar as it is necessary to grant the holders of warrants or conversion rights to shares in the company or the creditors of bonds with conversion obligations attached a subscription right to the extent to which they would be entitled if they were to exercise their rights or perform the conversion obligation.

3.8.3 Insofar as the bonds are issued against cash and the issue price does not substantially exceed the theoretical market value of the bonds as determined in accordance with recognized financial principles. However, this authorization to disapply subscription rights relates only to bonds with rights to shares with a total proportionate interest in the capital stock of no more than 10%, neither at the time when this authorization becomes effective nor at the time it is exercised. The sale of own shares shall count towards this limit if they are sold during the term of this authorization and subscription rights are disapplied pursuant to Section 71, Paragraph 1, No. 8, Sentence 5 in conjunction with Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act. Those shares issued during the term of this authorization from authorized capital and on which subscription rights are disapplied pursuant to Section 181, Paragraph 3, Sentence 4 of the German Stock Corporation Act shall also count towards this limit.

3.8.4 Insofar as they are issued against considerations in kind and the value of these considerations in kind is in reasonable proportion to the market value of the bonds determined according to the preceding No. 3.8.3.

Material conditional agreements

Material agreements containing clauses for the event of a change of control pertain to the syndicated credit facility with a bank consortium and two loans from Bayer Antwerpen NV, a Bayer Group company.

The syndicated credit facility with a total volume of €2,700 million is split into two tranches – a revolving credit facility of €1,500 million with a term until September 2020 and two one-year extension options, and a maturity loan of €1,200 million with a term until September 2018 – both of which remain undrawn by Covestro to date. In the event of a change of control, defined as the acquisition of more than 50% of the voting shares by a third party not associated with the Bayer Group or by a consortium of third parties, the participating banks are entitled to terminate the credit facility and demand repayment of any loans that may have been granted up to that time.

The same clauses have been agreed for the event of a change of control for the two loans totaling €2,060 million concluded with Bayer Antwerpen NV, one loan for €1,250 million due by March 30, 2016, and another loan for €810 million due by June 29, 2016.

Agreements exist for the members of the Board of Management in compliance with Section 4.2.3 of the German Corporate Governance Code to cover the eventuality of a takeover offer being made for Covestro AG. Under these agreements, payments promised in the event of early termination of the service contract of a Board of Management member due to a change of control are limited to the value of three years' compensation and may not compensate more than the remaining term of the contract.

DECLARATION BY THE BOARD OF MANAGEMENT CONCERNING RELATED COMPANIES

Bayer AG holds around 69% of the shares in Covestro AG. There is no control and / or profit and loss transfer agreement between these two companies. For this reason, the Board of Management of Covestro AG prepared a report on the company's relationships with Related companies in accordance with Section 312 of the German Stock Corporation Act (related parties report) for the period from August 20, 2015, to December 31, 2015. This report was audited by the company's external auditors.

At the end of related paties report, the Board of Management made the following declaration concerning relationships with related companies:

"The Board of Management declares that Covestro AG, under the conditions known to the Board of Management at the time at which legal transactions were made, received an appropriate consideration for every legal transaction. No measures in the interest or at the instigation of the controlling company or its affiliated companies have been taken or refrained from."

CORPORATE GOVERNANCE REPORT

This Corporate Governance Report also constitutes the report pursuant to Section 3.10 of the German Corporate Governance Code.

22. Declaration of conformity* (in accordance with the German Corporate Governance Code)*

*Not part of the audited management report

DECLARATION BY THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD OF COVESTRO AG

concerning the German Corporate Governance Code (May 5, 2015 version) pursuant to Section 161 of the German Stock Corporation Act

Under Section 161 of the German Stock Corporation Act (AktG), the Board of Management and the Supervisory Board of Covestro AG are required to issue an annual declaration that the company has been, and is, in compliance with the recommendations of the "Government Commission on the German Corporate Governance Code" as published by the Federal Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger), or to advise of any recommendations that have not been, or are not being, applied and the reasons for this. The shares of Covestro AG were admitted for the first time for trading on the stock exchange on October 5, 2015. Before that time, no annual declaration was issued.
With respect to the past and to present and future corporate governance practices at Covestro AG, the following declaration refers to the recommendations in the May 5, 2015 version of the Code.

Pursuant to Section 161 of the German Stock Corporation Act, the Board of Management and Supervisory Board of Covestro AG hereby declare as follows:

1. The company has been in compliance with the recommendations of the Code since October 2015, the date on which its shares were admitted for the first for trading on the stock exchange.

2. All the recommendations of the Code are now being complied with in full.

Leverkusen, December 2015

For the Board of Management

Patrick Thomas
Frank H. Lutz

For the Supervisory Board

Dr. Richard Pott

23. Governance*

Covestro places great importance on responsible corporate governance.

In 2015, the Board of Management and Supervisory Board addressed the question of compliance with the German Corporate Governance Code, including the Code amendments of May 5, 2015. The resulting declaration of conformity was issued in December 2015 and posted on Covestro's website.

In 2015, Covestro AG was in compliance with all the recommendations of the "Government Commission on the German Corporate Governance Code" as published by the Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette (Bundesanzeiger), and will remain so in the future.

Covestro AG also complies with all the suggestions contained in the German Corporate Governance Code.

Duties and activities of the Board of Management

The Board of Management runs the company on its own responsibility with the goal of sustainably increasing the company's enterprise value and achieving defined corporate objectives. In doing so, it takes account of the interests of stockholders, employees and other stakeholders. The Board of Management performs its tasks according to the law, the Articles of Incorporation and the Board's rules of procedure, and the recommendations of the German Corporate Governance Code as stated in the declaration of conformity. It works with the company's other governance bodies in a spirit of trust.

The Board of Management defines the long-term goals and strategies for the company and sets forth the principles and directives for the resulting corporate policies. It coordinates and monitors the most important activities, defines the company's portfolio, develops and deploys managerial staff, allocates resources and decides on the financial steering and reporting of the Covestro Group.

The members of the Board of Management bear joint responsibility for running the business as a whole. However, the individual members manage the areas assigned to them on their own responsibility within the framework of the decisions made by the full Board. The allocation of duties among the members of the Board of Management is defined in a written schedule appended to its rules of procedure.

The full Board of Management makes decisions on all matters of fundamental importance and in cases where a decision of the full Board is prescribed by law or otherwise mandatory. The rules of procedure of the Board of Management contain a list of topics that must be dealt with and resolved by the full Board.

Meetings of the Board of Management are held regularly. They are convened by the Chairman of the Board of Management. Any member of the Board of Management may also demand that a meeting be convened, notifying the other members of the matter for discussion. The Board of Management makes decisions by a simple majority of the votes cast, except where unanimity is required by law. In the event of a tie, the Chairman has the casting vote.

According to the Board of Management's rules of procedure and schedule of duties, the Chairman bears particular responsibility for coordinating all Board of Management areas. The Chairman represents Covestro in dealings with the public and other third parties. Furthermore, in the reporting year he bore particular responsibility for certain departments of the Corporate Center units and their fields of activity as well as for Covestro's Polyurethanes, Polycarbonates and Coatings, Adhesives, Specialties segments.

The responsibilities of the members of the Board of Management were redistributed by a resolution dated August 20, 2015. Under the schedule of duties as of that date, each Board member has held particular responsibilities that mainly relate to strategy, sustainability, human resources and the Polyurethanes, Polycarbonates and Coatings, Adhesives, Specialties segments; finance (this member also serving as the Labor Director), portfolio management, law and intellectual property (IP) management; production, technology and procurement as well as innovation.

As the Board of Management comprises only four members, no committees have been established.

Establishment of targets and deadlines for promoting the appointment of women and men to managerial positions pursuant to Section 76, Paragraph 4 and Section 111, Paragraph 5 of the German Stock Corporation Act

The German Law on Equal Participation of Women and Men in Leadership Positions in the Private and Public Sectors of May 2015 requires certain companies in Germany to define target quotas for appointing women and men to their Supervisory Boards and Management Boards and the two management levels below them and to establish dates by which these quotas are to be achieved in each case. The companies concerned were required to have defined their targets and implementation periods by September 30, 2015. By law, the first implementation period must end no later than June 30, 2017. Up to five years may exist between this and the subse-

*not part of the audited management report quent implementation period. The law envisages an exception for the proportion of women and men on the Supervisory Boards of companies like Covestro AG which are both listed and codetermined. In these cases, mandatory minimum quotas of 30% women and 30% men already apply.

The Supervisory Board of Covestro AG decided on a target quota of at least 0% for women on the Board of Management of Covestro AG and an implementation period through June 30, 2017. This reflects the current situation.

The Board of Management of Covestro AG decided on target quotas of at least 10% and 20%, respectively, for women on the first and second management levels of Covestro AG and an implementation period through June 30, 2017.

The implementation period is in line with the maximum permissible first implementation period.

Supervisory Board: oversight and control functions

The 12-member Supervisory Board advises and oversees the Board of Management. Under the German Codetermination Act, half the members of the Supervisory Board are elected by the stockholders and half by the company's employees. The Supervisory Board is directly involved in decisions on matters of fundamental importance to the company, regularly conferring with the Board of Management on the company's strategic alignment and the implementation status of the business strategy. The Chairman of the Supervisory Board coordinates its work and presides over the meetings.

Through regular discussions with the Board of Management, the Supervisory Board is kept constantly informed of business policy, corporate planning and strategy. The Supervisory Board approves the annual budget and financial framework. It also approves the financial statements of Covestro AG and the consolidated financial statements of the Covestro Group, along with the combined management report, taking into account the reports by the auditor.

Committees of the Supervisory Board

The Supervisory Board currently has the following committees:

Presidial Committee: This comprises the Chairman and Vice Chairman of the Supervisory Board along with a further stockholder representative and a further employee representative. The Presidial Committee serves primarily as the mediation committee pursuant to the German Codetermination Act. It has the task of submitting proposals to the Supervisory Board on the appointment of members of the Board of Management if the necessary two-thirds majority is not achieved in the first vote at a plenary meeting. Certain decision-making powers in connection with capital measures, including the power to amend the Articles of Incorporation accordingly, have also been delegated to this committee.

Audit Committee: The Audit Committee comprises three stockholder representatives and three employee representatives. The Chairman of the Audit Committee in 2015, Prof. Dr. Rolf Nonnenmacher, satisfies the statutory requirements concerning independence and expertise in the field of accounting or auditing that at least one member of the Supervisory Board and the Audit Committee is required to possess. The Audit Committee meets regularly four times a year. It monitors the accounting process and is responsible for examining the financial statements, consolidated financial statements and management reports and for discussing the interim financial statements with the Board of Management. On the basis of the auditor's report, the Audit Committee develops proposals for resolution by the Supervisory Board relating to the confirmation of the financial statements, the approval of the consolidated financial statements and the use of the distributable profit.

The Audit Committee is also responsible for the company's relationship with the external auditor. It submits a proposal to the full Supervisory Board concerning the auditor's appointment and is authorized to award the audit contract to the audit firm appointed on behalf of the Supervisory Board and to agree the auditor's remuneration. It also suggests areas of focus for the audit and monitors the quality of the audit as well as the independence and qualifications of the auditor.

In addition, the Audit Committee monitors the effectiveness of the internal control system, the risk management system, the internal audit system and the compliance function.

Human Resources Committee: On this committee, too, there is parity of representation between stockholders and employees. It consists of the Chairman of the Supervisory Board and three other members. The Human Resources Committee prepares the personnel decisions of the full Supervisory Board, which resolves on appointments or dismissals of members of the Board of Management. The Human Resources Committee resolves on behalf of the Supervisory Board on the service contracts of the members of the Board of Management. However, it is the task of the full Supervisory Board to resolve on the total compensation of the individual members of the Board of Management and the respective compensation components, as well as to regularly review the compensation system on the basis of recommendations submitted by the Human Resources Committee. The Human Resources Committee also discusses the long-term succession planning for the Board of Management.

Nominations Committee: This committee carries out preparatory work when an election of stockholder representatives to the Supervisory Board is to be held. It suggests suitable candidates for the Supervisory Board to propose to the Annual Stockholders' Meeting for election. The Nominations Committee comprises the Chairman of the Supervisory Board and another stockholder representative on the Presidial Committee.

Objectives for the composition of the Supervisory Board

The Supervisory Board should be composed in such a way that its members together possess the necessary expertise, skills and professional experience to properly perform their duties and are sufficiently independent. The Supervisory Board assesses the independence of its members according to the recommendation contained in Section 5.4.2 of the German Corporate Governance Code. In assessing independence, the Supervisory Board also takes account of the criteria given in the recommendation of the European Commission of February 15, 2005.

The following objectives for composition apply:

The Supervisory Board shall not include more than two former members of the company's Board of Management. Supervisory Board members may not perform executive functions or consulting activities for major competitors of the company or any Group company, and they must not be exposed to other significant conflicts of interest. The Supervisory Board has also resolved that 75% of its members and more than half of the stockholder representatives on the Supervisory Board are to be independent.

At least 30% of the Supervisory Board members shall be women and at least 30% shall be men.

Absent special circumstances, a Supervisory Board member shall not serve more than three full terms of office and shall not hold office beyond the end of the next Annual Stockholders' Meeting following his or her 68th birthday.

Taking into account the specific situation and international operations of Covestro and its affiliated companies, the Supervisory Board shall strive to ensure sufficient diversity among its members. Moreover, at least three members should have managerial experience in an international enterprise.

The objectives described refer to the Supervisory Board as a whole unless resolved otherwise. However, since the Supervisory Board can only nominate candidates for election as stockholder representatives, it can only consider the objectives in making these nominations.

Implementation status of the objectives

Taking into account the appointments made in 2015, the Supervisory Board has several members with international business experience and an international background. The objectives that, absent special circumstances, a member should step down from the Supervisory Board at the Annual Stockholders' Meeting following his or her 68th birthday and that a member shall not serve more than three full terms of office are being met.

The objectives pertaining to independence are being met. The Chairman of the Supervisory Board, Dr. Richard Pott, who was elected to serve until the Annual Stockholders' Meeting in 2020, was a member of the Board of Management of Bayer AG until 2013. One member of the Supervisory Board, Johannes Dietsch, is currently Chief Financial Officer of Bayer AG. However, neither Richard Pott nor Johannes Dietsch has any personal or business relationship with the company or a governance body of the company that in the opinion of the Supervisory Board gives rise to a material conflict of interest of more than a temporary nature.

The mandatory minimum quotas of 30% women and 30% men on the Supervisory Board beginning January 1, 2016 were already achieved in fiscal 2015.

Please see the Report of the Supervisory Board for detailed information about the work of the Supervisory Board and its committees.

Disclosure of securities transactions by members of the Board of Management or Supervisory Board

Members of the Board of Management and Supervisory Board and their close relatives are legally required to disclose all transactions involving the purchase or sale of Covestro stock where such transactions total €5,000 or more in a calendar year. Covestro publishes details of such transactions immediately on its website and also notifies the German Federal Financial Supervisory Authority accordingly. This information is provided to the company register for archiving. The following transactions in 2015 were reported to Covestro AG:

Securities Transactions by Members of the Board of Management or Supervisory Board

Date / Place	Name / Function	Financial instrument	ISIN	Transaction	Price / Currency	Quantity	Total transaction volume
Oct. 2, 2015 / Frankfurt	Johannes Dietsch, Supervisory Board	Shares	DE0006062144	Purchase	€24.00	2000	€48,000.00
Nov. 11, 2015 / XETRA®	Dr. Klaus Schäfer, Board of Management	Shares	DE0006062144	Purchase	€30.50	500	€15,250.00
Dec. 17, 2015 / Munich	Dr. Markus Steilemann, Board of Management	Shares	DE0006062144	Purchase	€34.20	1000	€34,200.00

Information filed with the company by members of the Board of Management and Supervisory Board shows that, on the closing date for the financial statements, their total holdings of Covestro AG stock or related financial instruments were equivalent to less than 1% of the issued stock. Beside the aforementioned transacations, Falco Holding SA c/o VIRUM Investimenti SA acquired 1500 Covestro shares at a price of €34.06 each. Ferdinando Falco Beccalli is a member of the Supervisory Board of Covestro AG and member of the board of Falco Holding SA.

Common values and leadership principles

Covestro is guided by three values that reflect the way people at the company think and act:

Curious: Covestro is proud of its past but it doesn't stop there. Its people are always seeking to do better, so curiosity drives them to listen to customers and suppliers and respond with creative and unexpected solutions.

Courageous: Covestro sees opportunities where others see limitations. The company stands on a platform of knowledge and experience that gives it the courage to push the boundaries of innovation.

Colorful: Covestro values different viewpoints and diverse ideas. The company is optimistic and resourceful, striving to create solutions and solve problems in innovative ways.

Systematic risk management

Our enterprise risk management system ensures risk-aware business conduct by enabling early identification of any financial or nonfinancial risks. We attempt to avoid or mitigate risks by taking appropriate countermeasures, or to transfer them to third parties (such as insurers) to the extent possible and economically acceptable.

The established internal control system enables the timely monitoring of risks, ensuring the proper accounting of business transactions through the prevention or immediate rectification of potential errors. It thus ensures the availability of reliable data on the company's financial situation.

However, the control and risk management system cannot provide absolute protection against losses arising from business risks or fraudulent actions.

Detailed reporting

To maximize transparency, we provide regular and timely information on the Covestro Group's position and significant changes in business activities to stockholders, financial analysts, stockholders' associations, the media and the general public. Four times a year we report to our stockholders about the company's business performance, its financial position and results of operations, and the risks it faces. Our company's reporting thus complies with the provisions of the German Corporate Governance Code.

In line with statutory requirements, the members of the company's Board of Management provide an assurance that, to the best of their knowledge, the financial statements of Covestro AG, the consolidated financial statements of the Covestro Group and the combined management report provide a true and fair view.

The financial statements of Covestro AG, the consolidated financial statements of the Covestro Group and the combined management report are published within 90 days following the end of each fiscal year. During the fiscal year, stockholders and other interested parties are kept informed of developments by means of the half-year financial report and additional interim reports for the first and third quarters. The half-year financial report is voluntarily subjected to an audit review by the auditor appointed by the Annual Stockholders' Meeting.

Covestro additionally provides information at regular news conferences and analysts' meetings. The company uses the internet as a platform for the timely disclosure of information, including the dates of major publications and events, such as the annual report, interim financial reports and the Annual Stockholders' Meeting.

In line with the principle of fair disclosure, all stockholders and other main target groups are treated equally as regards the communication of valuation-relevant information. All significant new facts are disclosed immediately to the general public. In addition to our regular reporting, we issue ad-hoc statements on developments that otherwise might not become publicly known but have the potential to materially affect the price of Covestro stock.

24. Compliance

Covestro manages its businesses in an ethically responsible way and in compliance with the statutory and regulatory requirements of the countries in which it operates. The way each employee conducts the company's business can affect Covestro's public image. Covestro does not tolerate any violation of applicable laws or internal regulations.

The Board of Management is unequivocally committed to the company's Corporate Compliance Policy. Covestro will forgo any business that would only be possible by violating the law or company rules. Our Corporate Compliance Policy defines the principles and rules for our conduct within the company and in relation to our external partners and the general public. This document details our commitment to fair competition, integrity in business dealings, the principles of sustainability and product stewardship, the upholding of foreign trade laws and insider trading laws, the separation of business and private interests, proper record-keeping and transparent financial reporting, and fair, respectful and nondiscriminatory working conditions. Every employee is required as a matter of principle to immediately report any infringement of the Corporate Compliance Policy unless this is not permitted by national law.

Managerial employees have a vital part to play in implementing the Corporate Compliance Policy. As role models, they must help to ensure that this important code of conduct is adhered to in practice. Managers may lose their entitlement to variable compensation components and be subject to disciplinary measures if systematic violations of applicable law entailing loss or damage to Covestro have occurred in their sphere of responsibility and could have been prevented if they had taken appropriate action. Compliant and lawful conduct forms part of the performance evaluations of all managerial employees.

Until August 2015, Covestro was included in the Bayer AG compliance management system. After its carve-out from the Bayer Group, Covestro established its own compliance management system which essentially mirrors Bayer's system.

The Chief Compliance Officer is in charge of all compliance activities at Covestro. In this function, this person reports directly to the Board of Management. A central Compliance department coordinates compliance activities throughout the Covestro Group. A local Compliance Officer has been appointed for each country in which Covestro has employees. This person serves as a local point of contact for employees on all questions regarding legally and ethically correct conduct in business situations.

Covestro is also continuing the Integrated Compliance Management (ICM) project started by Bayer. Within the framework of ICM, compliance risks are systematically identified and evaluated, and compliance processes are defined and integrated as far as possible into business processes. ICM is focused on the areas of antitrust law, anticorruption measures, export controls, conflicts of interest, insider trading and antidiscrimination policies. A local risk assessment covering antitrust law and anticorruption measures has been conducted for each country in which a Covestro Group company is domiciled. With regard to anticorruption, gifts and invitations, tenders, donations and collaboration with certain business partners such as customs agents have been identified as high-risk areas. As well as introducing compliance processes, Covestro is helping employees to become permanently aware of the issue and the associated risks through extensive communication and training activities.

We have established a central hotline and email address for reporting compliance violations – anonymously if desired. Alternatively, the local Compliance Officers can be notified of suspected compliance violations. These are recorded and processed Group-wide in accordance with uniform criteria.

Any risks connected with legal disputes and litigations are published in the Notes to the Consolidated Financial Statements.

Covestro's Corporate Audit department verifies adherence to the Corporate Compliance Policy. Audit targets are prioritized and selected on the basis of risk-based audit planning, which covers aspects including corruption risks. In addition to regular audits, dedicated compliance program audits are also conducted to monitor implementation of the compliance management system in the local units. The head of Corporate Audit attends the meetings of the Audit Committee of the Supervisory Board in respect of selected agenda items and provides it with a list of conducted audits and their outcomes at least once a year.

25. Compensation Report

The Compensation Report describes the essential features of the compensation system for the members of the Board of Management and the Supervisory Board of Covestro AG and explains the compensation of the individual members. The report conforms to the requirements of the German Commercial Code of May 5, 2015, including the principles of German Accounting Standard No. 17 (DRS 17) and to the recommendations of the German Corporate Governance Code. It also complies with the International Financial Reporting Standards (IFRS).

Covestro AG was founded as a subsidiary of Bayer AG on August 20, 2015. On September 1, 2015, the control and profit and loss transfer agreement between Covestro Deutschland AG (formerly Bayer MaterialScience AG) and Bayer AG was terminated and Covestro Deutschland AG became a subsidiary of Covestro AG. It was at this time that the Covestro Group was founded under the new parent company Covestro AG. Unless otherwise stated, all the following information concerning the compensation of the Board of Management and the Supervisory Board refers to the period from September 1, 2015 to December 31, 2015.

25.1 Compensation of the Board of Management

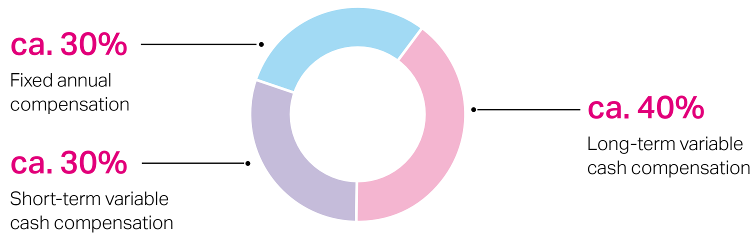
Objectives

The structure of the compensation system for the Board of Management of Covestro AG is aimed at ensuring a long-term increase in the company's value and the performance-oriented remuneration of management. The core elements of the system include fixed compensation, which takes into account the tasks and duties of the Board of Management members, and an annual incentivized component – the short-term incentive (STI) – which depends on the attainment of the corporate performance targets. From 2016, in addition to the compensation directly related to each year of service, there is a long-term stock-based component that is directly related to the development of Covestro's share price over time and thus is intended to create an incentive for a sustained commitment to the company. Furthermore, we aim to position Covestro as an attractive employer in the competition for highly qualified executives, and ensure statutory and regulatory compliance. Board of Management compensation is in line with the basic principles of the compensation structure for managerial employees in the Covestro Group. The appropriateness of the system and the compensation level are regularly reviewed by the Supervisory Board, which then makes any necessary adjustments.

Compensation structure

The compensation structure, based on average total annual compensation and 100% target attainment, is as follows:

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



[1] excluding fringe benefits and pension entitlements

The non-performance-related compensation comprises the fixed annual compensation along with fringe benefits. The performance-related compensation partly comprises a short-term variable component (STI), which depends on the attainment of the corporate performance targets. The other performance-related compensation component serving as a long-term incentive is the stock-based cash compensation program Prisma, which is directly related to the development of Covestro's share price over time and will be granted from fiscal 2016.

The individual performance-related components are capped at the grant date. To comply with the recommendation of the German Corporate Governance Code, caps have also been agreed for the performance-related components and for the compensation as a whole (total of the annual fixed compensation and the variable components). The cap on the total compensation is 1.8 times the respective target compensation and is determined annually by the Supervisory Board when the fixed compensation is set.

The members of the Board of Management also receive pension entitlements for themselves and their surviving dependents.

Non-performance-related components

Fixed annual compensation
The level of the non-performance-related, fixed annual compensation for members of the Board of Management takes into account the functions and responsibilities assigned to them as well as market conditions. The fixed compensation is regularly reviewed by the Supervisory Board in light of factors such as the consumer price index and adjusted if necessary. It is paid out in twelve monthly installments.

Fringe benefits
Fringe benefits mainly comprise a company car with driver or the use of the company carpool, payments toward the cost of security equipment, and reimbursement of the cost of annual health screening examinations. They are reported at cost or the amount of the pecuniary advantage gained.

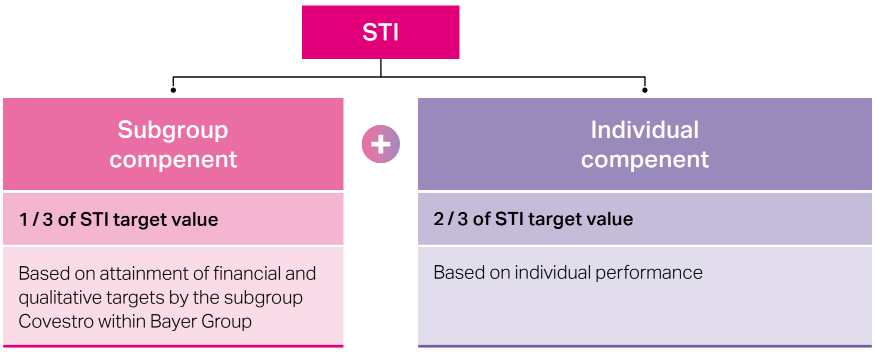
Performance-related components

Short-term variable cash compensation
The short-term variable compensation (STI) is based on a set percentage of the fixed annual compensation (target value). This amount is adjusted in line with target attainment.

The pro-rated STI payment for 2015 is still based on a modified version of the short-term variable compensation system in place at Bayer AG. Accordingly, two-thirds of the payout is dependent on the attainment of individual targets and one-third is linked to target attainment by the Covestro subgroup or reporting segment in the Bayer Group financial statements. Target attainment by the subgroup is measured in terms of the cash flow return on investment (CFROI). It also takes into account qualitative objectives including safety, compliance and sustainability. The target attainment for the individual component of the variable compensation is determined by the Supervisory Board of Covestro AG, taking into account factors including the placement volume achieved in the stock market listing of Covestro in 2015.

From fiscal 2016, a short-term variable compensation system based solely on the attainment of financial targets will apply to all Covestro Group employees entitled to STI payments, including members of the Board of Management. This will be based on the same performance indicators used to steer the company. In the new system, one-third each of the payout will be based on target attainment in respect of growth (core volume growth), liquidity (free operating cash flow) and profitability (ROCE).

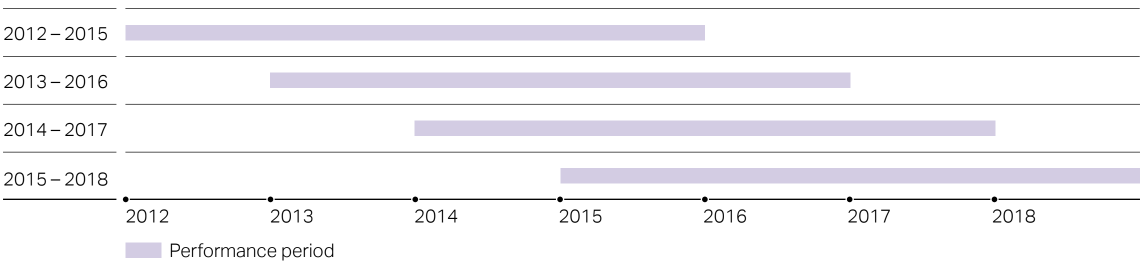
Short-Term Variable Compensation (STI) Components



Long-term stock-based cash compensation

For four years in total, the members of the Board of Management will still be participating in the ongoing performance periods of Bayer's long-term stock-based compensation program "Aspire" (the 2012–2015, 2013–2016, 2014–2017 and 2015–2018 tranches). The payments made under this program are based on the Aspire Target Opportunity, which is a contractually agreed percentage of fixed annual compensation. Depending on the performance of Bayer stock, both in absolute terms and relative to the Euro STOXX 50 benchmark index, participants are granted an award of between 0% and 300% of their individual Aspire Target Opportunity at the end of the respective performance period. The payout / performance matrix according to the absolute and relative development of Bayer's share price is explained at http://www.investor.bayer.com/en/stock/stock-programs/aspire/. In order to break the link between the payout and the future development of Bayer's share price, it was decided that the average price of Bayer stock and the benchmark index calculated from the closing prices for the last 30 trading days of 2015 would be used as the closing price for all current tranches and that the payout amount would be frozen accordingly. Provided an amount greater than zero has been calculated, the payouts will be made at the start of 2016, 2017, 2018 and 2019 on termination of the respective tranches. The target value for the 2015–2018 tranche was reduced to 8 / 12 of the full value (pro rata for the period from January to August 2015). In recompense for this, the target values for the members of the Board of Management for the new 2016 tranche under Covestro's own long-term compensation program (described below) will be increased by 4 / 12.

Tranches of the Aspire Program



From 2016, the members of the Board of Management are eligible to participate in the long-term stock-based compensation program Prisma on condition that they purchase a certain number of Covestro shares – determined individually according to defined guidelines – and for as long as they remain in the service of the Covestro Group. This program is likewise based on a target opportunity, which is a contractually agreed percentage of fixed annual compensation. Depending on the total shareholder return of Covestro stock (absolute price performance plus the dividend distributed during the four-year performance period) and the relative performance against the DJ STOXX Europe 600 Chemicals benchmark index, participants will be granted an award of between 0% and 200% of the Prisma target opportunity at the end of the respective performance period. When a member of the Board of Management retires, current tranches may be shortened, thus reducing their value.

Pension entitlements (retirement and surviving dependents' pensions)

The members of the Board of Management are entitled to receive a lifelong company pension after leaving the Covestro Group, though not before the age of 62. This pension is paid out in the form of a monthly life annuity.

The arrangements for surviving dependents basically provide for a widow's pension amounting to 60% of the member's pension entitlement and an orphan's pension amounting to 12% of the member's pension entitlement for each child.

The annual pension entitlement is based on contributions. Starting September 1, 2015, Covestro provides a hypothetical contribution amounting to as much as 33% of the respective fixed compensation each year. This percentage is comprised of a 6% basic contribution and a matching contribution of up to 27% – three times the member's maximum personal contribution of 9%. The total annual contribution is converted into a pension module according to the annuity table for the applicable tariff of the Rheinische Pensionskasse VVaG pension fund. The annual pension entitlement upon retirement is the total amount of the accumulated pension modules including an investment bonus, which is determined annually by the representatives' meeting of the Rheinische Pensionskasse VVaG and approved by the German Financial Supervisory Authority. Dr. Klaus Schäfer has been granted, in addition, a vested entitlement to a fixed annual pension of €126,750.

The actual pension entitlement cannot be precisely determined in advance. It depends on the development of the member's compensation, the number of years of service on the Board of Management and the return on the assets of the Rheinische Pensionskasse VVaG.

Certain assets are administered under a contractual trust agreement (CTA), providing additional insolvency protection for pension entitlements resulting from direct commitments for the members of the Board of Management in Germany.

As a rule, future pension payments are adjusted by at least 1% per year. Depending on the pension obligation, an additional adjustment may be made if the investment bonus of the Rheinische Pensionskasse VVaG or the consumer price index exceeds 1% per year.

Benefits upon termination of service on the Board of Management

Post-contractual noncompete agreements

Post-contractual noncompete agreements exist with the members of the Board of Management, providing for compensatory payments to be made by the company for the duration of these agreements (two years). The compensatory payment amounts to 100% of the average fixed compensation in the twelve months preceding termination of service.

Change of control

Agreements exist with the members of the Board of Management providing for severance payments to be made in certain circumstances in the event of a change in control. The amount of the severance payments, including any ancillary benefits, in the case of early termination of service on the Board of Management as a result of a change in control is limited to the value of three years' compensation in line with the recommendation in Section 4.2.3 of the German Corporate Governance Code. Such payments do not exceed the compensation payable for the remaining term of the service contract.

Unfitness for work

In the event of temporary unfitness for work, members of the Board of Management continue to receive the contractually agreed compensation. Covestro AG may terminate the service contract early if the member has been continuously unfit for work for at least 18 months and is likely to be permanently incapable of fully performing his duties (permanent incapacity to work). A disability pension is paid in the event of contract termination before the age of 60 due to permanent incapacity to work. The amount of this disability pension corresponds to the entitlement accrued on the date of contract termination, taking into account a fictitious period of service between that date and the member's 55th birthday where applicable.

Compensation of the Board of Management in 2015

The following paragraphs report the compensation of the Board of Management of Covestro AG for fiscal 2015. The members of the Board of Management of Covestro AG are the same as the members of the Board of Management of Covestro Deutschland AG, which became a subsidiary of Covestro AG on September 1, 2015. Since that date, no compensation has been paid for the members' work on the Board of Management of Covestro Deutschland AG.

In the period from September 1 to December 31, 2015, the aggregate compensation for the members of the Board of Management totaled €3,280 thousand, comprising €1,278 thousand in non-performance-related components and €2,002 thousand in performance-related components. The pension service cost (German Commercial Code) amounted to €312 thousand.

The following table shows the total compensation of the individual members of the Board of Management who served in 2015 according to the German Commercial Code and DRS 17.

Board of Management Compensation (German Commercial Code) for the Reporting Period from September 1, to December 31, 2015

	Fixed annual compensation	Fringe benefits	Short-term variable cash compensation	Aggregate compensation	Pension service cost[1]
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Patrick Thomas (Chairman)	317	97	811	1,225	121
Frank H. Lutz	227	7	525	759	78
Dr. Klaus Schäfer	183	34	333	550	58
Dr. Markus Steilemann	183[2]	230[3]	333	746	55
Total	**910**	**368**	**2,002**	**3,280**	**312**

[1] Including company contribution to Bayer-Pensionskasse and Rheinische Pensionskasse VVaG
[2] Payment was made outside Germany in local currency on the basis of a theoretical net salary in Germany.
[3] Benefits in kind and other benefits for Dr. Steilemann include expenses associated with an international assignment, e.g. payment of rental costs in line with customary local rates.

Fixed annual compensation

The fixed compensation of the members of the Board of Management was adjusted in 2015. The total fixed compensation of all the members was €910 thousand..

Short-term variable cash compensation

In the period from September 1 to December 31, 2015, the total short-term variable cash compensation (STI) for all the members of the Board of Management in 2015 totaled €2,002 thousand after deduction of the solidarity contribution. The solidarity contribution is made by all employees of the companies covered by the respective agreements with the employee representatives to help safeguard jobs at the German sites. For 2015 reporting period, it amounted to 0.2% of each member's total STI award.

Long-term stock-based cash compensation (Aspire)

Total compensation (German Commercial Code) does not include any stock-based cash compensation (Aspire) as no new tranches were offered in the reporting period.

According to IFRS, the aggregate compensation includes the fair value of the partial entitlement earned in the respective year. Grants of stock-based compensation with a four-year performance period are therefore expensed at their respective fair values over four years starting with the grant year. The associated expense is a part of compensation according to IFRS. The aggregate compensation according to IFRS also includes the change in the value of existing entitlements under ongoing Aspire tranches granted in prior years.

Board of Management Compensation – Aspire Program (IFRS)

	Patrick Thomas (Chairman)	Frank H. Lutz (Finance)	Dr. Klaus Schäfer (Production and Technology)	Dr. Markus Steilemann (Innovation)	Total
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Stock-based compensation entitlements earned in the reporting period[1]	233	14	53	30	330
Change in value of existing entitlements in the reporting period[2]	155	6	35	20	216
Total	**388**	**20**	**88**	**50**	**546**

[1] The newly earned entitlements are derived from the 2012, 2013, 2014 and 2015 tranches of the Aspire program because this compensation was or is being earned over four-year periods. They are stated at their pro-rata fair values in 2015.

[2] This line shows the change in the value of the entitlements already earned in 2012, 2013 and 2014.

Provisions of €2,801 thousand were established for the Aspire entitlements of the members of the Board of Management serving as of December 31, 2015.

Pension entitlements

The pension service cost recognized for the members of the Board of Management in the reporting period was €312 thousand according to the German Commercial Code, while the current service cost for pension entitlements recognized according to IFRS was €436 thousand.

The service cost and the settlement or present value of the pension obligations attributable to the individual members of the Board of Management are shown in the following table.

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

Pension Entitlements (German Commerical Code and IFRS) for the Reporting Period from September 1, to December 31, 2015

	German Commerical Code		IFRS	
	Pension service cost[1]	Settlement value of pension obligation as of December 31	Service cost for pension entitlements	Present value of defined pension obligation as of December 31
	€ thousand	€ thousand	€ thousand	€ thousand
Patrick Thomas	121	2,784	154	3,514
Frank H. Lutz	78	106	114	146
Dr. Klaus Schäfer	58	1,864	82	2,735
Dr. Markus Steilemann	55	421	86	778
Total	**312**	**5,175**	**436**	**7,173**

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

25.2 Disclosures Pursuant to the Recommendations of the German Corporate Governance Code

The following tables show the compensation and fringe benefits paid for 2015, including the maximum and minimum achievable variable compensation, and the allocation of compensation for the reporting period in the line with the recommendations in the May 5, 2015 version of the German Corporate Governance Code.

Compensation and Benefits Granted for the Reporting Period from September 1, 2015 to December 31, 2015

	Patrick Thomas (Chairman)			Frank H. Lutz (Finance)			Dr. Klaus Schäfer (Production and Technology)			Dr. Markus Steilemann (Innovation)		
€ thousand	Target value	Min.	Max.	Target value	Min.	Max.	Target value	Min.	Max.	Target value	Min.	Max.
Fixed annual compensation	317	317	317	227	227	227	183	183	183	183[1]	183[1]	183[1]
Fringe benefits	97	97	97	7	7	7	34	34	34	230[2]	230[2]	230[2]
Total fixed compensation	**414**	**414**	**414**	**234**	**234**	**234**	**217**	**217**	**217**	**413**	**413**	**413**
Short-term variable cash compensation	350	–	933	227	–	605	183	–	488	183	–	488
Total	**764**	**414**	**1,347**	**461**	**234**	**839**	**400**	**217**	**705**	**596**	**413**	**901**
Benefit expense	154	154	154	114	114	114	82	82	82	86	86	86
Total compensation	**918**	**568**	**1,501**	**575**	**348**	**953**	**482**	**299**	**787**	**682**	**499**	**987**

1 Payment was made outside Germany in local currency on the basis of a theoretical net salary in Germany.
2 Benefits in kind and other benefits for Dr. Steilemann include expenses associated with an international assignment, e.g. payment of rental costs in line with customary local rates.

Allocation of Compensation for the Reporting Period from September 1, to December 31, 2015

	Patrick Thomas (Chairman)	Frank H. Lutz (Finance)	Dr. Klaus Schäfer (Production and Technology)	Dr. Markus Steilemann (Innovation)
	€ thousand	€ thousand	€ thousand	€ thousand
Fixed annual compensation	317	227	183	183[1]
Fringe benefits	97	7	34	230[2]
Total fixed compensation	**414**	**234**	**217**	**413**
Short-term variable cash compensation	811	525	333	333
Total	**1,255**	**759**	**550**	**746**
Benefit expense	154	114	82	86
Total compensation	**1,379**	**873**	**632**	**832**

1 Payment was made outside Germany in local currency on the basis of a theoretical net salary in Germany.
2 Benefits in kind and other benefits for Dr. Steilemann include expenses associated with an international assignment, e.g. payment of rental costs in line with customary local rates..

25.3 Compensation of the Supervisory Board

The Supervisory Board is compensated according to the relevant provisions of the Articles of Incorporation.

The members of the Supervisory Board each receive fixed annual compensation of €100 thousand plus reimbursement of their expenses.

In accordance with the recommendations of the German Corporate Governance Code, additional compensation is paid to the Chairman and Vice Chairman of the Supervisory Board and for chairing and membership of committees. The Chairman of the Supervisory Board receives fixed annual compensation of €300 thousand, the Vice Chairman €150 thousand. These amounts also cover membership and chairmanship of committees. The other members of the Supervisory Board are entitled to additional compensation for membership or chairmanship of committees. The chairman of the Audit Committee receives an additional €50 thousand, the other members of the Audit Committee €25 thousand each. The chairmen of the remaining committees receive €30 thousand each, the other members of those committees €20 thousand each. No additional compensation is paid for membership of the Nominations Committee. A Supervisory Board member who is a member of more than two committees receives compensation only for the two committees with the highest compensation. If changes are made to the Supervisory Board and / or its committees during the year, members receive compensation on a pro-rated basis. The members of the Supervisory Board also receive an attendance fee of €1 thousand each time they personally attend a meeting of the Supervisory Board or a committee. The attendance fee is limited to €1 thousand per day.

The members of the Supervisory Board have given a voluntary pledge that they will each purchase Covestro shares for 25% of their fixed compensation, including any compensation for committee membership (before taxes), and hold these shares for as long as they remain members of the Supervisory Board. This does not apply to members who transfer at least 85% of their fixed compensation to the Hans Böckler Foundation in accordance with the rules of the German Trade Union Confederation or whose service or employment contract with a company requires them to transfer such compensation to that company. If less than 85% of the fixed compensation is transferred, the voluntary pledge applies to the portion not transferred. By voluntarily pledging to invest in and hold Covestro shares, the Supervisory Board members reinforce their interest in the long-term, sustainable success of the company.

Compensation of the Supervisory Board in 2015

The following table shows the components of each Supervisory Board member's compensation for 2015.

Compensation of the Members of the Supervisory Board of Covestro AG for the Reporting Period from September 1, 2015 to December 31, 2015

	Fixed compensation	Attendance fee	Total
	€ thousand	€ thousand	€ thousand
Ferdinando Falco Beccalli[1]	25	3	28
Dr. Christine Bortenlänger[1]	25	2	27
Johannes Dietsch (Vice Chair until Sept. 30, 2015)	49	6	55
Dr.-Ing. Thomas Fischer[1]	30	3	33
Peter Hausmann[1]	37	3	40
Petra Kronen[1] (Vice Chair since Oct. 1, 2015)	38	3	41
Irena Küstner[1]	32	3	35
Michael Mostert[1]	25	3	28
Prof. Dr. Rolf Nonnenmacher	46	6	52
Dr. Richard Pott (Chair)	100	6	106
Regine Stachelhaus[1]	30	3	33
Sabine Wirtz[1]	25	3	28
Total	**462**	**44**	**506**

[1] Member of the Supervisory Board since October 1, 2015

In addition to their compensation as members of the Supervisory Board, those employee representatives who are employees of Covestro Group companies receive compensation unrelated to their service on the Supervisory Board. The total amount of such compensation in 2015 was €144 thousand.

No compensation was paid or benefits granted to members of the Supervisory Board for personally performed services such as consultancy or agency services. The company has purchased insurance for the members of the Supervisory Board to cover their personal liability arising from their service on the Supervisory Board.

25.4 Other Information

There were no advances or loans to members of the Board of Management or the Supervisory Board outstanding as of December 31, 2015.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements of Covestro AG as of December 31, 2015

- Net income increases by 26.1% to €343 million
- Dividend of €0.70 per share planned
- Equity ratio improved to 34.3% by stock market listing
- High liquidity and undrawn credit lines safeguard financing of further growth
- Good issuer rating confirms capital market viability

COVESTRO GROUP CONSOLIDATED INCOME STATEMENTS

	Note	2014	2015
		€ million	€ million
Net sales		**11,761**	**12,082**
Cost of goods sold		(9,609)	(9,438)
Gross profit		**2,152**	**2,644**
Selling expenses		(1,097)	(1,257)
Research and development expenses		(212)	(257)
General administration expenses		(343)	(480)
Other operating income	6	97	128
Other operating expenses	7	(80)	(98)
EBIT[1]		**517**	**680**
Equity-method loss		(15)	(10)
Result from other affiliated companies		–	1
Interest income		30	4
Interest expense		(104)	(89)
Other financial result		(47)	(81)
Financial result	**9**	**(136)**	**(175)**
Income before income taxes		**381**	**505**
Income taxes	10	(104)	(153)
Income after income taxes		**277**	**352**
of which attributable to noncontrolling interest	11	5	9
of which attributable to Covestro AG stockholders (net income)		272	343
		€	€
Basic earnings per share	**12**	**1.94**	**2.21**
Diluted earnings per share	**12**	**1.94**	**2.21**

[1] EBIT: earnings before financial result and taxes

COVESTRO GROUP CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	2014	2015
		€ million	€ million
Income after income taxes		**277**	**352**
Remeasurements to the net defined benefit liability for post-employment benefit plans	21	(753)	66
Income taxes	10	242	(8)
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans		**(511)**	**58**
Other comprehensive income that will not be reclassified subsequently to profit or loss		**(511)**	**58**
Changes in fair values of derivatives designated as cash flow hedges	26	(1)	(4)
Reclassified to profit or loss		(8)	2
Income taxes	10	2	0
Other comprehensive income from cash flow hedges		**(7)**	**(2)**
Changes in exchange differences recognized on translation of operations outside the eurozone		351	144
Reclassified to profit or loss		–	–
Other comprehensive income from exchange differences		**351**	**144**
Other comprehensive income that may be reclassified subsequently to profit or loss		**344**	**142**
Effects of changes in scope of consolidation		**1**	**6**
Total other comprehensive income[1]		**(166)**	**206**
of which attributable to noncontrolling interest		3	0
of which attributable to Covestro AG stockholders		(169)	206
Total comprehensive income		**111**	**558**
of which attributable to noncontrolling interest		8	9
of which attributable to Covestro AG stockholders		103	549

[1] Total changes recognized outside profit or loss

COVESTRO GROUP CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	Jan. 1, 2014	Dec. 31, 2014	Dec. 31, 2015
		€ million	€ million	€ million
Noncurrent assets				
Goodwill	13	239	243	261
Other intangible assets	13	164	133	132
Property, plant and equipment	14	4,442	4,893	4,934
Investments accounted for using the equity method	15	202	216	227
Other financial assets	16	1,021	39	40
Other receivables	19	76	74	60
Deferred taxes	10	160	413	640
		6,304	**6,011**	**6,294**
Current assets				
Inventories	17	1,616	1,904	1,783
Trade accounts receivable	18	1,363	1,561	1,486
Other financial assets	16	546	431	33
Other receivables	19	259	277	277
Claims for income tax refunds		8	7	16
Cash and cash equivalents		37	201	642
		3,829	**4,381**	**4,237**
Total assets		**10,133**	**10,392**	**10,531**
Equity	**20**			
Capital stock of Covestro AG		–	–	203
Capital reserves of Covestro AG		–	–	4,908
Other reserves		2,769	1,770	(1,515)
Equity attributable to Covestro AG stockholders		**2,769**	**1,770**	**3,596**
Equity attributable to noncontrolling interest		10	17	16
		2,779	**1,787**	**3,612**
Noncurrent liabilities				
Provisions for pensions and other post-employment benefits	21	622	1,395	1,462
Other provisions	22	167	187	309
Financial liabilities	23	827	779	374
Other liabilities	25	27	30	29
Deferred taxes	10	193	176	181
		1,836	**2,567**	**2,355**
Current liabilities				
Other provisions	22	238	307	429
Financial liabilities	23	3,726	3,943	2,507
Trade accounts payable	24	1,329	1,522	1,403
Income tax liabilities	10	8	18	56
Other liabilities	25	217	248	169
		5,518	**6,038**	**4,564**
Total equity and liabilities		**10,133**	**10,392**	**10,531**

COVESTRO GROUP CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	2014	2015
		€ million	€ million
Income after income taxes		277	352
Income taxes		104	153
Financial result		136	175
Income taxes paid or accrued		(84)	(230)
Depreciation, amortization and impairments		605	739
Change in pension provisions		(23)	(21)
(Gains) / losses on retirements of noncurrent assets		1	(13)
Decrease / (increase) in inventories		(164)	213
Decrease / (increase) in trade accounts receivable		(110)	172
(Decrease) / increase in trade accounts payable		117	(270)
Changes in other working capital, other noncash items		66	203
Net cash provided by (used in) operating activities (net cash flow)	**29.1**	**925**	**1,473**
Cash outflows for additions to property, plant, equipment and intangible assets		(612)	(509)
Cash inflows from sales of property, plant, equipment and other assets		9	42
Cash inflows from divestitures		4	0
Cash inflows from / (outflows for) noncurrent financial assets		12	96
Cash outflows for acquisitions less acquired cash		–	(14)
Interest and dividends received / (paid)		2	6
Cash inflows from / (outflows for) current financial assets		–	(1)
Net cash provided by (used in) investing activities	**29.2**	**(585)**	**(380)**
Capital contribution from Bayer AG		–	1,855
Capital contribution from IPO		–	1,485
Financial transactions with the Bayer Group[1]		(22)	(1,806)
Cash outflows for / (inflows from) profit (loss) transfer to Bayer AG		20	(5)
Dividend payments and withholding tax on dividends		(1)	(12)
Issuances of debt		175	4,241
Retirements of debt		(332)	(6,310)
Interest paid		(32)	(93)
Net cash provided by (used in) financing activities	**29.3**	**(192)**	**(645)**
Change in cash and cash equivalents due to business activities		**148**	**448**
Cash and cash equivalents at beginning of year		**37**	**201**
Change in cash and cash equivalents due to exchange rate movements		16	(7)
Cash and cash equivalents at end of year		**201**	**642**

[1] This line includes all financial transactions with Bayer Group companies in fiscal 2014.

COVESTRO GROUP CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

					Accumulated other comprehensive income					
	Capital stock of Covestro AG	Capital reserves of Covestro AG	Retained earnings incl. total income		Currency translation	Cashflow hedges	Revaluation surplus	Equity attributable to Covestro AG stockholders	Equity attributable to noncontrolling interest	Equity
	€ million	€ million	€ million		€ million	€ million	€ million	€ million	€ million	€ million
Dec. 31, 2013			**2,767**		**(8)**	**9**	**1**	**2,769**	**10**	**2,779**
Profit / loss transfer to Bayer AG			20					20		20
Dividend payments			(650)					(650)	(1)	(651)
Other changes			(472)					(472)		(472)
Income after income taxes			272					272	5	277
Other comprehensive income			(510)		348	(7)		(169)	3	(166)
Dec. 31, 2014			**1,427**		**340**	**2**	**1**	**1,770**	**17**	**1,787**
Dec. 31, 2014			**1,427**		**340**	**2**	**1**	**1,770**	**17**	**1,787**
Contribution to capital stock from Bayer AG	140							140		140
Cash contribution from Bayer AG		1,715						1,715		1,715
Capital increase from IPO[1]	63	1,427						1,490		1,490
Contribution in kind of shares of Covestro Deutschland AG from Bayer AG		1,766	(1,766)							
Profit / loss transfer to Bayer AG			(5)					(5)		(5)
Dividend payments			(7)					(7)	(6)	(13)
Other changes			(2,055)				(1)	(2,056)	(4)	(2,060)
Income after income taxes			343					343	9	352
Other comprehensive income			64		144	(2)		206		206
Dec. 31, 2015	**203**	**4,908**	**(1,999)**		**484**	**0**	**0**	**3,596**	**16**	**3,612**

[1] After deduction of transaction costs and deferred taxes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE COVESTRO-GROUP

PRINCIPLES AND METHODS

1. General Information

Covestro AG is a stock corporation listed on the German stock exchange and headquartered at Kaiser-Wilhelm-Allee 60, 51373 Leverkusen (Covestro AG). The consolidated financial statements as of December 31, 2015, cover Covestro AG and its subsidiaries, joint operations and associated companies. They have been prepared according to the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board, London, (IASB) as endorsed by the European Union and in effect at the reporting date, the Interpretations (IFRICs) of the IFRS Interpretations Committee (IFRS IC) and the Interpretations published by the Standing Interpretations Committee (SIC), as well as the additional requirements of German commercial law pursuant to Section 315a, Paragraph 1 of the German Commercial Code for the exempting IFRS consolidated financial statements.

The company's business activities are divided between three segments comprising components for polyurethane (Polyurethanes), the high-performance plastic polycarbonate (Polycarbonates) and raw materials for coatings, adhesives and sealants as well as specialty products (Coatings, Adhesives, Specialties). The activities of the various segments are outlined in Note 4.

The declaration pertaining to the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act has been issued and made available to stockholders. It is reproduced in this Annual Report.

First-time consolidated financial statements of Covestro AG

On September 18, 2014, Bayer AG, Leverkusen, (Bayer AG) 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 was established, to which Bayer AG contributed its interests in Covestro Deutschland AG (formerly Bayer MaterialScience AG), Leverkusen, effective September 1, 2015. Until September 1, 2015, Covestro Deutschland AG, Leverkusen, 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, Leverkusen, and were not controlled within the meaning of IFRS 10 (Consolidated Financial Statements), nor did Covestro AG exist as a group management company. 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 (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 securities prospectus, are available, along with the securities prospectus itself, on the Covestro AG website.

First-time adoption of International Financial Reporting Standards

Covestro has existed as a group 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. The consolidated financial statements presented here were prepared according to uniform IFRS accounting policies and the rules of IFRS 1 (First-time Adoption of International Financial Reporting Standards) with a corresponding opening balance sheet as of January 1, 2014. Information given in the notes pertaining to January 1, 2014, refers to explanations of the balance sheet given in the Combined Financial Statements. 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 applicable 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 to carry forward the book values (including goodwill) recognized in the IFRS consolidated financial statements of Bayer AG. Other than that, none of the optional exemptions available under IFRS 1 were used in the consolidated financial statements presented here.

Notes to the consolidated financial statements

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 using the predecessor (book value) method. This implies that the IFRS values including goodwill recognized in the financial statements of the Bayer Group are reflected unchanged. 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.

The earnings per share reported in these consolidated financial statements are calculated as the relationship of the income after income taxes 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 (net income) in issue during fiscal 2015. Earnings per share are also reported for informational purpose for the reference period. There were no dilution effects to consider.

If certain items in the income statement, statement of comprehensive income, statement of financial position, statement of cash flows and statement of changes in equity of the Covestro Group are condensed for the sake of clarity, this is explained in the notes. 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 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 financial statements are drawn up in euros. Amounts are stated in millions of euros (€ million) except where otherwise indicated.

The financial statements of the individual consolidated companies are prepared as of the closing date of the Covestro Group financial statements.

2. Effects of New Financial Reporting Standards

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

In December 2013, the IASB published "Annual Improvements to IFRS 2010–2012 Cycle" and "Annual Improvements to IFRS 2011–2013 Cycle." 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. "Annual Improvements to IFRS 2010–2012 Cycle" amend particularly IFRS 2 (Share-based Payment), IFRS 3 (Business Combinations), IFRS 8 (Operating Segments), IFRS 13 (Fair Value Measurement), IAS 16 (Property, Plant and Equipment), IAS 24 (Related Party Disclosures) and IAS 38 (Intangible Assets). "Annual Improvements to IFRS 2011–2013 Cycle" amend IFRS 1 (First-time Adoption of IFRS), IFRS 3 (Business Combinations), IFRS 13 (Fair Value Measurement) and IAS 40 (Investment Property). They are to be applied for annual periods beginning on or after July 1, 2014. In derogation of this, the amendments are to be applied in the European Union at the latest for annual periods beginning on February 1, 2015, or January 1, 2015. They were applied for the first time as of January 1, 2015. Their first-time application had no impact, or no material impact, on the presentation of the Covestro Group's financial position or results of operations.

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 (SIC and IFRIC) whose application was not yet mandatory for the 2015 fiscal year and 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 three 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 achieving a closer link between risk management activities and the reporting of hedging instruments in the financial statements. This involves additional disclosures in the notes. In July 2014, the IASB published 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. Earlier application is permitted. The amendments have 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) as an interim standard. This 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 by the European Commission as to when it will be endorsed by the European Union will not taken before publication of the final standard. 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 to IFRS 11 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. The amendments are to be applied for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The amendments were endorsed by the European Union in November 2015. The impact the changes will have on the presentation of the Covestro Group's financial position and results of operations will depend on future acquisitions of interests in joint operations and therefore cannot be reliably estimated at the current time.

Also 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 Amortisation." 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 were endorsed by the European Union in December 2015. They will have no impact on the presentation of the Covestro Group's financial position or results of operations.

Moreover, also 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. 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 and the new date of mandatory application have not yet been endorsed by the European Union. The Covestro Group is currently evaluating the impact the new standard will have on the presentation of its financial position and results of operations. As the analysis is still ongoing and certain issues require closer examination, it is not possible at the current time to make any reliable or specific statements concerning the materiality of the impact of IFRS 15 on the Covestro Group's 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 were endorsed by the European Union in November 2015. They will have no impact on the presentation of the Covestro Group's financial position or results of operations.

In September 2014, the IASB published "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. 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). They are to be applied for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The amendments were endorsed by the European Union in December 2015. The changes are currently 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 amendments 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 an impact on the presentation of the Covestro Group's financial position or results of operations.

Also 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 were endorsed by the European Union in December 2015. The amendments to IAS 1 are to be applied for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The amendments are not expected to have a material impact on the presentation of the consolidated financial statements.

In January 2016, the IASB published IFRS 16 (Leases), a new standard for recognizing leases which replaces IAS 17 (Leases), IFRIC 4 (Determining whether an Arrangement contains a Lease), SIC-15 (Operating Leases – Incentives) and SIC-27 (Evaluating the Substance of Transactions Involving the Legal Form of a Lease). While IFRS 16 basically retains the previous accounting rules for lessors, only one accounting model is now envisaged for use by lessees. This requires a lessee to capitalize a right-of-use asset and to recognize a corresponding lease liability, unless a lease has a term of less than 12 months or the underlying asset is of low value. The right-of-use asset reflects a lessee's right to use the asset being leased. The lease liability recognizes the lessee's obligation to make contractual lease payments. IFRS 16 is to be applied for annual periods beginning on or after January 1, 2019. Earlier application is permitted, insofar as IFRS 15 is also applied. IFRS 16 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.

Also in January 2016, the IASB issued amendments to IAS 12 (Income Taxes) under the title "Recognition of Deferred Tax Assets for Unrealised Losses." These amendments clarify in particular that unrealized losses associated with debt instruments evaluated at fair value result in deductible temporary differences provided the tax base does not exceed the carrying amount. The amendments also contain clarifying provisions pertaining to taxable profits associated with deductible temporary differences. The amendments are to be applied for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments have 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.

Moreover, also in January 2016, the IASB issued amendments to IAS 7 (Statement of Cash Flows) under the title "Disclosure Initiative." The amendments extend the existing requirements under IAS 7 to disclose information about changes to liabilities from financing activities. These include both liabilities and financial assets for which cash flows have been reported in cash flows from financing activities in the past or will be reported there in the future. Insofar as they are relevant, the following changes must be recorded: changes to the cash flow from financing activities; changes from obtaining or losing control over subsidiaries or other business operations; the impact of currency effects; changes in fair value; and other changes. The amendments to IAS 7 are to be applied for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments have 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 statements.

3. Accounting Policies and Valuation Principles

3.1 Basis of Preparation of the Consolidated Financial Statements

Compliance with IFRS

The consolidated financial statements presented here were prepared in accordance with IFRS requirements and also satisfy the requirements for first-time consolidated financial statements in accordance with the rules of IFRS 1 (First-time Adoption of International Financial Reporting Standards). As explained under "Notes to the consolidated 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 December 31, 2015, the direct and indirect subsidiaries of Covestro AG were fully consolidated in accordance with the principles of IFRS 10 (Consolidated Financial Statements). In addition, joint operations as defined by IFRS 11 (Joint Arrangements) were consolidated proportionately or accounted for in the consolidated financial statements whereas joint ventures are accounted for in the same way as associated companies using the equity method in accordance with IAS 28 (Investments in Associates and Joint Ventures). For additional information, please see Note 5.1.

In the reference period, the scope of combination included companies directly or indirectly controlled by Covestro Deutschland AG, Leverkusen, along with the net assets (assets and liabilities) of corporate units that comprised operations for the Combined Covestro Group and were already centrally managed by Covestro management during the reporting period but were still legally held 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 combined profit or loss; otherwise they were transferred at market values.

Significant payments made for the legal transfer of entities (share deals) or business activities (asset deals) which have a corresponding effect on the indebtedness of the Covestro Group are explained under "Transactions with Bayer AG and its subsidiaries" in Note 30.1. The agreed considerations are reflected at the time of transfer as withdrawals from or contributions to equity by Bayer AG as stockholder.

Details of the entities included in the scope of combination are contained in the 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 service companies during the reporting period, and the related assets. In the reference period, only the allocated costs were recognized in the income statements. This applies analogously to certain administrative services in areas such as 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 Covestro Group's own central functions.

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 constituted 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.

3.2 General Accounting Policies and Valuation Principles

The consolidated 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 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 employee 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 those activities that significantly influence the 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 Covestro 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 foreign companies, 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 and recorded as exchange gains or losses under other financial result.

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 in the consolidated statements of comprehensive income or the consolidated statements of changes in equity as "Changes in exchange differences on translation of operations outside the eurozone" or "Exchange differences." 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

1 €/		2014	2015
BRL	Brazil	3.22	4.31
CNY	China	7.54	7.06
HKD	Hong Kong	9.42	8.44
INR	India	76.72	72.02
JPY	Japan	145.23	131.07
MXN	Mexico	17.87	18.91
USD	United States	1.21	1.09

Average Rates for Major Currencies

1 €/		2014	2015
BRL	Brazil	3.12	3.64
CNY	China	8.17	6.97
HKD	Hong Kong	10.29	8.60
INR	India	80.99	71.14
JPY	Japan	140.32	134.28
MXN	Mexico	17.65	17.56
USD	United States	1.33	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 Covestro Group 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. As a rule, the transfer of the significant rewards and risks of ownership of the goods takes place at the same time as the transfer of possession to the customer or at a time during the transport operation when Covestro is no longer responsible for the insurance. The transfer of legal ownership is aligned to the agreed dispatch and transport conditions.

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 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 or reimbursable 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 as well as tax losses carried forward and tax credits. Deferred taxes are also recognized for consolidation measures.

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 usually recognized in profit or loss.

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, tax credits 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 carrying amount of the investment in the subsidiary. The expected effects of uncertain tax positions are reflected at probable value in the consolidated financial statements.

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 of the assumed liabilities and contingent liabilities.

Goodwill is not amortized. Its carrying amount is subjected to impairment testing annually or more often if there is any indication of possible impairment. Detailed explanations of impairment testing can be found under "Procedure used in global impairment testing and its impact." Once an impairment loss has been recognized on goodwill, it cannot be 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 by the straight-line method. 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.

The following depreciation periods are applied throughout the Covestro Group.

Useful Life of Property, Plant and Equipment

Buildings	20 to 50 years
Outdoor infrastructure	10 to 20 years
Storage tanks and pipelines	10 to 20 years
Plant installations	6 to 20 years
Machinery and equipment	6 to 12 years
Furniture and fixtures	4 to 10 years
Vehicles	5 to 8 years
Computer equipment	3 to 5 years
Laboratory and research facilities	3 to 5 years

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 (amortized) cost of acquisition or generation.

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, or rented to contract partners. 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. If these assets are to be carried at amortized cost for the purposes of subsequent measurement, the transaction costs are accounted for as deferred expense using the effective interest method. 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, as described 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. 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 securities 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 benefits and risks.

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 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.

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 units, site closures, relocations of business activities or fundamental reorganizations of business units. 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, discounts and similar sales allowances.

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 currently 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 company's legal position.

Internal and external legal counsel 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 28.

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. The compensation of the Board of Management of Covestro AG and of managerial employees includes stock-based compensation components that are earned with lock-up periods and are reflected in profit or loss as personnel expenses in line with the consideration paid in the performance period. They are evaluated using a subscription price model at the time of granting and at each reporting date in accordance with IFRS 2 (Share-based payment). There are no stock-based compensation systems settled with equity investment instruments.

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 recognized as exchange gains or losses in the financial result. 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 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 other comprehensive income until the forecasted transaction is realized. If the forecasted transaction is no longer probable, the amount previously recognized in 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 recorded 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 lease.

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

Global impairment testing is 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 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 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 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. However, reversals of goodwill are not permissible.

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 flows as market prices for the individual units are not normally available. The forecasts of future net cash flows generally have a planning horizon of three to five years and are based on the Covestro Group's current planning. Forecasting involves making assumptions, based on external market studies, especially regarding future selling prices, sales volumes, costs, market growth rates, economic cycles and exchange rates. 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 stockholders, 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 for the terminal value applied for impairment testing in 2014 and 2015 and the capital cost factors used to discount the expected cash flows are shown in the following table.

Impairment Testing Parameters

	Growth rate		After-tax cost of capital	
	2014	2015	2014	2015
	%	%	%	%
Diphenylmethane Diisocyanate (MDI)	1.5	2.0	6.0	6.1
Toluyene Diisocyanate (TDI)	–	2.0	–	6.1
Polyether (PET)	0.0	0.0	6.0	6.1
Polycarbonates (PCS)	1.5	2.0	6.0	6.1
Base & Modified Isocyanates (BMI)	2.0	2.0	6.0	6.1
Resins (RES)	2.0	2.0	6.0	6.1
Specialty Films (SF)	1.0	2.0	6.0	6.1

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. Taking into account impairment loss reversals of €0 million (2014: €2 million), net impairment losses on intangible assets, property, plant and equipment amounted to €67 million (2014: €11 million). Details are provided in Notes 13 and 14.

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.

The sensitivity analysis for cash-generating units to which goodwill is allocated was based on a 10% reduction in the future free operating cash flow, a 10% increase in the weighted average cost of capital or a one-percentage-point reduction in the long-term growth rate. It showed that no impairment loss would need to be recognized in any cash-generating unit. This applies analogously for other deviations from the assumptions used in impairment testing that were deemed possible.

4. 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 Note 3. As of December 31, 2015, the Covestro Group comprises three reportable segments with the following activities:

Polyurethanes

The Polyurethanes segment develops, produces and markets high-quality precursors for polyurethanes. These precursors are isocyanates (TDI, MDI) and polyether polyols. 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 automotive 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 device 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 include automotive and transportation, infrastructure and construction, wood processing and furniture. The specialties comprise elastomers, high-quality films and raw materials for 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 polyether and 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 measured at cost of production of the goods transferred.

- Core volume growth refers to the core products in the Polyurethanes, Polycarbonates and Coatings, Adhesives, Specialties segments. It is specified as the relative variance of externally sold volumes 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.

- 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 Covestro and the reportable segments.

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

- Working capital comprises inventories plus trade accounts receivable and less trade accounts payable.

The following table shows the segment reporting data.

Key Data by Segment

				Other / Consolidation		
	Polyurethanes	Polycarbonates	Coatings, Adhesives, Specialties	All other segments	Corporate Center and Reconciliation	Group
	€ million	€ million	€ million	€ million	€ million	€ million
2015						
Net sales (external)	6,088	3,172	2,093	729	–	12,082
Intersegment sales	79	21	48	–	(148)	–
Net sales (total)	6,167	3,193	2,141	729	(148)	12,082
Core volume growth	+1.8%	+5.2%	+2.7%			+2.7%
Adjusted EBITDA	624	560	491	33	(67)	1,641
Adjusted EBIT	201	376	406	26	(67)	942
Free operating cash flow	654	138	319	49	(196)	964
Working capital	918	494	373	86	(5)	1,866
Cash outflows for property, plant, equipment and intangible assets	209	190	107	3	–	509
Depreciation, amortization and impairments	(461)	(184)	(87)	(7)	–	(739)
of which impairment losses	(58)	(4)	(5)	–	–	(67)
Impairment loss reversals	–	–	–	–	–	–
Research and development expenses	(99)	(68)	(78)	(8)	(4)	(257)
2014						
Net sales (external)	6,282	2,822	1,928	729	–	11,761
Intersegment sales	85	27	46	–	(158)	–
Net sales (total)	6,367	2,849	1,974	729	(158)	11,761
Core volume growth	+3.9%	+9.0%	+1.3%			+4.8%
Adjusted EBITDA	592	160	437	26	(54)	1,161
Adjusted EBIT	242	(3)	359	17	(54)	561
Free operating cash flow	125	(24)	194	52	(34)	313
Working capital	1,127	369	362	85	–	1,943
Cash outflows for property, plant, equipment and intangible assets	280	210	113	9	–	612
Depreciation, amortization and impairments	(351)	(164)	(81)	(9)	–	(605)
of which impairment losses	(2)	(3)	(5)	(3)	–	(13)
Impairment loss reversals	–	–	2	–	–	2
Research and development expenses	(79)	(61)	(68)	(1)	(3)	(212)

Information on geographical areas

The following tables show 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 contains the elimination of intra-Group items and transactions (interregional sales). The following table shows the regional reporting data.

Regional Reporting

	EMLA	NAFTA	APAC	Consolidation	Total
	€ million	€ million	€ million	€ million	€ million
2015					
Net sales (external) by market	5,357	3,356	3,369	–	12,082
Net sales (external) by point of origin	5,340	3,411	3,331	–	12,082
Interregional sales	734	543	136	(1,413)	–
2014					
Net sales (external) by market	5,493	3,022	3,246	–	11,761
Net sales (external) by point of origin	5,488	3,080	3,193	–	11,761
Interregional sales	766	616	142	(1,524)	–

The following table provides a regional breakdown of external sales by market and of intangible assets as well as property, plant and equipment.

Net Sales (External) by Market and Intangible Assets and Property, Plant and Equipment by Country

	Net sales (external) – by market	Intangible assets and property, plant and equipment
	€ million	€ million
2015		
Germany	1,645	1,125
United States	2,748	1,124
China	1,875	2,358
Other	5,814	720
Total	**12,082**	**5,327**
2014		
Germany	1,729	1,128
United States	2,470	1,044
China	1,790	2,302
Other	5,772	795
Total	**11,761**	**5,269**

Information on major customers

Revenues from transactions with a single customer in no case exceeded 10% of Covestro Group sales in 2015 or 2014.

Reconciliation

The following tables show the reconciliation of the working capital of segments to the working capital of the Covestro Group and of adjusted EBITDA of segments to income before income taxes of the Covestro Group.

Reconciliation of Segments' Working Capital to Group Working Capital

	2014	2015
	€ million	€ million
Working capital of segments	**1,943**	**1,871**
Corporate Center working capital	–	(5)
Group working capital	**1,943**	**1,866**

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

	2014	2015
	€ million	€ million
Adjusted EBITDA of segments	1,215	1,708
Adjusted EBITDA of Corporate Center	(54)	(67)
Adjusted EBITDA	**1,161**	**1,641**
Adjusted depreciation, amortization and impairment losses of segments	(600)	(699)
Adjusted depreciation, amortization and impairment losses of Corporate Center	–	–
Adjusted depreciation, amortization and impairment losses	**(600)**	**(699)**
Adjusted EBIT of segments	615	1,009
Adjusted EBIT of Corporate Center	(54)	(67)
Adjusted EBIT	**561**	**942**
Special items of segments	(43)	(186)
Special items of Corporate Center	(1)	(76)
Special items	**(44)**	**(262)**
EBIT of segments	572	823
EBIT of Corporate Center	(55)	(143)
EBIT	**517**	**680**
Financial result	(136)	(175)
Income before income taxes	**381**	**505**

The significant special items for the reporting period are explained below.

- Within the context of an initiative to optimize its MDI business, Covestro decided in December 2015 to cease production of MDI at the site in Tarragona, Spain, by the end of 2017 because production costs there are not competitive. This resulted in restructuring expenses of €96 million, which were recognized as special items by the Polyurethanes segment. The expenses include an impairment loss of €15 million on the production facilities.

- In March 2015, Covestro announced the restructuring of its business activities in Brazil and the associated closure of its production site at Belford Roxo, Brazil. Special items therefore include the restructuring expenses of €93 million arising from this measure, most of which are assigned to the Polyurethanes segment. The expenses include an impairment loss of €25 million on the production facilities.

- In connection with the economic and legal independence of Covestro and the company's stock market listing on October 6, 2015, restructuring expenses of €76 million were incurred in the Corporate Center. The amount includes reimbursement from Bayer AG for termination of the agreement on the joint use of Bayer trademarks.

5. Changes in the Scope of Consolidation

5.1 Scope of Consolidation and Investments

As of December 31, 2015, the scope of consolidation comprised Covestro AG and 48 consolidated companies. There have been no changes to the scope of consolidation since September 1, 2015. As described under "Notes on the scope of consolidation" in Note 3.1, the scope of combination prior to legal independence also included the net assets (assets and liabilities) of corporate units that conducted operations for the Combined Covestro Group and were already centrally managed by Covestro management but were not yet legally held by Covestro but by Bayer. In the course of the legal independence process, new entities were established including a globally operating distribution company, MS Global AG, Köniz, Switzerland, which employs local representatives and markets Covestro's products in 27 countries.

The Covestro Group holds 100% of the voting rights in the fully consolidated subsidiary Bayer Pearl Polyurethane Systems LLC, Dubai, United Arab Emirates, pursuant to a contractual agreement with the noncontrolling stockholders.

Pure Salt Baytown LLC, Houston, United States, is included as a structured entity. The Covestro Group obtains all the evaporated salt needed for its production operations at Baytown, United States, from Pure Salt Baytown LLC, Houston, United States. This comprises most of that company's production capacity. The variable and fixed costs of Pure Salt Baytown LLC, Houston, United States, are reimbursed by Covestro in accordance with a contractually agreed mechanism. Moreover, the Covestro Group is obliged to finance one-time operating expenses and guarantees the liabilities of Pure Salt Baytown LLC, Houston, United States, to banks. As of December 31, 2015, the guaranteed liabilities amounted to €17 million (2014: €20 million). Pure Salt Baytown LLC, Houston, United States, is dependent to a high degree on Covestro (e.g. through licensing requirements), which means that Covestro can indirectly enforce its interests in respect of this company.

The scope of consolidation include the joint operation LyondellBasell Covestro Manufacturing Maasvlakte V.O.F, Rotterdam, Netherlands, as of December 31, 2015, which is unchanged from 2014. Pursuant to IFRS 11 (Joint Arrangements), Covestro's shares of this companies' assets, liabilities, revenues and expenses are included in the consolidated financial statements in accordance with Covestro's rights and obligations. The main purpose of LyondellBasell Covestro Manufacturing Maasvlakte V.O.F, Rotterdam, Netherlands, is the joint production of propylene oxide (PO) for Covestro and its partner Lyondell.

Additionally, two (2014: two) associated companies and one joint venture (2014: two joint ventures) are accounted for in the consolidated financial statements using the equity method. Details of these companies are given in Note 15.

Six (2014: seven) subsidiaries and one (2014: one) associated company that in aggregate are immaterial to the Covestro Group's financial position and results of operations are not consolidated but recognized at cost. The immaterial subsidiaries each accounted for no more than 0.1% of Group sales, equity or total assets.

Details of subsidiaries and affiliated companies pursuant to Section 313 of the German Commercial Code are shown in the following tables. The first table shows fully consolidated companies.

Fully Consolidated Companies

Company name	Place of business	Covestro's interest
		%
EMLA		
Bayer Pearl Polyurethane Systems FZCO	Dubai, United Arab Emirates	51
Bayer Pearl Polyurethane Systems L.L.C	Dubai, United Arab Emirates	49
Covestro (France) S.N.C.	Fos-sur-Mer, France	100
Covestro (Tielt) NV	Tielt, Belgium	100
Covestro A / S	Otterup, Denmark	100
Covestro B.V.	Foxhol, Netherlands	100
Covestro Brunsbüttel Energie GmbH	Brunsbüttel, Germany	100
Covestro Darmstadt GmbH	Darmstadt, Germany	100
Covestro Deutschland AG	Leverkusen, Germany	100
Covestro Elastomers S.A.S.	Romans sur Isère, France	100
Covestro First Real Estate GmbH	Monheim, Germany	100
Covestro GmbH	Leverkusen, Germany	100
Covestro Indústria e Comércio de Polimeros Ltda.	São Paulo, Brazil	100
Covestro International SA	Fribourg, Switzerland	100
Covestro NV	Antwerp, Belgium	100
Covestro Oldenburg GmbH & Co. KG	Oldenburg, Germany	100
Covestro Polyurethanes B.V.	Nieuwegein, Netherlands	100
Covestro S.p.A.	Milan, Italy	99
Covestro S.r.l.	Milan, Italy	100
Covestro Second Real Estate GmbH	Monheim, Germany	100
Covestro UK Limited	Cheadle, United Kingdom	100
Covestro, S.L.	Barcelona, Spain	100
Epurex Films GmbH & Co. KG	Bomlitz, Germany	100
MS Global AG	Köniz, Switzerland	100
MS Holding B.V.	Nieuwegein, Netherlands	100
OOO Covestro	Moscow, Russia	100
Thermoplast Composite GmbH	Markt Bibart, Germany	100
NAFTA		
Covestro LLC	Pittsburgh, United States	100
Covestro PO LLC	New Martinsville, United States	100
Covestro S.A. de C.V.	Mexico City, Mexico	100
Pure Salt Baytown LLC	Houston, United States	0[1]
APAC		
Covestro (Hong Kong) Limited	Hong Kong, China	100
Covestro (India) Private Limited	Thane, India	100
Covestro (Shanghai) Management Co., Ltd.	Shanghai, China	100
Covestro (Taiwan) Ltd.	Kaohsiung City, Taiwan	95.5
Covestro (Thailand) Co., Ltd.	Bangkok, Thailand	100
Covestro (Vietnam) Company Limited	Ho Chi Minh City, Vietnam	100
Covestro Far East (Hong Kong) Limited	Hong Kong, China	100

[1] Fully consolidated structured entity according to IFRS 10.B8 in conjunction with B19 (b) and (c) and other substantial rights of Covestro

Company name	Place of business	Covestro's interest
		%
APAC		
Covestro Japan Ltd.	Tokyo, Japan	100
Covestro Korea Corporation	Seoul, South Korea	100
Covestro Polymers (China) Co., Ltd.	Shanghai, China	100
Covestro Polymers (Qingdao) Co., Ltd.	Qingdao, China	100
Covestro Polymers (Shenzhen) Co., Ltd.	Shenzhen, China	100
Covestro Pty Ltd	Cheltenham, Australia	100
Guangzhou Covestro Polymers Co., Ltd.	Guangzhou, China	100
PT Covestro Polymers Indonesia	Jakarta, Indonesia	99.9
Sumika Covestro Urethane Company, Ltd.	Amagasaki, Japan	60

The following joint operation was included in the consolidated financial statements in line with Covestro's shares of its assets, liabilities, revenues and expenses.

Joint Operation

Company name	Place of business	Covestro's interest
		%
LyondellBasell Covestro Manufacturing Maasvlakte V.O.F	Rotterdam, Netherlands	50

The following associated companies and joint ventures are accounted for in the consolidated financial statements using the equity method.

Associates and Joint Ventures Accounted for Using the Equity Method

Company name	Place of business	Covestro's interest
		%
Associates		
Paltough Industries (1998) Ltd.	Kibbutz Ramat Yochanan, Israel	25
PO JV, LP	Wilmington, United States	39.4
Joint ventures		
DIC Covestro Polymer Ltd.	Tokyo, Japan	50

The following subsidiaries were reflected in the consolidated financial statements at amortized cost due to their immateriality.

Immaterial Subsidiaries

Company name	Place of business	Covestro's interest
		%
CleanTech NRW GmbH	Leverkusen, Germany	100
Covestro Polimer Anonim Şirketi	Istanbul, Turkey	100
Covestro Polymers (Tianjin) Co., Ltd.	Tianjin, China	100
Covestro Verwaltungs GmbH Oldenburg	Oldenburg, Germany	100
Epurex Films Geschäftsführungs-GmbH	Bomlitz, Germany	100
Shanghai Baulé Polyurethane Technology Co., Ltd.	Shanghai, China	100

The following associated company was accounted for in the consolidated financial statements at cost due to its immateriality.

Immaterial Associate

Company name	Place of business	Covestro's interest
		%
Technology JV, L.P.	Wilmington, United States	50

The following domestic subsidiaries availed themselves in 2015 of certain exemptions granted under Section 264, Paragraph 3 and Section 264b of the German Commercial Code regarding the preparation, auditing and publication of financial statements.

German Exempt Subsidiaries

Company name	Place of business	Covestro's interest
		%
Covestro Brunsbüttel Energie GmbH	Brunsbüttel	100
Covestro Darmstadt GmbH	Darmstadt	100
Covestro GmbH	Leverkusen	100
Covestro Oldenburg GmbH & Co. KG	Oldenburg	100
Epurex Films GmbH & Co. KG	Bomlitz	100

5.2 Business Combinations and Other Acquisitions

Acquisitions are accounted for by the acquisition method, the results of the acquired businesses therefore being included in the consolidated financial statements as of the respective acquisition dates. The purchase prices of acquired companies domiciled outside the eurozone are translated at the exchange rates in effect at the respective dates of acquisition.

In fiscal 2015, one acquisition was made with a total purchase price of €18 million (2014: €0 million). This includes a variable component of €4 million. The portion of the purchase price that was immediately due was settled in cash. Goodwill arising on this acquisition totaled €7 million (2014: €0 million).

The acquisition concerns the purchase of Thermoplast Composite GmbH, Markt Bibart, a technology leader specializing in the production of thermoplastic fiber composites. It was successfully completed on March 2, 2015. 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. The purchase price pertained mainly to patents, technologies and goodwill. The variable portion of the purchase price is due in total 18 months from the date of acquisition, provided key personnel at Thermoplast Composition GmbH, Markt Bibart, have fulfilled certain documentation requirements pertaining to the agreed transfer of knowledge.

The effect of this transaction on the Covestro Group's assets and liabilities in 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 below.

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

	2014	2015
	€ million	€ 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 December 31, 2015, Thermoplast Composite GmbH, Markt Bibart, 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 full year 2015.

5.3 Divestitures

No significant divestitures were made in fiscal 2015.

NOTES TO THE INCOME STATEMENT

6. Other Operating Income

Other operating income was comprised as shown in the following table.

Other Operating Income

	2014	2015
	€ million	€ million
Gains from derivatives	26	19
Reversal of impairment losses on receivables	2	3
Gains on retirements of noncurrent assets	4	1
Reversals of unutilized provisions	3	1
Miscellaneous operating income	59	27
Other operating income without special items	**94**	**51**
Special items	3	77
Total	**97**	**128**

Gains from derivatives in 2014 and 2015 primarily resulted from embedded derivatives and currency derivatives.

The miscellaneous operating income for the reporting period consisted of a large number of individually immaterial items. In 2014, miscellaneous operating income included insurance refunds of €41 million.

The special items in 2015 mainly comprised a reimbursement from Bayer AG for termination of the agreement on the joint use of Bayer trademarks.

7. Other Operating Expenses

Other operating expenses were comprised as shown in the following table.

Other Operating Expenses

	2014	2015
	€ million	€ million
Losses from derivatives	(14)	(29)
Impairment losses on receivables	(9)	(17)
Losses on retirements of noncurrent assets	(5)	(7)
Miscellaneous operating expenses	(41)	(37)
Other operating income without special items	**(69)**	**(90)**
Special Items	(11)	(8)
Total	**(80)**	**(98)**

Losses on derivatives in 2014 and 2015 primarily resulted from embedded derivatives and currency derivatives.

In 2015, the losses on retirements of noncurrent assets were mainly attributable to the Polyurethanes segment (€10 million) and the Polycarbonates segment (€5 million).

The miscellaneous operating expenses comprised insurance expenses of €6 million (2014: €5 million), expenses of €3 million (2014: €3 million) for donations and other tax expenses of €2 million (2014: €6 million). In 2014, additionally, litigation expenses of €2 million were recorded. In 2014 and 2015, the remaining amount consisted of a large number of individually immaterial items.

8. Personnel Expenses and Employee Numbers

Personnel Expenses

	2014	2015
	€ million	€ million
Salaries	(1,073)	(1,319)
Social expenses and expenses for pensions and other benefits	(249)	(310)
of which for defined contribution pension plans	(72)	(84)
of which for defined benefit and other pension plans	(46)	(81)
Total	**(1,322)**	**(1,629)**

The increase of €307 million in personnel expenses was largely due to the increase in headcount described below and to currency effects.

The personnel expenses shown here do not contain the interest portion of the allocation to long-term personnel-related provisions, mainly for pensions and other post-employment benefits. These are included in the financial result under other financial expenses (Note 9.3).

Average Number of Employees

	2014	2015
Production	9,328	9,896
Marketing and distribution	3,512	3,550
Research and development	987	968
General administration	570	956
Total	**14,397**	**15,370**
Apprentices	98	251

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. The figures do not include apprentices. The increase primarily related to the transfer of employees made in the course of the legal independence of the Covestro Group. These are mainly employees from Bayer service companies who transferred to Covestro on September 1, 2015. In the past, the services provided by these employees had been charged out to Covestro.

9. Financial Result

The financial result for 2015 was minus €175 million (2014: minus €136 million), comprising a loss from investments in affiliated companies of €9 million (2014: €15 million), net interest expense of €85 million (2014: €74 million) and other financial income and expenses of minus €81 million (2014: minus €47 million). Details of the components of the financial result are provided below.

9.1 Income (Loss) from Investments in Affiliated Companies

The main components of the income from investments in affiliated companies were the €23 million (2014: €18 million) equity-method loss from the associated company PO JV, LP, Wilmington, United States, and the total €13 million (2014: €3 million) of equity-method gains from joint ventures. It also includes €1 million (2014: €0 million) in dividend income from other investments in affiliated companies.Further details of the companies accounted for using the equity method are given in Note 15.

9.2 Net Interest Expense

In 2015, interest and similar expenses amounted to minus €89 million (2014: minus €104 million). Interest expenses primarily resulted from loans (Inter-Group Loan Agreements) from Bayer Antwerpen NV, Diegem, Belgium, and from liabilities to banks by the subsidiaries Covestro Polymers (China) Co., Ltd., Shanghai, China, and Covestro (India) Private Limited, Thane, India.

Interest and similar expenses included €1 million (2014: €0 million) in interest expense relating to nonfinancial liabilities. In 2015, interest and similar income amounted to €4 million (2014: €30 million). Interest and similar income included no interest income from nonfinancial assets.

9.3 Other Financial Result

The other financial result was comprised as shown in the following table.

Other Financial Result

	2014	2015
	€ million	€ million
Expenses		
Interest portion of interest-bearing provisions	(37)	(38)
Exchange loss	(10)	(40)
Miscellaneous financial expenses	–	(3)
Total	**(47)**	**(81)**

The interest portion of noncurrent provisions comprised €35 million (2014: €27 million) in interest expense for pension and other post-employment benefit provisions plus €3 million (2014: €10 million) in effects of interest expense and interest-rate fluctuations for other provisions and corresponding overfunding.

10. Taxes

The breakdown of tax expenses by origin is shown in the table below.

Income Taxes

	2014	2015
	€ million	€ million
Income taxes paid or accrued	(151)	(379)
Deferred taxes	47	226
from temporary differences	42	173
from tax loss carryforwards and tax credits	5	53
Total	**(104)**	**(153)**

Until the legal independence of the Covestro Group and on the basis of the separate tax return approach described under "Treatment of current and deferred income taxes" in Note 3.1, accrued current taxes and deferred tax assets and liabilities were treated as contributions and withdrawals by the stockholders, insofar as they were actually to be borne by Bayer Group companies. In 2015, income taxes paid or accrued therefore comprised a current tax expense of €149 million (2014: €67 million) and deferred taxes included deferred tax income of €50 million (2014: €16 million). This tax expense recorded will not result in tax payments in either the current year or in the future.

The deferred tax assets and liabilities were allocated to the items in the statements of financial position as shown in the table below.

Deferred Tax Assets and Liabilities

	Dec. 31, 2014		Dec. 31, 2015	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	€ million	€ million	€ million	€ million
Intangible assets	59	(19)	79	(27)
Property, plant and equipment	41	(304)	194	(317)
Financial assets	1	(71)	6	(68)
Inventories	1	(1)	0	0
Receivables	20	(6)	2	(48)
Provisions for pensions and other post-employment benefits	411	(137)	412	(48)
Other provisions	55	–	81	(18)
Liabilities	145	–	156	0
Tax loss carryforwards	41	–	55	–
Tax credits	1	–	–	–
Total	**775**	**(538)**	**985**	**(526)**
of which noncurrent	610	(531)	827	(478)
Set-off	(362)	362	(345)	345
Recognition	**413**	**(176)**	**640**	**(181)**

Deferred taxes on remeasurements, recognized outside profit or loss, of the net liability for defined benefit pension and other post-employment benefits diminished equity by €8 million (2014: increased equity by €242 million). Deferred taxes on changes, recognized outside profit or loss, in fair values of available-for-sale financial assets and derivatives designated as cash flow hedges had no effect on equity (2014: increased equity by €2 million). These effects on equity are reported in the statement of comprehensive income.

Of the total tax loss carryforwards of €315 million in 2015 (2014: €193 million), an amount of €210 million (2014: €150 million) is expected to be usable within a reasonable period. The increase in loss carryforwards was mainly due to losses that newly arose in 2015 and tax reassessments for prior years. Deferred tax assets of €55 million (2014: €41 million) were recognized for the amount of loss carryforwards expected to be usable.

The use of €105 million (2014: €43 million) of tax loss carryforwards was subject to legal or economic restrictions. Consequently, no deferred tax assets were recognized for this amount. If these tax loss carryforwards had been fully usable, further deferred tax assets of €29 million (2014: €15 million) would have been recognized.

No material tax credits were recorded in either the reporting year or the prior year.

Unusable tax loss carryforwards will expire as shown in the table below:

Expiration of Unusable Tax Loss Carryforwards

	Tax loss carryforwards	
	Dec. 31, 2014	Dec. 31, 2015
	€ million	€ million
Within one year	–	0
Within two years	–	66
Within three years	–	0
Within four years	6	8
Within five years	7	9
Thereafter	30	22
Total	**43**	**105**

In 2015, subsidiaries that reported losses for 2015 or 2014 recognized net deferred tax assets totaling €163 million (2014: €147 million) from temporary differences and tax loss carryforwards. These assets were considered to be unimpaired because the companies concerned were expected to generate taxable income in the future.

Deferred tax liabilities of €1 million were recognized in 2015 (2014: €0 million) for planned dividend payments by subsidiaries. Deferred tax liabilities were not recognized for temporary differences on €493 million (2014: €224 million) of retained earnings of subsidiaries because the Covestro Group is able to control the timing of the difference reversal and the temporary differences will not reverse in the foreseeable future.

The reported tax expense of €153 million for 2015 (2014: €104 million) did not differ (2014: differed by €7 million) from the expected tax expense of €153 million (2014: €111 million) that would have resulted from applying an expected weighted average tax rate to the pre-tax income of the Covestro Group. This average rate, derived from the expected tax rates of the individual Group companies, was 30.3% in 2015 (2014: 29.1%). The effective tax rate was 30.3% (2014: 27.3%).

The reconciliation of expected to actual income tax expense and of the expected to the effective tax rate for the Covestro Group is shown in the following table.

Reconciliation of Expected to Actual Income Tax Expense

	2014		2015	
	€ million	%	€ million	%
Expected income tax expense and expected tax rate	**111**	**+29.1**	**153**	**30.3**
Reduction in taxes due to tax-free income	(6)	–1.5	(8)	–1.6
First-time recognition of previously unrecognized deferred tax assets on tax loss carryforwards	(12)	–3.2	(2)	–0.4
Use of tax loss carryforwards on which deferred tax assets were not previously recognized	(1)	–0.3	(10)	–2.0
Increase in taxes due to non-tax-deductible expenses	6	+1.6	10	+2.0
New tax loss carryforwards unlikely to be usable	1	+0.3	–	–
Existing tax loss carryforwards on which deferred tax assets were previously recognized but which are unlikely to be usable	6	+1.6	16	+3.2
Tax income (-) and expenses (+) relating to other periods	(1)	–0.3	1	+0.2
Tax effects of changes in tax rates	(1)	–0.3	4	+0.8
Other tax effects	1	+0.3	(11)	–2.2
Actual income tax expense and effective tax rate	**104**	**+27.3**	**153**	**+30.3**

In 2015, a postive effect of €11 million resulting mainly from the domestic production activities deduction in the United States was reported under other tax effects in the reconciliation. This tax benefit diminished tax expense by around €10 million.

11. Income / Losses Attributable to Noncontrolling Interest

Income attributable to noncontrolling interest amounted to €9 million (2014: €5 million). There were no losses attributable to noncontrolling interest in either 2014 or 2015.

12. Earnings per Share

Earnings per share are determined according to IAS 33 (Earnings per Share) by dividing net income by the weighted average number of ordinary shares in issue during the year.

For the period prior to the establishment of Covestro AG and for 2014, 140,000,000 shares were used as the basis for calculating earnings per share.

Earnings per Share

	2014	2015
	€ million	€ million
Income after income taxes	277	352
of which attributable to noncontrolling interest	5	9
of which attributable to Covestro AG stockholders (net income)	272	343
	Shares	Shares
Weighted average number of issued ordinary shares	140,000,000	154,897,260
	€	€
Basic earnings per share	1.94	2.21
Diluted earnings per share	1.94	2.21

NOTES TO THE STATEMENT OF FINANCIAL POSITION

13. Goodwill and Other Intangible Assets

Changes in Intangible Assets in 2015

	Acquired goodwill	Patents and technologies	Marketing and distribution rights	Production rights	Software	Other rights	Advance payments	Total
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Cost of acquisition or generation, December 31, 2014	**243**	**17**	**111**	**98**	**129**	**1,099**	**6**	**1,703**
Transactions with the Bayer Group	–	–	–	–	3	–	–	3
Acquisitions	7	18	–	–	–	–	–	25
Capital expenditures	–	–	–	–	2	–	14	16
Retirements	–	–	(6)	–	(4)	(867)	–	(877)
Transfers	–	–	2	(2)	5	–	(5)	–
Exchange differences	11	3	3	1	1	95	(1)	113
December 31, 2015	**261**	**38**	**110**	**97**	**136**	**327**	**14**	**983**
Accumulated amortization and impairment losses, December 31, 2014	**–**	**12**	**66**	**82**	**114**	**1,053**	**–**	**1,327**
Transactions with the Bayer Group	–	–	–	–	2	–	–	2
Amortization and impairment losses in 2015	–	2	9	4	13	15	–	43
Amortization	–	2	9	4	13	15	–	43
Impairment losses	–	–	–	–	–	–	–	–
Retirements	–	–	(6)	–	(4)	(867)	–	(877)
Impairment loss reversals	–	–	–	–	–	–	–	–
Transfers	–	–	2	(2)	–	–	–	–
Exchange differences	–	2	2	1	1	89	–	95
December 31, 2015	**–**	**16**	**73**	**85**	**126**	**290**	**–**	**590**
Carrying amounts, December 31, 2015	**261**	**22**	**37**	**12**	**10**	**37**	**14**	**393**
Carrying amounts, December 31, 2014	**243**	**5**	**45**	**16**	**15**	**46**	**6**	**376**

In 2015, impairment losses of €0 million (2014: €5 million), net of a €0 million impairment loss reversal (2014: €2 million), were recognized on intangible assets.

Details of acquisitions and divestitures are provided in Notes 5.2 and 5.3. The impairment testing procedure for goodwill and other intangible assets is explained under “Procedure used in global impairment testing and its impact” in Note 3.2.

Changes in Intangible Assets in 2014

	Acquired goodwill	Patents and technologies	Marketing and distribution rights	Production rights	Software	Other rights	Advance payments	Total
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Cost of acquisition or generation, December 31, 2013	**239**	**28**	**108**	**103**	**122**	**983**	**6**	**1,589**
Transactions with the Bayer Group	–	–	–	–	–	–	–	–
Acquisitions	–	–	–	–	–	–	–	–
Capital expenditures	–	–	–	–	4	–	3	7
Retirements	(6)	(13)	–	(6)	–	–	–	(25)
Transfers	–	–	2	–	2	–	(4)	–
Exchange differences	10	2	1	1	1	116	1	132
December 31, 2014	**243**	**17**	**111**	**98**	**129**	**1,099**	**6**	**1,703**
Accumulated amortization and impairment losses, December 31, 2013	**–**	**22**	**54**	**84**	**96**	**930**	**–**	**1,186**
Transactions with the Bayer Group	–	–	–	–	–	–	–	–
Amortization and impairment losses in 2014	6	1	10	4	17	14	–	52
Amortization	–	1	10	4	17	13	–	45
Impairment losses	6	–	–	–	–	1	–	7
Retirements	(6)	(11)	–	(6)	–	–	–	(23)
Impairment loss reversals	–	(2)	–	–	–	–	–	(2)
Transfers	–	–	–	–	–	–	–	–
Exchange differences	–	2	2	–	1	109	–	114
December 31, 2014	**–**	**12**	**66**	**82**	**114**	**1,053**	**–**	**1,327**
Carrying amounts, December 31, 2014	**243**	**5**	**45**	**16**	**15**	**46**	**6**	**376**
Carrying amounts, December 31, 2013	**239**	**6**	**54**	**19**	**26**	**53**	**6**	**403**

Goodwill that is of material significance for the Covestro Group was allocated to the following cash-generating units at of the end of the reporting period.

Material Goodwill by Cash-Generating Unit

	Cash-generating unit	Goodwill
Reporting segment		€ million
PUR	MDI	71
PUR	PET	24
PCS	PCS	124
CAS	BMI	30
CAS	Resins	10

14. Property, Plant and Equipment

Changes in Property, Plant and Equipment in 2015

	Land and buildings	Plant installations and machinery	Furniture, fixtures and other equipment	Construction in progress and advance payments	Total
	€ million	€ million	€ million	€ million	€ million
Cost of acquisition or construction, December 31, 2014	**2,972**	**10,428**	**434**	**819**	**14,653**
Transactions with the Bayer Group	51	22	22	–	95
Acquisitions	–	1	–	–	1
Capital expenditures	53	155	26	264	498
Retirements	(66)	(282)	(25)	(21)	(394)
Transfers	73	437	18	(528)	–
Exchange differences	111	476	18	48	653
December 31, 2015	**3,194**	**11,237**	**493**	**582**	**15,506**
Accumulated depreciation and impairment losses, December 31, 2014	**1,689**	**7,703**	**365**	**3**	**9,760**
Transactions with the Bayer Group	48	22	19	–	89
Depreciation and impairment losses in 2015	100	545	34	17	696
Depreciation	92	504	33	–	629
Impairment losses	8	41	1	17	67
Retirements	(52)	(270)	(23)	(17)	(362)
Impairment loss reversals	–	–	–	–	–
Transfers	–	–	–	–	–
Exchange differences	51	324	14	–	389
December 31, 2015	**1,836**	**8,324**	**409**	**3**	**10,572**
Carrying amounts, December 31, 2015	**1,358**	**2,913**	**84**	**579**	**4,934**
Carrying amounts, December 31, 2014	**1,283**	**2,725**	**69**	**816**	**4,893**

Impairment losses totaling €67 million (2014: €6 million) were recognized on property, plant and equipment in the Polyurethanes segment (€58 million), the Polycarbonates segment (€4 million) and the Coatings, Adhesives, Specialties segment (€5 million).

In March 2015, Covestro announced the restructuring of its business activities in Brazil and the associated closure of its production site at Belford Roxo, Brazil. As result of the end of production, impairment losses of €25 million were recognized on property, plant and equipment that is no longer in use. The recoverable amount of the assets affected was determined on the basis of their value in use under the assumption that production would be terminated by August 31, 2015. The impairment losses largely pertain to the Polyurethanes segment and are recorded as production costs in profit or loss. As at December 31, 2015, all the assets affected had been sold or remain with the Bayer Group following the legal independence of Covestro.

Within the context of an initiative to optimize its MDI business, Covestro decided in December 2015 to cease production of MDI at the site in Tarragona, Spain, by the end of 2017 because production costs there are not competitive. As a result of this decision, impairment losses of €15 million were recognized in property, plant and equipment of Polyurethanes. They are recorded as production costs in profit or loss. The recoverable amount of the assets affected was determined on the basis of their value in use and amounted to €16 million on December 31, 2015. In determining the value in use, the expected cash flows were discounted at a rate of 7.6%.

Changes in Property, Plant and Equipment in 2014

	Land and buildings	Plant installations and machinery	Furniture, fixtures and other equipment	Construction in progress and advance payments	Total
	€ million	€ million	€ million	€ million	€ million
Cost of acquisition or construction, December 31, 2013	**2,646**	**9,480**	**401**	**829**	**13,356**
Transactions with the Bayer Group	6	–	2	–	8
Acquisitions	–	–	–	–	–
Capital expenditures	73	195	15	383	666
Retirements	(35)	(152)	(14)	(1)	(202)
Transfers	131	316	4	(451)	–
Exchange differences	151	589	26	59	825
December 31, 2014	**2,972**	**10,428**	**434**	**819**	**14,653**
Accumulated depreciation and impairment losses, December 31, 2013	**1,566**	**7,018**	**328**	**2**	**8,914**
Transactions with the Bayer Group	3	–	2	–	5
Depreciation and impairment losses in 2014	79	444	29	1	553
Depreciation	76	442	29	–	547
Impairment losses	3	2	–	1	6
Retirements	(28)	(147)	(13)	(1)	(189)
Impairment loss reversals	–	–	–	–	–
Transfers	–	2	(2)	–	–
Exchange differences	69	386	21	1	477
December 31, 2014	**1,689**	**7,703**	**365**	**3**	**9,760**
Carrying amounts, December 31, 2014	**1,283**	**2,725**	**69**	**816**	**4,893**
Carrying amounts, December 31, 2013	**1,080**	**2,462**	**73**	**827**	**4,442**

In 2015, borrowing costs of €15 million (2014: €20 million) were capitalized as components of the cost of acquisition or construction of qualifying assets, applying an average interest rate of 2.5% (2014: 3.1%).

Leasing

Capitalized property, plant and equipment included assets with a total net value of €334 million (2014: €354 million) held under finance leases. They comprised plant installations and machinery with a carrying amount of €217 million (2014: €237 million), buildings with a carrying amount of €36 million (2014: €41 million) and other property, plant and equipment with a carrying amount of €81 million (2014: €76 million). The cost of acquisition or cost of construction of these assets as of the closing date totaled €599 million (2014: €580 million). For information on the liabilities arising from finance leases, see Note 23.

In 2015, rental payments of €76 million (2014: €48 million) were made for assets leased under operating leases as defined in IAS 17 (Leases). An overview of the maturities of payment obligations under operating leases can be found in Note 27.

Lease payments of €2 million are expected to be received in 2016 from operating leases – as defined in IAS 17 (Leases) – pertaining to property, plant and equipment. Lease payments totaling €7 million are expected to be received in 2017–2020 and lease payments totaling €2 million after 2020.

Investment property

The fair values of investment property are mainly determined using the income approach based on internal valuations for buildings and developed sites, and using the market comparison approach for undeveloped sites.

The total carrying amount of investment property as of December 31, 2015, was €32 million (2014: €35 million).

The fair value of this property was €163 million (2014: €158 million). The rental income from investment property was €2 million (2014: €4 million), and the operating expenses directly allocable to this property amounted to €1 million (2014: €1 million). In both 2015 and the prior year, no significant operating expenses were recorded that are directly allocable to investment property from which no rental income was derived.

15. Investments Accounted for Using the Equity Method

Two (2014: two) associated companies and one joint venture (2014: two joint ventures) were accounted for using the equity method. An overview of the investments accounted for using the equity method can be found in Note 5.1.

In 2000, the polyols business and parts of the propylene oxide (PO) production operations of Lyondell Chemicals were acquired with the objective of ensuring access to patented technologies and safeguarding the long-term supply of PO, a starting product for polyurethanes. As part of this strategy, a company was established to produce PO (PO JV, LP, Wilmington, United States, in which Covestro holds a 39.4% interest). Covestro benefits from fixed long-term supply quotas / volumes of PO from this company's production. The two following tables contain summarized data from the income statements and statements of financial position of the associate PO JV, LP, Wilmington, United States, which is accounted for using the equity method, and show the respective amounts recognized in the combined financial statements of the Covestro Group.

Income Statement Data of PO JV, LP, Wilmington, United States

	2014	2015
	€ million	€ million
Net sales	2,414	1,695
Net loss after taxes	(44)	(56)
Share of net loss after taxes	(17)	(23)
Share of total comprehensive income after taxes	**(17)**	**(23)**
Gain (loss) after taxes from impairments / derecognition of other interests	(1)	–
Recognized loss after taxes	**(18)**	**(23)**

Data from the Statements of Financial Position of PO JV, LP, Wilmington, United States

	Dec. 31, 2014	Dec. 31, 2015
	€ million	€ million
Noncurrent assets	462	475
Equity	462	475
Share of equity	**182**	**201**
Other	2	(3)
Carrying amount	**184**	**198**

The item "Other" mainly comprised differences arising from adjustments of data to Covestro's uniform accounting policies, purchase price allocations and their amortization in profit or loss.

The following table contains the income statement data and the carrying amount of the associated company Paltough Industries (1998) Ltd., Kibbutz Ramat Yochanan, Israel, which is accounted for using the equity method.

Income Statement Data and Carrying Amount of Paltough Industries (1998) Ltd., Kibbutz Ramat Yochanan, Israel

	2014	2015
	€ million	€ million
Income after taxes	4	5
Share of income after taxes	1	1
Share of total comprehensive income after taxes	**1**	**1**
Carrying amount	**21**	**22**

The following table contains the income statement data and the carrying amount of the joint venture DIC Covestro Polymer Ltd., Tokyo, Japan.

Income Statement Data and Carrying Amount, DIC Covestro Polymer Ltd., Tokyo, Japan

	2014	2015
	€ million	€ million
Income after taxes	3	4
Share of income after taxes	1	2
Share of total comprehensive income after taxes	**1**	**2**
Carrying amount	**6**	**7**

16. Other Financial Assets

The other financial assets were comprised as follows:

Other Financial Assets

	Dec. 31, 2014		Dec. 31, 2015	
	Total	Of which current	Total	Of which current
	€ million	€ million	€ million	€ million
Loans	420	418	16	2
Investments in nonconsolidated subsidiaries and other equity investments	6	–	6	–
Receivables from derivatives	36	13	44	30
Receivables under lease agreements	8	0	7	1
Total	**470**	**431**	**73**	**33**

As of December 31, 2014, the loans primarily comprised loan and cash pool receivables from the Bayer Group. These receivables were settled in 2015.

Receivables from derivatives included currency forward contracts of €27 million (2014: €13 million) and embedded derivatives of €17 million (2014: €23 million). Further information on the accounting for receivables from derivatives is given in Note 26.3.

Interests in nonconsolidated companies as of the closing date totaled €5 million (2014: €5 million) and were recognized as available-for-sale financial assets. These equity instruments were recognized at cost because their fair value could not be determined from a stock exchange or other market price or by discounting reliably determinable future cash flows.

There were no unimpaired other financial assets past due on either December 31, 2015 or in 2014. No significant impairment losses or impairment loss reversals were recognized on financial assets in profit or loss in either 2014 or 2015.

Receivables under lease agreements relate to finance leases where Covestro is the lessor and the economic owner of the leased assets is the contractual partner. These receivables comprised expected lease payments of €38 million (2014: €45 million), including €31 million (2014: €37 million) in interest. Of the expected lease payments, €1 million (2014: €1 million) is due within one year, €2 million (2014: €2 million) within the following four years and €35 million (2014: €42 million) in subsequent years.

17. Inventories

Inventories were comprised as follows.

Inventories

	Dec. 31, 2014	Dec. 31, 2015
	€ million	€ million
Raw materials and supplies	439	415
Work in process, finished goods and goods purchased for resale	1,464	1,368
Advance payments	1	–
Total	**1,904**	**1,783**

Impairment losses recognized on inventories were reflected in the cost of goods sold. They were comprised as follows.

Impairments of Inventories

	2014	2015
	€ million	€ million
Accumulated impairment losses, January 1	**(16)**	**(20)**
Impairment losses in the reporting period	(11)	(23)
Impairment loss reversals or utilization	8	13
Exchange differences	(1)	(1)
Accumulated impairment losses, December 31	**(20)**	**(31)**

18. Trade Accounts Receivable

Trade accounts receivable were comprised as follows.

Trade Accounts Receivable

	2014	2015
	€ million	€ million
Trade accounts receivable (before impairments)	1,604	1,533
Accumulated impairment losses	(43)	(47)
Carrying amount, December 31	**1,561**	**1,486**
of which noncurrent	4	0

Changes in impairment losses on trade accounts receivable were as follows.

Impairments of Trade Accounts Receivable

	2014	2015
	€ million	€ million
Accumulated impairment losses, January 1	**(39)**	**(43)**
Impairment losses in the reporting period	(7)	(12)
Impairment loss reversals or utilization	4	6
Exchange differences	(1)	2
Accumulated impairment losses, December 31	**(43)**	**(47)**

Trade accounts receivable amounting to €1,482 million (2014: €1,556 million) were not individually impaired. Of this amount, €203 million (2014: €141 million) was past due or due immediately on the closing date.

The gross carrying amount of individually impaired trade accounts receivable was €51 million (2014: €44 million). The impairment losses recognized on these assets totaled €47 million (2014: €39 million), resulting in a net carrying amount of €4 million (2014: €5 million).

The unimpaired receivables were deemed to be collectible on the basis of established credit management processes and individual assessments of customer risks. The impairment losses recognized included an appropriate allowance for the default risk as of the end of each reporting period.

A further €46 million of receivables (2014: €41 million) was secured mainly by letters of credit.

The amounts of impaired and past-due trade accounts receivable are summarized in the following table.

Impaired and Past-Due Trade Accounts Receivable

		Of which neither impaired nor past due at the closing date	Of which unimpaired but past due at the closing date				Of which impaired at the closing date
	Carrying amount		up to 3 months	3 – 6 months	6 – 12 months	more than 12 months	
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
December 31, 2015	**1,486**	**1,279**	**190**	**7**	**4**	**2**	**4**
December 31, 2014	1,561	1,415	124	6	2	9	5

19. Other Receivables

As in the prior year, no impairment losses were recognized on other receivables, which were comprised as follows.

Other Receivables

	Dec. 31, 2014		Dec. 31, 2015	
	Total	Of which current	Total	Of which current
	€ million	€ million	€ million	€ million
Other tax receivables	176	156	180	162
Deferred charges	49	39	70	63
Reimbursement claims	10	10	2	2
Net defined benefit asset	7	–	–	–
Receivables from employees	2	2	4	4
Miscellaneous receivables	107	70	81	46
Total	**351**	**277**	**337**	**277**

The miscellaneous receivables included an advance payment by Covestro Polymers (China) Co., Ltd., Shanghai, China, to Shanghai Chlor-Alkali Chemical Co., Ltd., Shanghai, China, in the amount of €29 million (2014: €32 million), which will be offset against monthly purchases. Other receivables included €65 million (2014: €94 million) in financial receivables. Of this amount, €6 million (2014: €6 million) was past due or due immediately on the closing date.

The amounts of impaired and past-due financial receivables included in other receivables are summarized in the following table.

Impaired and Past-Due Other Financial Receivables

		Of which neither impaired nor past due at the closing date	Of which unimpaired but past due at the closing date				Of which impaired at the closing date
	Carrying amount		up to 3 months	3 – 6 months	6 – 12 months	more than 12 months	
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
December 31, 2015	**65**	**59**	**3**	**1**	**1**	**1**	**–**
December 31, 2014	94	88	3	1	1	1	–

20. Equity

Capital management

The main purpose of financial management is to ensure solvency at all times, continuously optimize capital costs and reduce the risks of financing measures. Until August 31, 2015, these tasks were performed by the Finance department of the Bayer Group. Since September 1, 2015, financial management for the Covestro Group has been performed centrally by Covestro AG.

In its first credit rating in October 2015, rating agency Moody's gave the Covestro Group an issuer rating of Baa2 with stable outlook, which is an investment-grade rating. This reflects the solid balance sheet structure of the Covestro Group and provides the company with good access to bank financing and the capital markets.

The Covestro Group manages its debt ratio on the basis of debt indicators published by recognized rating agencies, which – by somewhat differing methods – look at the cash flow for a given period in relation to debt. In the medium and long terms, the Covestro Group will be pursuing a prudent debt management strategy to ensure flexibility and seeking to achieve a balanced financing portfolio. Following replacement of the Inter-Group Loan Agreement with Bayer Antwerpen NV, Diegem, Belgium, this portfolio will be based for the most part on bonds, syndicated credit facilities and bilateral loan agreements.

The 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 30.

The changes in the various components of equity during 2014 and 2015 are shown in the consolidated statements of changes in equity.

Capital stock

Covestro AG was established on August 20, 2015, with a capital stock of €140 million. On October 2, 2015, an extraordinary stockholders' meeting approved an increase of €62.5 million in the capital stock against the issue of new shares. The capital stock of Covestro AG on December 31, 2015 was thus €202.5 million, divided into 202,500,000 no-par bearer shares, and was fully paid up. Each share confers one voting right.

Authorized capital

The extraordinary stockholders' meeting on October 2, 2015, approved an authorized capital. The Board of Management is authorized, with the consent of the Supervisory Board, to increase the capital stock by up to a total of €101 million by issuing new no-par bearer shares on one or more occasions against cash contributions and / or contributions in kind until October 2, 2020. New shares are to be offered to stockholders for subscription. However, in certain cases detailed in the Articles of Incorporation of Covestro AG, subscription rights may be disapplied.

This authorized capital has not been utilized so far.

Conditional capital

The Board of Management is also authorized, with the approval of the Supervisory Board, to issue – in one or more installments – warrant bonds, convertible bonds and / or profit-participation rights – as either registered or bearer bonds – with a total nominal value of up to €1,500 million, with or without limited maturity, and to grant to the creditors of these bonds warrants or conversion rights in respect of up to 70,000,000 no-par bearer shares of the company representing a total prorated increase of up to €70 million in the company's capital stock (conditional capital) on the terms to be defined for these bonds.

Capital reserves

Covestro AG was initially provided with capital reserves of €715 million. Bayer AG then contributed 100% of the shares of Covestro Deutschland AG, Leverkusen, and on October 6, 2015, made a further cash contribution of €1,000 million. Following the IPO on October 6, 2015, €1,427 million was paid into the capital reserves after deduction of the transaction costs and taking account of deferred taxes.

Retained earnings

The retained earnings include prior years' undistributed income of consolidated companies and all remeasurements of the net liability for defined benefit pension and other post-employment benefit plans that are recognized outside profit or loss. They also include the effects of the legal independence of the Covestro Group, which led to a €2,055 million decline in retained earnings. Equity was increased by effects of €110 million as described under "Treatment of costs for central services" and by the separate tax return approach under "Treatment of current and deferred income taxes" in Note 3.1. The other main transactions with an impact on equity are described under "Transactions with Bayer AG and its subsidiaries" in Note 30.1.

The other changes in 2014 resulted primarily from the aforementioned allocations, the separate tax return approach and other contributions or withdrawals made by stockholders.

Accumulated other comprehensive income

The accumulated other comprehensive income comprises exchange differences, the changes in fair values of cash flow hedges and the revaluation surplus. The latter results from the acquisition in 2008 of the remaining 50% interest in Covestro Oldenburg GmbH & Co. KG, Oldenburg. In 2015, an amount of €1 million (2014: €0 million) corresponding to the annual amortization / depreciation of the respective assets was transferred from the revaluation surplus to retained earnings. The exchange differences included an amount of minus €40 million (2014: minus €39 million) attributable to associated companies and joint ventures accounted for using the equity method.

Dividend

The dividend payment is determined by the distributable profit reported in the annual financial statements of Covestro AG, which are prepared according to the German Commercial Code. The proposed dividend for the 2015 fiscal year is €0.70 per share, which would result in a total dividend payment of €142 million. Payment of the proposed dividend is contingent upon approval by the stockholders at the Annual Stockholders' Meeting and therefore is not recognized as a liability in the consolidated financial statements.

Noncontrolling interest

Noncontrolling interests exist mainly in the equity of Bayer Pearl Polyurethane Systems FZCO, Dubai, United Arab Emirates, and of Covestro (Taiwan) Ltd., Kaohsiung, Taiwan.

The changes in the noncontrolling interest in equity are shown in the following table.

Components of Noncontrolling Interest in Equity

	2014	2015
	€ million	€ million
January 1	**10**	**17**
Changes in equity not recognized in profit or loss		
Exchange differences on translation of operations outside the eurozone	3	(1)
Other changes in equity	0	(3)
Dividend payments	(1)	(6)
Changes in equity recognized in profit or loss	**5**	**9**
December 31	**17**	**16**

21. Provisions for Pensions and Other Post-Employment Benefits

Provisions were established for defined benefit obligations pertaining to pensions and other post-employment benefits. The expenses for defined contribution obligations are shown in Note 8. The net liability for defined benefit obligations was accounted for as follows.

Net Defined Benefit Liability Reflected in the Statement of Financial Position

	Pensions		Other post-employment benefits		Total	
	Dec 31, 2014	Dec 31, 2015	Dec 31, 2014	Dec 31, 2015	Dec 31, 2014	Dec 31, 2015
	€ million	€ million	€ million	€ million	€ million	€ million
Provisions for pensions and other post-employment benefits	**1,232**	**1,312**	**163**	**150**	**1,395**	**1,462**
of which Germany	1,076	1,148	–	–	1,076	1,148
of which other countries	156	164	163	150	319	314
Net defined benefit asset	**6**	**–**	**1**	**–**	**7**	**–**
of which Germany	2	–	–	–	2	–
of which other countries	4	–	1	–	5	–
Net defined benefit liability	**1,226**	**1,312**	**162**	**150**	**1,388**	**1,462**
of which Germany	1,074	1,148	–	–	1,074	1,148
of which other countries	152	164	162	150	314	314

The expenses for defined benefit plans for pension and other post-employment benefits comprised the following components.

Expenses for Defined Benefit Plans

	Pension plans						Other post-employment benefit plans	
	Germany		Other countries		Total		Other countries	
	2014	2015	2014	2015	2014	2015	2014	2015
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Current service cost	30	55	9	15	39	70	2	3
Past service cost	8	8	–	–	8	8	–	–
of which plan curtailments	–	–	(2)	–	(2)	–	–	–
Plan settlements	(3)	–	1	–	(2)	–	(1)	–
Service Cost	**35**	**63**	**10**	**15**	**45**	**78**	**1**	**3**
Interest expense from defined benefit obligation	67	60	29	24	96	84	7	6
Interest income from plan assets	(50)	(36)	(26)	(19)	(76)	(55)	–	–
Net interest	**17**	**24**	**3**	**5**	**20**	**29**	**7**	**6**
Total expenses	**52**	**87**	**13**	**20**	**65**	**107**	**8**	**9**

In 2015, a total of minus €66 million (2014: €753 million) in effects of remeasurements of the net defined benefit liability was also recognized in other comprehensive income. Of this amount, minus €51 million (2014: €744 million) related to pension obligations and minus €15 million (2014: €9 million) to other post-employment benefit obligations.

The net defined benefit liability developed as shown in the following table.

Changes in Defined Benefit Obligation

	2014			2015		
	Germany	Other countries	Total	Germany	Other Countries	Total
	€ million	€ million	€ million	€ million	€ million	€ million
January 1	**1,488**	**707**	**2,195**	**2,392**	**890**	**3,282**
Acquisitions	–	–	–	–	–	–
Changes due to legal independence	–	–	–	228	(64)	164
Current service cost	30	11	41	55	18	73
Past service cost	8	0	8	8	0	8
(Gains) / losses from plan settlements	(3)	0	(3)	0	0	0
Net interest	66	37	103	60	30	90
Net actuarial (gain) / loss	834	107	941	(159)	(43)	(202)
of which due to changes in financial assumptions	829	74	903	(149)	(39)	(188)
of which due to changes in demographic assumptions	0	42	42	0	(12)	(12)
of which due to experience adjustments	5	(9)	(4)	(10)	8	(2)
Employee contributions	6	1	7	7	1	8
Payments due to plan settlements	(1)	(16)	(17)	0	(1)	(1)
Benefits paid out of plan assets	(17)	(26)	(43)	(19)	(29)	(48)
Benefits paid by the company	(19)	(5)	(24)	(20)	(8)	(28)
Exchange differences	–	74	74	–	74	74
December 31	**2,392**	**890**	**3,282**	**2,552**	**868**	**3,420**
of which other post-employment benefits	–	163	163	–	151	151

Changes in Fair Value of Plan Assets

	2014			2015		
	Germany	Other countries	Total	Germany	Other countries	Total
	€ million	€ million	€ million	€ million	€ million	€ million
January 1	**1,092**	**497**	**1,589**	**1,318**	**576**	**1,894**
Acquisitions	–	–	–	–	–	–
Changes due to legal independence	–	–	–	142	(51)	91
Net interest	49	27	76	36	19	55
Return or (expense) on plan assets excluding amounts recognized as interest result	159	29	188	(111)	(25)	(136)
Employer contributions	30	15	45	32	18	50
Employee contributions	6	1	7	7	1	8
Payments due to plan settlements	(1)	(16)	(17)	0	(1)	(1)
Benefits paid out of plan assets	(17)	(26)	(43)	(19)	(29)	(48)
Plan administration cost paid out of plan assets	0	0	0	0	0	0
Exchange differences	–	49	49	–	48	48
December 31	**1,318**	**576**	**1,894**	**1,405**	**556**	**1,961**
of which other post-employment benefits	–	1	1	–	1	1

Effects of the Asset Ceiling

	2014			2015		
	Germany	Other countries	Total	Germany	Other countries	Total
	€ million	€ million	€ million	€ million	€ million	€ million
January 1	**0**	**0**	**0**	**0**	**0**	**0**
Acquisitions	–	–	–	–	–	–
Changes due to legal independence	–	–	–	–	–	–
Remeasurement of asset ceiling	0	0	0	1	2	3
Exchange differences	–	–	–	–	–	–
December 31	**0**	**0**	**0**	**1**	**2**	**3**
of which other post-employment benefits	–	–	–	–	–	–

Development of the Net Defined Benefit Liability

	2014			2015		
	Germany	Other countries	Total	Germany	Other countries	Total
	€ million	€ million	€ million	€ million	€ million	€ million
January 1	**396**	**210**	**606**	**1,074**	**314**	**1,388**
Acquisitions	–	–	–	–	–	–
Changes due to legal independence	–	–	–	86	(13)	73
Current service cost	30	11	41	55	18	73
Past service cost	8	0	8	8	0	8
(Gains) / losses from plan settlements	(3)	0	(3)	0	0	0
Net interest	17	10	27	24	11	35
Net actuarial (gain) loss	834	107	941	(159)	(43)	(202)
of which due to changes in financial assumptions	829	74	903	(149)	(39)	(188)
of which due to changes in demographic assumptions	0	42	42	0	(12)	(12)
of which due to experience adjustments	5	(9)	(4)	(10)	8	(2)
(Return) or expense on plan assets excluding amounts recognized as interest result	(159)	(29)	(188)	111	25	136
Remeasurement of asset ceiling	0	0	0	1	2	3
Employer contributions	(30)	(15)	(45)	(32)	(18)	(50)
Employee contributions	0	0	0	0	0	0
Payments due to plan settlements	0	0	0	0	0	0
Benefits paid out of plan assets	0	0	0	0	0	0
Benefits paid by the company	(19)	(5)	(24)	(20)	(8)	(28)
Plan administration cost paid out of plan assets	0	0	0	0	0	0
Exchange differences	–	25	25	–	26	26
December 31	**1,074**	**314**	**1,388**	**1,148**	**314**	**1,462**
of which other post-employment benefits	–	162	162	–	150	150

The pension obligations pertained mainly to Germany (75%; 2014: 73%) and the United States (21%; 2014: 21%). In Germany, current employees accounted for about 63% (2014: 63%), retirees or their surviving dependents for about 31% (2014: 31%) and former employees with vested pension rights for about 6% (2014: 6%) of entitlements under defined benefit plans. In the United States, current employees accounted for about 40% (2014: 39%), retirees or their surviving dependents for about 53% (2014: 54%) and former employees with vested pension rights for about 7% (2014: 7%) of entitlements under defined benefit plans.

Following legal independence, the pension obligations for employees who formerly worked for Bayer AG or the Bayer service companies were transferred to Covestro. Outside Germany, by contrast, pension obligations for employees were transferred to Bayer, primarily in connection with the closure of the production site at Belford Roxo, Brazil.

The actual losses on the assets of defined benefit plans for pensions or other post-employment benefits amounted to minus €81 million (2014: €264 million) and €0 million (2014: €0 million), respectively.

The following table shows the defined benefit obligations for pensions and other post-employment benefits along with the funded status of the funded obligations.

Defined Benefit Obligation and Funded Status

	Pension obligation		Other post-employment benefit obligation		Total	
	2014	2015	2014	2015	2014	2015
	€ million	€ million	€ million	€ million	€ million	€ million
Defined benefit obligation	**3,119**	**3,269**	**163**	**151**	**3,282**	**3,420**
of which unfunded	46	52	162	150	208	202
of which funded	3,073	3,217	1	1	3,074	3,218
Funded status of funded obligations						
Overfunding	6	0	1	0	7	0
Underfunding	1,186	1,257	–	–	1,186	1,257

Pension and other post-employment benefit obligations

The Covestro Group provides retirement benefits for most of its employees, either directly or by contributing to privately or publicly administered funds. The way these benefits are provided varies according to the legal, fiscal and economic conditions of each country, the benefits generally being based on employee compensation and years of service. The obligations relate both to existing retirees' pensions and to pension entitlements of future retirees.

Funded pension plans exist for employees in various countries. In principle, the most appropriate investment strategy is determined for each defined benefit pension plan based on the risk structure of the obligations (especially demographics, the current funded status, the structure of the expected future cash flows, interest sensitivity, biometric risks etc.), the regulatory environment and the existing level of risk tolerance or risk capacity. A strategic target investment portfolio is then developed in line with the plan's risk structure, taking capital market factors into consideration. Further determinants are risk diversification, portfolio efficiency and the need for both a country-specific and a global risk / return profile centered on ensuring the payment of all future benefits. As, in principle, the capital investment strategy for each pension plan is developed individually in light of the plan-specific conditions listed above, the investment strategies for different pension plans may vary considerably. For example, the proportion of plan assets invested in equities is greater with the non-German pension plans than with the plans domiciled in Germany. The investment strategies are generally aligned less toward maximizing absolute returns and more toward the reasonable assurance of financing pension commitments over the long term. For plan assets, stress scenarios are simulated and other risk analyses (such as value at risk) undertaken with the aid of risk management systems.

Bayer-Pensionskasse VVaG, Leverkusen (Bayer-Pensionskasse VVaG), is by far the most significant of the pension plans. It has been closed to new members since January 1, 2005. This legally independent fund is regarded as a life insurance company and is therefore subject to the German Insurance Supervision Act. The benefit obligations covered by Bayer-Pensionskasse VVaG comprise retirement, surviving dependents' and disability pensions. It constitutes a multi-employer plan, to which the active members and their employers contribute. The company contribution is a certain percentage of the employee contribution. This percentage is the same for all participating employers and is set by agreement between the plan's executive committee and supervisory board, acting on a proposal from the responsible actuary. It takes into account the differences between the actuarial estimates and the actual values for the factors used to determine liabilities and contributions. Only Bayer AG may adjust the company contribution in agreement with the plan's executive committee and supervisory board, acting on a proposal from the responsible actuary. The plan's liability is governed by Section 1, Paragraph 1, Sentence 3 of the German Law on the Improvement of Occupational Pensions. This means that if the pension plan exercises its right under the articles of association to reduce benefits, each participating employer has to make up the resulting difference. Covestro is not liable for the obligations of other participating employers, even if they cease to participate in the plan.

Pension entitlements for people hired in Germany on or after January 1, 2005 are granted via Rheinische Pensionskasse VVaG, Leverkusen. Future pension payments from this plan are based on contributions and the return on plan assets; a guaranteed interest rate applies.

Since October 2015, another important pension provision vehicle is Metzler Trust e.V., Frankfurt am Main (Metzler Trust e.V.). This covers further retirement provision arrangements for German employees of the Covestro Group, such as deferred compensation, pension obligations and components of other direct commitments. Previously, this function was still performed by Bayer Pension Trust e.V., Leverkusen. In October 2015, the current value of the capital investments in Bayer Pension Trust e.V., Leverkusen, that were attributable to obligations of the Covestro Group, totaling around €293 million, was transferred to Metzler Trust e.V.

The defined benefit pension plans in the United States have been frozen for some years, and no significant new entitlements can be earned under these plans. The assets of all the U.S. pension plans are held by a master trust for reasons of efficiency. The applicable regulatory framework is based on the Employee Retirement Income Security Act (ERISA), which includes a statutory 80% minimum funding requirement to avoid benefit restrictions. The actuarial risks, such as investment risk, interest-rate risk and longevity risk, remain with the company.

Following the transfer of the capital investments to the German Metzler Trust e.V. and to the U.S. defined benefit plans that were attributable to obligations of the Covestro Group to corresponding Covestro provision vehicles, Covestro did not perform its own asset liability management analysis. The previous investment strategy was largely adopted, with detailed analyses planned for 2016.

The other post-employment benefit obligations outside Germany are mainly related to retirees' health care benefit payments in the United States.

The fair value of the plan assets to cover pensions and other post-employment benefit obligations was as follows:

Fair Value of Plan Assets as of December 31

	Pension obligations				Other post-employment obligations	
	Germany		Other countries		Other countries	
	2014	2015	2014	2015	2014	2015
	€ million	€ million	€ million	€ million	€ million	€ million
Plan assets based on quoted prices in active markets						
Real estate and special real estate funds	–	–	24	24	–	–
Equities and equity funds	233	256	143	160	–	–
Callable debt instruments	–	–	–	3	–	–
Non-callable debt instruments	–	112	120	131	–	–
Bond funds	304	259	104	145	–	–
Derivatives	5	4	–	–	–	–
Cash and cash equivalents	38	17	9	26	1	1
Other	–	–	77	–	–	–
	580	**648**	**477**	**489**	**1**	**1**
Plan assets for which quoted prices in active markets are not available						
Real estate and special real estate funds	99	97	–	–	–	–
Equities and equity funds	13	15	(1)	–	–	–
Callable debt instruments	257	285	1	–	–	–
Non-callable debt instruments	342	341	–	–	–	–
Bond funds	–	–	–	–	–	–
Derivatives	–	–	–	–	–	–
Other	27	19	98	66	–	–
	738	**757**	**98**	**66**	**–**	**–**
Total plan assets	**1,318**	**1,405**	**575**	**555**	**1**	**1**

The fair value of plan assets in Germany included no real estate leased by Covestro Group companies nor Covestro AG shares held through investment funds. The other plan assets comprise mortgage loans granted, other receivables and qualified insurance policies.

Risks

The risks from defined benefit plans arise partly from the defined benefit obligations and partly from the investment in plan assets. The risks lie in the possibility that higher direct pension payments will have to be made to the beneficiaries and / or that additional contributions will have to be made to plan assets in order to meet current and future pension obligations.

Demographic / biometric risks

Since a large proportion of the defined benefit obligations comprises lifelong pensions or surviving dependents' pensions, longer claim periods or earlier claims may result in higher benefit obligations, higher benefit expense and / or higher pension payments than previously anticipated.

Investment risks

If the actual return on plan assets were below the return anticipated on the basis of the discount rate, the net defined benefit liability would increase, assuming there were no changes in other parameters. This could happen as a result of a drop in share prices, increases in market rates of interest, default of individual debtors or the purchase of low-risk but low-interest bonds, for example.

Interest-rate risk

Declining capital market interest rates, especially for high-quality corporate bonds, would increase the defined benefit obligation. This effect would be at least proportionately offset by the ensuing increase in the market values of the debt instruments held.

Measurement parameters and their sensitivities

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 40 basis points lower and an actuarial loss of €177 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 following weighted parameters were used to measure the pension obligations as of December 31 and the expense for pensions and other post-employment benefits in the respective year:

Parameters for Benefit Obligations

	Germany		Other countries		Total	
	2014	2015	2014	2015	2014	2015
	%	%	%	%	%	%
Pension obligations						
Discount rate	2.30	2.60	4.20	3.78	2.75	2.85
Projected future salary increases	3.00	3.00	5.25	3.57	3.50	3.15
Projected future benefit increases	1.75	1.75	5.40	4.17	2.60	2.30
Other post-employment benefit obligations						
Discount rate	–	–	4.80	4.10	4.80	4.10

In Germany the Heubeck 2005 G mortality tables were used, in the United States as of 2014 the RP-2014 Combined Healthy Mortality Tables.

Parameters for Benefit Expense

	Germany		Other countries		Total	
	2014	2015	2014	2015	2014	2015
	%	%	%	%	%	%
Pension obligations						
Discount rate	4.50	2.30	5.20	4.20	4.70	2.75
Projected future salary increases	3.00	3.00	6.60	5.25	4.00	3.50
Projected future benefit increases	1.75	1.75	5.15	5.40	2.70	2.60
Other post-employment benefit obligations						
Discount rate	–	–	5.70	4.80	5.70	4.80

The parameter sensitivities were computed by expert actuaries based on a detailed evaluation similar to that performed to determine the net defined benefit liability. Altering individual parameters by 0.5 percentage points (mortality by 10% per beneficiary) while leaving the other parameters unchanged would have impacted pension and other post-employment benefit obligations as of year end 2015 as follows:

Sensitivity Analysis of Benefit Obligations (2015)

	Germany		Other countries		Total	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
	€ million	€ million	€ million	€ million	€ million	€ million
Pension obligations						
0.5 percentage points change in discount rate	(246)	285	(40)	44	(286)	329
0.5 percentage points change in projected future salary increases	29	(27)	4	(4)	33	(31)
0.5 percentage points change in projected future benefit increases	148	(134)	2	–	150	(134)
10% change in mortality	(67)	74	(16)	17	(83)	91
Other post-employment benefit obligations						
0.5 percentage points change in discount rate	–	–	(9)	10	(9)	10
10% change in mortality	–	–	(3)	4	(3)	4

Sensitivity Analysis of Benefit Obligations (2014)

	Germany		Other countries		Total	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
	€ million	€ million	€ million	€ million	€ million	€ million
Pension obligations						
0.5 percentage points change in discount rate	(241)	281	(42)	47	(283)	328
0.5 percentage points change in projected future salary increases	29	(27)	5	(5)	34	(32)
0.5 percentage points change in projected future benefit increases	148	(134)	2	(1)	150	(135)
10% change in mortality	(67)	75	(15)	24	(82)	99
Other post-employment benefit obligations						
0.5 percentage points change in discount rate	–	–	(10)	11	(10)	11
10% change in mortality	–	–	(4)	4	(4)	4

Provisions are also set up for the obligations, mainly of the U.S. subsidiary, to provide post-employment benefits in the form of health care cost payments to retirees. The valuation of health care costs was based on the assumption that they will increase at a rate of 7% (2014: 7%), which should gradually decline to 5% (2014: 5%) by 2023. The following table shows the impact on other post-employment benefit obligations and total benefit expense of a one percentage point change in the assumed cost increase rates.

Sensitivity Analysis of Health Care Cost Increases

	2014		2015	
	Increase of one percentage point	Decrease of one percentage point	Increase of one percentage point	Decrease of one percentage point
	€ million	€ million	€ million	€ million
Impact on other post-employment benefit obligations	18	(15)	18	(15)
Impact on benefit expense	1	(1)	1	(1)

Payments made and expected future payments

The following payments correspond to the employer contributions made or expected to be made to funded benefit plans.

Employer Contributions Paid or Expected

	Germany				Other countries			
	2014	2015 expected	2015	2016 expected	2014	2015 expected	2015	2016 expected
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Pension obligations	30	30	32	30	15	16	18	20
Other post-employment benefit obligations	–	–	–	–	–	–	–	–
Total	**30**	**30**	**32**	**30**	**15**	**16**	**18**	**20**

Pensions and other post-employment benefits payable in the future from funded and unfunded plans are estimated as follows.

Future Benefit Payments

	Payments out of plan assets				Payments by the company			
	Pensions		Other post-employment benefits		Pensions		Other post-employment benefits	
	Germany	Other countries	Other countries	Total	Germany	Other countries	Other countries	Total
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
2016	21	33	–	54	23	5	6	34
2017	22	35	–	57	24	5	7	36
2018	24	36	–	60	26	5	7	38
2019	26	37	–	63	28	6	8	42
2020	29	39	–	68	31	6	8	45
2021–2025	185	210	–	395	189	34	46	269

The weighted average term of the pension obligations is 21.1 years (2014: 22.0 years) in Germany and 12.6 years (2014: 12.6 years) in other countries. The weighted average term of the obligations for other post-employment benefits in other countries is 12.0 years (2014: 11.8 years).

22. Other Provisions

Changes in the various provision categories in 2015 were as follows.

Changes in Other Provisions

	Taxes	Environmental protection	Restructuring	Trade-related commitments	Litigations	Personnel commitments	Miscellaneous	Total
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
December 31, 2014	**2**	**41**	**18**	**44**	**11**	**361**	**17**	**494**
Acquisitions / divestments	–	–	–	–	–	29	–	29
Additions	29	7	135	121	2	409	23	726
Utilization	(5)	(7)	(78)	(89)	(3)	(260)	(12)	(454)
Reversal	(1)	–	–	(19)	(3)	(43)	(12)	(78)
Interest cost	–	–	–	–	–	2	–	2
Exchange differences	1	4	(1)	2	–	12	1	19
December 31, 2015	**26**	**45**	**74**	**59**	**7**	**510**	**17**	**738**

The provisions recognized in the statement of financial position as of December 31, 2015 were expected to be utilized as follows.

Expected Utilization of Other Provisions

	Taxes	Environmental protection	Restructuring	Trade-related commitments	Litigations	Personnel commitments	Miscellaneous	Total
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
2016	21	5	8	39	2	339	15	429
2017	–	4	2	–	–	34	1	41
2018	–	1	59	13	–	24	1	98
2019	–	4	1	1	–	19	–	25
2020	–	1	3	1	–	13	–	18
2021 or later	5	30	1	5	5	81	–	127
Total	**26**	**45**	**74**	**59**	**7**	**510**	**17**	**738**

Taxes

Provisions for taxes comprised provisions for other types of taxes amounting to €21 million (2014: €2 million).

Environmental protection

Provisions for environmental protection mainly related to the rehabilitation of contaminated land and recultivation of landfills as well as water protection measures at sites in the United States and Spain.

Restructuring

In March 2015, Covestro announced the restructuring of its business activities in Brazil and the associated closure of its production site at Belford Roxo in that country. In this connection, restructuring provisions of €65 million have been established. The underlying obligations were assumed by Bayer in the course of the legal separation of the Covestro Group.

Within the context of an initiative to optimize its MDI business, Covestro decided in December 2015 to cease production of MDI at the Tarragona, Spain, site by the end of 2017 because production costs there are not competitive. Provisions of €73 million have been established.

As of December 31, 2015 provisions for restructuring included €39 million (2014: €17 million) for severance payments and €35 million (2014: €1 million) for other restructuring expenses, which mainly comprised other costs related to the closure of production facilities.

Trade-related commitments

Provisions for trade-related commitments primarily comprised provisions for rebates, pending losses and onerous contracts.

Litigations

The legal risks currently considered to be material, and their development, are described in Note 28.

Personnel commitments

Provisions for personnel commitments mainly include those for variable one-time payments under short-term incentive programs, credit balances on long-term accounts, service awards, early retirements, pre-retirement part-time working arrangements and other personnel costs. Also reflected here are the obligations under the stock-based compensation programs. Provisions for severance payments resulting from restructuring are reflected in provisions for restructuring.

Stock-based compensation programs

Until December 31, 2015, Covestro retained the Bayer Group's stock-based compensation programs, as explained in more detail in the following paragraphs. These are offered collectively to different groups of employees. As required by IFRS 2 (Share-based Payment) for compensation systems involving cash settlement, awards to be made under the stock-based programs are covered by provisions in the amount of the fair value of the obligations existing as of the date of the financial statements vis-à-vis the respective employee group. All resulting valuation adjustments are recognized in profit or loss.

The following table shows the changes in provisions for the various programs.

Changes in Provisions for Stock-Based Compensation Programs

	Aspire I	Aspire II	Total
	€ million	€ million	€ million
December 31, 2014	**19**	**38**	**57**
Changes due to legal separation	–	4	4
Additions	12	35	47
Utilization	(7)	(11)	(18)
Reversal	(3)	(9)	(12)
Exchange differences	(1)	3	2
December 31, 2015	**20**	**60**	**80**

The value of the Aspire tranches that were fully earned at the end of 2015, resulting in payments at the beginning of 2016, was €29 million (2014: €17 million).

The net expense for all stock-based compensation programs in 2015 was €31 million (2014: €26 million), including €1 million (2014: €1 million) for the BayShare stock participation program. In previous years and until the long-term incentive programs (Aspire I and Aspire II) were locked in 2015, the fair value of obligations under the standard stock-based compensation programs was calculated using the Monte Carlo simulation method.

Long-term incentive programs for executives

Due to the legal separation from the Bayer Group, a binding closing price effective December 31, 2015, was determined for the incentive programs for Covestro employees described below. However, the vesting phase will continue until 2018.

Long-term incentive program for senior executives (Aspire I)

Senior executives were entitled to participate in Aspire I on the condition that they purchased a certain number of Bayer shares – determined for each individual according to specific guidelines – and retained them for the full term of the program. A percentage of the executive's annual base salary – based on his / her position – was defined as a target for variable payments (Aspire target opportunity). Depending on the performance of Bayer stock, both in absolute terms and relative to the EURO STOXX 50 benchmark index during a four-year performance period, participants were granted an award of up to 300% of their individual Aspire target opportunity. For the 2012–2015 performance period that ended on December 31, 2015, payment of the award was made at the beginning of January on the basis of the performance of Bayer stock, based on the initial price in January 2012 through to the final price determined as the average price for the last 30 days of trading in 2015. For the three ongoing performance periods 2013–2016, 2014–2017 and 2015–2018, the calculation was based on the final price of Bayer stock for the 2012–2015 tranche and defined in advance as the binding final price. An award payout of 100% is guaranteed.

Long-term incentive program for middle management (Aspire II)

Aspire II was offered for other executives, i.e. middle managers and managerial employees. It corresponds in principle with the Aspire I program but did not require a personal investment in Bayer shares. Furthermore, the amount of the award was based entirely on the absolute performance of Bayer stock. The maximum award was 250% of each manager's Aspire target opportunity. As for Aspire I, payment of the award for the 2012 program will be made at the start of January on the basis of the performance of Bayer stock, based on the initial price in January 2012 through to the final price determined as the average price for the last 30 days of trading in 2015. For the remaining three performance periods, the same price will be applied for calculating the award and defined in advance as the binding final price. As for Aspire I, an award payout of 100% is guaranteed.

BayShare 2015

All management levels and non-managerial employees were offered an annual stock participation program known as BayShare, under which Covestro subsidized their personal investments in Bayer's stock. The discount under this program is set separately each year. In 2015, it was 20% (2014: 20%) of the subscription amount. Employees stated a fixed amount that they wished to invest in shares. The maximum subscription amount in Germany was set at €2,500 (2014: €2,500) or €5,000 (2014: €5,000), depending on the employee's position. The shares thus acquired must be retained until December 31 of the year following the year of purchase, irrespective of continued employment with the Covestro Group.

In 2015, employees purchased a total of about 34,200 shares (2014: 35,400 shares) under the BayShare program.

Miscellaneous

Miscellaneous provisions included those for other liabilities, product liability and guarantees.

23. Financial Liabilities

Financial liabilities were comprised as follows.

Financial Liabilities

	Dec. 31, 2014		Dec. 31, 2015	
	Total	Of which current	Total	Of which current
	€ million	€ million	€ million	€ million
Liabilities to banks	516	214	482	384
Liabilities under finance leases	307	28	298	30
Liabilities from derivatives	5	5	31	29
Other financial liabilities	3,894	3,696	2,070	2,064
Total	**4,722**	**3,943**	**2,881**	**2,507**

The other financial liabilities largely pertained to loans from Bayer Antwerpen NV, Diegem, Belgium, that serve to cover the short-term financing of the Covestro Group's day-to-day business.

A breakdown of financial liabilities by contractual maturity is given below.

Maturities of Financial Liabilities

	Dec. 31, 2014		Dec. 31, 2015
Maturity	€ million	**Maturity**	€ million
2015	3,943	2016	2,507
2016	323	2017	66
2017	88	2018	65
2018	117	2019	50
2019	73	2020	33
2020 or later	178	2021 or later	160
Total	**4,722**	**Total**	**2,881**

The financial liabilities of the Covestro Group are mainly unsecured.

Finance leases

Lease payments totaling €393 million (2014: €415 million), including €95 million (2014: €108 million) in interest, are to be made under finance leases to the respective lessors in future years. The liabilities under finance leases mature as follows:

Leasing Liabilities

	31.12.2014				31.12.2015		
	Lease payments	Interest component	Liabilities under finance leases		Lease payments	Interest component	Liabilities under finance leases
Maturity	€ million	€ million	€ million	Maturity	€ million	€ million	€ million
2015	46	19	28	2016	48	18	30
2016	45	17	28	2017	46	16	30
2017	43	16	27	2018	44	14	30
2018	41	13	28	2019	43	12	31
2019	41	11	29	2020	43	10	33
2020 or later	199	32	167	2021 or later	169	25	144
Total	**415**	**108**	**307**	**Total**	**393**	**95**	**298**

Other information

As of December 31, 2015, the Covestro Group had credit facilities at its disposal totaling €3,187 million (2014: €520 million), of which €482 million (2014: €516 million) was used and €2,705 million (2014: €4 million) was unused and thus available for borrowing on an unsecured basis.

Further information on the accounting for liabilities from derivatives is given in Note 26.3.

24. Trade Accounts Payable

Trade accounts payable comprised €1,403 million due within one year (2014: €1,521 million due within one year; €1 million due after one year).

25. Other Liabilities

Other liabilities were comprised as follows.

Other Liabilities

	Dec. 31, 2014		Dec. 31, 2015	
	Total	Of which current	Total	Of which current
	€ million	€ million	€ million	€ million
Other tax liabilities	111	111	67	67
Deferred income	25	12	26	12
Liabilities to employees	21	21	34	34
Liabilities for social expenses	14	11	17	17
Accrued interest on liabilities	14	14	9	9
Liabilities to noncontrolling interest	–	–	–	–
Miscellaneous liabilities	93	79	45	30
Total	**278**	**248**	**198**	**169**

The deferred income included €11 million (2014: €12 million) in grants and subsidies received from governments, of which €2 million (2014: €2 million) was reversed and recognized in profit or loss.

The miscellaneous liabilities included €8 million (2014: €14 million) from derivatives and a purchase price payment of €4 million (2014: €0 million).

26. Financial Instruments

26.1 Financial Instruments by Category

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

	Dec. 31, 2015				
		Valuation according to IAS 39			
	Carrying amount	Carried at 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	1,486				
Loans and receivables	1,486	1,486			1,486
Other financial assets	73				
Loans and receivables	23	23			35
Available-for-sale financial assets	6	5	1		6
Derivatives that qualify for hedge accounting	–				
Derivatives that do not qualify for hedge accounting	44			44	44
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	2,850	2,850			2,937
Derivatives that do not qualify for hedge accounting	31			31	31
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 (non-derivative)	4			4	4
Derivatives that qualify for hedge accounting	–				
Derivatives that do not qualify for hedge accounting	8			8	8
Nonfinancial liabilities	141				

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

					Dec. 31, 2014
		Valuation according to IAS 39			
	Carrying amount	Carried at amortized cost	Fair value recognized outside profitor loss	Fair value re-cognized 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			439
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
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
Carried at fair value (non-derivative)	–				
Derivatives that qualify for hedge accounting	3		3		3
Derivatives that do not qualify for hedge accounting	11			11	11
Nonfinancial liabilities	150				

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, 2014	Level 1	Level 2	Level 3	Fair value Dec. 31, 2015	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 qualify for hedge accounting	7		7		–			
Derivatives that do not qualify for hedge accounting	29		6	23	44		27	17
Financial assets not carried at fair value								
Receivables under leasing agreements	19			19	18			18
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	39		31	8
Other liabilities carried at fair value (non-derivative)	–				4			4
Financial liabilities not carried at fair value								
Financial liabilities	4,729		4,729		2,937		2,937	

During the fiscal year, 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.

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 (Leases).

The fair values of 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 were determined by discounting the cash flows at a closing-date interest rate observable on the market that takes into account the term of the assets or liabilities and the creditworthiness of the contractual party. For this reason, they are assigned to Level 2 of the fair value hierarchy.

The fair values of derivatives for which no publicly quoted market prices existed were 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 were determined to allow for the contracting party's credit risk. The currency forward contracts were 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 receivables, reported for information purposes, were calculated on the basis of interest curves observable in the market. Additionally, a discount for cash flows that are very far in the future was 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 that was recognized in connection with the acquisition of Thermoplast Composite GmbH, Markt Bibart, Germany. The variable portion of the purchase price is due once key personnel have fulfilled certain documentation requirements pertaining to the agreed transfer of knowledge.

Embedded derivates are separated from their respective host contracts, which are generally sales or purchase agreements relating to the operational business. As a result 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 or price indices derived from market data. If an increase of 10% in the prices or price indices is assumed at the closing date, the estimated hypothetical effect on profit and loss would be €1 million (2014: €3 million). Were prices or price indices to decrease by 10%, the hypothetical effect on profit and loss would be minus €1 million (2014: minus €3 million).

The table below shows the reconciliation of Level 3 financial instruments for fiscal 2015.

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	(6)
of which related to assets / liabilities recognized in the statements of financial position	(6)
Gains (losses) recognized outside profit or loss	–
Additions of assets / (liabilities)	(4)
Settlements of (assets) / liabilities	–
Reclassifications	–
Net carrying amounts, Dec. 31	**5**

Income, expense, gains and losses on financial instruments can be assigned to the following categories in accoradance with IAS 39 (Financial Instruments: Recognition and Measurement).

Net Result by Measurement Category in Accordance with IAS 39

	2014	2015
	€ million	€ million
Loans and receivables	65	67
of which net interest income / (expenses)	30	4
Held-to-maturity financial assets	–	–
of which net interest income / (expenses)	–	–
Available-for-sale financial assets	–	1
of which net interest income / (expenses)	–	–
Assets held for trading	(13)	(71)
of which net interest income / (expenses)	–	–
Liabilities carried at amortized cost	(139)	(143)
of which net interest income / (expenses)	(104)	(88)

The table below shows the financial assets and liabilities that form part of a master netting arrangement at the closing date but do not satisfy, or only partially satisfy, the offsetting criteria of IAS 32 (Financial Instruments: Presentation) and are only enforceable in the event of breach of contract by, or insolvency of, one of the contracting parties.

Disclosures for Netting of Financial Assets and Liabilities

	Gross amounts of financial assets / liabilites	Net amounts of financial assets / liabilties pesented in the balance sheet	Respective amounts not netted in the balance sheet	Net amounts
Dec. 31, 2015	€ million	€ million	€ million	€ million
Receivables from derivatives	24	24	16	8
Liabilities from derivatives	29	29	16	13

As far as the Covestro Group is concerned, no material netting arrangements for financial assets and liabilities existed as of December 31, 2014.

26.2 Maturity Analysis

The liquidity risks to which the Covestro Group was exposed from its financial instruments comprised obligations for interest and repayment installments on financial liabilities and payment obligations arising from derivatives.

The following tables show the maturity structure of the nondiscounted contractually agreed payments arising from these line items.

Maturity Analysis of Financial Liabilities and Derivative Financial Instruments

	Carrying amount						Contractual cash flows
	Dec. 31, 2015	2016	2017	2018	2019	2020	after 2020
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Financial liabilities							
Liabilities to banks	482	387	39	37	18	–	10
Remaining liabilities	2,368	2,111	46	44	43	43	175
Trade accounts payable	1,386	1,386	0	0	–	–	–
Other liabilities							
Accrued interest on liabilities	9	9	–	–	–	–	–
Remaining liabilities	40	32	0	–	–	–	8
Liabilities from derivatives							
Derivatives that do not qualify for hedge accounting	39	31	1	1	3	1	2
Receivables from derivatives							
Derivatives that do not qualify for hedge accounting	44	30	3	3	2	2	4
Loan commitments	–	208	–	–	–	–	–

	Carrying amount						Contractual cash flows
	Dec. 31, 2014	2015	2016	2017	2018	2019	after 2019
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Financial liabilities							
Liabilities to banks	516	231	117	67	93	45	–
Remaining liabilities	4,201	3,758	231	43	41	41	210
Trade accounts payable	1,498	1,499	0	1	–	–	–
Other liabilities							
Accrued interest on liabilities	14	14	–	–	–	–	–
Remaining liabilities	100	93	0	–	–	–	7
Liabilities from derivatives	–	–	–	–	–	–	–
Derivatives that qualify for hedge accounting	3	3	–	–	–	–	–
Derivatives that do not qualify for hedge accounting	16	9	1	1	1	1	3
Receivables from derivatives							
Derivatives that qualify for hedge accounting	7	4	–	3	–	–	–
Derivatives that do not qualify for hedge accounting	29	9	3	10	2	1	4
Loan commitments	–	–	–	–	–	–	–

In addition to the primary financial liabilities and derivative financial instruments, there was an obligation under certain conditions to make a loan of €208 million (2014: €0 million) to the effective initial fund of Bayer-Pensionskasse VVaG, which may result in payments by Covestro AG in subsequent years. This is reflected in the loan commitments shown in the table above. Further information is given in Note 27.

In this analysis, foreign currencies were translated at the closing rates. Derivative financial instruments are reported at net amounts.

26.3 Information on Derivatives

Asset and liability fair values and future cash flows are exposed to currency, interest-rate and commodity price risks. Processes to manage financial risks have been established and documented. Derivatives are used in part to reduce these risks. At the closing date there were no designated hedging relationships according to IAS 39.

As of September 1, 2015, the management of financial opportunities and risks was transferred in full to the Finance department of the Covestro Group.

Currency risks

Currency opportunities and risks for the Covestro Group result from changes in exchange rates and the related changes in the value of financial instruments (including receivables and payables) and of anticipated payment receipts and disbursements in foreign currencies. 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 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. The extent of the currency risk is represented below by a sensitivity analysis.

The currency risk shown in the sensitivity analysis results from the following:

- The unsecured portion of receivables and payables in nonfunctional currencies
- Unsecured bank deposits and liabilities to banks in nonfunctional currencies
- Currency risks from embedded derivatives

Sensitivities were determined based on a hypothetical scenario in which the euro depreciates by 10% against all other currencies compared with the year-end exchange rates. Under this scenario, the estimated hypothetical losses recognized in profit or loss as of December 31, 2015 would have been €2.6 million (2014: €3.2 million). The table below shows the distribution of these effects among the individual currencies.

Sensitivity by Currency

	2014		2015
Currency	€ million	**Currency**	€ million
GBP	(1.7)	CNY	(4.9)
AUD	(1.2)	USD	2.5
USD	(0.5)	THB	(0.8)
Other	0.2	Other	0.6
Total	(3.2)	**Total**	(2.6)

Derivatives designated for hedge accounting that are used to hedge anticipated currency exposure would have reduced other comprehensive income by €4.5 million as of December 31, 2014.

Interest-rate risks

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. At the closing date, there were no significant interest-rate risks and therefore no hedging by means of derivative financial instruments.

A sensitivity analysis based on our net floating-rate receivables and payables position at year end 2015, taking into account the interest rates relevant for our receivables and payables in all principal currencies, produced the following result. A hypothetical increase of 100 basis points, or one percentage point, in these interest rates (assuming constant currency exchange rates) would have raised our interest expense by €2.4 million. Compared with the prior year, we have changed from a retrospective to a prospective approach. A hypothetical increase of 100 basis points, or one percentage point, in the interest rates (assuming constant currency exchange rates) as of January 1, 2014, would have raised our interest expense in 2014 by €4.7 million.

Raw material price risks

The Covestro Group requires significant quantities of energy and petrochemical feedstocks for its production processes. Procurement prices for energy and raw materials may fluctuate significantly. Important raw materials are procured on the basis of long-term supply agreements and an active supplier management to minimize substantial price fluctuations. In steam and electricity generation, we aim for market-based price indexing, a diversification of fuels and a mix of external procurement and captive production to minimize the price fluctuation risk for energies. During the past fiscal year, derivative financial instruments were not used to hedge raw material price risks.

Further information on cash flow hedges

Accumulated other comprehensive income from cash flow hedges in 2015 decreased by €2 million (2014: decreased by €1 million) due to changes in the fair values of derivatives net of income taxes. Gains of €2 million (2014: €8 million) from fair-value changes – originally recognized in accumulated other comprehensive income – of derivatives designated as cash flow hedges were reclassified to profit or loss. The corresponding realized deferred tax expense was not significant (2014: €2 million).

The fair values of existing contracts in the major categories at the end of the reporting period are indicated in the following table together with the included volumes of cash flow hedges – relevant only for the prior year.

Fair Values and Notional Amounts of Derivatives

	Dec. 31, 2014			Dec. 31, 2015		
	Notional Amount[1]	Fair Value		Notional Amount[1]	Fair Value	
		Positive	Negative		Positive	Negative
	€ million	€ million	€ million	€ million	€ million	€ million
Currency hedging of recorded transactions	**630**	**3**	**(5)**	**3,571**	**27**	**(31)**
Forward exchange contracts	630	3	(5)	3,571	27	(31)
Currency hedging of forecasted transactions	**161**	**8**	**(6)**	**–**	**–**	**–**
Forward exchange contracts	121	7	(5)	–	–	–
of which cash flow hedges	71	5	(3)	–	–	–
Currency options	40	1	(1)	–	–	–
Hedging of stock-based employee compensation programs	**3**	**2**	**–**	**–**	**–**	**–**
Share price options	3	2	–	–	–	–
of which cash flow hedges	3	2	–	–	–	–

[1] The notional amount is recorded as a gross volume which also contains economically closed hedges.

27. Contingent Liabilities and Other Financial Commitments

Contingent liabilities

The following warranty contracts, guarantees and other contingent liabilities existed at the end of the reporting period.

Contingent Liabilities

	Dec. 31, 2014	Dec. 31, 2015
	€ million	€ million
Warranties	1	4
Other contingent liabilities	18	16
Total	**19**	**20**

In connection with the Contribution, Indemnification and Post-Formation Agreement between Bayer AG and Covestro AG, arrangements were made to settle possible claims for taxes. These may result in corresponding cash outflows at Covestro.

Other financial commitments

The other financial commitments were as follows.

Other Financial Commitments

	Dec. 31, 2014	Dec. 31, 2015
	€ million	€ million
Minimum lease payments under operating lease	155	405
Orders already placed for started or planned investment projects	156	76
Loan commitment to Bayer-Pensionskasse VVaG	–	208
Total	**311**	**689**

The nondiscounted future minimum lease payments relating to operating leases were as follows.

Operating Leases

	Dec. 31, 2014		Dec. 31, 2015
Maturing in	€ million	**Maturing in**	€ million
2015	40	2016	73
2016	38	2017	59
2017	19	2018	48
2018	14	2019	41
2019	11	2020	38
2020 or later	33	2021 or later	146
Total	**155**	**Total**	**405**

The increase in future minimum lease payments to €405 million (2014: €155 million) resulted mainly from newly concluded rental agreements for real estate and logistics infrastructure in the United States.

In cases where pension obligations allocable to the Covestro Group are funded through pension institutions for which Bayer is liable, it is contractually ensured that Covestro participates in funding measures that serve to guarantee the adequate funding status and / or solvency capital of these pension institutions. To this end, Covestro AG undertook in the context of its legal independence to grant Bayer-Pensionskasse VVaG an interest-bearing loan of up to €208 million for the effective initial fund as required.

28. 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.

Legal proceedings currently considered to involve material risks are outlined below. The legal proceedings referred to do not necessarily represent an exhaustive list.

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 demanded 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 has pointed out that the safety of the pipeline has been demonstrated by an expert opinion of the German Technical Inspection Association (Technischer Überwachungsverein, TÜV). The action has since been dismissed as inadmissible.

Reimbursement of the costs of CO_2 (carbon dioxide) certificates obtained by LyondellBasell Covestro Manufacturing Maasvlakte V.O.F, 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 LyondellBasell Covestro Manufacturing Maasvlakte V.O.F, Rotterdam, Netherlands. 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 LyondellBasell Covestro Manufacturing Maasvlakte V.O.F, Rotterdam, Netherlands. The Covestro Group, as a partner in the joint venture, bears 50% of any liability for potential reimbursement claims against LyondellBasell Covestro Manufacturing Maasvlakte V.O.F, Rotterdam, Netherlands Since negotiations with UCML and E.ON also failed to result in an agreement, arbitration proceedings were instigated in 2014.

OTHER INFORMATION

29. Notes to the Statements of Cash Flows

The statement of cash flows shows how cash inflows and outflows during the fiscal year affected the cash and cash equivalents of the Covestro Group. Cash flows are classified by operating, investing and financing activities in accordance with IAS 7 (Statement of Cash Flows). Effects of changes in the scope of consolidation are stated separately.

As in the prior year, there were no restrictions on the use of cash and cash equivalents.

The cash flows reported by consolidated companies outside the eurozone are translated at average exchange rates, with the exception of cash and cash equivalents, which are translated at closing rates. The "Change in cash and cash equivalents due to exchange rate movements" is reported in a separate line item.

29.1 Net Cash Provided by (Used in) Operating Activities

The net cash of €1,296 million (2014: €925 million) provided by operating activities (net cash flow) comprises the cash surplus from operating activities, the changes in working capital and other noncash transactions.

An income-tax-related net cash outflow (excluding accruals and provisions) of €194 million (2014: €73 million) is included in the net cash flow for 2015. The changes in income tax liabilities, income tax provisions and claims for reimbursement of income taxes are shown in the line item "Changes in other working capital, other noncash items."

In accordance with the separate tax return approach described under "Treatment of current and deferred income taxes" in Note 3.1, current tax receivables and tax liabilities of €149 million (2014: €67 million) that were actually to be paid by Bayer Group companies were reported as noncash items.

29.2 Net Cash Provided by (Used in) Investing Activities

Net cash outflow for investing activities in 2015 amounted to €380 million (2014: €585 million).

Additions to property, plant and equipment and intangible assets in 2015 resulted in a cash outflow of €509 million (2014: €612 million). Cash inflows from sales of property, plant and equipment and other assets amounted to €42 million (2014: €9 million).

In addition, disbursements for acquisitions totaling €14 million (2014: €0 million) were made for the acquisition of Thermoplast Composite GmbH, Markt Bibart. Further details of acquisitions and divestitures are provided in Notes 5.2 and 5.3.

The net cash inflow for noncurrent and current financial assets amounted to €95 million (2014: €12 million).

29.3 Net Cash Provided by (Used in) Financing Activities

In 2015, there was a net cash outflow of €645 million (2014: €192 million) for financing activities. In connection with the establishment of Covestro AG, €140 million was paid from the contribution to the capital stock and €1,715 million from further contributions to the capital reserves from Bayer AG. The issue of new shares by way of the IPO in October 2015 resulted in cash inflows (after deduction of the capital procurement costs) totaling €1,485 million.

These were offset by payments out of the transfer of assets and liabilities made in 2015 in the course of the legal separation of the Covestro Group.

Net loan repayments amounted to €2,069 million (2014: €157 million). The borrowings largely pertained to loans from the Bayer Group.

Net interest payments rose to €93 million (2014: €32 million).

30. Related Companies and Persons

30.1 Related Companies

Related entities as defined in IAS 24 (Related Party Disclosures) are those legal entities 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 69% interest in Covestro AG, the Bayer AG subsidiaries which are not part of the Covestro scope of consolidation, nonconsolidated subsidiaries, joint ventures, associated companies and post-employment benefit plans.

Receivables from and Liabilities to Related Parties

	Dec. 31, 2014		Dec. 31, 2015	
	Receivables	Liabilities	Receivables	Liabilities
	€ million	€ million	€ million	€ million
Bayer AG	374	108	2	14
Bayer Group companies	113	4,005	51	2,243
Nonconsolidated subsidiaries and associates	2	5	1	4
Joint ventures	2	0	1	0
Associates	4	0	4	0

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

	2014		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	18	46	12	34
Bayer Group companies	98	1,065	80	863
Nonconsolidated subsidiaries and associates	23	0	36	3
Joint ventures	15	–	7	–
Associates	10	737	13	609

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, leasing and financial services, and services performed for Covestro by the Bayer Group through its service companies Bayer Business Services GmbH, Leverkusen, Bayer Technology Services GmbH, Leverkusen, and Currenta GmbH & Co. OHG, Leverkusen (Currenta).

Of the goods and services received by Covestro from Bayer Group companies in 2015, services accounted for €773 million (2014: €989 million). However, the year-on-year comparison of goods and services received is of limited significance because some of the employees deployed (and invoiced) by the service companies in 2015 have since been transferred to the Covestro Group.

The services provided by the service companies are primarily services in the areas of information technology, accounting and HR administration (Bayer Business Services), engineering and process technology services (Bayer Technology Services) and services connected with the Chempark sites operated by Currenta, which are used jointly by Covestro and the Bayer Group. The services obtained from Currenta mainly comprise energy supplies, maintenance services, environmental services and logistics and infrastructure. The latter include in particular basic site infrastructure at the Chempark sites (for example, electricity networks, pipeline systems, site railway networks, harbor installations, wastewater treatment plants and security services).

Covestro also uses various insurance services – especially third-party liability and property insurance – provided by the wholly owned Bayer subsidiary Pallas Versicherungs AG, Leverkusen.

The services provided and received also include leasing agreements concluded with the Bayer Group in which Covestro figures as both the lessor and the lessee.

The goods and services provided by associated companies result from the ongoing operating business with PO JV, LP, Wilmington, United States.

In addition to the aforementioned transactions, Covestro in 2015 received reimbursement from Bayer AG amounting to €57 million for termination of the agreement on the joint use of Bayer trademarks.

Receivables from and payables to related parties mainly comprise leasing and financing matters, trade in goods and services and other transactions. No impairment losses were recorded on receivables from related parties in either 2015 or 2014.

During the reporting period, assets and liabilities which were not historically within the sphere of responsibility of the Covestro Group were transferred from Bayer to Covestro. Likewise, assets and liabilities which were not historically within the sphere of responsibility of the Covestro Group were transferred from Covestro to Bayer. The material transactions during the reporting period, which took place within the context of Covestro's legal separation, are described below. The consideration agreed in share and asset deals was generally based on reports from external experts and reduced equity in the case of acquisitions and increased equity in the case of divestments.

Share deals

- Acquisition of 100% of the shares of Covestro NV, Antwerp, Belgium, from Bayer Antwerpen NV, Diegem, Belgium, at a purchase price of €537 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 S.r.l., Milan, Italy, from Bayer S.p.A., Milan, Italy, at a purchase price of €107 million.
- Acquisition of 100% of the shares of Covestro, S.L., Barcelona, Spain, from Bayer AG at a purchase price of €83 million.
- Acquisition of 95.6% of the shares of Covestro (Taiwan) Ltd., Kaohsiung, Taiwan, from Bayer B.V., Mijdrecht, Netherlands, at a purchase price of €70 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 100% of the shares of Covestro B.V., Foxhol, Netherlands, from Bayer B.V., Mijdrecht, Netherlands, at a purchase price of €37 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 Polymers (Shenzhen) Co., Ltd., Shenzhen, China, from Bayer (China) Limited, Shanghai, China, at a purchase price of €16 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 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 Despí, Spain, at a purchase price of €4 million, taking account of the 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.

Asset deals

- Transfer of Covestro business operations from Bayer (China) Limited, Shanghai, China, to Covestro Polymers (China) Co., Ltd., Shanghai, China, at a purchase price of €639 million.

- By way of an agreement signed on August 28, 2015, Bayer AG and Covestro Deutschland AG, Leverkusen, agreed to release Covestro Deutschland AG, against a one-time payment, from all further obligations in connection with existing pension entitlements payable by Bayer AG to 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 obligated to reimburse to Bayer AG the proportional expenses attributable to it, provided it was not covered by a corresponding provision, as well as the proportional administrative expenses. Furthermore, 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 the way of purchase agreements. Unlike the other asset deals, the previously described assets and liabilities in 2014 were not included in the scope of combination. Like the other asset deals, these transactions are shown as withdrawals from equity by Bayer AG as stockholder and thus resulted in a capital reduction of €367 million.

- Transfer of the business operations of Bayer Thai Company Limited, Bangkok, Thailand, to Covestro (Thailand) Co., Ltd., Bangkok, Thailand, at a purchase 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.

- 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.

Contractual Relationships

- Pursuant to the shareholder resolution of August 14, 2015, and the termination agreement of August 14, 2015, the control and profit and loss transfer agreement between Bayer AG and Covestro Deutschland AG, Leverkusen, was terminated with effect from August 31, 2015. The profit and loss transfers resulted in a capital reduction of €5 million.

Cash Contributions

- Cash contributions from Bayer AG of €140 million to the capital stock of Covestro AG and €1,715 million to the capital reserves.

- Capital increase by way of a cash contribution of €70 million to Covestro Polymers (China) Co., Ltd., Shanghai, China, by Bayer (China) Limited, Shanghai, China.

- As part of the legal unbundling of the business in Thailand, Bayer AG paid a contribution of €499 million.

While the aforementioned transactions affected equity, the following transactions made during the reporting period had no effect on the equity of the Covestro Group.

- 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 99.3% 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, Leverkusen, to the capital reserves of Covestro AG with a transaction volume of €1,766 million.

The aforementioned transactions – excluding the cash contributions – were reported as transactions under common control.

Financing

As of December 31, 2015, the Covestro Group was financed by loans from Bayer Antwerpen NV, Diegem, Belgium, comprising a total credit volume of €2,060 million. These loans are intended to cover the short-term financing of the Covestro Group's day-to-day business; interest is due upon maturity and they are accounted for at amortized cost using the effective-interest method. They are related to a Syndicated Multicurrency Term and Revolving Credit Facilities Agreement with a total volume of €2,700 million (facilities agreement) 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 December 31, 2015. Transaction costs associated with the facilities agreement were accounted for as deferred expenses of €3 million. They will be allocated using the effective interest method when the loans are utilized.

As at the reporting date, Covestro's liabilities to the Bayer Group pertaining to financing measures totaled €2,082 million (2014: €3,894 million). This decline is largely due to the fact that Covestro paid back a loan from the Bayer Group.

No receivables were owed by Bayer Group companies pertaining to financing measures (2014: €416 million). The decline was largely attributable to the fact that Covestro exited the Bayer Group's internal liquidity balancing mechanism during the reporting year.

Interest income received from Bayer Group companies in fiscal 2015 amounted to €1 million (2014: €28 million). Interest expense paid to Bayer Group companies accounted for €48 million (2014: €71 million).

Other

The Bayer Group has issued debt guarantees to third parties for the benefit of Covestro which amounted to €156 million as of December 31, 2015 (2014: €513 million). In relation to Covestro, the Bayer Group is exempt from any possible liability arising from these guarantees.

30.2 Related Persons

Related persons as defined in IAS 24 are those natural persons who, on account of their function for the Covestro Group and in the interests of Bayer AG, are responsible for Covestro's global business operations. These persons include the corporate officers of Covestro AG and, until legal independence, the corporate officers of Covestro Deutschland AG, Leverkusen, who are the members of the respective boards of management and supervisory boards.

Compensation of the corporate officers

Total compensation of €12,509 thousand, including the compensation of the Supervisory Board amounting to €736 thousand (2014: €119 thousand), was paid to the corporate officers in fiscal 2015. This compensation is shown below.

Board Members Compensations according to IFRS

	2014	2015
	€ thousand	€ thousand
Total short-term compensation	4,314	10,452
Total stock-based compensation (long-term incentive)	2,654	1,297
Service cost for pension entitlements earned in the respective year	388	760
Aggregate compensation (IFRS)	**7,356**	**12,509**

Provisions of €9,257 thousand (2014: €6,453 thousand) were recognized for the short-term and long-term variable cash compensation for the members of the Board of Management serving as of December 31, 2015. The present value of the defined benefit pension obligations for the members of the Board of Management serving as of December 31, 2015, was €7,173 thousand (2014: €3,255 thousand).

From 2016, the members of the Board of Management are entitled to participate in the Prisma long-term stock-based compensation program, provided they hold an individually defined number of Covestro shares as specified by the guidelines and for as long as they are employed by the Covestro Group.

The compensation of the Supervisory Board is exclusively non-performance-related. In addition to their compensation as members of the Supervisory Board, those employee representatives who are employees of Covestro Group companies receive compensation unrelated to their service on the Supervisory Board. The total amount of such compensation in 2015 was €476 thousand (2014: €430 thousand). Pension obligations for employee representatives on the Supervisory Board amounted to €2,559 thousand (2014: €2,190 thousand).

There were no advances or loans to members of the Board of Management or the Supervisory Board outstanding as of December 31, 2015, or at any time during 2015 or 2014.

31. Audit Fees

Since the establishment of Covestro AG on August 20, 2015, the following fees were recognized as expenses for the services provided by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC AG WPG).

Audit Fees

	PwC AG WPG
	2015
	€ million
Financial statements auditing	2
Audit-related services and other audit work	1
Tax consultancy	–
Other services	–
Total	**3**

The fees for the auditing of financial statements mainly comprise those for the audits of the consolidated financial statements of the Covestro Group and the financial statements of Covestro AG and its subsidiaries. The fees for other audit-related services also relate to the preparation of the comfort letter. Before August 20, 2015, costs of €6 million were incurred for the audit of the Combined Financial Statements.

32. Events After the End of the Reporting Period

Since January 1, 2016, no events of special significance have occurred that we expect to have a material impact on the financial position and results of operations of the Covestro Group.

Leverkusen, February 17, 2016
Covestro AG
The Board of Management

RESPONSIBILITY STATEMENT

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

Leverkusen, February 17, 2016
Covestro AG
The Board of Management

Patrick Thomas (Vorsitzender)

Frank H. Lutz

Dr. Klaus Schäfer

Dr. Markus Steilemann

REPORT OF THE INDEPENDENT AUDITORS OF THE CONSOLIDATED FINANCIAL STATEMENTS

To Covestro Aktiengesellschaft, Leverkusen

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Covestro Aktiengesellschaft and its subsidiaries, which comprise the consolidated income statement and consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and the notes to the consolidated financial statements for the business year from January 1, 2015 to December 31, 2015.

Board of Management's Responsibility for the Consolidated Financial Statements

The Board of Management of Covestro Aktiengesellschaft is responsible for the preparation of these consolidated financial statements. This responsibility includes that these consolidated financial statements are prepared in accordance with International Financial Reporting Standards, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) and that these consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The Board of Management is also responsible for the internal controls as the Board of Management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standards on Auditing (ISA). Accordingly, we are required to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The selection of audit procedures depends on the auditor's professional judgment. This includes the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In assessing those risks, the auditor considers the internal control system relevant to the entity's preparation of consolidated financial statements that give a true and fair view. The aim of this is to plan and perform audit procedures that are appropriate in the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

According to § 322 Abs. 3 Satz (sentence) 1 HGB, we state that our audit of the consolidated financial statements has not led to any reservations.

In our opinion based on the findings of our audit, the consolidated financial statements comply, in all material respects, with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as at December 31, 2014 as well as the results of operations for the business year then ended, in accordance with these requirements.

Report on the Combined Management Report

We have audited the accompanying Group management report of Covestro Aktiengesellschaft for the business year from January 1, 2015 to December 31, 2015, which is combined with the management report of the company. The Board of Management of Covestro Aktiengesellschaft is responsible for the preparation of the combined management report in accordance with the requirements of German commercial law applicable pursuant to § 315a Abs. 1 HGB. We conducted our audit in accordance with § 317 Abs. 2 HGB and German generally accepted standards for the audit of the combined management report promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Accordingly, we are required to plan and perform the audit of the combined management report to obtain reasonable assurance about whether the combined management report is consistent with the consolidated financial statements and the audit findings, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

According to § 322 Abs. 3 Satz 1 HGB, we state that our audit of the combined management report has not led to any reservations.

In our opinion based on the findings of our audit of the consolidated financial statements and combined management report, the combined management report is consistent with the consolidated financial statements, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Essen, February 18, 2016
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Petra Justenhoven Wirtschaftsprüferin	Dietmar Prümm Wirtschaftsprüfer

FURTHER INFORMATION

GOVERNANCE BODIES

Supervisory Board

Name	Function	Position	Memberships on other supervisory boards
Dr. Richard Pott	Chairman	• Graduate physicist	• Chair of the Supervisory Board of Covestro Deutschland AG • Member of the Supervisory Board of Freudenberg SE • Member of the Supervisory Board of SCHOTT AG
Petra Kronen	Vice Chair	• Chair of the Works Council of Covestro Deutschland AG at the Uerdingen site • Employee of Covestro Deutschland AG	• Vice Chair of the Supervisory Board of Covestro Deutschland AG • Member of the Supervisory Board of Bayer AG • Member of the Supervisory Board of Bayer Beistandskasse
Ferdinando Falco Beccalli		• Chairman of the Board of Falco Enterprises AG	• Member of the Supervisory Board of Covestro Deutschland AG
Dr. Christine Bortenlänger		• Executive Member of the Board of Deutsches Aktien-institut e.V.	• Member of the Supervisory Board of Covestro Deutschland AG • Member of the Supervisory Board of OSRAM GmbH • Member of the Supervisory Board of OSRAM Licht AG • Member of the Supervisory Board of SGL Carbon SE • Member of the Supervisory Board of TUV SÜD Aktiengesellschaft • Member of the Supervisory Board of ERGO Versicherungsgruppe AG (until March 27, 2015)
Johannes Dietsch		• Member of the Board of Management of Bayer AG	• Member of the Supervisory Board of Covestro Deutschland AG • Chair of the Supervisory Board of Bayer Business Services GmbH
Dr.-Ing. Thomas Fischer		• Chairman of the Managerial Employees' Commitee of Covestro Deutschland AG • Manager of Covestro Deutschland AG	• Member of the Supervisory Board of Covestro Deutschland AG • Member of the Supervisory Board of Bayer AG • Member of the Supervisory Board of Bayer-Pensionskasse VVaG
Peter Hausmann		• Member of the Executive Committee of the German Mining, Chemical and Energy Industrial Union (IG BCE)	• Member of the Supervisory Board of Covestro Deutschland AG • Member of the Supervisory Board of Bayer AG (until October 2015) • Member of the Supervisory Board of Henkel AG & Co. KGaA • Member of the Supervisory Board of Continental AG • Vice Chair of the Supervisory Board of 50Hertz Transmission GmbH • Vice Chair of the Supervisory Board of Vivawest GmbH • Vice Chair of the Supervisory Board of Vivawest Wohnen GmbH
Irena Küstner		• Member of the Works Council of Covestro Deutschland AG • Employee of Covestro Deutschland AG	• Member of the Supervisory Board of Covestro Deutschland AG
Michael Mostert		• Lawyer and Secretary of the German Mining, Chemical and Energy Industrial Union (IG BCE)	• Member of the Supervisory Board of Covestro Deutschland AG
Prof. Dr. Rolf Nonnenmacher		• Certified Accountant	• Member of the Supervisory Board of Covestro Deutschland AG • Member of the Supervisory Board of Continental AG • Member of the Supervisory Board of ProSiebenSat.1 Media SE
Regine Stachelhaus		• Lawyer	• Member of the Supervisory Board of Covestro Deutschland AG • Member of the Supervisory Board of SPIE GmbH • Director of SPIE SA, France • Non-executive director of ComputaCenter plc, United Kingdom
Sabine Wirtz		• Substitute Member of the Works Council of Covestro Deutschland AG • Employee of Covestro Deutschland AG	• Member of the Supervisory Board of Covestro Deutschland AG

Members of Commitees

Presidial Committee / Mediation Committee	Nominations Committee	Audit Committee	Human Resources Committee
Dr. Richard Pott (Chair)	Dr. Richard Pott	Prof. Dr. Rolf Nonnenmacher (Chair)	Dr. Richard Pott (Chair)
Peter Hausmann	Regine Stachelhaus	Johannes Dietsch	Johannes Dietsch
Petra Kronen		Peter Hausmann	Dr.-Ing. Thomas Fischer
Regine Stachelhaus		Petra Kronen	Petra Kronen
		Irena Küstner	
		Dr. Richard Pott	

Board of Management

Name	Position	Areas of responsibility	Memberships on other supervisory boards
Patrick Thomas	Chairman of the Board of Management	• Sustainability • Strategy • Communications • Corporate Audit • Corporate Office • Polycarbonates • Coatings, Adhesives, Specialties • Human Resources	• Member of the Supervisory Board of Bayer Technology Services GmbH (until August 31, 2015) • Non-executive director BG Group plc, United Kingdom
Frank H. Lutz	Member of the Board of Management Labor Director	• Finance • Taxes • Accounting • Controlling • Law, Intellectual Property Rights & Compliance • Information Technology • Portfolio and Project Management • Investor Relations	• Member of the Supervisory Board of Nordex SE
Dr. Klaus Schäfer	Member of the Board of Management	• Production & Technology • Engineering • Investment Coordination & Analysis • Health, Safety, Environment • Procurement • Basic Chemicals	
Dr. Markus Steilemann	Member of the Board of Management	• Innovation • Polyurethanes	

GLOSSARY

A

Adjusted EBIT
Earnings before financial result and taxes before special items

Adjusted EBITDA
Earnings before financial result, taxes, depreciation and amortization before special items

AktG / German Stock Corporation Act
Regulates the legal provisions pertaining to German stock corporations

APAC
Comprises all countries in the Asia and Pacific region in which Covestro is active

C

CFRoI / cash flow return on investment
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 from the prior year in externally sold volumes in thousand tons. 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.

Cost of capital
Weighted average cost of capital from the cost of equity and the cost of debt

CVA / cash value added
The difference between the gross cash flow and gross cash flow hurdle; it is thus the amount by which the gross cash flow exceeds the return and reproduction requirements. If the CVA is positive, the investors' return and reproduction requirements have been satisfied and value has been created for the company.

D

DCGK / German Corporate Governance Code
A set of regulations compiled by the Government Commission on the German Corporate Governance Code in respect of responsible corporate governance, which contains recommendations and suggestions for the management and oversight of listed corporations in Germany

Due diligence
Investigation and analysis of a company, especially in respect of its economic, legal, tax and financial position

E

EBIT / earnings before interest and taxes
Net income / loss before financial result and taxes

EBITDA / earnings before interest, taxes, depreciation and amortization
Net income / loss before financial result, taxes, depreciation and amortization

ECETOC / European Centre for Ecotoxicology and Toxicology of Chemicals
Chemical industry organization which aims to identify and investigate potential adverse effects on health and the environment arising from the manufacture and use of chemicals

ECHA / European Chemicals Agency
Regulates the technical, scientific and administrative aspects of the registration, assessment and authorization of chemicals

EEG / German Renewable Energies Act
Law to foster the use of renewable energies which regulates feed-in to the grid of electricity from renewable sources and guarantees fixed feed-in remuneration; also contains special provisions for energy-intensive industrial enterprises

EHS / environment, health and safety
Environment, health and safety

EMEA
Comprises all countries in Europe, the Middle East and Africa in which Covestro is active

EMLA
Comprises all countries in Europe, the Middle East, Africa and Latin America (excluding Mexico) in which Covestro is active

F

Financing cash flow
Cash flow from financing activities according to IAS 7

FOCF / free operating cash flow
Operating cash flow less cash outflows for property, plant, equipment and intangible assets

G

GDP / gross domestic product
Total value of all goods and services produced within a country's borders in the course of a year, net of intermediate output

GHG Protocol / Greenhouse Gas Protocol
International accounting system for greenhouse gas emissions developed by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD)

GHS / Globally Harmonized System
Standardized global system for classifying and labeling chemicals

GPS / Global Product Strategy
Initiative of the International Council of Chemical Associations (ICCA) with the aim of anchoring uniform global standards for product safety in the chemical industry

GRI / Global Reporting Initiative
Guidelines for the preparation of sustainability reports by companies, governments and nongovernmental organizations (NGOs)

Gross cash flow
Operating cash flow disregarding changes in inventories, trade accounts receivable and payable, other working capital and other noncash items

H

HDI / hexamethylene diisocyanate
A chemical compound from the class of aliphatic isocyanates, primarily used in polyurethane coating systems

HGB / German Commercial Code
Comprises much of German accounting legislation

HSEQ
Health, safety, environment and quality

I

IAS / International Accounting Standards
International accounting standards as endorsed by the European Union

ICS / internal control system
Internal control system to ensure compliance with directives by means of technical and organizational rules

IEA / International Energy Agency
Autonomous organization within the Organisation for Economic Co-operation and Development (OECD) comprising 29 member states which seeks to contribute to a safe, sustainable and economical energy supply that is environmentally and climate-friendly

IFRS / International Financial Reporting Standards
International accounting standards as endorsed by the European Union

Investing cash flow
Cash flow from investment activities according to IAS 7

IPDI / isophorone diisocyanate
A chemical compound from the class of aliphatic isocyanates, primarily used in polyurethane coating systems

IPO / initial public offering
Stock market listing or initial offering of a company's shares on the organized capital market

L

LATAM
All countries in Latin America (excluding Mexico) in which Covestro is active

LoPC / loss of primary containment
Leaks of chemicals in amounts above defined thresholds leaking from their primary containers, such as pipelines, pumps, tanks and drums

LTRIR / lost time recordable rate
Rate of recordable injuries with lost workdays

M

MDI / diphenylmethane diisocyanate
A chemical compound from the class of aromatic isocyanates, primarily used in polyurethane foams and coating systems

N

NAFTA
Region comprising the United States, Canada and Mexico in which Covestro is active

Net financial debt
Interest-bearing liabilities (excl. pension obligations) less liquid assets

Net income
Income after income taxes that is attributable to the stockholders

NOPAT / net operating profit after taxes
Adjusted operating result (adjusted EBIT) after taxes

O

ODS / ozone depleting substances
Substances which contribute to the depletion of the ozone layer

OHSAS 18001 / Occupational Health and Safety Assessment Series
The internationally recognized standard OHSAS 18001 is the basis of an occupational safety management system.

OPEC / Organization of the Petroleum Exporting Countries
Headquartered in Vienna, Austria; sets joint price and volume policies

Operating cash flow (net cash flow)
Cash flow from operating activities according to IAS 7

R

REACH Regulation
Registration, Evaluation, Authorisation and Restriction of Chemicals Regulation (EC) No. 1907 / 2006 which came into force in 2007 and harmonizes EU chemicals legislation

Responsible Care™
Initiative by the German Chemical Industry Association (VCI) aimed at continuously improving health, environmental protection and safety in its member states

RIR / recordable incident rate
Total number of recordable incidents per 100 full-time employees

ROCE / return on capital employed
Ratio of adjusted earnings after taxes to the capital employed

S

Stakeholders
Internal and external interest groups which are directly or indirectly impacted by the company's corporate activities and / or may be so in the future

STRUCTese™ / Structured Efficiency System for Energy
The Structese™ energy management system has been introduced at 58 particularly energy-intensive facilities in Europe, Asia and North America; this enables the individual energy consumption of the production plants to be optimally controlled and reduced by an average of one tenth.

T

TDI / toluene diisocyanate
A chemical compound from the class of aromatic isocyanates, primarily used in polyurethane foams and coating systems

TOC / total organic carbon
The sum of all organic carbon in a water sample

TOPPS / Top Performance in Process and Plant Safety
Covestro's group-wide process and plant safety initiative

U

U.N. Global Compact
The world's largest responsible corporate governance initiative; the member companies undertake to implement ten universal principles and regularly document their progress.

UCML / Utility Centre Maasvlakte Leftbank
Dutch subsidiary of E.ON SE

V

VC / 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

VCI / Verband der chemischen Industrie – German Chemical Industry Association
German chemical industry association

VOC / volatile organic compounds
Organic substances which are in gaseous form at low temperatures

W

WACC / Weighted Average Cost of Capital
Weighted average cost of capital reflecting the expected return on the company's equity and debt capital

WBCSD / World Business Council for Sustainable Development
Organization of CEOs who see themselves as pioneers in the sustainable development of industry, society and the environment

World-scale plants
Covestro defines world-scale plants in terms of their production capacity in kilotons per year:
- TDI plants from 300 kilotons per year
- MDI plants from 400 kilotons per year
- Polyether polyol plants from 300 kilotons per year
- Polycarbonate plants with a single production line from 100 kilotons per year

WpHG / German Securities Trading Act
Regulates securities trading and serves to protect investors by monitoring securities services providers

SEGMENT INFORMATION 4TH QUARTER

	Polyurethanes		Polycarbonates		Coatings, Adhesives, Specialties		Others / Consolidation		Covestro Group	
	4th quarter 2014	4th quarter 2015	4th quarter 2014	4th quarter 2015	4th quarter 2014	4th quarter 2015	4th quarter 2014	4th quarter 2015	4th quarter 2014	4th quarter 2015
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales	**1,593**	**1,385**	**742**	**759**	**464**	**477**	**181**	**177**	**2,980**	**2,798**
Change in sales										
Volume		+2.7%		–0.3%		0,0%		+2.8%		+1.5%
Price		–20.0%		–3.9%		–2.2%		–7.2%		–12.4%
Currency		+4.2%		+6.5%		+5.0%		+2.2%		+4.8%
Portfolio		0,0%		0.0%		0.0%		0.0%		0.0%
Core volume growth		**+4.9%**		**+0.8%**		**+0.2%**				**+3.3%**
Sales by region										
EMLA	695	583	261	268	230	229	121	137	1,307	1,217
NAFTA	463	453	177	185	99	112	50	35	789	785
APAC	435	349	304	306	135	136	10	5	884	796
EBITDA	**95**	**(22)**	**18**	**122**	**90**	**83**	**(15)**	**(51)**	**188**	**132**
Adjusted EBITDA	**101**	**63**	**33**	**123**	**91**	**84**	**(15)**	**(14)**	**210**	**256**
EBIT	**2**	**(157)**	**(24)**	**70**	**70**	**60**	**(20)**	**(53)**	**28**	**(80)**
Adjusted EBIT	**9**	**(55)**	**(9)**	**70**	**70**	**60**	**(19)**	**(16)**	**51**	**59**
Depreciation, amortization, impairment losses	**93**	**135**	**42**	**52**	**20**	**23**	**5**	**2**	**160**	**212**
Working capital	**(98)**	**(263)**	**(67)**	**(13)**	**(28)**	**(49)**	**1**	**(2)**	**(192)**	**(327)**
Operating cash flow (net cash flow)	**194**	**407**	**118**	**179**	**103**	**155**	**(1)**	**(191)**	**414**	**550**
Cash outflows for capital expenditures	**94**	**80**	**87**	**39**	**49**	**38**	**9**	**–**	**239**	**157**
Free operating cash flow	**100**	**327**	**31**	**140**	**54**	**117**	**(10)**	**(191)**	**175**	**393**

SEGMENT INFORMATION FULL YEAR

	Polyurethanes		Polycarbonates		Coatings, Adhesives, Specialties		Others / Consolidation		Covestro Group	
	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales	**6,282**	**6,088**	**2,822**	**3,172**	**1,928**	**2,093**	**729**	**729**	**11,761**	**12,082**
Change in sales										
Volume		+2.1%		+4.6%		+2.1%		+0.2%		+2.6%
Price		–12.4%		–2.6%		–1.1%		–3.8%		–7.7%
Currency		+7.2%		+10.4%		+7.6%		+3.6%		+7.8%
Portfolio		0.0%		0.0%		0.0%		0.0%		0.0%
Core volume growth		**+1.8%**		**+5.2%**		**+2.7%**				**+2.7%**
Sales by region										
EMLA	2,866	2,631	1,065	1,134	1,034	1,043	528	549	5,493	5,357
NAFTA	1,817	1,956	646	765	394	486	165	149	3,022	3,356
APAC	1,599	1,501	1,111	1,273	500	564	36	31	3,246	3,369
EBITDA	**584**	**487**	**132**	**558**	**435**	**484**	**(29)**	**(110)**	**1,122**	**1,419**
Adjusted EBITDA	**592**	**624**	**160**	**560**	**437**	**491**	**(28)**	**(34)**	**1,161**	**1,641**
EBIT	**233**	**26**	**(32)**	**374**	**354**	**397**	**(38)**	**(117)**	**517**	**680**
Adjusted EBIT	**242**	**201**	**(3)**	**376**	**359**	**406**	**(37)**	**(41)**	**561**	**942**
Depreciation, amortization, impairment losses	**351**	**461**	**164**	**184**	**81**	**87**	**9**	**7**	**605**	**739**
Working capital	**1,127**	**918**	**369**	**494**	**362**	**373**	**85**	**81**	**1,943**	**1,866**
Operating cash flow (net cash flow)	**405**	**863**	**186**	**328**	**307**	**426**	**27**	**(144)**	**925**	**1,473**
Cash outflows for capital expenditures	**280**	**209**	**210**	**190**	**113**	**107**	**9**	**3**	**612**	**509**
Free operating cash flow	**125**	**654**	**(24)**	**138**	**194**	**319**	**18**	**(147)**	**313**	**964**

QUARTERLY OVERVIEW

	1st quarter 2014	2nd quarter 2014	3rd quarter 2014	4th quarter 2014	1st quarter 2015	2nd quarter 2015	3rd quarter 2015	4th quarter 2015
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales	**2,826**	**2,893**	**3,062**	**2,980**	**3,054**	**3,210**	**3,020**	**2,798**
Polyurethanes	1,507	1,530	1,652	1,593	1,554	1,637	1,512	1,385
Polycarbonates	660	695	725	742	765	829	819	759
Coatings, Adhesives, Specialties	471	487	506	464	535	562	519	477
Core volume growth	**+7.6%**	**+5.4%**	**+4.5%**	**+1.9%**	**+1.7%**	**+6.8%**	**– 0.7%**	**+3.3%**
Adjusted EBITDA	**364**	**261**	**326**	**210**	**416**	**498**	**471**	**256**
Polyurethanes	216	113	162	101	163	223	175	63
Polycarbonates	44	44	39	33	116	150	171	123
Coatings, Adhesives, Specialties	110	112	124	91	133	137	137	84
EBIT	**214**	**100**	**175**	**28**	**206**	**267**	**287**	**(80)**
Polyurethanes	130	28	73	2	31	92	60	(157)
Polycarbonates	3	(8)	(3)	(24)	73	104	127	70
Coatings, Adhesives, Specialties	90	88	106	70	111	113	113	60
Financial result	**(33)**	**(23)**	**(35)**	**(45)**	**(41)**	**(46)**	**(56)**	**(32)**
Income before income taxes	**181**	**77**	**140**	**(17)**	**165**	**221**	**231**	**(112)**
Income after taxes	**125**	**53**	**100**	**(1)**	**118**	**154**	**161**	**(81)**
Net income	**124**	**54**	**99**	**(5)**	**115**	**152**	**160**	**(84)**
Gross cash flow	**327**	**227**	**274**	**188**	**339**	**387**	**313**	**116**
Operating cash flow (net cash flow)	**3**	**151**	**357**	**414**	**184**	**360**	**379**	**550**
Cash outflows for capital expenditures	**100**	**139**	**134**	**239**	**94**	**130**	**128**	**157**
Free operating cash flow	**(97)**	**12**	**223**	**175**	**90**	**230**	**251**	**393**

Financial Calendar

Q1 2016 Interim Report	**April 25***
Annual Stockholders' Meeting 2016	**May 3**
Half-Year Financial Report 2016	**July 26***
Q3 2016 Interim Report	**October 25***

*Publication date to be confirmed

MASTHEAD

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Covestro AG
Kaiser-Wilhelm-Allee 60
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Email: info@covestro.com

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Cologne / Munich, Germany

Sustainability consultant
pro.mara consulting GmbH
Hamburg, Germany

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IR contact
Email: ir@covestro.com

Press contact
Email: communications@covestro.com

Covestro AG
Kaiser-Wilhelm-Allee 60
51373 Leverkusen
Germany
Email: info@covestro.com

covestro.com