INTERIM REPORT

Financial Report as of June 30, 2016

Half-Year Financial Report

Covestro Group Key Data

	2nd quarter 2015	2nd quarter 2016	Change	1st half 2015	1st half 2016	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth[1,2]	**+6.7%**	**+7.7%**		**+4.2%**	**+8.1%**	
Sales	**3,210**	**2,990**	**−6.9**	**6,264**	**5,865**	**−6.4**
Change in sales						
Volume	+7.4%	+4.5%		+4.8%	+4.9%	
Price	−6.4%	−8.7%		−5.4%	−9.6%	
Currency	+10.0%	−2.7%		+10.1%	−1.7%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
Sales by region						
EMLA[3]	1,420	1,340	−5.6	2,788	2,641	−5.3
NAFTA[4]	888	787	−11.4	1,719	1,569	−8.7
APAC[5]	902	863	−4.3	1,757	1,655	−5.8
EBITDA[6]	**439**	**542**	**+23.5**	**832**	**1,050**	**+26.2**
Adjusted EBITDA[7]	**498**	**542**	**+8.8**	**914**	**1,050**	**+14.9**
EBIT[8]	**267**	**364**	**+36.3**	**473**	**704**	**+48.8**
Adjusted EBIT[9]	**327**	**364**	**+11.3**	**578**	**704**	**+21.8**
Financial result	**(46)**	**(45)**	**−2.2**	**(87)**	**(123)**	**−41.4**
Net income[10]	**152**	**230**	**+51.3**	**267**	**412**	**+54.3**
Operating cash flow[11]	**360**	**316**	**−12.2**	**544**	**440**	**−19.1**
Cash outflows for additions to property, plant and equipment and intangible assets	**130**	**79**	**−39.2**	**224**	**126**	**−43.8**
Free operating cash flow[12]	**230**	**237**	**+3.0**	**320**	**314**	**−1.9**

1 Core volume growth refers to the core products in the Polyurethanes, Polycarbonates and Coatings, Adhesives, Specialties segments. It is calculated as the percentage change in externally sold volumes in thousand tons compared 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 Reference values calculated based on the definition of the core business effective March 31, 2016
3 EMLA: Europe, Middle East, Africa and Latin America (excl. Mexico) region
4 NAFTA: United States, Canada and Mexico region
5 APAC: Asia and Pacific region
6 EBITDA: EBIT plus depreciation and amortization
7 Adjusted EBITDA: EBITDA before special items
8 EBIT: Income after income taxes plus financial result and income taxes
9 Adjusted EBIT: EBIT before special items
10 Net income: income after income taxes attributable to the stockholders of Covestro AG
11 Operating cash flow: cash flow from operating activities according to IAS 7
12 Free operating cash flow: operating cash flow less cash outflows for additions to property, plant, equipment and intangible assets

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About This Report

Reporting Principles

The consolidated interim report of Covestro AG meets the requirements for a half-yearly financial report pursuant to the applicable provisions of the German Securities Trading Act (WpHG) and in accordance with Section 37w of the German Securities Trading Act comprises condensed consolidated interim financial statements, an interim Group management report and a responsibility statement. The consolidated interim financial statements were prepared in accordance with IAS 34 according to the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB) as endorsed by the European Union (EU) and in effect at the closing date, as well as their Interpretations. This consolidated interim report should be read alongside the annual report for fiscal 2015 and the additional information about the company contained therein.

Forward-Looking Statements

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

Rounding

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

Percentage Deviations

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

Reference Period

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

Alternative Performance Measures

Covestro uses alternative performance measures (APM) to assess the performance of the Group which are not defined in the International Financial Reporting Standards (IFRSs). Operating profitability at Covestro is measured using ROCE (return on capital employed) along with EBITDA (earnings before financial result, taxes, depreciation and amorzitation). Covestro calculates Group liquidity using free operating cash flow (operating cash flow in accordance with IAS 7 less cash outflows for additions to property, plant, equipment and intangible assets). In addition, debt is monitored using net financial debt. The sections entitled "Business Development," "Financial Position and Net Assets" and "Report on Expected Developments" contain definitions of these alternative performance measures and information on how they are calculated.

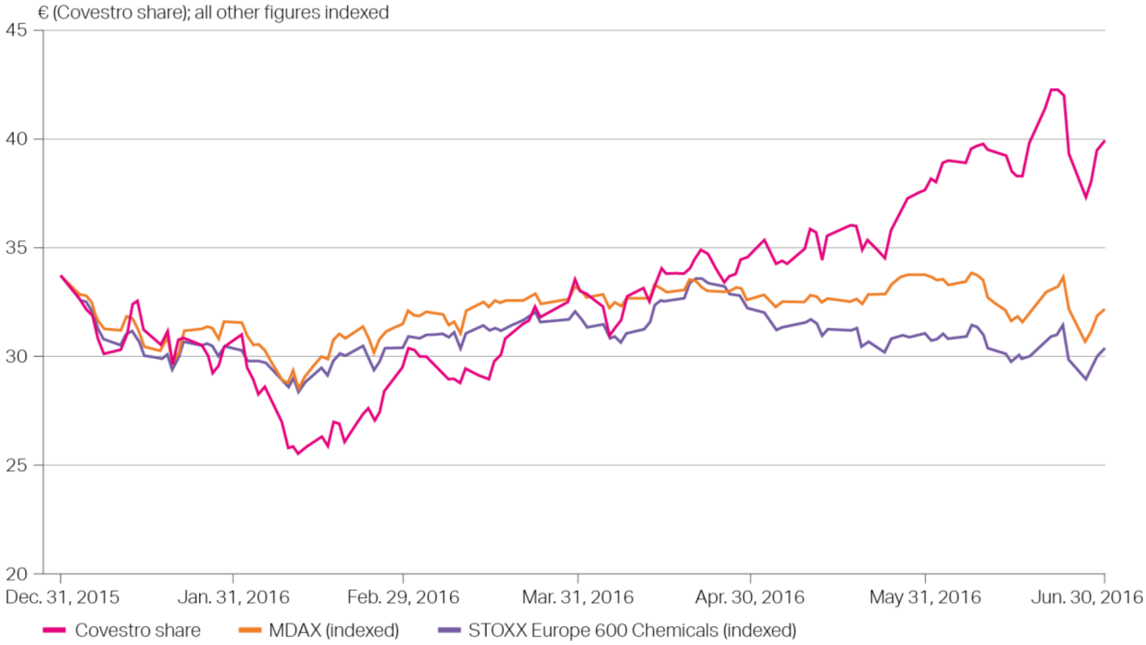
Abbreviations

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

This Interim Report was published in German and English on July 26, 2016. Only the German version is binding.

Covestro on the Capital Market

Performance of Covestro Stock Versus the Market in the First Half-Year of 2016



Covestro closing price Xetra®, source: Bloomberg

Inclusion in additional international stock indices

A few months ago, Covestro joined the MDAX and the STOXX Europe 600 indices. Now Covestro is included in two additional international stock indices. The company was added to the MSCI Global Standard Germany Index as of June 1, 2016, and to the FTSE Global Equity Index Series as of June 20, 2016. The MSCI Global Standard Germany Index is calculated by Morgan Stanley Capital International (MSCI). Its international counterpart is the MSCI World Index, which represents equity performance across 23 developed markets countries and is considered one of the world's most important stock indices. Calculated by the FTSE Group, the FTSE Global Equity Index includes 8,000 stocks from 48 countries.

Both indices are of major global importance for a number of equity funds. Inclusion in these indices makes Covestro's stock even more visible to international investors.

Successful first Capital Markets Day

On May 12, 2016, Covestro held its first Capital Markets Day in Düsseldorf. Patrick Thomas (Board of Management Chairman) showcased the company's strategy, and Frank H. Lutz (Chief Financial Officer and Labor Director) outlined Covestro's key financials. Furthermore, the heads of segments presented the Group's three segments in detail. Attendees subsequently had the opportunity to familiarize themselves with the latest product innovations and current application trends in the innovation hub at Covestro headquarters in Leverkusen.

Covestro stock in a volatile environment

Stock prices in markets in industrialized countries were deeply in negative territory in the first six months of 2016. Accordingly, the major indices such as the EURO STOXX 50 and the German benchmark DAX Index lost ground. At the end of June, the MDAX, which is relevant for Covestro, had given up 4.5% from year-end 2015, while the STOXX Europe 600 Chemicals Index shed 10.3% during the same period.

In contrast, Covestro stock finished the second quarter at a Xetra closing price of €39.95, up 18.8% since the end of 2015, thus significantly outperforming the relevant indices.

Dividend of €0.70 per share paid

At the company's first Annual Stockholders' Meeting on May 3, 2016, in Cologne, stockholders voted to approve the dividend of €0.70 per share proposed by the Board of Management and Supervisory Board of Covestro AG for the 2015 short fiscal year. This inaugural dividend was paid on May 4, 2016.

Buy recommendations from 14 analysts

An additional analyst has been covering Covestro since the second quarter of 2016, for a total of 17 investment firms covering the company's stock at the end of the quarter. A buy recommendation was issued by 14 analysts, two gave neutral assessments, and one advised investors to sell. The median share price target was €41.

Moody's Baa2 rating confirmed

On June 10, 2016, Moody's Investors Service in London again assigned Covestro the long-term issuer rating of Baa2 with stable outlook. By leaving the investment grade rating unchanged, the agency underscores the company's creditworthiness on international capital markets.

Covestro Share at a Glance

		2nd quarter 2016	1st half 2016
Average daily turnover	million shares	0.7	0.5
High	€	42.21	42.21
Low	€	30.91	25.48
Closing prices (closing date)	€	39.95	39.95
Outstanding shares (closing date)	million shares	202.5	202.5
Market capitalization (closing date)	€ million	8,089	8,089

Xetra closing prices; source: Bloomberg

Interim Group Management Report

as of June 30, 2016

- Strong core volume growth in Polyurethanes and Polycarbonates continues in second quarter of 2016
- Further improvement in EBITDA with all segments contributing
- Forecast for 2016 raised
- Bayer loans repaid in full

1. Business Development

Second quarter 2016

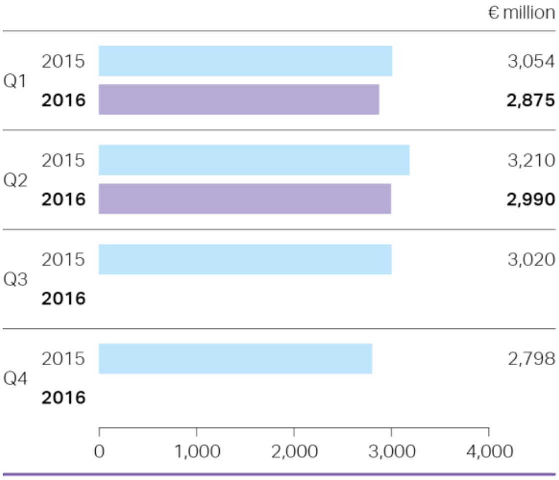
In the second quarter of 2016, the Covestro Group's core volume (in kilotons) was up substantially, by 7.7%, over the volume sold in the prior-year quarter. This was mainly attributable to the Polyurethanes and Polycarbonates segments, which saw strong growth rates of 9.0% and 8.5%, respectively. Core volumes in the Coatings, Adhesives, Specialties segment were down 1.8% below the figure in the prior-year quarter under the influence of the contractual termination of trading activities.

Second-quarter Group sales dropped by 6.9% as against the prior-year quarter to €2,990 million (previous year: €3,210 million). The decline in sales was chiefly the result of an 8.7% total decrease of the selling price level in all three reportable operating segments. In the Polyurethanes segment in particular, selling prices fell substantially below those of the prior-year quarter. In view of the mostly stable levels of supply and demand in Polyurethanes, the sharp price drop in this segment can be traced back to lower raw material prices. Moreover, exchange rate movements had a slightly negative effect on Group sales.

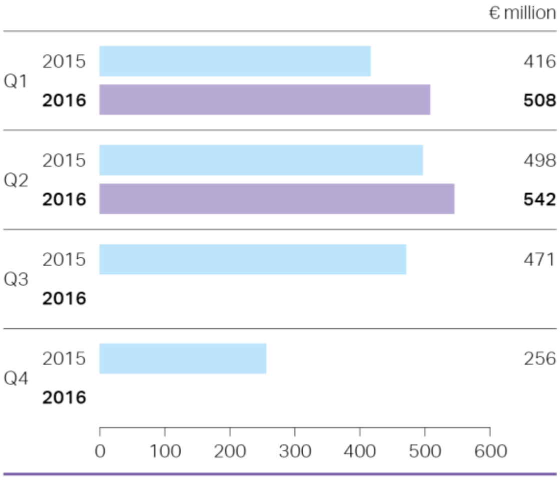
The total volumes sold boosted sales by 4.5% in the second quarter thanks especially to the growth in the Polycarbonates and Polyurethanes segments. Total volumes in Coatings, Adhesives, Specialties reduced sales by 0.6%. The difference between the effect of volumes on sales of 4.5% and the core volume growth of 7.7% was attributable primarily to lower volumes outside of the Polyurethanes core business.

All told, sales in the Polyurethanes segment were down 9.5% to €1,481 million in the second quarter (previous year: €1,637 million). The Polycarbonates segment saw stable sales of €831 million (previous year: €829 million). Sales of Coatings, Adhesives, Specialties declined 5.3% to €532 million (previous year: €562 million).

Covestro Group
Quarterly Sales



Covestro Group
Quarterly Adjusted EBITDA



Group EBITDA was up 8.8% over the adjusted EBITDA in the prior-year quarter, growing from €498 million to €542 million in the second quarter of 2016. There were no special items which necessitated adjustments in the past quarter (previous year: minus €59 million). Overall, lower raw material prices and higher volumes more than offset the effects of lower selling prices. Exchange rate movements had a negative effect on earnings of around €7 million.

The Polycarbonates segment's adjusted EBITDA rose by 27.3% to €191 million (previous year: €150 million). Adjusted EBITDA for the Coatings, Adhesives, Specialties segment was €142 million, 3.6% higher than the prior-year figure of €137 million. In the Polyurethanes segment, adjusted EBITDA grew by 2.2% to €228 million (previous year: €223 million).

In the second quarter, the Covestro Group improved EBIT by 36.3% to €364 million (previous year: €267 million). No items of income or expense were recognized as special items in the second quarter (previous year: minus €60 million).

In the second quarter, research and development expenses declined modestly, by 3.1%, to €62 million (previous year: €64 million).

Taking into account a financial result of minus €45 million (previous year: minus €46 million), income before income taxes increased over the prior-year quarter to €319 million (previous year: €221 million). After tax expense of €86 million (previous year: €67 million), income after income taxes was €233 million (previous year: €154 million). After non-controlling interests, net income amounted to €230 million (previous year: €152 million).

In the second quarter, operating cash flow was down 12.2% to €316 million (previous year: €360 million). The key factors driving the decline, which far outweighed the improvement in EBITDA, were higher outflows for utilizing short-term personnel-related provisions and higher income tax payments.

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

In the second quarter, free operating cash flow rose to €237 million (previous year: €230 million). Reduced cash outflows for additions to property, plant, equipment and intangible assets more than offset the decrease in operating cash flow.

First half of 2016

The Group's core volume (in kilotons) in the first six months of 2016 was up significantly over the prior-year period, by 8.1%. This was mainly the result of increases in Polyurethanes and Polycarbonates, which reported robust growth of 9.7% and 8.5%, respectively. In the Coatings, Adhesives, Specialties segment, core volumes were down 2.3% from the figure in the prior-year period as they were influenced by the contractual termination of trading activities.

In the first six months, Group sales dropped by 6.4% compared with the prior-year period to €5,865 million (previous year: €6,264 million). The decline in sales was chiefly the result of a 9.6% total decrease of the selling price level in all three reportable operating segments. In the Polyurethanes segment in particular, selling prices fell substantially below those of the prior-year period. Moreover, exchange rate movements had a slightly negative effect on Group sales.

The total volumes sold boosted sales by 4.9% in the first six months, mainly because of the substantial rise in the Polycarbonates and Polyurethanes segments. Total volumes in Coatings, Adhesives, Specialties reduced sales by 1.1%. The difference between the effect of volumes on sales of 4.9% and the core volume growth of 8.1% was attributable primarily to lower volumes outside of the Polyurethanes core business.

In total, sales in the Polyurethanes segment were down 9.6% to €2,884 million in the first six months (previous year: €3,191 million). In the Polycarbonates segment, sales climbed by 1.4% to €1,617 million (previous year: €1,594 million). Sales of Coatings, Adhesives, Specialties declined by 4.8% to €1,044 million (previous year: €1,097 million).

Consolidated EBITDA was up 14.9% over the adjusted EBITDA in the prior-year period, growing from €914 million to €1,050 million in the first half of 2016. There were no special items which necessitated adjustments in the past half year (previous year: minus €82 million).

In the first six months, the Covestro Group improved EBIT by 48.8% to €704 million (previous year: €473 million). No items of income or expense were recognized as special items in the first half of the year (previous year: minus €105 million).

In the first six months of 2016, research and development expenses amounted to €125 million, unchanged from the previous year (€125 million).

Taking into account a financial result of minus €123 million (previous year: minus €87 million), income before income taxes increased over the prior-year period to €581 million (previous year: €386 million). After tax expense of €164 million (previous year: €114 million), income after income taxes was €417 million (previous year: €272 million). After non-controlling interests, net income amounted to €412 million (previous year: €267 million).

In the first six months, operating cash flow was down 19.1% to €440 million (previous year: €544 million).

Free operating cash flow declined to €314 million in the first six months (previous year: €320 million). Reduced cash outflows for additions to property, plant, equipment and intangible assets in part offset the decrease in operating cash flows.

Calculation of EBIT(DA)

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

Depreciation, amortization and impairments for the first half of 2016 decreased by 3.6% to €346 million (previous year: €359 million). They comprised €319 million (previous year: €337 million) in depreciation and impairments of property, plant and equipment and €27 million (previous year: €22 million) in amortization and impairments of intangible assets. No impairment loss reversals were recognized in either the reporting or reference period. Whereas in the first six months of 2015, €23 million in impairment losses were recognized as special items, no special items were recognized in the first half of 2016.

Special Items Reconciliation

	EBIT 1st half 2015	EBIT 1st half 2016	EBITDA 1st half 2015	EBITDA 1st half 2016
	€ million	€ million	€ million	€ million
Before special items	**578**	**704**	**914**	**1,050**
Polyurethanes	(61)	–	(38)	–
Polycarbonates	(1)	–	(1)	–
Coatings, Adhesives, Specialties	(4)	–	(4)	–
Others / Consolidation	(39)	–	(39)	–
Total special items	**(105)**	**–**	**(82)**	**–**
of which cost of goods sold	(83)	–	(60)	–
of which selling expenses	(1)	–	(1)	–
of which research and development expenses	(1)	–	(1)	–
of which general administration expenses	(36)	–	(36)	–
of which other operating income / expenses	16	–	16	–
After special items	**473**	**704**	**832**	**1,050**

2. Business Development by Segment

2.1 Polyurethanes

Polyurethanes Key Data

	2nd quarter 2015	2nd quarter 2016	Change	1st half 2015	1st half 2016	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth[1]	**+5.8%**	**+9.0%**		**+2.7%**	**+9.7%**	
Sales	**1,637**	**1,481**	**–9.5**	**3,191**	**2,884**	**–9.6**
Change in sales						
Volume	+7.7%	+6.4%		+4.1%	+6.7%	
Price	–9.9%	–13.1%		–8.6%	–14.4%	
Currency	+9.2%	–2.8%		+9.6%	–1.9%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
Sales by region						
EMLA	707	653	–7.6	1,381	1,268	–8.2
NAFTA	524	450	–14.1	1,007	896	–11.0
APAC	406	378	–6.9	803	720	–10.3
EBITDA	**195**	**228**	**+16.9**	**348**	**442**	**+27.0**
Adjusted EBITDA	**223**	**228**	**+2.2**	**386**	**442**	**+14.5**
EBIT	**92**	**124**	**+34.8**	**123**	**241**	**+95.9**
Adjusted EBIT	**121**	**124**	**+2.5**	**184**	**241**	**+31.0**
Operating cash flow	**184**	**135**	**–26.6**	**305**	**151**	**–50.5**
Cash outflows for additions to property, plant, equipment and intangible assets	**49**	**46**	**–6.1**	**82**	**70**	**–14.6**
Free operating cash flow	**135**	**89**	**–34.1**	**223**	**81**	**–63.7**

[1] Reference values calculated based on the definition of the core business effective March 31, 2016

Second quarter 2016

In the second quarter of 2016, core volumes in Polyurethanes rose by a substantial 9.0% over the prior-year quarter. The increase stemmed mostly from the MDI and TDI product groups. The Polyether Polyols product group generated slight core volume growth.

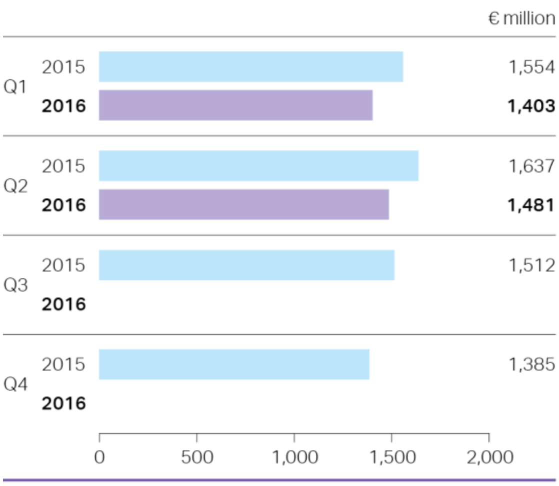
Sales of Polyurethanes fell off compared with the prior-year quarter and were down 9.5% to €1,481 million.

The development of total volumes sold had a positive effect of 6.4% on sales. The difference between this figure and the core volume growth of 9.0% was largely attributable to lower volumes outside of the core business.

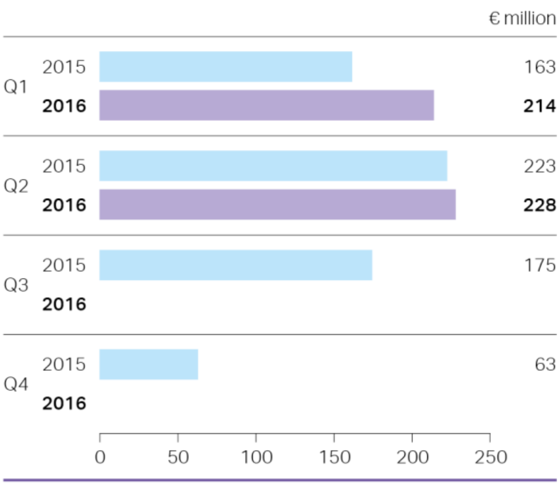
Selling prices of Polyurethanes came in 13.1% lower than in the prior-year quarter. Against the backdrop of mostly unchanged supply and demand, the decline in selling prices in all three regions was due primarily to lower raw material prices.

The EMLA region's sales decreased 7.6% to €653 million, principally because of significantly lower selling prices despite a robust increase in volumes. Sales in the NAFTA region fell 14.1% to €450 million. The slight increase in sales resulting from higher volumes was not enough to offset the sharp drop in selling prices and the effects of exchange rate fluctuations. The APAC region saw sales decline by 6.9% to €378 million. Here also a sharp drop in selling prices and exchange rate movements had a more pronounced impact than the opposing effect exerted by large increases in volume.

Polyurethanes
Quarterly Sales



Polyurethanes
Quarterly Adjusted EBITDA



EBITDA was up 2.2% over the adjusted EBITDA in the prior-year quarter, growing from €223 million to €228 million in the second quarter of 2016. There were no special items which necessitated adjustments in the past quarter (previous year: minus €28 million). Higher volumes contributed to improved earnings. Changes in margins, however, resulted in reduced earnings in some cases.

EBIT rose by 34.8% to €124 million (previous year: €92 million). No items of income or expense were recognized as special items in the second quarter (previous year: minus €29 million).

Free operating cash flow declined by 34.1% to €89 million (previous year: €135 million). This was mainly due to a larger amount of cash tied up in working capital and higher outflows for utilizing short-term personnel-related provisions. These factors overshadowed the positive effect of increased EBITDA.

First half of 2016

In the first six months of 2016, core volumes in Polyurethanes rose by a substantial 9.7% over the prior-year period. The increase stemmed from all product groups, particularly MDI and TDI.

Sales of Polyurethanes fell off compared with the prior-year period, down 9.6% to €2,884 million in the first half of 2016.

The development of total volumes sold had a positive effect of 6.7% on sales. The difference between this figure and the core volume growth of 9.7% was due to lower volumes outside of the core business. In view of mostly unchanged supply and demand, the decline in selling prices of 14.4% was mainly due to the drop in raw material prices in all three regions compared with the level in the prior-year period.

EBITDA was up 14.5% over the adjusted EBITDA in the prior-year period, growing from €386 million to €442 million. There were no special items which necessitated adjustments in the first six months of 2016 (previous year: minus €38 million).

EBIT improved by 95.9% to €241 million (previous year: €123 million). No items of income or expense were recognized as special items in the first half of 2016 (previous year: minus €61 million).

Free operating cash flow declined by 63.7% to €81 million (previous year: €223 million). This was mainly due to a larger amount of cash tied up in working capital and higher outflows for utilizing short-term personnel-related provisions. These factors overshadowed the positive effect of increased EBITDA.

2.2 Polycarbonates

Polycarbonates Key Data

	2nd quarter 2015	2nd quarter 2016	Change	1st half 2015	1st half 2016	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth[1]	**+9.1%**	**+8.5%**		**+7.3%**	**+8.5%**	
Sales	**829**	**831**	**+0.2**	**1,594**	**1,617**	**+1.4**
Change in sales						
Volume	+9.6%	+7.9%		+7.5%	+8.3%	
Price	−3.6%	−4.3%		−2.9%	−4.8%	
Currency	+13.3%	−3.4%		+13.0%	−2.1%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
Sales by region						
EMLA	292	300	+2.7	570	585	+2.6
NAFTA	198	193	−2.5	380	385	+1.3
APAC	339	338	−0.3	644	647	+0.5
EBITDA	**149**	**191**	**+28.2**	**265**	**368**	**+38.9**
Adjusted EBITDA	**150**	**191**	**+27.3**	**266**	**368**	**+38.3**
EBIT	**104**	**142**	**+36.5**	**177**	**269**	**+52.0**
Adjusted EBIT	**105**	**142**	**+35.2**	**178**	**269**	**+51.1**
Operating cash flow	**68**	**89**	**+30.9**	**99**	**183**	**+84.8**
Cash outflows for additions to property, plant and equipment and intangible assets	**59**	**19**	**−67.8**	**102**	**31**	**−69.6**
Free operating cash flow	**9**	**70**	**>600**	**(3)**	**152**	**.**

[1] Reference values calculated based on the definition of the core business effective March 31, 2016

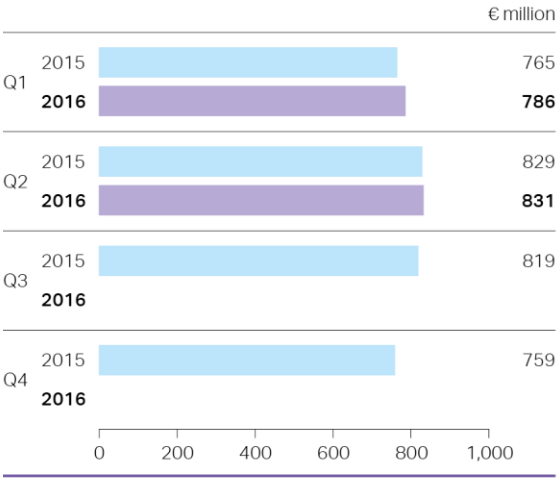
Second quarter 2016

In the second quarter of 2016, core volumes in the Polycarbonates segment were up by 8.5% over the prior-year quarter. All three regions contributed to the increase in volume, particularly APAC, where the considerable volume growth resulted from increases in nearly all customer industries.

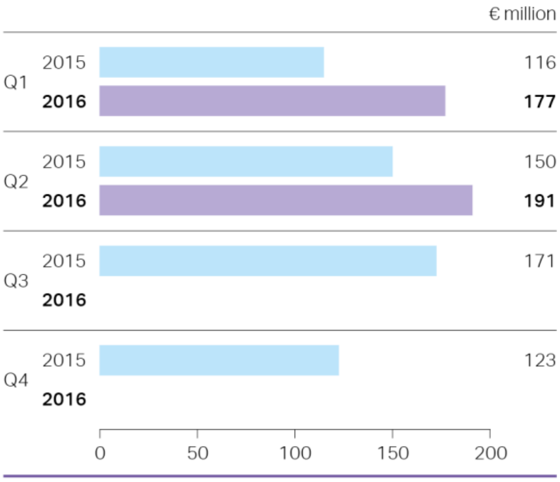
In the Polycarbonates segment, sales of €831 million were stable as against the prior-year quarter. The increase in total volumes sold had a positive effect of 7.9% on sales. Selling prices were down 4.3% overall. Lower raw material prices led to the drop in prices in the APAC and NAFTA regions. The EMLA region's selling prices remained at the level of the prior-year quarter. Exchange rate developments had a negative impact on sales.

All told, sales in the EMLA region grew 2.7% to €300 million on account of higher sales volumes with selling prices holding steady. The NAFTA region saw sales reduced by 2.5% to €193 million. The slight decrease in selling prices and the effects of exchange rate fluctuations overshadowed the increase in sales due to higher volumes. The APAC region's sales were nearly unchanged at €338 million. This was because a robust increase in sales volumes, a sharp drop in selling prices and adverse exchange rate effects mostly balanced each other out.

**Polycarbonates
Quarterly Sales**



**Polycarbonates
Quarterly Adjusted EBITDA**



EBITDA in the Polycarbonates segment increased 27.3% over the adjusted EBITDA in the prior-year quarter, growing from €150 million in the previous year to €191 million in the second quarter. There were no special items which necessitated adjustments in the past quarter (previous year: minus €1 million). Larger sales volumes and improved margins had a positive effect on earnings.

EBIT rose by 36.5% to €142 million (previous year: €104 million). No items of income or expense were recognized as special items in the previous quarter (previous year: minus €1 million).

Free operating cash flow grew sharply to €70 million (previous year: €9 million). The improvement was largely attributable to an increase in EBITDA and lower cash outflows for additions to property, plant, equipment and intangible assets, as planned. These factors outweighed the higher outflows for utilizing short-term personnel-related provisions.

First half of 2016

In the first six months of 2016, core volumes in the Polycarbonates segment were up 8.5% over the prior-year period. There were increases in all three regions, particularly APAC and NAFTA.
In the Polycarbonates segment, sales climbed by 1.4% to €1,617 million in the first six months of 2016. The increase in total volumes sold had a positive effect of 8.3% on sales. Selling prices were 4.8% under those of the prior-year period. This decline in prices was mainly attributable to lower raw material prices in the APAC and NAFTA regions. In contrast, selling prices in the EMLA region held steady at the level of the prior-year period. Exchange rate developments had a slightly negative impact on sales.

EBITDA in the Polycarbonates segment increased 38.3% over the adjusted EBITDA in the prior-year period, growing from €266 million in the previous year to €368 million in the first six months. There were no special items which necessitated adjustments in the first half year (previous year: minus €1 million).

EBIT rose by 52.0% to €269 million (previous year: €177 million). No items of income or expense were recognized as special items in the first six months (previous year: minus €1 million).

Free operating cash flow grew sharply to €152 million (previous year: minus €3 million).

2.3 Coatings, Adhesives, Specialties

Coatings, Adhesives, Specialties Key Data

	2nd quarter 2015	2nd quarter 2016	Change	1st half 2015	1st half 2016	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth[1]	**+6.5%**	**−1.8%**		**+6.4%**	**−2.3%**	
Sales	**562**	**532**	**−5.3**	**1,097**	**1,044**	**−4.8**
Change in sales						
Volume	+6.9%	−0.6%		+5.5%	−1.1%	
Price	−1.0%	−2.7%		−0.5%	−2.5%	
Currency	+9.5%	−2.0%		+9.5%	−1.2%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
Sales by region						
EMLA	285	272	−4.6	554	534	−3.6
NAFTA	130	117	−10.0	253	231	−8.7
APAC	147	143	−2.7	290	279	−3.8
EBITDA	**135**	**142**	**+5.2**	**266**	**281**	**+5.6**
Adjusted EBITDA	**137**	**142**	**+3.6**	**270**	**281**	**+4.1**
EBIT	**113**	**119**	**+5.3**	**224**	**238**	**+6.3**
Adjusted EBIT	**115**	**119**	**+3.5**	**228**	**238**	**+4.4**
Operating cash flow	**131**	**72**	**−45.0**	**166**	**126**	**−24.1**
Cash outflows for additions to property, plant and equipment and intangible assets	**20**	**14**	**−30.0**	**38**	**25**	**−34.2**
Free operating cash flow	**111**	**58**	**−47.7**	**128**	**101**	**−21.1**

[1] Reference values calculated based on the definition of the core business effective March 31, 2016

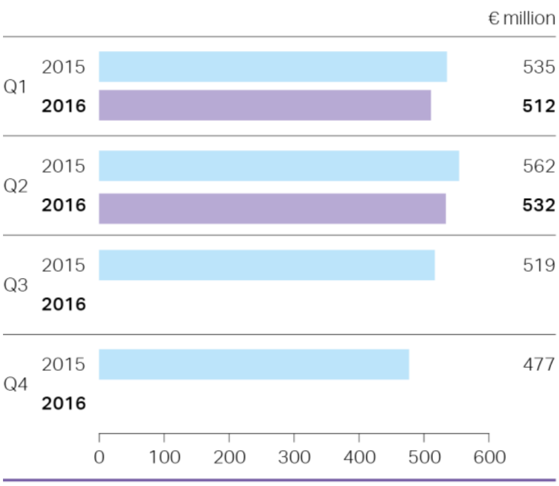
Second quarter 2016

In the second quarter of 2016, core volumes in the Coatings, Adhesives, Specialties segment declined 1.8% from the prior-year quarter, which had seen an unusually sharp increase of 6.5%. The contractual termination of trading activities contributed to the decline in the quarter under review as anticipated. Adjusted for this effect, core volume growth would have been slightly positive. Core volumes decreased in the NAFTA region, while they remained stable in EMLA and shrank only slightly in APAC.

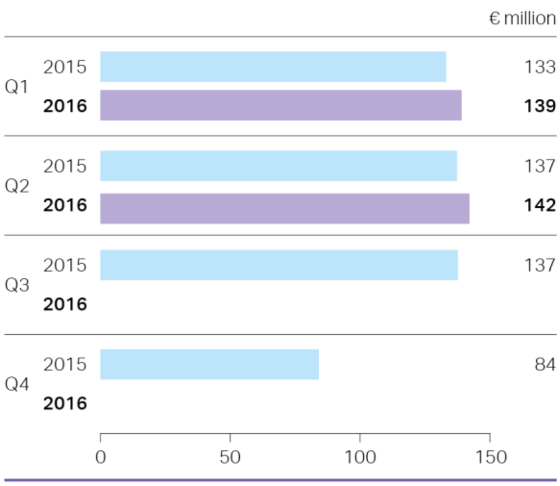
Sales of Coatings, Adhesives, Specialties were down by 5.3% from the prior-year quarter to €532 million. Selling prices came in 2.7% lower on average than in the prior-year quarter, primarily due to lower prices in EMLA and APAC. In the NAFTA countries, selling prices were stable for the most part. Total volumes sold reduced sales by 0.6%. Moreover, exchange rate movements also had a slightly negative effect on sales.

In the EMLA region, sales decreased by 4.6% overall to €272 million, mainly because of lower selling prices on average. The key factors leading to a 10.0% decline in sales to €117 million in the NAFTA region were reduced volumes and exchange rate fluctuations. In the APAC region, the effect of higher sales volumes was offset by the sales-reducing effects of selling price and exchange rate changes. As a result, sales decreased by 2.7% to €143 million. The termination of the aforementioned trading activities is reflected in the lower sales in these regions.

Coatings, Adhesives, Specialties
Quarterly Sales



Coatings, Adhesives, Specialties
Quarterly Adjusted EBITDA



EBITDA in Coatings, Adhesives, Specialties was up 3.6% over the adjusted EBITDA in the prior-year quarter, growing from €137 million to €142 million in the second quarter. There were no special items which necessitated adjustments in the past quarter (previous year: minus €2 million). Lower raw material prices had a positive impact on EBITDA.

EBIT rose by 5.3% to €119 million (previous year: €113 million). There were no special items in the past quarter (previous year: minus €2 million).

Free operating cash flow declined by 47.7% to €58 million (previous year: €111 million). This was mainly due to a larger amount of cash tied up in working capital and higher outflows for utilizing short-term personnel-related provisions.

First half of 2016

In the first six months of 2016, core volumes in Coatings, Adhesives, Specialties were down 2.3% from the prior-year period for reasons including lower volumes sold in the NAFTA region. In EMLA and APAC, volumes dropped only slightly below those of the prior-year period. The contractual termination of trading activities contributed to the decline in the first six months as anticipated. Adjusted for this effect, core volume growth would have been slightly positive.

Sales fell 4.8% from the figure in the prior-year period to €1,044 million. Selling prices were 2.5% lower on average than in the same period of the previous year. The development of total volumes sold had a negative effect of 1.1% on sales. Moreover, exchange rate movements also had a slightly negative effect on sales.

EBITDA increased 4.1% over the adjusted EBITDA in the prior-year period, growing from €270 million in the previous year to €281 million. There were no special items which necessitated adjustments in the first half year (previous year: minus €4 million).

EBIT rose by 6.3% to €238 million (previous year: €224 million). No items of income or expense were recognized as special items in the first six months (previous year: minus €4 million).

Free operating cash flow declined by 21.1% to €101 million (previous year: €128 million).

3. Asset and Financial Position of the Covestro Group

Covestro Group Summary Statement of Cash Flows[1]

	2nd quarter 2015	2nd quarter 2016	1st half 2015	1st half 2016
	€ million	€ million	€ million	€ million
EBITDA	**439**	**542**	**832**	**1,050**
Income taxes paid	(73)	(121)	(80)	(201)
Changes in pension provisions	3	(6)	6	(2)
(Gains) losses on retirements of noncurrent assets	1	–	(18)	–
Changes in working capital/other noncash items	(10)	(99)	(196)	(407)
Net cash provided by (used in) operating activities	**360**	**316**	**544**	**440**
Cash outflows for additions to property, plant, equipment and intangible assets	(130)	(79)	(224)	(126)
Free operating cash flow	**230**	**237**	**320**	**314**
Net cash provided by (used in) investing activities	**(147)**	**(73)**	**(377)**	**(110)**
Net cash provided by (used in) financing activities	**(212)**	**(1,122)**	**(280)**	**(822)**
Change in cash and cash equivalents due to business activities	**1**	**(879)**	**(113)**	**(492)**
Cash and cash equivalents at beginning of period	**107**	**1,030**	**201**	**642**
Change in cash and cash equivalents due to exchange rate movements	(2)	–	18	1
Cash and cash equivalents at end of period	**106**	**151**	**106**	**151**

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

Net cash provided by (used in) operating activities

In the second quarter of 2016, operating cash flow amounted to €316 million, down from €360 million in the previous year. A considerable increase in EBITDA stood in contrast to higher income tax payments of €121 million (previous year: €73 million) and higher outflows for utilizing short-term personnel-related provisions. After cash outflows for additions to property, plant, equipment and intangible assets, free operating cash flow totaled €237 million (previous year: €230 million).

In the first six months of 2016, operating cash flow amounted to €440 million, down from €544 million in the previous year. After cash outflows for additions to property, plant, equipment and intangible assets, free operating cash flow totaled €314 million (previous year: €320 million).

Net cash provided by (used in) investing activities

Net cash outflow for investing activities in the second quarter of 2016 amounted to €73 million (previous year: €147 million). This figure mainly comprises cash outflows for additions to property, plant, equipment and intangible assets of €79 million (previous year: €130 million).

Net cash outflow for investing activities in the first six months of 2016 totaled €110 million (previous year: €377 million). Cash outflows for additions to property, plant, equipment and intangible assets of €126 million (previous year: €224 million) decreased as expected.

Net cash provided by (used in) financing activities

Net cash outflow for the Covestro Group's financing activities in the second quarter of 2016 amounted to €1,122 million (previous year: €212 million). In April and June 2016, the remaining loan liabilities in respect of Bayer Antwerpen NV, Diegem, Belgium, in the amount of €810 million were repaid along with additional liabilities to banks. Moreover, Covestro AG distributed dividends for the first time for a total of €142 million.

Net cash outflow for the Covestro Group's financing activities in the first six months of 2016 amounted to €822 million (previous year: €280 million), with borrowing of €1,740 million partly offsetting repaid debt of €2,392 million.

Net Financial Debt[1]

	Dec. 31, 2015	June 30, 2016
	€ million	€ million
Bonds	–	1,493
Liabilities to banks	482	398
Liabilities under finance leases	298	273
Liabilities from derivatives	31	39
Other financial liabilities	2,070	6
Positive fair values of hedges of recorded transactions	(27)	(20)
Financial liabilites	**2,854**	**2,189**
Cash and cash equivalents	(642)	(151)
Current financial assets	(1)	(1)
Net financial debt	**2,211**	**2,037**

[1] Net financial debt is not defined in the International Financial Reporting Standards and is calculated as shown in this table.

The Covestro Group's net financial debt totaled €2,037 million as of June 30, 2016, decreasing by €174 million from December 31, 2015. Cash inflows from the company's first bond placement and from operations were used to distribute dividends and to repay in full the loan liabilities in respect of Bayer Antwerpen NV, Diegem, Belgium.

Covestro Group Summary Statement of Financial Position

	Dec. 31, 2015	June 30, 2016
	€ million	€ million
Noncurrent assets	6,294	6,135
Current assets	4,237	3,974
Total assets	**10,531**	**10,109**
Equity	**3,612**	**3,411**
Noncurrent liabilities	2,355	4,428
Current liabilities	4,564	2,270
Liabilities	**6,919**	**6,698**
Total equity and liabilities	**10,531**	**10,109**

Total assets declined by €422 million compared with December 31, 2015, to €10,109 million as of June 30, 2016.

Noncurrent assets decreased by €159 million to €6,135 million as of June 30, 2016. The change is attributable primarily to the reduction in property, plant, equipment by €320 million to €4,614 million. This stands in contrast to a €191 million increase in deferred taxes to €831 million, which stemmed mainly from the recognition directly in equity of the remeasurement of provisions for pensions. Current assets declined by €263 million to €3,974 million. Cash and cash equivalents decreased, while trade accounts receivable increased.

Equity was €201 million lower, amounting to €3,411 million in the first six months of 2016. Income after income taxes stood in contrast to the remeasurement of provisions for pensions due to a lower interest rate and the dividend distribution, which had the effect of reducing equity.

Liabilities were down €221 million to €6,698 million as of June 30, 2016. Provisions for pensions and other post-employment benefits increased by €636 million. Noncurrent financial liabilities rose €1,446 million to €1,820 million, largely due to Covestro issuing bonds for the first time. Current financial liabilities decreased by €2,118 million to €389 million. This change is attributable to the repayment in full of the loan from Bayer Antwerpen NV, Diegem, Belgium, totaling €2,060 million.

Net Defined Benefit Liability for Post-Employment Benefits

	Dec. 31, 2015	June 30, 2016
	€ million	€ million
Provisions for pensions and other post-employment benefits	1,462	2,098
Net defined benefit asset	–	–
Net defined benefit liability for post-employment benefits	**1,462**	**2,098**

The net defined benefit liability for post-employment benefits increased by €636 million as compared with December 31, 2015, to €2,098 million as of June 30, 2016. This was due to the drop in long-term capital market interest rates for blue-chip corporate bonds.

4. Economic Outlook

Economic Outlook

	Growth[1] 2015	Growth[1] forecast 2016 (Annual Report 2015)	Growth[1] forecast 2016
	%	%	%
World	**2.6**	**2.8**	**2.5**
European Union	1.9	1.9	1.7
of which Germany	1.4	2.0	1.6
United States	2.4	2.7	1.9
Asia	4.7	4.6	4.6
of which China	6.9	6.3	6.5

[1] Real growth of gross domestic product, source: IHS (Global Insight);
As of July 2016, growth forecast including "Brexit-effect"

In 2016, the global economy is expected to grow at a pace of 2.5%, slightly slower than in the previous year (Annual Report 2015 forecast: 2.8%). We believe the United States economy will expand much less robustly than expected in the Annual Report 2015. This development stems from weak growth of 0.8% in the first quarter of 2016 and low manufacturing industry performance as well as reduced investments and sustained sluggishness in exports.

The growth rate in the United Kingdom and, to a lesser extent, key trading partners such as the EU and the United States will be much lower due to the result of the EU membership referendum vote in the United Kingdom and its possible exit from the EU. This assumption is based on projected lower consumption and decreased investments in the United Kingdom due to the heightened uncertainty there. The slowing of growth in the United Kingdom has only a minimal effect on Covestro because the United Kingdom's share of the company's total business is insignificant.

As in the previous quarter, we expect somewhat less robust performance in our key customer industries than forecasted in the Annual Report 2015, in view of factors including the possible effects of a United Kingdom withdrawal from the EU as a result of the referendum. This is attributable to slightly weakened expectations concerning the performance of the automotive, furniture, consumer electronics and household appliance sectors as key segments of the electrical/electronics industry. We now anticipate growth to range from around 3% to 4% in the aforementioned sectors and industries. No significant changes from the forecast are expected for the global construction industry, for which we projected a growth rate of approximately 2%.

5. Report on Future Perspectives

We have elected to increase the forecasts for the current fiscal year from our Annual Report 2015 based on the business performance described in this report and taking into account the potential risks and opportunities.

We now expect a mid- to high-single-digit increase in core volume growth, largely driven by the ongoing positive development in the Polyurethanes and Polycarbonates segments. As we noted in the Annual Report 2015, growth in the Coatings, Adhesives, Specialties segment is held back by the contractual termination of trading operations. Adjusted for these effects, we would expect core volume growth in the mid-single-digit-percentage range for Coatings, Adhesives, Specialties.

Free operating cash flow in 2016 should remain around last year's level. We expect a substantial increase for the Polycarbonates segment and a decrease for the Polyurethanes and Coatings, Adhesives, Specialties segments, however. The difference in performance in the various segments is chiefly due to changes in working capital, cash outflows for additions to property, plant and equipment, and income taxes.

We now anticipate ROCE[1] to be above last year’s level in fiscal 2016.

6. Employees

As of June 30, 2016, the Covestro Group had 15,727 employees worldwide (December 31, 2015: 15,761). The €175 million increase in personnel expenses as against the prior-year period to €951 million in the first six months of 2016 (previous year: €776 million) was due to factors including the sharp increase in headcount compared with June 2015.

Employees by Corporate Function[2]

	Dec. 31, 2015	June 30, 2016
Production	9,988	9,928
Marketing and distribution	3,528	3,490
Research and development	1,005	1,021
General administration	1,240	1,288
Total	**15,761**	**15,727**

[2] 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.

[1] ROCE: The return on capital employed is calculated as the ratio of adjusted EBIT 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.

7. Opportunities and Risks

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

The Covestro Group regards opportunity and risk management as an integral part of corporate governance. Our opportunity and risk management system and the opportunity and risk situation are outlined in detail in section 21 of the Covestro Annual Report 2015 and there have been no material changes since December 31, 2015. At the time this half-yearly financial report was prepared, the Group still faced no risks that could endanger its continued existence.

Material developments that have occurred with respect to legal risks since publication of the Covestro Annual Report 2015 (Note 28 to the Consolidated Financial Statements) are described in Note 10 to the Consolidated Interim Financial Statements. The Covestro Annual Report 2015 is available at www.covestro.com.

Consolidated Interim Financial Statements

as of June 30, 2016

Covestro Group Consolidated Income Statement

	2nd quarter 2015	2nd quarter 2016	1st half 2015	1st half 2016
	€ million	€ million	€ million	€ million
Sales	**3,210**	**2,990**	**6,264**	**5,865**
Cost of goods sold	(2,418)	(2,143)	(4,832)	(4,220)
Gross profit	**792**	**847**	**1,432**	**1,645**
Selling expenses	(336)	(344)	(632)	(658)
Research and development expenses	(64)	(62)	(125)	(125)
General administration expenses	(116)	(100)	(209)	(214)
Other operating income	9	35	51	85
Other operating expenses	(18)	(12)	(44)	(29)
EBIT[1]	**267**	**364**	**473**	**704**
Equity-method income (loss)	(6)	(5)	–	(10)
Interest income	2	0	3	3
Interest expense	(26)	(14)	(53)	(29)
Other financial result	(16)	(26)	(37)	(87)
Financial result	**(46)**	**(45)**	**(87)**	**(123)**
Income before income taxes	**221**	**319**	**386**	**581**
Income taxes	(67)	(86)	(114)	(164)
Income after income taxes	**154**	**233**	**272**	**417**
of which attributable to noncontrolling interest	2	3	5	5
of which attributable to Covestro AG stockholders (net income)	152	230	267	412
	€	€	€	€
Basic earnings per share	**1.09**	**1.13**	**1.91**	**2.03**
Diluted earnings per share	**1.09**	**1.13**	**1.91**	**2.03**

[1] EBIT = income after income taxes plus financial result and income taxes

Covestro Group Consolidated Statement of Comprehensive Income

	2nd quarter 2015	2nd quarter 2016	1st half 2015	1st half 2016
	€ million	€ million	€ million	€ million
Income after income taxes	**154**	**233**	**272**	**417**
Remeasurements of the net defined benefit liability for post-employment benefit plans	357	(208)	41	(623)
Income taxes	(114)	68	(12)	202
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans	**243**	**(140)**	**29**	**(421)**
Other comprehensive income that will not be reclassified subsequently to profit or loss	**243**	**(140)**	**29**	**(421)**
Changes in fair values of derivatives designated as cash flow hedges	(2)	–	(4)	–
Reclassified to profit or loss	2	–	3	–
Income taxes	–	–	0	–
Other comprehensive income from cash flow hedges	**–**	**–**	**(1)**	**–**
Changes in exchange differences recognized on translation of operations outside the eurozone	(122)	31	176	(54)
Reclassified to profit or loss	–	–	–	–
Other comprehensive income from exchange differences	**(122)**	**31**	**176**	**(54)**
Other comprehensive income that may be reclassified subsequently to profit or loss	**(122)**	**31**	**175**	**(54)**
Effects of changes in scope of consolidation	**(1)**	**–**	**(10)**	**–**
Total other comprehensive income[1]	**120**	**(109)**	**194**	**(475)**
of which attributable to noncontrolling interest	(4)	2	(1)	1
of which attributable to Covestro AG stockholders	124	(111)	195	(476)
Total comprehensive income	**274**	**124**	**466**	**(58)**
of which attributable to noncontrolling interest	(2)	5	4	6
of which attributable to Covestro AG stockholders	276	119	462	(64)

[1] Total changes recognized outside profit or loss

Covestro Group Consolidated Statement of Financial Position

	June 30, 2015	June 30, 2016	Dec. 31, 2015
	€ million	€ million	€ million
Noncurrent assets			
Goodwill	259	259	261
Other intangible assets	138	108	132
Property, plant and equipment	5,061	4,614	4,934
Investments accounted for using the equity method	227	217	227
Other financial assets	57	37	40
Other receivables	70	69	60
Deferred taxes	405	831	640
	6,217	**6,135**	**6,294**
Current assets			
Inventories	1,921	1,685	1,783
Trade accounts receivable	1,794	1,776	1,486
Other financial assets	539	26	33
Other receivables	206	288	277
Claims for income tax refunds	6	48	16
Cash and cash equivalents	106	151	642
	4,572	**3,974**	**4,237**
Total assets	**10,789**	**10,109**	**10,531**
Equity			
Capital stock of Covestro AG	–	203	203
Capital reserves of Covestro AG	–	4,908	4,908
Other reserves	1,717	(1,721)	(1,515)
Equity attributable to Covestro AG stockholders	**1,717**	**3,390**	**3,596**
Equity attributable to noncontrolling interest	11	21	16
	1,728	**3,411**	**3,612**
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	1,409	2,098	1,462
Other provisions	217	312	309
Financial liabilities	521	1,820	374
Other liabilities	29	27	29
Deferred taxes	181	171	181
	2,357	**4,428**	**2,355**
Current liabilities			
Other provisions	350	385	429
Financial liabilities	4,697	389	2,507
Trade accounts payable	1,456	1,262	1,403
Income tax liabilities	29	58	56
Other liabilities	172	176	169
	6,704	**2,270**	**4,564**
Total equity and liabilities	**10,789**	**10,109**	**10,531**

Covestro Group Consolidated Statement of Cash Flows

	2nd quarter 2015	2nd quarter 2016	1st half 2015	1st half 2016
	€ million	€ million	€ million	€ million
Income after income taxes	154	233	272	417
Income taxes	67	86	114	164
Financial result	46	45	87	123
Income taxes paid[1]	(73)	(121)	(80)	(201)
Depreciation, amortization and impairments	172	178	359	346
Change in pension provisions	3	(6)	6	(2)
(Gains) losses on retirements of noncurrent assets	1	0	(18)	0
Decrease (increase) in inventories	(3)	46	80	76
Decrease (increase) in trade accounts receivable	(52)	(110)	(163)	(302)
(Decrease) increase in trade accounts payable	11	11	(185)	(131)
Changes in other working capital, other noncash items[1]	34	(46)	72	(50)
Net cash provided by (used in) operating activities	**360**	**316**	**544**	**440**
Cash outflows for additions to property, plant, equipment and intangible assets	(130)	(79)	(224)	(126)
Cash inflows from sales of property, plant, equipment and other assets	1	0	21	3
Cash outflows for noncurrent financial assets[1]	(55)	(6)	(94)	(7)
Cash inflows from noncurrent financial assets[1]	0	0	27	2
Cash outflows for acquisitions less acquired cash	1	–	(14)	–
Interest and dividends received	2	0	2	5
Cash inflows from (outflows for) other current financial assets[1]	34	12	(95)	13
Net cash provided by (used in) investing activities	**(147)**	**(73)**	**(377)**	**(110)**
Financial transactions with the Bayer Group	(89)	–	(386)	–
(Cash outflows for) inflows from profit transfer to Bayer AG	(155)	–	(155)	–
Dividends paid	1	(143)	(10)	(143)
Issuances of debt	372	42	834	1,740
Retirements of debt	(309)	(1,007)	(509)	(2,392)
Interest paid	(32)	(14)	(54)	(27)
Net cash provided by (used in) financing activities	**(212)**	**(1,122)**	**(280)**	**(822)**
Change in cash and cash equivalents due to business activities	**1**	**(879)**	**(113)**	**(492)**
Cash and cash equivalents at beginning of year	**107**	**1,030**	**201**	**642**
Change in cash and cash equivalents due to exchange rate movements	(2)	0	18	1
Cash and cash equivalents at end of year	**106**	**151**	**106**	**151**

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

Covestro Group Consolidated Statement 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	Cash flow 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, 2014			**1,427**	**340**	**2**	**1**	**1,770**	**17**	**1,787**
(Profit) loss transfer to Bayer AG			(155)				(155)		(155)
Dividend payments			(7)				(7)	(6)	(13)
Other changes			(353)				(353)	(4)	(357)
Income after income taxes			267				267	5	272
Other comprehensive income			19	177	(1)		195	(1)	194
Total comprehensive income			**286**	**177**	**(1)**		**462**	**4**	**466**
June 30, 2015			**1,198**	**517**	**1**	**1**	**1,717**	**11**	**1,728**
Dec. 31, 2015	**203**	**4,908**	**(1,999)**	**484**	**0**	**0**	**3,596**	**16**	**3,612**
Dividend payments			(142)				(142)	(1)	(143)
Other changes			0			0	0	0	0
Income after income taxes			412				412	5	417
Other comprehensive income			(421)	(55)	0		(476)	1	(475)
Total comprehensive income			**(9)**	**(55)**	**0**		**(64)**	**6**	**(58)**
June 30, 2016	**203**	**4,908**	**(2,150)**	**429**	**–**	**–**	**3,390**	**21**	**3,411**

NOTES
to the Consolidated Interim Financial Statements

1. General Information

Information on the consolidated interim financial statements

Pursuant to Section 37w of the German Securities Trading Act (WpHG), the consolidated interim financial statements of Covestro AG, Leverkusen, (Covestro AG) as of June 30, 2016, have been prepared according to the International Financial Reporting Standards (IFRSs) – including IAS 34 (Interim Financial Reporting) – of the International Accounting Standards Board (IASB), London, United Kingdom, endorsed by the European Union and in effect at the closing date, as well as the Interpretations (IFRICs) of the IFRS Interpretations Committee (IFRS IC) and the interpretations published by the Standing Interpretations Committee (SIC).

As explained in the consolidated financial statements as of December 31, 2015, the predecessor accounting approach was applied in the Combined Financial Statements[1] in accordance with the rules on business combinations under common control. We also utilized the option of presenting the comparative information required under IFRSs as if the legal transfers of the business activities had already previously taken place. This method allows the presentation of prior-period financial information as contained in the published Combined Financial Statements. The “Treatment of costs for central services” and the “Treatment of current and deferred income taxes” in the reference period are described in detail in the consolidated financial statements as of December 31, 2015. For further information about the main assumptions, reference is additionally made to the published Combined Financial Statements.[2]

The accounting policies and valuation principles described in the consolidated financial statements as of December 31, 2015, were applied unchanged in preparing the consolidated interim financial statements as of June 30, 2016, subject to the effects of financial reporting standards adopted for the first-time in the current fiscal year as described in Note 2.

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

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

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

Exchange rates

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

Closing Rates for Major Currencies

		Closing rate		
€1 /		June 30, 2015	Dec. 31, 2015	June 30, 2016
BRL	Brazil	3.47	4.31	3.59
CNY	China	6.94	7.06	7.40
HKD	Hong Kong	8.67	8.44	8.61
INR	India	71.19	72.02	74.96
JPY	Japan	137.01	131.07	114.05
MXN	Mexico	17.53	18.91	20.63
USD	United States	1.12	1.09	1.11

Average Rates for Major Currencies

		Average rate	
€1 /		1st half 2015	1st half 2016
BRL	Brazil	3.30	4.13
CNY	China	6.94	7.30
HKD	Hong Kong	8.65	8.66
INR	India	70.11	74.93
JPY	Japan	134.14	124.50
MXN	Mexico	16.88	20.12
USD	United States	1.12	1.12

2. Effects of New Financial Reporting Standards

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

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

In accordance with the amendments to IAS 16 (Property, Plant and Equipment) and IAS 41 (Agriculture) entitled "Agriculture: Bearer Plants" published in June 2014, fruit-bearing plants used solely to grow agricultural produce are to be accounted for according to IAS 16. These amendments have no impact on the presentation of the Covestro Group's financial position or results of operations.

In August 2014, the IASB published "Equity Method in Separate Financial Statements (Amendments to IAS 27)." The amendments permit the equity method to be used to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. These amendments have no impact on the presentation of the Covestro Group's financial position or results of operations.

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

The "Disclosure Initiative" published in December 2014 contains amendments to IAS 1 (Presentation of Financial Statements). These are intended to provide further clarification of the presentation and disclosure requirements formulated in IAS 1 and relate in particular to the materiality and aggregation of items, the presentation of the statements of financial position, of profit or loss and of other comprehensive income, the structure of information in the notes to the financial statements and the information on applicable financial reporting methods. The amendments have no material impact on the presentation of the consolidated financial statements.

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

3. Segment and Regional Reporting

The Board of Management of Covestro AG, as the chief operating decision maker of the Covestro Group, allocates resources to the operating segments and assesses their performance. The reportable segments and regions are identified, and the disclosures selected, in line with the internal financial reporting system (management approach). These disclosures are based on the Covestro Group's accounting policies, which are outlined in the consolidated financial statements as of December 31, 2015, subject to the effects of the first-time adoption of financial reporting standards in the current fiscal year as described in Note 2 above.

As of June 30, 2016, 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 vehicle lighting) and in the construction industry (e.g., for roof structures). It is also used in the electrical and electronics industry (e.g., for connector housings, computer cases and DVDs), the medical technology sector and the lighting industry (e.g., for LED components). The Covestro Group produces polycarbonate all around the world and processes it at compounding centers to meet specific customer requirements.

Coatings, Adhesives, Specialties

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

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

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

The segment data are calculated as follows.

- EBITDA is the EBIT as reported in the income statement plus amortization and impairment losses on intangible assets and depreciation and impairment losses on property, plant and equipment, less impairment loss reversals.
- EBIT, EBITDA, adjusted EBIT and adjusted EBITDA are not defined in the International Financial Reporting Standards. The special items comprise effects that are nonrecurring or do not regularly recur or attain similar magnitudes. Adjusted EBIT and adjusted EBITDA are intended to give a clear picture of the results of operations and ensure their comparability over time. Adjusted EBITDA is used to assess the profitability of the reportable segments. There were no special items in the first half year of fiscal 2016 so adjusted EBIT and adjusted EBITDA in this period are equivalent to EBIT and EBITDA, respectively.
- Working capital comprises inventories plus trade accounts receivable and less trade accounts payable.

The following tables show the segment reporting data for the second quarter and for the first half year or as of June 30, respectively.

Segment Reporting 2nd Quarter[1]

				Other / Consolidation		
	Polyurethanes	Polycarbonates	Coatings, Adhesives, Specialties	All other segments	Corporate Center and reconciliation	Covestro Group
	€ million	€ million	€ million	€ million	€ million	€ million
2nd quarter 2016						
Sales	1,481	831	532	146	–	2,990
(Adjusted) EBITDA	228	191	142	(1)	(18)	542
(Adjusted) EBIT	124	142	119	(3)	(18)	364
2nd quarter 2015						
Sales	1,637	829	562	182	–	3,210
Adjusted EBITDA	223	150	137	(1)	(11)	498
Adjusted EBIT	121	105	115	(3)	(11)	327

[1] No further presentation of intersegment transfers is provided. These are neither reported separately to, nor do they influence the EBIT and EBITDA reported to the Board of Management of Covestro AG.

Segment Reporting 1st Half[1]

				Other / Consolidation		
	Polyurethanes	Polycarbonates	Coatings, Adhesives, Specialties	All other segments	Corporate Center and reconciliation	Covestro Group
	€ million	€ million	€ million	€ million	€ million	€ million
1st half 2016						
Sales	2,884	1,617	1,044	320	–	5,865
(Adjusted) EBITDA	442	368	281	(2)	(39)	1,050
(Adjusted) EBIT	241	269	238	(5)	(39)	704
1st half 2015						
Sales	3,191	1,594	1,097	382	–	6,264
Adjusted EBITDA	386	266	270	20	(28)	914
Adjusted EBIT	184	178	228	16	(28)	578

[1] No further presentation of intersegment transfers is provided. These are neither reported separately to, nor do they influence the EBIT and EBITDA reported to the Board of Management of Covestro AG.

Working Capital by Segment

	Dec. 31, 2015	June 30, 2016
	€ million	€ million
Polyurethanes	918	1,120
Polycarbonates	494	574
Coatings, Adhesives, Specialties	373	443
All other segments	86	65
Corporate Center	(5)	(3)
Working capital	**1,866**	**2,199**

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 shows the elimination of interregional sales.

The following tables show the regional reporting data for the second quarter and for the first half year.

Regional Reporting 2nd Quarter

	EMLA	NAFTA	APAC	Consoli-dation	Total
	€ million	€ million	€ million	€ million	€ million
2nd quarter 2016					
Net sales (external) by market	1,340	787	863	–	2,990
Net sales (external) by point of origin	1,339	801	850	–	2,990
Interregional sales	173	126	36	(335)	–
2nd quarter 2015					
Net sales (external) by market	1,420	888	902	–	3,210
Net sales (external) by point of origin	1,414	904	892	–	3,210
Interregional sales	190	132	36	(358)	–

Regional Reporting 1st Half

	EMLA	NAFTA	APAC	Consoli-dation	Total
	€ million	€ million	€ million	€ million	€ million
1st half 2016					
Net sales (external) by market	2,641	1,569	1,655	–	5,865
Net sales (external) by point of origin	2,632	1,595	1,638	–	5,865
Interregional sales	351	269	61	(681)	–
1st half 2015					
Net sales (external) by market	2,788	1,719	1,757	–	6,264
Net sales (external) by point of origin	2,777	1,748	1,739	–	6,264
Interregional sales	393	299	68	(760)	–

Reconciliation

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

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

	2nd quarter 2015	2nd quarter 2016	1st half 2015	1st half 2016
	€ million	€ million	€ million	€ million
(Adjusted) EBITDA of segments	509	560	942	1,089
(Adjusted) EBITDA of Corporate Center	(11)	(18)	(28)	(39)
(Adjusted) EBITDA	**498**	**542**	**914**	**1,050**
(Adjusted) depreciation, amortization and impairment losses of segments	(171)	(178)	(336)	(346)
(Adjusted) depreciation, amortization and impairment losses of Corporate Center	–	–	–	–
(Adjusted) depreciation, amortization and impairment losses	**(171)**	**(178)**	**(336)**	**(346)**
(Adjusted) EBIT of segments	338	382	606	743
(Adjusted) EBIT of Corporate Center	(11)	(18)	(28)	(39)
(Adjusted) EBIT	**327**	**364**	**578**	**704**
Special items of segments	(34)	–	(68)	–
Special items of Corporate Center	(26)	–	(37)	–
Special items	**(60)**	**–**	**(105)**	**–**
EBIT of segments	304	382	538	743
EBIT of Corporate Center	(37)	(18)	(65)	(39)
EBIT	**267**	**364**	**473**	**704**
Financial result	(46)	(45)	(87)	(123)
Income before income taxes	**221**	**319**	**386**	**581**

4. Scope of Consolidation

4.1 Changes in the Scope of Consolidation

As of June 30, 2016, the scope of consolidation comprised Covestro AG and 49 consolidated companies (December 31, 2015: 48 companies). As in the statements as of December 31, 2015, one joint operation is accounted for in line with Covestro's interest in its assets, liabilities, revenues and expenses in accordance with IFRS 11 (Joint Arrangements). The numbers of joint ventures (one) and associated companies (two) accounted for in the consolidated financial statements using the equity method according to IAS 28 (Investments in Associates and Joint Ventures) were unchanged as of June 30, 2016.

4.2 Acquisitions and Divestitures

No reportable acquisitions or divestitures were made in the first half year of 2016.

5. Earnings per Share

Earnings per share are calculated according to IAS 33 (Earnings per Share) as the relationship of income after income taxes (net income) for the reporting period that is attributable to the stockholders of Covestro AG to the weighted average number of no-par voting shares of Covestro AG in issue. There were no dilution effects to consider. For information purposes, earnings per share are also reported for the first half year of 2015 on a basis of 140,000,000 shares.

Earnings per Share

	1st half 2015	1st half 2016
	€ million	€ million
Income after income taxes	272	417
of which attributable to noncontrolling interest	5	5
of which attributable to Covestro AG stockholders (net income)	267	412
	Shares	Shares
Weighted average number of ordinary shares in issue	140,000,000	202,500,000
	€	€
Basic earnings per share	1.91	2.03
Diluted earnings per share	1.91	2.03

6. Provisions for Pensions and Other Post-employment Benefits

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

Discount Rate for Pension Obligations

	Dec. 31, 2015	June 30, 2016
	%	%
Germany	2.60	1.60
United States	4.00	3.30

7. Stock-based Compensation Program

Effective January 1, 2016, Covestro established a new long-term compensation program named Prisma for the 2016 – 2019 performance period. Prisma is a stock-based compensation program with a cash settlement as defined by IFRS 2 (Share-based Payment). Those entitled to participate are senior executives and other managerial employees.

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

The fair value of the obligation under the Prisma stock-based compensation program was €5 million as of June 30, 2016, and was calculated using the Monte Carlo simulation method on the basis of parameters pertaining to the reporting date.

8. Financing

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

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

The liquidity acquired in this way was used particularly to refinance the loans from Bayer Antwerpen NV, Diegem, Belgium. The remaining loan amount of €2,060 million was repaid in full during the first half of 2016.

In September 2015, Covestro AG concluded a syndicated multicurrency term and revolving credit facilities agreement (facilities agreement) for €2,700 million with a consortium of banks. In the course of the successful bond placement in March 2016, Covestro AG dissolved the term loan facility of €1,200 million that was part of this facilities agreement, as planned. The multicurrency revolving credit facility of €1,500 million with a term until September 2020 remains in place. No loans had been drawn against this syndicated credit facility as of June 30, 2016.

9. Financial Instruments

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

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

	June 30, 2016				
		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	1,776				
Loans and receivables	1,776	1,776			1,776
Other financial assets	63				
Loans and receivables	16	16			16
Available-for-sale financial assets	6	5	1		6
Derivatives that do not qualify for hedge accounting	33			33	33
Receivables under finance lease agreements[1]	8				17
Other receivables	357				
Loans and receivables	61	61			61
Nonfinancial assets	296				
Cash and cash equivalents	151				
Loans and receivables	151	151			151
Liabilities					
Financial liabilities	2,209				
Carried at amortized cost	1,897	1,897			1,970
Derivatives that do not qualify for hedge accounting	39			39	39
Liabilities under finance lease agreements[1]	273				337
Trade accounts payable	1,262				
Carried at amortized cost	1,239	1,239			1,239
Nonfinancial liabilities	23				
Other liabilities	203				
Carried at amortized cost	29	29			29
Carried at fair value (nonderivative)	5			5	5
Derivatives that do not qualify for hedge accounting	7			7	7
Nonfinancial liabilities	162				

[1] Valuation in accordance with IAS 17

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	16	16			17
Available-for-sale financial assets	6	5	1		6
Derivatives that do not qualify for hedge accounting	44			44	44
Receivables under finance lease agreements[1]	7				18
Other receivables	337				
Loans and receivables	65	65			65
Nonfinancial assets	272				
Cash and cash equivalents	642				
Loans and receivables	642	642			642
Liabilities					
Financial liabilities	2,881				
Carried at amortized cost	2,552	2,552			2,573
Derivatives that do not qualify for hedge accounting	31			31	31
Liabilities under finance lease agreements[1]	298				364
Trade accounts payable	1,403				
Carried at amortized cost	1,386	1,386			1,386
Nonfinancial liabilities	17				
Other liabilities	198				
Carried at amortized cost	45	45			45
Carried at fair value (nonderivative)	4			4	4
Derivatives that do not qualify for hedge accounting	8			8	8
Nonfinancial liabilities	141				

[1] Valuation in accordance with IAS 17

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

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

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

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

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

Fair Value Hierarchy of Financial Instruments

	Fair value				Fair value			
	Dec. 31, 2015	Level 1	Level 2	Level 3	June 30, 2016	Level 1	Level 2	Level 3
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Financial assets carried at fair value								
Available-for-sale financial assets	1	1			1	1		
Derivatives that do not qualify for hedge accounting	44		27	17	33		20	13
Financial assets not carried at fair value								
Receivables under leasing agreements	18			18	17			17
Financial liabilities carried at fair value								
Derivatives that do not qualify for hedge accounting	39		31	8	46		39	7
Other liabilities carried at fair value (nonderivative)	4			4	5			5
Financial liabilities not carried at fair value								
Bonds					1,555	1,555		
Other financial liabilities	2,937		2,937		752		752	

During the first half of 2016, no transfers were made between the levels of the fair value hierarchy.

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

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

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

The fair values stated for noncurrent financial assets and liabilities are the present values of the respective future cash inflows or outflows. These are determined by discounting the cash flows at a closing-date interest rate that takes into account the term of the assets or liabilities and the creditworthiness of the counterparty. For this reason, these values are assigned to Level 2 of the fair value hierarchy.

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

Fair values measured using unobservable inputs are categorized within Level 3 of the fair value hierarchy. The fair values of noncurrent leasing receivables, reported for information purposes, are calculated on the basis of interest curves observable in the market. Additionally, a discount for cash flows that are very far in the future is applied as an unobservable factor.

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

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

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

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

	2016
	€ million
Net carrying amounts, Jan. 1,	**5**
Gains (losses) recognized in profit or loss	(4)
of which related to assets / liabilities recognized in the statement of financial position	(4)
Gains (losses) recognized outside profit or loss	–
Additions of assets (liabilities)	–
Settlements of (assets) liabilities	–
Reclassifications	–
Net carrying amounts, June 30,	**1**

Gains and losses from Level 3 financial instruments recognized in profit or loss result primarily from embedded derivatives and are reported in other operating expenses or income.

10. Legal Risks

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

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

Carbon monoxide pipeline from Dormagen to Leverkusen

In 2014, an action was brought against the Cologne Regional Administration before the Administrative Court in Cologne in which the individual plaintiff demanded that approval for operation of the carbon monoxide pipeline between Dormagen and Leverkusen be revoked. The plaintiff feared acute danger to nearby residents on account of alleged safety deficiencies. The Covestro Group pointed out that the safety of the pipeline had been demonstrated by an expert opinion of the German Technical Inspection Association (TÜV). The action has meanwhile been dismissed as inadmissible and no appeal was lodged within the statutory deadline.

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, Rotterdam, Netherlands, (UCML), a Uniper Group company, asserted a claim for reimbursement against the joint venture LyondellBasell Covestro Manufacturing Maasvlakte V.O.F, Rotterdam, Netherlands (LCMM). UCML was 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 LCMM. The Covestro Group, as a partner in the joint venture, bears 50% of any liability for potential reimbursement claims against LCMM. In the second quarter of 2016, LCMM and UCML reached an agreement stipulating extension of the supply arrangement and a waiver of all reimbursement claims by UCML. The legal dispute has thus been fully resolved.

11. Related Companies and Persons

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

Receivables from and Liabilities to Related Parties

		Dec. 31, 2015		June 30, 2016
	Receivables	Liabilities	Receivables	Liabilities
	€ million	€ million	€ million	€ million
Bayer AG	2	14	0	2
Bayer Group companies	51	2,243	50	131
Nonconsolidated subsidiaries and associates	1	4	1	4
Joint ventures	1	0	1	0
Associates	4	0	2	0

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

		1st half 2015		1st half 2016
	Sales of goods and services	Purchases of goods and services	Sales of goods and services	Purchases of goods and services
	€ million	€ million	€ million	€ million
Bayer AG	7	26	0	0
Bayer Group companies	42	445	39	257
Nonconsolidated subsidiaries and associates	20	–	17	2
Joint ventures	5	–	2	0
Associates	7	339	5	246

Transactions with Bayer AG and its subsidiaries

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

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

Receivables from and payables to related parties mainly comprise leasing and financing matters, trade in goods and services and other transactions. The reduction in liabilities to Bayer Group companies to €131 million (December 31, 2015: €2,243 million) was primarily the result of the repayment of loans described in Note 8.

12. Events After the End of the Reporting Period

Since July 1, 2016, no events have occurred that we expect to materially affect the net assets, financial position or results of operations of the Covestro Group.

Leverkusen, July 20, 2016
Covestro AG

The Board of Management

RESPONSIBILITY STATEMENT

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

Leverkusen, July 20, 2016
Covestro AG

The Board of Management

REVIEW REPORT

To Covestro AG, Leverkusen

We have reviewed the condensed consolidated interim financial statements – comprising the income statement, statement of comprehensive income, statement of financial position, income statement, statement of cash flows, statement of changes in equity and selected explanatory notes – and the interim Group management report of Covestro AG, Leverkusen, for the period from January 1 to June 30, 2016, which are components of the half-yearly financial report pursuant to Section 37w of the German Securities Trading Act (WpHG). The company's Board of Management is responsible for the preparation of the condensed consolidated interim financial statements in accordance with the IFRSs applicable to interim reporting as adopted by the EU and the interim Group management report in accordance with the requirements of the German Securities Trading Act applicable to interim group management reports. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and the interim Group management report based on our review.

We have conducted the review of the condensed consolidated interim financial statements and the interim Group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institute of Public Auditors in Germany (IDW) and additionally observed the International Standard on Review Engagements "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE 2410). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material aspects, in accordance with the IFRSs applicable to interim financial reporting as adopted by the EU, and that the interim Group management report has not been prepared, in all material aspects, in accordance with the requirements of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRSs applicable to interim reporting as adopted by the EU, nor that the interim Group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Essen, July 21, 2016

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Petra Justenhoven	Dietmar Prümm
Wirtschaftsprüferin	Wirtschaftsprüfer

Further Information

Segment and Quarterly Overview

Segment Information 2nd Quarter

	Polyurethanes		Polycarbonates		Coatings, Adhesives, Specialties		Others / Consolidation		Covestro Group	
	2nd quarter 2015	2nd quarter 2016	2nd quarter 2015	2nd quarter 2016	2nd quarter 2015	2nd quarter 2016	2nd quarter 2015	2nd quarter 2016	2nd quarter 2015	2nd quarter 2016
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales	**1,637**	**1,481**	**829**	**831**	**562**	**532**	**182**	**146**	**3,210**	**2,990**
Change in sales										
Volume	+7.7%	+6.4%	+9.6%	+7.9%	+6.9%	−0.6%	−1.7%	−10.8%	+7.4%	+4.5%
Price	−9.9%	−13.1%	−3.6%	−4.3%	−1.0%	−2.7%	−2.0%	−8.3%	−6.4%	−8.7%
Currency	+9.2%	−2.8%	+13.3%	−3.4%	+9.5%	−2.0%	+4.3%	−0.7%	+10.0%	−2.7%
Portfolio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Core volume growth[1]	**+5.8%**	**+9.0%**	**+9.1%**	**+8.5%**	**+6.5%**	**−1.8%**			**+6.7%**	**+7.7%**
Sales by region										
EMLA	707	653	292	300	285	272	136	115	1,420	1,340
NAFTA	524	450	198	193	130	117	36	27	888	787
APAC	406	378	339	338	147	143	10	4	902	863
EBITDA	**195**	**228**	**149**	**191**	**135**	**142**	**(40)**	**(19)**	**439**	**542**
Adjusted EBITDA	**223**	**228**	**150**	**191**	**137**	**142**	**(12)**	**(19)**	**498**	**542**
EBIT	**92**	**124**	**104**	**142**	**113**	**119**	**(42)**	**(21)**	**267**	**364**
Adjusted EBIT	**121**	**124**	**105**	**142**	**115**	**119**	**(14)**	**(21)**	**327**	**364**
Depreciation, amortization, impairment losses and impairment loss reversals	**103**	**104**	**45**	**49**	**22**	**23**	**2**	**2**	**172**	**178**
Operating cash flow	**184**	**135**	**68**	**89**	**131**	**72**	**(23)**	**20**	**360**	**316**
Cash outflows for additions to property, plant, equipment and other intangible assets	**49**	**46**	**59**	**19**	**20**	**14**	**2**	**0**	**130**	**79**
Free operating cash flow	**135**	**89**	**9**	**70**	**111**	**58**	**(25)**	**20**	**230**	**237**

[1] Reference values calculated based on the definition of the core business effective March 31, 2016

Segment Information 1st Half

	Polyurethanes		Polycarbonates		Coatings, Adhesives, Specialties		Others / Consolidation		Covestro Group	
	1st half 2015	1st half 2016	1st half 2015	1st half 2016	1st half 2015	1st half 2016	1st half 2015	1st half 2016	1st half 2015	1st half 2016
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales	**3,191**	**2,884**	**1,594**	**1,617**	**1,097**	**1,044**	**382**	**320**	**6,264**	**5,865**
Change in sales										
Volume	+4.1%	+6.7%	+7.5%	+8.3%	+5.5%	−1.1%	−0.8%	−6.5%	+4.8%	+4.9%
Price	−8.6%	−14.4%	−2.9%	−4.8%	−0.5%	−2.5%	−0.3%	−9.4%	−5.4%	−9.6%
Currency	+9.6%	−1.9%	+13.0%	−2.1%	+9.5%	−1.2%	+4.6%	−0.3%	+10.1%	−1.7%
Portfolio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Core volume growth[1]	**+2.7%**	**+9.7%**	**+7.3%**	**+8.5%**	**+6.4%**	**−2.3%**			**+4.2%**	**+8.1%**
Sales by region										
EMLA	1,381	1,268	570	585	554	534	283	254	2,788	2,641
NAFTA	1,007	896	380	385	253	231	79	57	1,719	1,569
APAC	803	720	644	647	290	279	20	9	1,757	1,655
EBITDA	**348**	**442**	**265**	**368**	**266**	**281**	**(47)**	**(41)**	**832**	**1,050**
Adjusted EBITDA	**386**	**442**	**266**	**368**	**270**	**281**	**(8)**	**(41)**	**914**	**1,050**
EBIT	**123**	**241**	**177**	**269**	**224**	**238**	**(51)**	**(44)**	**473**	**704**
Adjusted EBIT	**184**	**241**	**178**	**269**	**228**	**238**	**(12)**	**(44)**	**578**	**704**
Depreciation, amortization, impairment losses and impairment loss reversals	**225**	**201**	**88**	**99**	**42**	**43**	**4**	**3**	**359**	**346**
Operating cash flow	**305**	**151**	**99**	**183**	**166**	**126**	**(26)**	**(20)**	**544**	**440**
Cash outflows for additions to property, plant, equipment and other intangible assets	**82**	**70**	**102**	**31**	**38**	**25**	**2**	**0**	**224**	**126**
Free operating cash flow	**223**	**81**	**(3)**	**152**	**128**	**101**	**(28)**	**(20)**	**320**	**314**

[1] Reference values calculated based on the definition of the core business effective March 31, 2016

Quarterly Overview

	1st quarter 2015	2nd quarter 2015	3rd quarter 2015	4th quarter 2015	1st quarter 2016	2nd quarter 2016
	€ million	€ million	€ million	€ million	€ million	€ million
Sales	**3,054**	**3,210**	**3,020**	**2,798**	**2,875**	**2,990**
Polyurethanes	1,554	1,637	1,512	1,385	1,403	1,481
Polycarbonates	765	829	819	759	786	831
Coatings, Adhesives, Specialties	535	562	519	477	512	532
Core volume growth[1]	**+1.7%**	**+6.7%**	**–0.6%**	**+3.0%**	**+8.5%**	**+7.7%**
Adjusted EBITDA	**416**	**498**	**471**	**256**	**508**	**542**
Polyurethanes	163	223	175	63	214	228
Polycarbonates	116	150	171	123	177	191
Coatings, Adhesives, Specialties	133	137	137	84	139	142
EBIT	**206**	**267**	**287**	**(80)**	**340**	**364**
Polyurethanes	31	92	60	(157)	117	124
Polycarbonates	73	104	127	70	127	142
Coatings, Adhesives, Specialties	111	113	113	60	119	119
Financial result	**(41)**	**(46)**	**(56)**	**(32)**	**(78)**	**(45)**
Income before income taxes	**165**	**221**	**231**	**(112)**	**262**	**319**
Income after taxes	**118**	**154**	**161**	**(81)**	**184**	**233**
Net income	**115**	**152**	**160**	**(84)**	**182**	**230**
Operating cash flow	**184**	**360**	**379**	**550**	**124**	**316**
Cash outflows for additions to property, plant and equipment and intangible assets	**94**	**130**	**128**	**157**	**47**	**79**
Free operating cash flow	**90**	**230**	**251**	**393**	**77**	**237**

[1] Reference values calculated based on the definition of the core business effective March 31, 2016

Financial Calendar

Q3 2016 Interim Report .... **October 25, 2016**

Annual Report 2016 .... **February 20, 2017**

Q1 2017 Interim Report .... **April 25, 2017**

Annual Stockholders' Meeting 2017 .... **May 3, 2017**

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