

# FINANCIAL STATEMENTS 2016

Financial Statements of Covestro AG  
for the fiscal year 2016





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The management report of Covestro AG is combined with the management report of the Covestro Group. The Combined Management Report is published in Covestro's Annual Report for 2016. The financial statements and the Combined Management Report of the Covestro Group and Covestro AG for fiscal 2016 have been submitted to the operator of the electronic Federal Gazette in Germany and are accessible via the Company Register website.

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### Forward-Looking Statements

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

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

## Statement of Financial Position of Covestro AG

### Assets

	Dec. 31, 2015	Dec. 31, 2016
	€ thousand	€ thousand
<b>Noncurrent assets</b>		
Intangible assets	–	14
Property, plant and equipment	84	425
Financial assets	1,766,024	1,766,024
	<b>1,766,108</b>	<b>1,766,463</b>
<b>Current assets</b>	–	–
Inventories	–	–
Work in process	3	32
Receivables and other assets	–	–
Trade accounts receivable	7,107	26,636
of which from affiliated companies	7,102	26,614
Receivables from affiliated companies	3,569,877	5,355,526
Other assets	17,865	82,759
	<b>3,594,852</b>	<b>5,464,953</b>
<b>Deferred charges</b>	<b>11,257</b>	<b>9,995</b>
<b>Excess of plan assets over pension liability</b>	<b>1,511</b>	<b>8,246</b>
	<b>5,373,728</b>	<b>7,249,657</b>

### Equity and Liabilities

	Dec. 31, 2015	Dec. 31, 2016
	€ thousand	€ thousand
<b>Equity</b>		
Capital stock	202,500	202,500
Capital reserves	4,918,524	4,918,524
Other retained earnings	39,161	220,143
Distributable profit	141,750	273,375
	<b>5,301,935</b>	<b>5,614,542</b>
<b>Provisions</b>		
Provisions for pensions	11,424	3,434
Provisions for taxes	21,332	15,713
Other provisions	12,003	52,884
	<b>44,759</b>	<b>72,031</b>
<b>Liabilities</b>		
Bonds	–	1,500,000
Trade accounts payable	9,109	7,481
of which to affiliated companies	5,858	441
Liabilities to affiliated companies	15,620	43,022
Other liabilities	2,305	12,581
of which taxes	1,038	1,299
	<b>27,034</b>	<b>1,563,084</b>
	<b>5,373,728</b>	<b>7,249,657</b>

## Income Statement of Covestro AG

	2015	2016
	€ thousand	€ thousand
Income from investments in affiliated companies	231,711	589,018
<b>Income from investments in affiliated companies</b>	<b>231,711</b>	<b>589,018</b>
Other interest and similar income	3,999	10,717
of which from affiliated companies	3,999	10,253
Interest and similar expenses	(3,320)	(12,649)
of which expenses from unwinding of discount	(3,314)	(96)
<b>Interest result</b>	<b>679</b>	<b>(1,932)</b>
Other financial income	4	47
of which from currency translation	4	47
Other financial expenses	(16,529)	(12,091)
of which from currency translation	(9)	(22)
<b>Other financial income and expenses</b>	<b>(16,525)</b>	<b>(12,044)</b>
<b>Financial result</b>	<b>215,865</b>	<b>575,042</b>
Net sales	9,635	27,226
Cost of services provided	(9,312)	(24,296)
General administration expenses	(10,340)	(55,687)
Other operating income	1	2,810
Other operating expenses	(7,380)	(27,394)
<b>Operating result</b>	<b>(17,396)</b>	<b>(77,341)</b>
<b>Result from ordinary activities</b>	<b>198,469</b>	<b>497,701</b>
Income taxes	(17,531)	(43,344)
<b>Result after tax/net income</b>	<b>180,938</b>	<b>454,357</b>
Allocation to other retained earnings	(39,161)	(180,982)
Accumulated losses brought forward from prior year	(27)	–
<b>Distributable profit</b>	<b>141,750</b>	<b>273,375</b>

# NOTES

## Basis of Preparation

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

The previous year comprises the period from August 21, 2015 to December 31, 2015 (abbreviated fiscal year). Therefore, the income statement is comparable to the previous year only to a limited degree.

On March 3, 2016, Covestro AG placed its first bonds with a total volume of €1,500 million. Along with the syndicated credit facility arranged in September 2015, the bonds are the Covestro Group's main source of long-term outside financing. 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. In August 2016, the multicurrency revolving credit facility of €1,500 million was extended to September 2021.

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

The declaration of conformity with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG) has been issued and made permanently available to shareholders on the internet. It also forms part of the Declaration on Corporate Governance in accordance with Section 289a of the German Commercial Code (HGB). It is available for download at <http://investor.covestro.com>.

Covestro AG is included in the consolidated financial statements of Bayer AG, Leverkusen (Germany). The consolidated financial statements of Bayer AG, Leverkusen, present the top tier of consolidation. The consolidated financial statements of Bayer AG, Leverkusen, are submitted to the operator of the electronic Federal Gazette in Germany and published on the internet. The financial statements of Covestro AG represent the smallest group of consolidated companies. The consolidated financial statements of Covestro AG are submitted to the operator of the electronic Federal Gazette in Germany and published on the website at <http://investor.covestro.com>.

The management report of Covestro AG is combined with the management report of the Covestro Group in accordance with Section 315, Paragraph 3 in conjunction with Section 298, Paragraph 3 of the German Commercial Code (HGB).

The provisions of the Accounting Directive Implementation Act (BilRUG) and of the Act Implementing the Mortgage Credit Directive and Amending Commercial Rules must be applied for the first time in 2016. Any changes in accounting policies resulting from these two acts are described in the section "Accounting Policies and Valuation Principles."

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

## Accounting Policies and Valuation Principles

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

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

### Useful Life

Intangible assets	3 to 20 years
Operating and office equipment	2 to 15 years
Information technology	2 to 15 years
Transportation equipment	2 to 12 years

Movable noncurrent assets that are subject to wear and tear and capable of being used independently are depreciated in full in the year of acquisition if their cost does not exceed €410. Writedowns are recognized if expected permanent impairment exceeds the carrying amount.

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

Non-interest-bearing or low-interest loans are recognized at their present value; other loans are recognized at their principal amount.

Work in process is included in inventories and reported at cost.

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

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

Deferred charges and deferred income include expenses incurred and income generated prior to the reporting date, which represent expenses and income for a specific period after that date; they are recognized at their nominal amounts. In addition, in application of the option in accordance with Section 250, Paragraph 3 of the German Commercial Code (HGB), deferred charges include the difference between the issue and settlement amount of the bonds issued. The differences are amortized over the maturity of the corresponding bond.

Deferred taxes are recognized for temporary differences between the assets, liabilities, deferred charges and deferred income recognized in the HGB financial statements and the tax statement. For Covestro AG, this not only includes the differences relating to its own statement of financial position items but also those of tax group subsidiaries and partnerships in which it holds an equity interest. In addition to temporary differences, tax loss carryforwards are also recognized where necessary. Deferred taxes are calculated on the basis of the combined income tax rate for the tax group of Covestro AG, which is currently 32.09% (previous year: 31.98%). The combined income tax rate includes corporate income tax, trade tax, and the solidarity surcharge. However, deferred taxes relating to temporary differences for investments in partnerships are calculated on the basis of a combined income tax rate, which includes only corporate income tax and the solidarity surcharge; this remains unchanged from the previous year at 15.83%. Any resulting overall tax burden would be recognized as a deferred tax liability in

income tax rate, which includes only corporate income tax and the solidarity surcharge; this remains unchanged from the previous year at 15.83%. Any resulting overall tax burden would be recognized as a deferred tax liability in the statement of financial position. In the event of tax relief, the option to recognize the deferred tax would not be exercised. In the fiscal year, there was a total of one unrecognized deferred tax asset.

The capital stock of Covestro AG is divided into 202,500,000 no-par value bearer shares with a notional value of €1 per share.

Provisions for pensions and similar obligations are determined according to actuarial principles, using the projected unit credit method on the basis of biometric probability using the Heubeck 2005 G reference tables. Expected future salary and pension increases are taken into account when determining the obligations. We assume annual salary increases of 2.75% (previous year: 3.0%). We expect annual pension increases of 1.50% (previous year: 1.75%). However, for pension commitments granted as of January 1, 2000, an annual pension increase of 1.0% applies in line with what was promised to employees. The discount rate as of December 31, 2016, used for discounting pension obligations was 4.01% (previous year: 3.89%). This is the average market interest rate over the past ten years for an assumed remaining term of 15 years calculated and published by Deutsche Bundesbank for December 2016.

The requirements for discounting provisions for pension obligations have changed as a result of the Act Implementing the Mortgage Credit Directive and Amending Commercial Rules entering into force. Up until and including 2015, these provisions were discounted using the average market interest rate over the past seven years appropriate to their maturity. From 2016, provisions for pension obligations are discounted using the above-mentioned average market interest rate over the past ten years.

Other provisions cover all foreseeable risks and uncertain liabilities. They are measured on the basis of the settlement amount required according to sound business judgment. Future price and cost increases are taken into account as long as there are sufficient objective indications that they will occur. Provisions with a remaining maturity of more than one year are discounted using the average market interest rate over the past seven fiscal years appropriate to their remaining maturities. For longer-term personnel-related provisions, such as those for long-term service awards, a rate of 3.24% (previous year: 3.89%) is used for an assumed remaining maturity of 15 years. Shorter-term personnel-related provisions for obligations under early retirement and semi-retirement agreements are discounted using a rate appropriate to their maturity. In 2016, the maturity was three years and the discount rate 1.81% (previous year: 2.34%). The interest rates at the time that the respective personnel-related provisions were determined are those expected for December 2016.

Liabilities are recognized at their settlement amount.

Receivables and liabilities in foreign currencies are measured using the respective spot rates on reporting date.

Cash and cash equivalents are recognized at their nominal amounts. Cash and cash equivalents in foreign currencies are translated at the average exchange rate applicable on reporting date.

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



## Notes to the Statement of Financial Position

### 1. Intangible Assets

#### Intangible Assets

	Software licenses
	€ thousand
Gross carrying amount, Jan. 1, 2016	–
Additions	17
<b>Gross carrying amount, Dec. 31, 2016</b>	<b>17</b>
Accumulated amortization and writedowns, Jan. 1, 2016	–
Accumulated amortization and writedowns in 2016	3
<b>Accumulated amortization and writedowns, Dec. 31, 2016</b>	<b>3</b>
<b>Net carrying amount, Dec. 31, 2016</b>	<b>14</b>

### 2. Property, Plant and Equipment

#### Property, Plant and Equipment

	Operating and office equipment	Prepayments and assets under construction	Total
	€ thousand	€ thousand	€ thousand
Gross carrying amount, Jan. 1, 2016	96	3	99
Additions	405	–	405
<b>Gross carrying amount, Dec. 31, 2016</b>	<b>501</b>	<b>3</b>	<b>504</b>
Accumulated depreciation and writedowns, Jan. 1, 2016	15	–	15
Accumulated depreciation and writedowns in 2016	64	–	64
<b>Accumulated depreciation and writedowns, Dec. 31, 2016</b>	<b>79</b>	<b>–</b>	<b>79</b>
<b>Net carrying amount, Dec. 31, 2016</b>	<b>422</b>	<b>3</b>	<b>425</b>
Net carrying amount, Jan. 1, 2016	81	3	84

### 3. Financial Assets

#### Financial Assets

	Investments in affiliated companies
	€ thousand
Gross carrying amounts, Jan. 1, 2016	1,766,024
Additions	–
Retirements	–
<b>Gross carrying amounts, Dec. 31, 2016</b>	<b>1,766,024</b>
Accumulated writedowns, Jan. 1, 2016	–
Accumulated writedowns 2016	–
<b>Accumulated writedowns, Dec. 31, 2016</b>	<b>–</b>
<b>Net carrying amounts, Dec. 31, 2016</b>	<b>1,766,024</b>
Net carrying amounts, Jan. 1, 2016	1,766,024

#### 4. Excess of Plan Assets over Pension Liability

Obligations arising from work-time accounts as well as pension commitments are fully or partially covered by assets held in trust and invested using separate pension-provision investment vehicles (plan assets). The invested assets may only be used for the purpose of meeting obligations under specifically defined plans and are exempt from attachment by other creditors in the event that the employer becomes insolvent. They were offset against the underlying obligations. This resulted in a total excess of €8,246 thousand, of which €174 thousand is attributable to obligations arising from work-time accounts and €8,072 thousand to pension commitments.

Plan assets mainly include liquid international bonds, shares, real estate, alternative investments, and near-money-market products.

##### Excess of Plan Assets over Pension Liability

	Dec. 31, 2015	Dec. 31, 2016
	€ thousand	€ thousand
Settlement amount of obligations relating to credit balances on employees' long-term work-time accounts	372	459
Fair value of assets invested	450	633
<b>Difference between assets and obligations relating to long-term work-time accounts (excess of plan assets)</b>	<b>78</b>	<b>174</b>
Acquisition cost of assets invested	455	607

	Dec. 31, 2015	Dec. 31, 2016
	€ thousand	€ thousand
Settlement amount of pension commitments	4,173	13,369
Fair value of assets invested	5,606	21,441
<b>Difference between assets and obligations relating to pension commitments (excess of plan assets)</b>	<b>1,433</b>	<b>8,072</b>
Acquisition cost of assets invested	5,685	20,922

Plan assets are measured at fair value, which was €30,916 thousand as of December 31, 2016. Offsetting of plan assets of €22,074 thousand against the underlying obligations resulted in an overfunding asset; the remaining €8,842 thousand was recognized as an underfunding liability. The items were reported either as "excess of plan assets over pension liability" or under pension provisions respectively.

Up to December 28, 2016, Covestro AG made noncash contributions of €17,007 thousand to the trust assets.

## 5. Equity

During the fiscal year, equity changed as follows:

### Equity

	Jan. 1, 2016	Dividends	Net income	Dec. 31, 2016
	€ thousand	€ thousand	€ thousand	€ thousand
Capital Stock	202,500	–	–	202,500
Capital reserve	4,918,524	–	–	4,918,524
Other retained earnings	39,161	–	180,982	220,143
Distributable profit	141,750	(141,750)	273,375	273,375
	<b>5,301,935</b>	<b>(141,750)</b>	<b>454,357</b>	<b>5,614,542</b>

The capital stock of Covestro AG amounted to €202,500,000 and is divided into 202,500,000 no-par value bearer shares with a notional value of €1 per share; it is fully paid-up. Each share confers the right to cast one vote.

The Annual Stockholders' Meeting of October 2, 2015, resolved authorized capital of €101,250,000, expiring October 2, 2020. This may be used to increase capital stock through the issue of new no-par value bearer shares against cash and/or noncash contributions. The stockholders are entitled to subscription rights. However, the Board of Management is authorized, with the consent of the Supervisory Board, to disapply stockholders' subscription rights where the subscription ratio gives rise to fractional amounts. Subscription rights may also be disappplied to the extent necessary to grant holders or creditors of bonds (including jouissance rights) with warrants or conversion rights or obligations issued by the company or its Group companies the right to subscribe to new shares to the extent to which they would be entitled after exercise of their warrants or conversion rights, or performance of their exercise or conversion obligations. The Board of Management is further authorized, with the consent of the Supervisory Board, to disapply subscription rights for stockholders if the capital increase is implemented to grant shares against noncash contributions or to grant a scrip dividend, in the process of which the stockholders are given the option of contributing their dividend rights to the company (either in full or in part) as noncash contributions in exchange for new shares being granted from authorized capital. The stockholders' subscription rights may also be disappplied if the new shares are issued at a price that is not significantly below the stock market price and the total interest in the capital stock attributable to the new shares for which subscription rights are disappplied pursuant to Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act (AktG) does not exceed 10% of the existing capital stock either on the date this authorization takes effect or the date it is utilized. The sale of own shares counts toward this limit if they are sold during the term of this authorization and subscription rights are disappplied pursuant to Section 71, Paragraph 1, No. 8, Sentence 5 in conjunction with Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act. Furthermore, shares issued or to be issued to service bonds (including jouissance rights) with warrants or conversion rights or obligations also count toward this limit where such bonds or jouissance rights were issued during the term of this authorization and stockholders' subscription rights were excluded in analogous application of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act.

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

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

The Annual Stockholders' Meeting of September 1, 2015, passed resolutions on conditional capital 2015, authorizing an increase in conditional capital stock by up to €70,000,000 by issuing up to 70,000,000 new no-par value registered shares with a notional value of €1 per share. The conditional capital increase will only be implemented to the extent that the holders of warrants or conversion rights attached to bonds (including jouissance rights) issued or guaranteed by the company or its Group companies up to August 31, 2020 on the basis of the authorization of the Annual Stockholders' Meeting of September 1, 2015, exercise their conversion or option rights or fulfill their conversion or option obligations, and to the extent that such warrants or conversion rights or obligations cannot be serviced by treasury shares, shares issued from authorized capital, or other forms of settlement.

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

Management is authorized, with the consent of the Supervisory Board, to set further details of the terms of the conditional capital increase.

In the event of a capital increase, the profit participation rules for the new shares may be specified in derogation from Section 60 of the German Stock Corporation Act (AktG).

The conditional capital has not been utilized to date.

#### **Disclosures on amounts subject to distribution restrictions as defined by Section 268, Paragraph 8 and Section 253, Paragraph 6 of the German Commercial Code (HGB)**

To cover pension obligations and credit balances on employees' long-term accounts, as part of a contractual trust agreement, funds have been transferred to the Metzler Fund, earmarked for this purpose and protected from insolvency. The funds are measured at fair value. As of the reporting date, these funds amounted to €30,916 thousand; they exceed the cost of €30,337 thousand by €579 thousand. The excess of €579 thousand compares with available reserves of €5,138,667 thousand, which means that this excess amount is subject to distribution restrictions.

Furthermore, the difference resulting from the change in the discount rate used to discount provisions for pension obligations, amounting to an additional €4,553 thousand of available reserves, is subject to distribution restrictions in accordance with Section 253, Paragraph 6 of the German Commercial Code (HGB).

The reported distributable profit of €273,375 thousand is not subject to distribution restrictions.

#### **Information on Stockholdings Pursuant to Section 21, Paragraph 1, of the German Securities Trading Act (WpHG)**

During fiscal year 2016 and in the previous year, we received the following notifications of stockholdings in Covestro AG pursuant to Section 21, Paragraph 1 of the German Securities Trading Act (WpHG). In cases where stockholdings reached, exceeded or fell below the thresholds set out in this provision on several occasions and are reportable, only the most recent or last such notification is included:

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

Entity subject to disclosure requirements	Date of notification	Share of voting rights reached on	Threshold	Voting rights		Attribution	
				%	absolute	direct	indirect
				%			
Standard Life Investments Ltd., Edinburgh	Oct. 10, 2016	Oct. 4, 2016	3	2.94	5,958,554		2.94%
BlackRock, Inc., Wilmington	Aug. 1, 2016	July 26, 2016	3	2.98	6,033,360		2.98%
Bayer Pension Trust e.V., Leverkusen	April 21, 2016	April 19, 2016	3	4.94	10,000,000	4.94%	
BlackRock Luxembourg Holdco S.à r.l., Luxembourg	Nov. 26, 2015	Nov. 24, 2015	3	2.98	6,039,615		2.98%
BLACKROCK (Luxembourg) S.A., Luxembourg	Nov. 26, 2015	Nov. 24, 2015	3	2.98	6,039,615		2.98%
BlackRock Global Funds, Luxembourg	Nov. 26, 2015	Nov. 24, 2015	3	2.96	5,984,212	2.96%	
BlackRock Investment Management (UK) Limited, London	Nov. 26, 2015	Oct. 7, 2015	3	3.68	7,444,261		3.68%
BlackRock Group Limited, London	Oct. 9, 2015	Oct. 7, 2015	3	3.80	7,689,383		3.80%
BR Jersey International Holdings L.P., St. Helier, Jersey	Oct. 9, 2015	Oct. 7, 2015	3	3.80	7,691,608		3.80%
BlackRock International Holdings, Inc., Wilmington	Oct. 9, 2015	Oct. 7, 2015	3	3.80	7,691,608		3.80%
BlackRock Financial Management, Inc., Wilmington	Oct. 9, 2015	Oct. 7, 2015	3	3.85	7,802,680		3.85%
BlackRock Holdco 2, Inc., Wilmington	Oct. 9, 2015	Oct. 7, 2015	3	3.85	7,802,680		3.85%
Bayer AG, Leverkusen	Oct. 6, 2015	Oct. 5, 2015	3	69.14	140,000,000	69.14%	

## 6. Provisions for Pensions

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

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

### Provisions for Pensions

	Dec. 31, 2015	Dec. 31, 2016
	€ thousand	€ thousand
Settlement amount of pension commitments	17,849	12,276
Fair value of assets invested	6,425	8,842
<b>Net value of pension commitments (provisions)</b>	<b>11,424</b>	<b>3,434</b>
Acquisition cost of assets invested	6,516	8,808

The difference resulting from the change in the discount rate as defined by Section 253, Paragraph 6, Sentence 1 of the German Commercial Code (HGB) was €4,553 thousand on December 31, 2016.

## 7. Other Provisions

Other provisions were mainly recognized for personnel-related obligations (€24,701 thousand). Provisions to offset possible tax claims by Bayer AG in connection with the contribution, indemnification, and post-formation agreement are also included in provisions for other uncertain liabilities (€28,183 thousand).

## 8. Bonds

On December 31, 2016, bonds amounted to €1,500,000 thousand. They break down as follows:

### Bonds

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

The differences between the issue and settlement amount of the bonds issued, which are reported under deferred charges in application of the option in accordance with Section 250, Paragraph 3 of the German Commercial Code (HGB), totaled €2,966 thousand on December 31, 2016.

## 9. Additional Disclosures on Liabilities

Liabilities are classified according to maturity as follows:

### Maturity Structure of Liabilities

	Dec. 31, 2015				
	Bonds	Trade accounts payable	Liabilities to affiliated companies	Other liabilities	Total
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Due in 2016	–	9,109	15,620	2,305	27,034
Due in or after 2017	–	–	–	–	–
of which due in or after 2021	–	–	–	–	–
	<b>–</b>	<b>9,109</b>	<b>15,620</b>	<b>2,305</b>	<b>27,034</b>

	Dec. 31, 2016				
	Bonds	Trade accounts payable	Liabilities to affiliated companies	Other liabilities	Total
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Due in 2017	–	7,833	43,022	12,581	63,436
Due in or after 2018	1,500,000	–	–	–	1,500,000
of which due in or after 2022	500,000	–	–	–	500,000
	<b>1,500,000</b>	<b>7,833</b>	<b>43,022</b>	<b>12,581</b>	<b>1,563,436</b>

## Notes to the Income Statement

### 10. Income from Investments in Affiliated Companies

Income from investments in affiliated companies of €589,018 thousand is solely attributable to income from the control and profit and loss transfer agreement with Covestro Deutschland AG, Leverkusen.

### 11. Interest Result

In addition to expenses of €12,544 thousand for the bonds issued, the interest result includes primarily interest income for loans granted to Covestro Deutschland AG, Leverkusen, in an amount of €10,253 thousand (previous year: €3,999 thousand).

The expenses related to the interest cost allocated to pension provisions of €214 thousand (previous year: €3,237 thousand), which also include income from changes in the discount rate, are offset against income of €678 thousand from the investment with Metzler Trust e.V., Frankfurt am Main (Germany).

The assets invested with Metzler Trust e.V., Frankfurt am Main, may only be used for the purpose of meeting pension obligations and work-time credits and are exempt from attachment by other creditors.

### 12. Other Financial Income and Expenses

The main item reported in other financial income and expenses is bank fees amounting to €11,066 thousand. They include commitment fees for credit lines, one-time fees associated with issuing the bonds, and amortization of the original issue discount on the bonds.

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

### 13. Net Sales

Sales include income from services rendered by the Corporate Center divisions of Covestro AG for Covestro Group companies. Of €27,226 thousand (previous year: €9,635 thousand), sales generated with foreign Group companies accounted for a total of €507 thousand (1.86%) (previous year: €200 thousand). Expenses incurred for providing the services are shown under cost of services provided.

### 14. Other Operating Income

A provision recognized in the previous year for real estate transfer taxes incurred in the course of the legal separation of the Covestro Group was reduced by €2,300 thousand.

Other operating income includes non-period income of €2,747 thousand. In addition to the reversal of the provision for real estate transfer taxes referred to above, a further €447 thousand is attributable to the reversal of other provisions, in particular personnel-related provisions.

### 15. Other Operating Expenses

Other operating expenses include primarily expenses of €27,265 thousand in connection with the existing contribution, indemnification, and post-formation agreement between Bayer AG, Leverkusen, and Covestro AG described in the section "Contingent Liabilities".

### 16. Income Taxes

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

The tax expense does not include deferred taxes. As of December 31, 2016, Covestro AG expected a future tax relief of €91,107 thousand (previous year: €110,380 thousand) from temporary differences relating to itself as well as to companies within the tax group and partnerships. This is calculated on the basis of the combined income tax rate of 32.09% (previous year: 31.98%) (Covestro AG and tax group subsidiaries) or 15.83% (investments in partnerships; the tax rate includes only corporate income tax and the solidarity surcharge).

Deferred tax liabilities are mainly the result of the difference between the higher carrying amounts of both noncurrent assets and plan assets invested with Metzler Trust e.V., Frankfurt am Main, – primarily to cover pension commitments – and the valuation in the tax statement. Deferred tax assets are mainly the result of higher amounts recognized for pension obligations in the financial statements in accordance with German commercial law compared with the tax balance sheet. Other deferred tax assets resulted from non-recognizable provisions for anticipated losses and for pre-retirement leave in the tax balance sheet and from measurement differences, for example for provisions for pre-retirement part-time working arrangements and long-term service awards. Overall, deferred tax liabilities were more than offset by deferred tax assets. In application of the option under Section 274, Paragraph 1, Sentence 2 of the German Commercial Code (HGB), no deferred tax assets were recognized for the net deferred tax assets.

## 17. Other Taxes

Where other taxes could be allocated to general administration expenses, they are recognized there. Otherwise, they are included under other operating expenses. Other taxes totaled €73 thousand (previous year: €3,800 thousand).

## 18. Cost of Materials

### Cost of Materials

	2016
	€ thousand
Cost of raw materials, consumables and supplies, and of purchased merchandise	15
Cost of purchased services	83
	<b>98</b>

## 19. Personnel Expenses/Employees

### Personnel Expenses

	2016
	€ thousand
Wages and salaries	42,465
Social expenses and expenses for pensions and other benefits	3,132
of which pension expenses	2,191
	<b>45,597</b>

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

On average, Covestro AG had 168 employees (previous year: 159) in the reporting year. They break down as follows:

### Employees

	2016	
	Women	Men
Senior executives and senior managers	22	61
Junior managers and nonmanagerial employees	45	40
	<b>67</b>	<b>101</b>

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



## Other Information

### 20. Contingent Liabilities

Liabilities arising from debt guarantees and sureties amounted to €93,303 thousand. They were issued in favor of Group companies without exception. Due to the Group's excellent liquidity situation, all of the companies concerned are able to meet the underlying obligations; utilization is therefore not expected.

#### Debt Guarantees and Sureties

	Principal amount
	€ thousand
LyondellBasell Covestro Maasvlakte Manufacturing V.O.F, Rotterdam, Netherlands	
– maturing 2031	25,000
Covestro LLC, Pittsburgh, United States	
– Principal amount \$71,998 thousand; maturing 2020	68,303
	<b>93,303</b>

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

### 21. Other Financial Commitments

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

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

An obligation of €732 thousand was recognized for future lease and rent payments, which are entirely attributable to rental agreements with affiliated companies. Of the total rental obligations, €154 thousand is due in 2017 and €578 thousand in 2018 to 2021.

### 22. Related Party Disclosures

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

Transactions with related parties include mainly those entered into with Bayer AG, Leverkusen (Germany), and its subsidiaries as well as with pension plans. These mainly comprise rental, service, and financing transactions.

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

The compensation of the Board of Management in the reporting year consists of the following:

### Total Compensation of the Board of Management

	Sept. 1– Dec. 31, 2015	2016
	€ thousand	€ thousand
Fixed annual compensation	910	2,830
Fringe benefits	368	171
Short-term variable compensation	2,002	7,074
Long-term variable compensation <sup>1</sup>	–	4,882
<b>Aggregate compensation</b>	<b>3,280</b>	<b>14,957</b>
Pension service cost <sup>2</sup>	312	965

<sup>1</sup> Fair value when granted

<sup>2</sup> Including company contribution to Bayer-Pensionskasse VVaG and Rheinische Pensionskasse VVaG

The compensation comprises a non-performance-related component, an annual incentive, and a long-term stock-based component. Based on the average total annual compensation of a Member of the Board of Management for 100% achievement of targets, the compensation structure of the Covestro Group has the following components: 30% fixed annual compensation, 30% short-term variable compensation, and 40% long-term variable compensation (excluding fringe benefits and pension entitlements).

The non-performance-related compensation comprises the fixed annual compensation, which reflects the responsibilities and performance of the Board of Management members, along with fringe benefits. The performance-related compensation comprises a short-term variable component, which depends on the attainment of the corporate performance targets, and the Prisma stock-based compensation program. This is linked directly to changes in Covestro's share price.

The individual performance-related components are capped at the grant date. To comply with the recommendation of the German Corporate Governance Code, a cap has also been agreed for the compensation as a whole (total of the annual fixed compensation and the variable components). The cap is 1.8 times the respective target compensation (total fixed compensation for a Board of Management member at 100% target attainment) and is determined annually by the Supervisory Board when the fixed compensation is set. In the context of the compensation structure outlined here, the target compensation therefore amounts to 3.3 times the fixed compensation. The maximum total compensation is therefore 5.9 times the fixed compensation.

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

For three years in total, the members of the Board of Management will still be participating in the ongoing performance periods (2013–2016, 2014–2017 and 2015–2018 tranches) of the "Aspire" long-term stock-based compensation program whose terms were set by Bayer. The payments made under this program are based on the Aspire Target Opportunity, which is a contractually agreed percentage of fixed annual compensation. Depending on the performance of Bayer stock, both in absolute terms and relative to the EURO STOXX 50® benchmark index, participants are granted an award of between 0% and 300% of their individual Aspire Target Opportunity at the end of the respective performance period. The payout/performance matrix according to the absolute and relative development of Bayer's share price is available on the internet.

In order to break the link between the payout and the development of Bayer's share price, which can no longer be materially influenced by the members of the Board of Management, the Supervisory Board decided in 2015 that the average price of Bayer stock and the benchmark index calculated from the closing prices for the last 30 trading days of 2015 would be used as the closing price for all current tranches and that the payout amount would be frozen accordingly. In January 2016 and in January 2017 this resulted in a payout for the 2012–2015 and 2013–2016 tranches of a distribution totaling 300% of the target value in each case. In January 2018 (2014–2017 tranche), the payout will be 170% of the target value. The target value for the 2015–2018 tranche was reduced to 8/12 of the full value (pro rata for the period from January to August 2015). This was compensated for by increasing

the target value for the first tranche of Covestro's own Prisma long-term compensation program launched in 2016 by 4/12. For the 2015–2018 Aspire tranche, however, the relevant average price as of year end 2015 remained below the required minimum hurdle. As a result, there will be no payout for this tranche.

From 2016, the members of the Board of Management are eligible to participate in the Prisma compensation program as long as they remain in the service of the Covestro Group and acquire for their own account and hold an individually determined number of Covestro shares according to defined guidelines. This program is based on a target opportunity set at 130% of the fixed annual compensation. When a member of the Board of Management retires, current tranches may be shortened, thus reducing their value.

The payout is determined by calculating two factors: The TSR factor (total stockholder return) is the return generated by a stock expressed as a percentage (total of the final price of the share and all dividends distributed per share during the performance period divided by the initial price). The outperformance factor is based on the performance of Covestro stock during the performance period relative to the performance of the STOXX® Europe 600 Chemicals index. It is determined by expressing the difference between the performance of Covestro stock and that of the index as a percentage. The factor is greater than 100% (less than 100%) if Covestro's stock outperforms (underperforms) the index.

The Prisma target opportunity of each participant is multiplied by the TSR factor and the outperformance factor to arrive at the total distribution figure. The total distribution is limited to no more than 200% of the target opportunity. The maximum payout is therefore 260% of the fixed annual compensation. If Covestro's shares were to significantly underperform the index (e.g., if the price of the stock went down while the index increased in value), the outperformance factor could amount to zero. As a result, there would be no payout.

Expenses for pension commitments of €965 thousand were incurred for those members of the Board of Management who were in the service to the company during the reporting year. These included the current service cost for pension commitments and company contributions to Bayer-Pensionskasse VVaG and Rheinische Pensionskasse VVaG. The settlement amount for pension obligations as of the reporting date amounted to €5,914 thousand.

Total compensation for the Supervisory Board for the reporting year was €1,722 thousand. This includes attendance fees of €67 thousand.

As of December 31, 2016, there were no loans to members of the Board of Management or the Supervisory Board, nor were any loans repaid during the fiscal year.

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

## 24. Governance Bodies

### Board of Management

Name	Areas of responsibility	Memberships on other supervisory boards
<b>Patrick Thomas</b> (Chair of the Board of Management)	<ul style="list-style-type: none"> <li>Sustainability</li> <li>Strategy</li> <li>Communications</li> <li>Corporate Audit</li> <li>Corporate Office</li> <li>Polycarbonates</li> <li>Coatings, Adhesives, Specialties</li> <li>Human Resources</li> </ul>	<ul style="list-style-type: none"> <li>Non-executive Director BG Group plc, United Kingdom (until February 15, 2016)</li> </ul>
<b>Frank H. Lutz</b> (Member of the Board of Management, Labor Director)	<ul style="list-style-type: none"> <li>Finance</li> <li>Taxes</li> <li>Accounting</li> <li>Controlling</li> <li>Law, Intellectual Property &amp; Compliance</li> <li>Information Technology</li> <li>Portfolio and Project Management</li> <li>Investor Relations</li> </ul>	<ul style="list-style-type: none"> <li>Member of the Supervisory Board of Nordex SE (until May 10, 2016)</li> </ul>
<b>Dr. Klaus Schäfer</b> (Member of the Board of Management)	<ul style="list-style-type: none"> <li>Production &amp; Technology</li> <li>Engineering</li> <li>Investment Coordination &amp; Analysis</li> <li>Health, Safety, Environment</li> <li>Procurement</li> <li>Basic Chemicals</li> </ul>	
<b>Dr. Markus Steilemann</b> (Member of the Board of Management)	<ul style="list-style-type: none"> <li>Innovation</li> <li>Polyurethanes</li> </ul>	

### Supervisory Board

Name	Position	Memberships on other supervisory boards
<b>Dr. Richard Pott</b> (Chair)	<ul style="list-style-type: none"> <li>Former Member of the Board of Management and Labor Director of Bayer AG</li> </ul>	<ul style="list-style-type: none"> <li>Chair of the Supervisory Board of Covestro Deutschland AG</li> <li>Member of the Supervisory Board of Freudenberg SE</li> <li>Member of the Supervisory Board of SCHOTT AG</li> </ul>
<b>Petra Kronen</b> (Vice Chair)	<ul style="list-style-type: none"> <li>Chair of the General Works Council of Covestro</li> <li>Vice Chair of Covestro-European Forum</li> <li>Chair of the Works Council of Covestro Deutschland AG at the Uerdingen site</li> <li>Employee of Covestro Deutschland AG</li> </ul>	<ul style="list-style-type: none"> <li>Vice Chair of the Supervisory Board of Covestro Deutschland AG</li> <li>Member of the Supervisory Board of Bayer AG</li> <li>Member of the Supervisory Board of Bayer Beistandskasse VVaG</li> </ul>
<b>Ferdinando Falco Beccalli</b>	<ul style="list-style-type: none"> <li>Chair of the Board of Falco Enterprises AG</li> </ul>	<ul style="list-style-type: none"> <li>Member of the Supervisory Board of Covestro Deutschland AG</li> <li>Chair of the Supervisory Board of ENAV S.p.A.</li> <li>Member of the Supervisory Board of Covestro Deutschland AG</li> <li>Member of the Supervisory Board of OSRAM GmbH</li> <li>Member of the Supervisory Board of OSRAM Licht AG</li> <li>Member of the Supervisory Board of SGL Carbon SE</li> <li>Member of the Supervisory Board of TÜV SÜD AG</li> </ul>
<b>Dr. Christine Bortenlänger</b>	<ul style="list-style-type: none"> <li>Executive Member of the Board of Deutsches Aktieninstitut e.V.</li> </ul>	<ul style="list-style-type: none"> <li>Member of the Supervisory Board of TÜV SÜD AG</li> </ul>

## Supervisory Board

Name	Position	Memberships on other supervisory boards
<b>Johannes Dietsch</b>	<ul style="list-style-type: none"> <li>Member of the Board of Management of Bayer AG</li> </ul>	<ul style="list-style-type: none"> <li>Member of the Supervisory Board of Covestro Deutschland AG</li> <li>Chair of the Supervisory Board of Bayer Business Services GmbH</li> <li>Chair of the Supervisory Board of Bayer CropScience AG (since May 1, 2016)</li> </ul>
<b>Dr.-Ing. Thomas Fischer</b>	<ul style="list-style-type: none"> <li>Chair of the Managerial Employees' Committee of Covestro Deutschland AG</li> <li>Manager of Covestro Deutschland AG</li> </ul>	<ul style="list-style-type: none"> <li>Member of the Supervisory Board of Covestro Deutschland AG</li> <li>Member of the Supervisory Board of Bayer AG</li> <li>Member of the Supervisory Board of Bayer-Pensionskasse VVaG</li> </ul>
<b>Peter Hausmann</b>	<ul style="list-style-type: none"> <li>Member of the Executive Committee of the German Mining, Chemical and Energy Industrial Union (IG BCE)</li> </ul>	<ul style="list-style-type: none"> <li>Member of the Supervisory Board of Covestro Deutschland AG</li> <li>Member of the Supervisory Board of Henkel AG &amp; Co. KGaA</li> <li>Member of the Supervisory Board of Continental AG</li> <li>Vice Chair of the Supervisory Board of 50Hertz Transmission GmbH</li> <li>Vice Chair of the Supervisory Board of Vivawest GmbH</li> <li>Vice Chair of the Supervisory Board of Vivawest Wohnen GmbH</li> </ul>
<b>Irena Küstner</b>	<ul style="list-style-type: none"> <li>Chair of the Group Works Council of Covestro</li> <li>Vice Chair of the General Works Council of Covestro</li> <li>Chair of the Works Council of Covestro Deutschland AG at the Leverkusen site</li> <li>Employee of Covestro Deutschland AG</li> </ul>	<ul style="list-style-type: none"> <li>Member of the Supervisory Board of Covestro Deutschland AG</li> </ul>
<b>Michael Mostert</b> (until September 27, 2016)	<ul style="list-style-type: none"> <li>Employee of the German Mining, Chemical and Energy Industrial Union (IG BCE)</li> </ul>	<ul style="list-style-type: none"> <li>Member of the Supervisory Board of Covestro Deutschland AG (until September 13, 2016)</li> </ul>
<b>Prof. Dr. Rolf Nonnenmacher</b>	<ul style="list-style-type: none"> <li>Certified Accountant</li> </ul>	<ul style="list-style-type: none"> <li>Member of the Supervisory Board of Covestro Deutschland AG</li> <li>Member of the Supervisory Board of Continental AG</li> <li>Member of the Supervisory Board of ProSiebenSat.1 Media SE</li> </ul>
<b>Regine Stachelhaus</b>	<ul style="list-style-type: none"> <li>Former Member of the Board of Management and Labor Director of E.ON AG</li> </ul>	<ul style="list-style-type: none"> <li>Member of the Supervisory Board of Covestro Deutschland AG</li> <li>Member of the Supervisory Board of SPIE GmbH</li> <li>Director of SPIE SA, France</li> <li>Non-executive Director of ComputaCenter plc, United Kingdom</li> <li>Member of the Supervisory Board of METRO AG (since February 6, 2017)</li> </ul>
<b>Marc Stothfang</b> (from February 11, 2017)	<ul style="list-style-type: none"> <li>Chair of the Works Council of Covestro Deutschland AG at the Brunsbüttel site</li> <li>Chair of the Covestro-European Forum</li> <li>Employee of Covestro Deutschland AG</li> </ul>	
<b>Frank Werth</b> (from September 28, 2016)	<ul style="list-style-type: none"> <li>District Manager of the German Mining, Chemical and Energy Industrial Union (IG BCE) – Leverkusen district</li> </ul>	<ul style="list-style-type: none"> <li>Member of the Supervisory Board Covestro Deutschland AG (from September 14, 2016)</li> </ul>
<b>Sabine Wirtz</b> (until February 10, 2017)	<ul style="list-style-type: none"> <li>Substitute Member of the Works Council of Covestro Deutschland AG at the Leverkusen site</li> <li>Chemical Laboratory Technician at Covestro Deutschland AG</li> </ul>	<ul style="list-style-type: none"> <li>Member of the Supervisory Board of Covestro Deutschland AG</li> </ul>

## 25. Audit Fees

Disclosures on audit fees are included in the consolidated financial statements of Covestro AG. In this respect, the exemption option from the disclosure requirement for the fiscal year has been exercised in accordance with Section 285, No. 17 of the German Commercial Code (HGB).

## 26. List of Shareholdings

Covestro AG directly or indirectly holds shares in the following companies (disclosures pursuant to Section 285, No. 11 of the German Commercial Code (HGB)). The amounts stated for equity and net income or loss for the year relate to the amounts from the financial statements prepared in accordance with national law as of December 31, 2016; all amounts are rounded:

### List of Shareholdings

Company name	Place of business	Equity interest	Equity	Net income/loss	Foot-note
		%	€ thousand	€ thousand	
Bayer Pearl Polyurethane Systems FZCO	Dubai/United Arab Emirates	51.0	23,800	6,262	2
Bayer Pearl Polyurethane Systems L.L.C	Dubai/United Arab Emirates	49.0	201	31	2
CleanTech NRW GmbH	Leverkusen/Germany	100.0	10	(38)	2
Covestro (France) SNC	Fos-sur-Mer/France	100.0	52,688	5,546	2
Covestro (Hong Kong) Limited	Hong Kong/China	100.0	121,356	37,177	2
Covestro (India) Private Limited	Thane/India	100.0	43,108	204	3
Covestro (Shanghai) Management Co., Ltd.	Shanghai/China	100.0	17,077	3,082	2
Covestro (Taiwan) Ltd.	Kaohsiung/Taiwan	95.5	41,946	7,163	2
Covestro (Thailand) Co., Ltd.	Bangkok/Thailand	100.0	197,750	83,838	2
Covestro (Tielt) NV	Tielt/Belgium	100.0	33,788	2,449	2
Covestro (Viet Nam) Company Limited	Ho Chi Minh City/Vietnam	100.0	774	542	2
Covestro A/S	Otterup/Denmark	100.0	6,928	3,059	2
Covestro B.V.	Foxhol/Netherlands	100.0	105,519	15,734	2
Covestro Brunsbüttel Energie GmbH	Brunsbüttel/Germany	100.0	39	(923)	1, 2
Covestro Darmstadt GmbH	Darmstadt/Germany	100.0	89,859	999	1, 2
Covestro Deutschland AG	Leverkusen/Germany	100.0	1,782,485	589,018	1
Covestro Elastomers SAS	Romans-sur-Isère/France	100.0	61,359	2,038	2
Covestro Far East (Hong Kong) Limited	Hong Kong/China	100.0	141	36	2
Covestro First Real Estate GmbH	Monheim/Germany	100.0	22,173	19,166	2
Covestro GmbH	Leverkusen/Germany	100.0	5,325	2,795	1, 2
Covestro Indústria e Comércio de Polímeros Ltda.	São Paulo/Brazil	100.0	11,120	(4,632)	2
Covestro International SA	Fribourg/Switzerland	100.0	168,034	110,232	2
Covestro International Trade Services Corp.	Wilmington/United States	100.0	42,737	40,724	2
Covestro Japan Ltd.	Tokyo/Japan	100.0	4,384	2,699	2
Covestro Korea Corporation	Seoul/South Korea	100.0	20	(2,024)	2
Covestro LLC	Pittsburgh/United States	100.0	1,224,816	245,212	2
Covestro NV	Antwerp/Belgium	100.0	202,520	20,823	2
Covestro Oldenburg GmbH & Co. KG	Oldenburg/Germany	100.0	11,582	5,303	2
Covestro PO LLC	New Martinsville/United States	100.0	326,626	72,181	2
Covestro Polimer Anonim Şirketi	Istanbul/Turkey	100.0	137	59	2
Covestro Polymers (China) Co., Ltd.	Shanghai/China	100.0	998,257	122,394	2
Covestro Polymers (Qingdao) Co., Ltd.	Qingdao/China	100.0	5,731	(1,940)	2
Covestro Polymers (Shenzhen) Co., Ltd.	Shenzhen/China	100.0	16,042	1,197	2
Covestro Polymers (Tianjin) Co., Ltd.	Tianjin/China	100.0	2,719	40	2
Covestro Polyurethanes B.V.	Nieuwegein/Netherlands	100.0	35,793	11,270	2

## List of Shareholdings

Company name	Place of business	Equity interest	Equity	Net income/ loss	Foot-note
		%	€ thousand	€ thousand	
Covestro Pty Ltd	Cheltenham/Australia	100.0	1,395	987	2
Covestro S.A. de C.V.	Mexico City/Mexico	100.0	64,800	9,986	2
Covestro (Slovakia) Services s.ro.	Bratislava/Slovakia	100.0	4	(1)	2
Covestro S.p.A.	Milan/Italy	99.0	9,378	1,654	2
Covestro S.r.l.	Milan/Italy	100.0	76,640	11,347	2
Covestro, S.L.	Barcelona/Spain	100.0	42,245	9,994	2
Covestro Second Real Estate GmbH	Monheim/Germany	100.0	13,981	10,560	2
Covestro UK Limited	Cheadle/United Kingdom	100.0	5,160	963	2
Covestro Verwaltungs GmbH Oldenburg	Oldenburg/Germany	100.0	35	2	4
DIC Covestro Polymer Ltd.	Tokyo/Japan	50.0	19,181	6,322	2
Epurex Films Geschäftsführungs-GmbH	Bomlitz/Germany	100.0	87	7	2
Epurex Films GmbH & Co. KG	Bomlitz/Germany	100.0	14,465	7,575	1, 2
Guangzhou Covestro Polymers Co., Ltd.	Guangzhou/China	100.0	19,430	747	2
LyondellBasell Covestro Manufacturing Maasvlakte V.O.F	Rotterdam/Netherlands	50.0	33,094	(1,510)	2
MS Global AG	Köniz/Switzerland	100.0	3,983	1,435	2
MS Holding B.V.	Nieuwegein/Netherlands	100.0	1,158,624	229,539	2
OOO Covestro	Moscow/Russia	100.0	350	(3,893)	2
Paltough Industries (1998) Ltd.	Kibbutz Ramat Yochanan/ Israel	25.0	88,482	5,031	2
PO JV, LP	Wilmington/United States	39.4	467,332	(53,450)	2
PT Covestro Polymers Indonesia	Jakarta/Indonesia	99.9	47,958	3,369	2
Shanghai Baulé Polyurethane Technology Co., Ltd.	Shanghai/China	100.0	563	(6)	2
Sumika Covestro Urethane Company, Ltd.	Amagasaki/Japan	60.0	23,622	20,832	2
Technology JV, L.P.	Wilmington/United States	50.0	295,332	–	2
Thermoplast Composite GmbH	Markt Bibart/Germany	100.0	15,508	(165)	2

<sup>1</sup> Result prior to takeover

<sup>2</sup> Preliminary result

<sup>3</sup> Net income as of March 31, 2016

<sup>4</sup> Net income as of December 31, 2015

## 27. Events After the End of the Reporting Period

Since January 1, 2017, there have been no events of special significance that we expect could affect the net assets, financial position and results of operations of Covestro AG.

## 28. Proposal for the Appropriation of Distributable Profit

The financial statements of Covestro AG show distributable profit of €273,375 thousand. We recommend that distributable profit be used to pay a dividend of €1.35 per no-par value share (202,500,000 shares) on the 2016 capital stock of €202.5 million eligible for dividends.

## Responsibility Statement

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

Leverkusen, February 14, 2017  
Covestro AG

The Board of Management



Patrick Thomas  
(Chair)



Frank H. Lutz



Dr. Klaus Schäfer



Dr. Markus Steilemann



# Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system and the management report, which is combined with the group management report, of Covestro AG, Leverkusen, for the business year from January 1 to December 31, 2016. The maintenance of the books and records and the preparation of the annual financial statements and the combined management report in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the combined management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Managing Directors as well as evaluating the overall presentation of the annual financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The combined management report is consistent with the annual financial statements, complies with legal requirements, as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Essen, February 15, 2017

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Petra Justenhoven  
Wirtschaftsprüferin  
(German Public Auditor)

Dietmar Prümm  
Wirtschaftsprüfer  
(German Public Auditor)

# REPORT OF THE SUPERVISORY BOARD

## Dear Stockholders,

During the reporting period, the Supervisory Board of Covestro AG performed its duties with due care in accordance with the law, the Articles of Incorporation, and the rules of procedure. During fiscal 2016, it monitored the conduct of the company's business by the Board of Management on a regular basis with the aid of detailed written and oral reports received from the Board of Management, and also acted in an advisory capacity. The discussions between the Supervisory Board and Board of Management were always constructive and were always conducted in the spirit of openness and trust.

The Supervisory Board Chair was in regular contact with the Board of Management outside of Supervisory Board meetings and remained informed about current developments regarding the company's business performance and material transactions. In addition, the Chair of the Supervisory Board was in close contact with the Chair of the Board of Management to discuss important questions and decisions one on one. The full Supervisory Board was informed in detail about the content of these discussions no later than during the next meeting. In this way the Supervisory Board was kept continuously and fully informed about the company's intended business strategy, corporate planning (including financial, investment, and human resources planning), earnings performance, the state of the business, and the situation in the company and the Group (including the risk situation, risk management, and compliance).

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

## Changes to the composition of the Supervisory Board during the fiscal year

Michael Mostert stepped down from the Supervisory Board on September 27, 2016. By way of a resolution dated September 12, 2016, the Local Court of Cologne appointed Frank Werth as his successor with effect from September 28, 2016.

## Meetings of the full Supervisory Board and member attendance

In fiscal year 2016, the Supervisory Board held a total of four regular meetings, which were also attended by all members of the Board of Management except where issues were discussed that required them to be absent.

The average attendance rate by Supervisory Board members at the meetings of the full Supervisory Board and of its committees held in 2016 was over 90%. No member of the Supervisory Board attended fewer than half of the meetings of the full Supervisory Board and of the committees to which they belonged.

Specifically, attendance at the meetings of the Supervisory Board and its committees by the members of the Supervisory Board was as follows:

<b>Name</b>	<b>Meeting attendance (including committee meetings)</b>	<b>Attendance rate (%)</b>
Dr. Richard Pott (Chair)	11/11	100
Ferdinando Falco Beccalli	3/4	75
Dr. Christine Bortenlänger	4/4	100
Johannes Dietsch	10/11	91
Dr. Thomas Fischer	7/7	100
Peter Hausmann	7/8	87
Petra Kronen (Vice Chair)	11/11	100
Irena Küstner	6/8	75
Michael Mostert (until September 27, 2016)	2/2	100
Prof. Dr. Rolf Nonnenmacher	7/8	87
Regine Stachelhaus	4/4	100
Sabine Wirtz	4/4	100
Frank Werth (since September 28, 2016)	2/2	100
<b>Average attendance rate</b>		<b>93</b>

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

Continuing education was a key component of the activities of the Supervisory Board and its members during the reporting period. Highlights were a two-day informational event on the topics of production and innovation in the Group's various business units, and a training session for Supervisory Board members on corporate governance and compliance in the context of the entry into force of the new Market Abuse Regulation.

## Principal topics discussed by the Supervisory Board

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

At its meeting on February 22, 2016, the Supervisory Board addressed the financial statements of Covestro AG and the consolidated financial statements of the Covestro Group for fiscal 2015, the proposal for the use of the distributable profit, as well as the agenda for the 2016 Annual Stockholders' Meeting. In addition, the Supervisory Board reviewed the risk report, which sets out the most significant risks for the Group and current developments in this connection, as well as the relevant countermeasures. The organization, processes, and effectiveness of the Group-wide compliance management system were also discussed. Finally, the Supervisory Board set the variable compensation for the members of the Board of Management for fiscal 2015 based on target attainment.

The Supervisory Board meeting on May 3, 2016 focused on the upcoming first Annual Stockholders' Meeting of Covestro AG.

At its meeting on September 29, 2016, the Supervisory Board primarily dealt with questions on the status of the strategy development and Board of Management matters, with a particular focus on the structured creation of a process for filling Board of Management positions in the future.

At its meeting on December 8, 2016, the Supervisory Board discussed at length the review on the appropriateness of Board of Management compensation including long-term compensation for the period 2017–2020. After detailed examination, the Supervisory Board also approved the 2017 budget proposed by the Board of Management as well as the financial planning presented for the years 2018 and 2019. The Supervisory Board additionally approved the proposed financial framework for fiscal 2017. Furthermore, the Supervisory Board addressed in depth the proposal submitted by the Audit Committee concerning the appointment of the auditor for fiscal 2018. Finally, the Supervisory Board resolved to submit an unqualified declaration of conformity with the German Corporate Governance Code and to initiate the first efficiency audit of its work in 2016.

## Committees of the Supervisory Board

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

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

In 2016, the **Presidial Committee** was not required to convene in its capacity as the mediation committee.

The **Audit Committee** held four meetings in 2016. The Chief Financial Officer was present at each meeting. Auditor representatives attended two of the four meetings and reported in detail on the audit of the financial statements of Covestro AG and consolidated financial statements of the Covestro Group as well as the review of the half-yearly financial report. The auditor declared to the Audit Committee that no circumstances exist that could lead to the assumption of prejudice on their part. The Audit Committee obtained the required statement of independence of the auditor, reviewed its qualification, and issued a corresponding recommendation to the Supervisory Board concerning the appointment of the auditor for fiscal 2016 at the 2016 Annual Stockholders’ Meeting. Other areas of focus were as follows:

At its meeting held on February 19, 2016, the Audit Committee addressed the consolidated financial statements of the Covestro Group and the financial statements of Covestro AG, including the proposal for the use of the distributable profit and the remaining sections of the annual report for fiscal year 2015. It also discussed at length the report by Corporate Audit, significant legal cases and current compliance issues, as well as the review on the effectiveness of the accounting process, the internal control system, and the risk management system.

As at every meeting, the latest quarterly financial statements, the report by Corporate Audit, as well as the company’s risk and compliance situation were discussed in detail at the meeting on April 22, 2016. The committee also addressed the tax situation as well as the Group’s tax strategy. Finally, the Audit Committee discussed the tender process for the financial statement audit for fiscal 2018.

Alongside the regular agenda items, the meeting held on July 25, 2016 mainly dealt with the future areas of focus for the audit taken from the updated risk analysis, as well as the effectiveness and quality of the financial statement audit. The Audit Committee also noted the result of the audit of the 2015 financial statements and consolidated financial statements as well as the accompanying Group management report for fiscal 2015 performed by the Financial Reporting Enforcement Panel (FREP). The responsible FREP chamber did not identify any accounting errors for fiscal 2015. In addition, the Audit Committee again addressed the tender for the financial statement audit for fiscal 2018.

At its meeting on October 24, 2016, the Audit Committee discussed current financial reporting and risk management, the audit findings and audit planning presented by Corporate Audit, and legal and compliance issues. Finally, it also addressed the results of the tender for the financial statement audit and formulated a proposal for the election of the auditor for fiscal 2018.

In the interest of continual dialog and information exchange, the Chair of the Audit Committee was in regular contact with the Chief Financial Officer, and also met twice with the auditor and the head of Corporate Audit outside of committee meetings.

<sup>1</sup> The above-mentioned chapters are included in Covestro’s Annual Report.

The **Human Resources Committee** held a total of three meetings in the reporting year on February 22, September 29, and December 8, 2016. The individual meetings addressed questions relating to target attainment by members of the Board of Management, the development of a process for filling Board of Management positions in the future, Board of Management compensation, the organization of the Board of Management, as well as human resources development for Covestro's senior management.

The **Nominations Committee** did not meet in 2016.

## Financial statements/audits

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

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

The Supervisory Board approved the financial statements of Covestro AG and the consolidated financial statements of the Covestro Group prepared by the Board of Management. The financial statements of Covestro AG are thus confirmed. The Supervisory Board is in agreement with the combined management report and, in particular, with the assessment of the future development of the enterprise. It also concurs with the dividend policy and the decisions concerning earnings retention by the company. It assents to the proposal for the use of the distributable profit, which provides for payment of a dividend of 1.35 euro per share.

## Audit of the related parties report by the Board of Management

As of the end of fiscal 2016, Bayer AG held around 64% of the shares in Covestro AG. There is no control and/or profit and loss transfer agreement between the two companies. For this reason, the Board of Management prepared a report on the company's relationships with related companies in fiscal 2016 in accordance with Section 312 of the German Stock Corporation Act (related parties report) and submitted this to the Supervisory Board in a timely manner. The related parties report was audited by the company's auditor, which issued the following report in accordance with Section 313, Paragraph 3 of the German Stock Corporation Act:

"In accordance with our mandate, we have audited the report by the Board of Management pursuant to Section 312 of the German Stock Corporation Act in respect of the relationships with related companies in accordance with Section 313 of the German Stock Corporation Act for the period from January 1 to December 31, 2016. Since the definitive result of our audit led to no reservations, we hereby issue the following report in accordance with Section 313, Paragraph 3, Sentence 1 of the German Stock Corporation Act:

After due consideration and assessment, we confirm that

1. the actual information in the report is correct, and
2. the company's consideration in the legal transactions described in the report was not inappropriately high."

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

## Corporate governance and declaration of conformity

During the reporting year, the Supervisory Board again addressed the German Corporate Governance Code in depth and, together with the Board of Management, submitted an unqualified declaration of conformity in accordance with Section 161 of the German Stock Corporation Act in December 2016 based on the Code as amended on May 5, 2015, and unchanged as against 2016. The declaration of conformity was subsequently made permanently available to stockholders on the company's website.

## Expression of appreciation for the Board of Management and employees

The Supervisory Board would like to thank the Board of Management and all employees for their outstanding dedication and hard work in 2016. We wish you success on our company's future path toward growth.

Leverkusen, February 17, 2017

For the Supervisory Board



Dr. Richard Pott

Chair

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### **Translation**

Leinhäuser Language Services GmbH  
Unterhaching, Germany

### **Design and layout**

TERRITORY CTR GmbH  
Leverkusen, Germany

### **Photo credits**

Page 2: photo collage by TERRITORY  
(with elements of Adobe Stock,  
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