Covestro AG

Prospectus dated September 18, 2015

Prospectus Dated September 18, 2015

Prospectus

for the public offering of

94,339,622 newly issued ordinary bearer shares with no par value (*Stückaktien*) from a capital increase against contributions in cash to be resolved by an extraordinary shareholders' meeting of Covestro AG on September 30, 2015

and at the same time for the

admission to trading on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard)

of

up to 94,339,622 newly issued ordinary bearer shares with no par value (*Stückaktien*) from a capital increase against contributions in cash to be resolved by an extraordinary shareholders' meeting of Covestro AG on September 30, 2015

and

140,000,000 existing ordinary bearer shares with no par value (*Stückaktien*) (existing share capital)
each such share with a notional value of €1.00 and full dividend rights since inception

of

Covestro AG

Leverkusen, Germany

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Joint Global Coordinators

Deutsche Bank | **Morgan Stanley**

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1. SUMMARY OF THE PROSPECTUS

Summaries are made up of disclosure requirements known as elements (''**Elements**''). These Elements are numbered in sections A to E (A.1 to E.7). This summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case, a short description of the Element is included in the summary with the mention of ''not applicable.''

1.1 A – INTRODUCTION AND WARNINGS

A.1	**Warnings.**	This summary should be read as an introduction to this prospectus (the ''**Prospectus**''). Any decision to invest in the securities should be based on consideration of the Prospectus as a whole by the investor. Where a claim relating to the information contained in the Prospectus is filed in court, a plaintiff investor might, pursuant to the national legislation of a member state of the European Economic Area, have to bear the costs of translating the Prospectus prior to commencement of the legal proceedings. Covestro AG, Leverkusen, Germany (the ''**Company**'' or ''**Covestro AG**'' and, together with its direct and indirect subsidiaries, the ''**Group**''), Deutsche Bank AG, Frankfurt am Main, Germany, (''**Deutsche Bank**'') and Morgan Stanley & Co. International plc, London, United Kingdom, (''**Morgan Stanley**'', and together with Deutsche Bank, the ''**Joint Global Coordinators**'', and each a Global Coordinator), Merrill Lynch International, London, United Kingdom, (''**BofA Merrill Lynch**''), Citigroup Global Markets Limited, London, United Kingdom, (''**Citigroup**''), Credit Suisse Securities (Europe) Limited, London, United Kingdom, (''**Credit Suisse**''), J.P. Morgan Securities plc, London, United Kingdom, (''**J.P. Morgan**''), and UBS Limited, London, United Kingdom, (''**UBS Investment Bank**'', and together the ''**Joint Bookrunners**'' and each a Joint Bookrunner), BNP Paribas, Paris, France, (''**BNP PARIBAS**'') and UniCredit Bank AG, Munich, Germany, (''**UniCredit Bank AG**'', and together with BNP PARIBAS, the ''**Co-Lead Managers**'', and each a Co-Lead Manager, and, together with the Joint Global Coordinators and the Joint Bookrunners, the ''**Underwriters**''), have assumed responsibility for the contents of this summary pursuant to section 5 (2b) number 4 of the German Securities Prospectus Act (*Wertpapierprospektgesetz*). Those persons who are responsible for the summary, including any translation thereof, or for the issuing (*von denen der Erlass ausgeht*), can be held liable but only if this summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or if it does not provide, when read together with the other parts of the Prospectus, all necessary key information.
A.2	**Information regarding the subsequent use of the prospectus.**	Not applicable. The Company does not consent to the use of the Prospectus for a subsequent resale or placement of the shares.

1.2 B – THE ISSUER

B.1	**Legal and commercial name.**	The Company's legal name is Covestro AG. The Company operates under the commercial name ''Covestro,'' and the MaterialScience business (as defined below in B.7), which was contributed to it, previously operated under the commercial name ''Bayer MaterialScience.''
B.2	**Domicile, legal form, legislation under which the issuer operates, country of incorporation.**	The Company has its registered office at Kaiser-Wilhelm-Allee 60, 51373 Leverkusen, Germany, and is registered with the commercial register of the local court of Cologne (*Amtsgericht Köln*), Germany, under docket number 85281. The Company is a holding company organized as a stock corporation (*Aktiengesellschaft*) incorporated in the Federal Republic of Germany and governed by laws of the Federal Republic of Germany.
B.3	**Description of, and key factors relating to, the nature of the issuer's current operations and principal activities, stating the main categories of products sold and/or services performed and identification of the principal markets in which the issuer competes.**	The Group is one of the world's leading providers of high-tech material solutions according to the industry report ''Analyses of Certain Aspects of the Polymer Industry'' of Nexant Inc. and Orr & Boss Ltd. dated July 2015 and the related databook (the ''**Industry Report**''). Its activities comprise the production and supply of raw materials for polyurethanes, polycarbonate resins and sheets, and raw materials for coatings, adhesives and sealants, as well as selected chemical intermediates. The Group's product portfolio also includes niche products such as thermoplastic polyurethanes (''**TPU**''), polycarbonate- and TPU-based films, hot cast elastomers and other products tailored to textile, cosmetic and medical applications. The Group has a strong track record of process and product innovation as well as close customer relationships that underpin its tradition of developing market-driven solutions. The products manufactured by the Group are processed by customers to create products used in various end markets, including, in particular, automotive/transport, construction, wood/furniture, electrical/electronics, sports/leisure, cosmetics, health and chemicals. The Group benefits from a well-invested asset base with what it believes is leading process technology and a total nameplate production capacity[1] of 4,700 metric kilotons (''**kt**'') of core products in its Polyurethanes and Polycarbonates business units, including eight world-scale production sites across Europe, the United States and Asia. The Group's selectively backward integrated production process is aimed at sourcing critical raw materials such as chlorine, propylene oxide and other feedstock internally or through joint ventures, thereby reducing its dependency on external sourcing. The Group's business combines the benefits of standardized products and customized high-value solutions, which aim to meet the needs of customers as they confront fundamental macro trends such as climate change, increasing mobility, population growth and increasing urbanization. The Group believes that it is well-positioned to capture industry growth driven by such trends due to its competitive advantages. According to the Industry Report, the industry is expected to grow due to favorable demand trends over the next five years.

[1] ''**Nameplate production capacity**'' refers to the intended full-load sustained output of a production facility or group of production facilities at 8,000 hours of continuous production a year.

For the six months ended June 30, 2015, the Covestro Group (as defined below in B.7) generated net sales of €6.3 billion, an EBIT[2] of €473 million, an Adjusted EBITDA[3] of €914 million (Adjusted EBITDA margin[4] of 14.6%) and free operating cash flow[5] of €321 million. In Fiscal Year 2014, the Covestro Group (as defined below in B.7) generated net sales of €11.8 billion, an EBIT of €517 million, an Adjusted EBITDA of €1.2 billion (Adjusted EBITDA margin of 9.9%) and free operating cash flow of €313 million.

The Group's business is divided into three business units, which are also the Group's three reportable segments:

- The Group's Polyurethanes business unit produces a variety of grades of diphenylmethane diisocyanate (''**MDI**''), toluene diisocyanate (''**TDI**'') and polyether polyols mainly for rigid and flexible foams. Rigid foams are primarily used for building insulation, cold-chain insulation and for automotive parts, while flexible foams are primarily used for furniture, mattresses and car seats. The business unit also produces other products such as TPU, styrene and toluene diamine (''**TDA**''). For the six months ended June 30, 2015, the business unit's external net sales amounted to €3.2 billion (or 50.9% of total net sales), EBIT amounted to €123 million (26.0% of total EBIT) and Adjusted EBITDA amounted to €386 million (42.2% of total Adjusted EBITDA with an Adjusted EBITDA margin of 12.1%). In the fiscal year ended December 31, 2014 (''**Fiscal Year 2014**''), the business unit's external net sales amounted to €6.3 billion (or 53.4% of total net sales), EBIT amounted to €233 million (45.1% of total EBIT) and Adjusted EBITDA amounted to €592 million (51.0% of total Adjusted EBITDA with an Adjusted EBITDA margin of 9.4%). The Polyurethanes business unit encompasses the strategic business entities MDI, TDI and polyether polyols accounting for approximately 40%, 20% and 40% of external net sales of the Polyurethanes business unit, respectively, in Fiscal Year 2014.
- The Group's Polycarbonates business unit produces polycarbonate resins, compounded resins and polycarbonate sheets. Polycarbonates have unique properties that facilitate their use in a wide range of applications in the electrical/ electronics, automotive, construction, consumer appliance, medical, packaging and optical media end markets. For the six months ended June 30, 2015, the business unit's external net sales amounted to €1.6 billion (or 25.4% of total net sales), EBIT amounted to €177 million (37.4% of total EBIT) and Adjusted EBITDA amounted to €266 million (29.1% of total Adjusted EBITDA with an Adjusted EBITDA margin of 16.7%). In Fiscal Year 2014, the business unit's external net

[2] ''**EBIT**'' is defined as earnings before financial results and taxes.

[3] ''**Adjusted EBITDA**'' is defined as EBITDA before special items, which comprise effects that the Group regards as non-recurring or that do not regularly recur or attain similar magnitudes. ''**EBITDA**'' is defined as earnings before financial result and taxes (EBIT) plus depreciation and impairment losses on property, plant and equipment, plus amortization and impairment losses on intangible assets and minus impairment loss reversals on intangible assets and property, plant and equipment.

[4] ''**Adjusted EBITDA margin**'' is defined as Adjusted EBITDA as a percentage of net sales.

[5] ''**Free operating cash flow**'' is defined as net cash provided by (used in) operating activities (net cash flow) less cash outflows for additions to property, plant and equipment, and intangible assets.

sales amounted to €2.8 billion (or 24.0% of total net sales), EBIT amounted to €(32) million and Adjusted EBITDA amounted to €160 million (13.8% of total Adjusted EBITDA with an Adjusted EBITDA margin of 5.7%).

- The Coatings, Adhesives and Specialties business unit produces mainly aliphatic isocyanates and their derivatives, aromatic isocyanate derivatives, polyurethane dispersions and other specialties. The business unit produces approximately 2,300 products for more than 4,300 customers in more than ten end markets, including automotive, construction, wood/furniture, footwear, packaging/textiles/ clothing and electronics. For the six months ended June 30, 2015, the business unit's external net sales amounted to €1.1 billion (or 17.5% of total net sales), EBIT amounted to €224 million (47.4% of total EBIT) and Adjusted EBITDA amounted to €270 million (29.5% of total Adjusted EBITDA with an Adjusted EBITDA margin of 24.6%). In Fiscal Year 2014, the business unit's external net sales amounted to €1.9 billion (or 16.4% of total group net sales), EBIT amounted to €354 million (68.5% of total EBIT) and Adjusted EBITDA amounted to €437 million (37.6% of total Adjusted EBITDA with an Adjusted EBITDA margin of 22.7%).

All other business activities by the Group that cannot be allocated to one of the three reportable segments are recorded under ''All other segments,'' which mainly include external net sales of chlorine and certain by-products that are created during the production of chlorine and processing of chlorine during the isocyanate production, in particular caustic soda and hydrochloric acid. ''All other segments'' also includes the provision of certain services to third parties (such as facility management and technical services, rental of buildings, land and offices as well as sale of energy produced by the Group) and the sale of non-chemical products (such as used assets). For the six months ended June 30, 2015 and Fiscal Year 2014, the external net sales of ''All other segments'' amounted to €382 million (or 6.1% of total net sales) and €729 million (or 6.2% of total net sales), respectively.

The Group is engaged in continuous programs of research and development of new products and production processes, improvement and refinement of existing products and processes, and development of new applications for existing products. In Fiscal Year 2014, the Covestro Group (as defined below in B.7) spent €212 million on research and development activities, often conducted in close collaboration with customers.

The Group has a regional sales and marketing structure with supply chain centers and local operations supported by an e-commerce platform and regional or local distributors. The Group's sales for each business unit are organized in three regions—Europe, Middle East, Africa and Latin America excluding Mexico (''**EMLA**''), Asia and the Pacific (''**APAC**'') and the United States, Canada and Mexico (''**NAFTA**''). In each of these regions, the Group's customers include global, regional and local operating businesses, many of whom are long-term customers of the Group. In Fiscal Year 2014, net sales in EMLA, APAC and NAFTA accounted for 46.6%, 27.7% and 25.7% of the Covestro Group's (as defined below in B.7) net sales, respectively.

The MaterialScience business (as defined below in B.7) was and is a part of the Bayer Group, which consists of Bayer Aktiengesellschaft (''**Bayer AG**'') and its consolidated subsidiaries (together with Bayer AG, the ''**Bayer Group**''), independently managing its business operations in line with the preset objectives of Bayer AG. In 2014, Bayer AG announced its plans to dispose of a majority shareholding in the Group. Post-separation from Bayer AG, the Group will receive the benefit of certain services from the Bayer Group. The Group is headquartered in Leverkusen, Germany, and had an average of 14,397 full-time equivalent employees worldwide for Fiscal Year 2014.

Strengths

The Company believes that there are competitive strengths driving its success which will continue to set it apart from competitors in the future:

- Leading and defendable global industry positions based on focused product portfolio and global scale
- Favorable industry dynamics with robust above gross domestic product growth prospects across a diverse range of end markets
- Positioned to deliver volume growth through well-invested, large-scale asset base and competitive cost position
- Portfolio including high-value raw materials for coatings, adhesives, sealants and other specialties products with an attractive and historically resilient margin profile
- Attractive cash flow growth outlook underpinned by disciplined cost management
- Experienced management with full commitment to value creation

Strategy

The Group's strategy for achieving profitable growth in the future is based on the following key elements:

- Capture industry growth over the next five years with existing world-scale assets
- Optimize asset footprint through site consolidation, restructuring and efficiency projects
- Improve cost position and align overall costs with best-in-class chemical industry benchmarks
- Protect and build profitable competitive positions through focused research and development
- Embed sustainability in every element of the strategy to further drive profitability

B.4a	**Description of the most significant recent trends affecting the issuer and the industries in which it operates.**	General economic trends worldwide and, in particular, in the geographic regions EMLA, APAC and NAFTA in which the Group operates, are a key factor affecting the Group's results of operations given that their effect on the industries in which the Group's direct and indirect customers operate impacts demand for the Group's products. Negative economic developments usually result in decreases in the Group's sales volume and negatively impact the Group's results of operations.

The Group's results of operations are also affected by the dynamics between supply and demand which have an impact on capacity utilization rates in the industry. Supply is primarily driven by the production capacity available in the industry. Decreases in demand and sales volume, respectively, eventually lead to decreases in capacity utilization, which negatively impact margins due to the high fixed-cost base in the polymer industry and due to decreasing selling prices. When increases in capacity outpace growth in demand, prices tend to decline. On the other hand, when growth in demand outpaces increases in capacity, prices can be expected to rise.

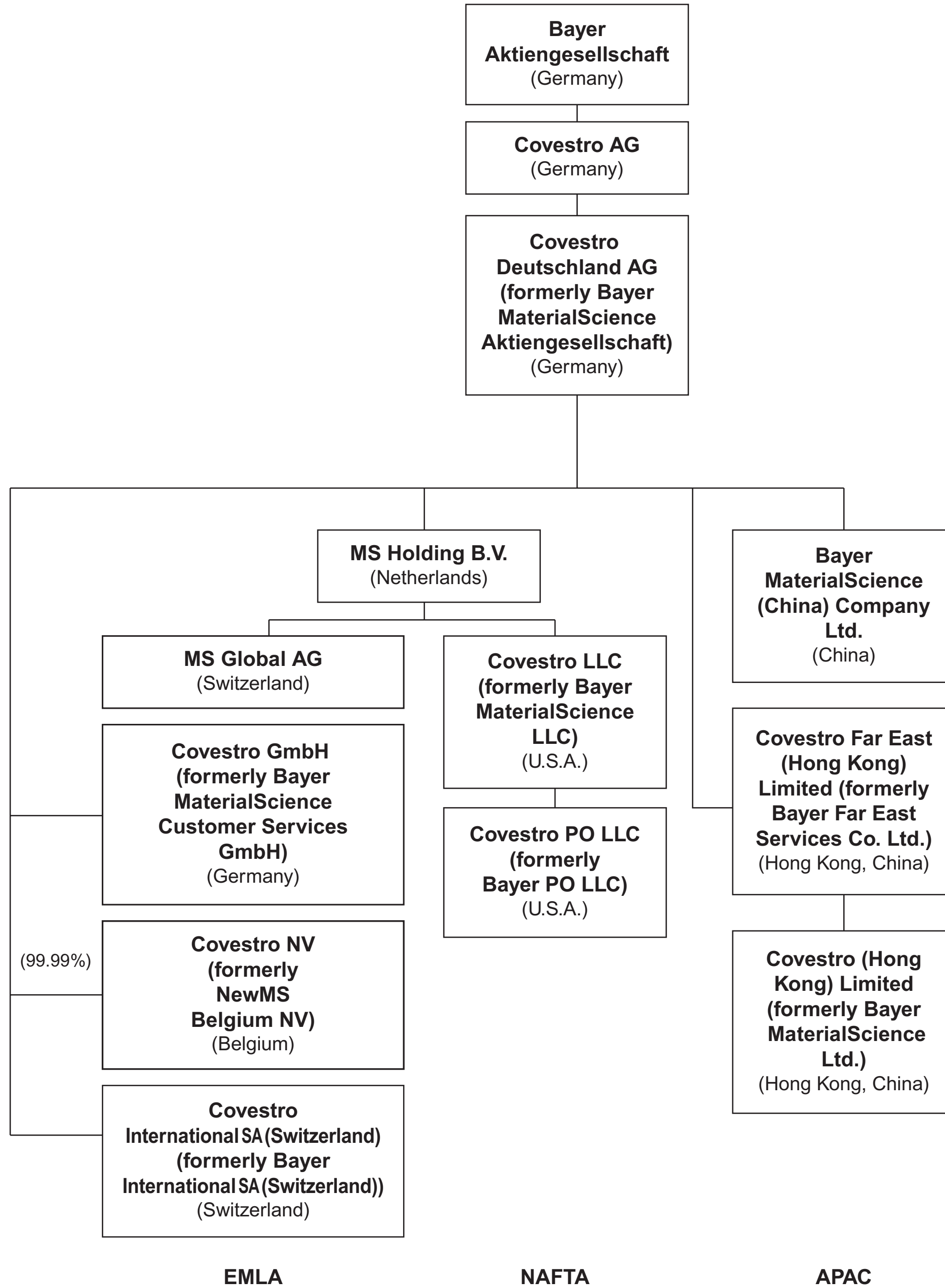
Raw materials constitute a large proportion of the Covestro Group's (as defined below in B.7) total production costs, amounting to €5.6 billion in Fiscal Year 2014. The Group's primary raw materials are petrochemical derivatives such as benzene and phenol, which together accounted for roughly one-third of the Group's total raw material costs in Fiscal Year 2014, propylene oxide, toluene, acetone and hexamethylenediamine (''**HDA**''). Recently, the Group's results of operations were positively affected by the Group's ability to limit the reduction of overall selling prices despite general decreases in raw material prices towards the end of Fiscal Year 2014 and the beginning of the fiscal year ended December 31, 2015 (''**Fiscal Year 2015**''). Raw material prices increased in the second quarter of Fiscal Year 2015, stabilized at the beginning of the third quarter and are currently showing a downward trend. The Group may not be able to maintain its overall selling prices, which could negatively affect margins in the second half of Fiscal Year 2015.

In Fiscal Years 2014, 2013 and 2012, currency effects negatively impacted the Covestro Group's (as defined below in B.7) combined results of operations, primarily as a result of the strengthening Euro. However, in the six months ended June 30, 2015, currency effects positively impacted the Covestro Group's (as defined below in B.7) results of operations as a result of a weaker Euro.

B.5 Description of the group and the issuer's position within the group.

Until the registration of the capital increase with regard to the newly issued shares, the Company will be a wholly owned subsidiary of Bayer AG. The Company is the holding company of the Group.

The following diagram sets forth a summary (in simplified form) of the Company's parent company and selected subsidiaries as of the date of the Prospectus. The shareholdings presented also include shareholdings of affiliated companies pursuant to sections 15 et seq. of the German Stock Corporation Act (*Aktiengesetz*).



B.6	**Persons who, directly or indirectly, have an interest in the issuer's capital or voting rights or have control over the issuer.**	Prior to the Offering (as defined below in E.3), all of the Company's shares are held by Bayer AG (the ''**Existing Shareholder**'') which is a German DAX company listed *inter alia* on the Regulated Market (Prime Standard) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*).
	Voting rights.	Each share in the Company carries one vote at the Company's shareholders' meeting. All of the Company's shares confer the same voting rights. There are no restrictions on voting rights.
	Direct or indirect control over the issuer and nature of such control.	The Company is directly controlled by its sole shareholder, Bayer AG.

B.7	Selected key historical financial information.	**Selected Combined Financial Information**

The financial information contained in the following tables has been taken or derived from the audited combined financial statements for the Covestro Group (as defined below) as of and for the fiscal years ended December 31, 2014, 2013 and 2012 (''**Fiscal Years 2014, 2013 and 2012**'') and the unaudited condensed combined interim financial statements for the Covestro Group (as defined below) as of and for the six-month period ended June 30, 2015 (including combined comparative figures for the six-month period ended June 30, 2014). The audited combined financial statements as of and for Fiscal Years 2014, 2013 and 2012 have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (''**IFRS**'') and have been audited in accordance with International Standards on Auditing by PricewaterhouseCoopers Wirtschaftsprüfungsgesellschaft AG (''**PwC**''), who issued an unqualified audit opinion thereon. The unaudited condensed combined interim financial statements as of and for the six-month period ended June 30, 2015 (including combined comparative figures for the six-month period ended June 30, 2014) have been prepared in accordance with International Accounting Standard (''**IAS**'') 34.

The combined financial statements as of and for the fiscal years ended December 31, 2014, 2013 and 2012 and the condensed combined interim financial statements as of and for the six months ended June 30, 2015 (including combined comparative figures for the six months ended June 30, 2014), each included in the financial section of the Prospectus and referred to in the Prospectus, have been prepared by Covestro Deutschland AG (formerly Bayer MaterialScience Aktiengesellschaft), a direct and wholly-owned subsidiary of the Company, and reflect the Bayer MaterialScience business, consisting of the activities in the area of polymer materials and certain inorganic basic chemicals (the ''**MaterialScience business**'') that were separated from Bayer Aktiengesellschaft. Therefore, for purposes of the combined financial statements and combined financial information included in the Prospectus, the Bayer MaterialScience business is referred to as the ''**Covestro Group**.''

Where financial data in the following tables is presented as ''audited,'' it indicates that the financial data has been taken from the audited combined financial statements for the Covestro Group as of and for the fiscal years ended December 31, 2014, 2013 and 2012. The label ''unaudited'' is used in the following tables to indicate financial data that has not been taken from the Covestro Group's audited combined financial statements but has been taken or derived from the Covestro Group's unaudited condensed combined interim financial statements as of and for the six-month period ended June 30, 2015 (including combined comparative figures for the six-month period ended June 30, 2014) or Covestro Deutschland AG's (formerly Bayer MaterialScience Aktiengesellschaft) internal reporting system or has been calculated based on information contained in the audited combined financial statements.

Selected Combined Income Statement Data

	Six months ended June 30,		Fiscal year ended December 31,		
	2015	2014	2014	2013	2012
	(Unaudited)		(Audited)		
	(EUR in millions)				
Net sales	6,264	5,719	11,761	11,357	11,610
Cost of goods sold	(4,832)	(4,616)	(9,609)	(9,390)	(9,306)
Gross profit	1,432	1,103	2,152	1,967	2,304
EBIT[(1)]	473	314	517	391	542
Financial result	(87)	(56)	(136)	(136)	(185)
Income before income taxes	386	258	381	255	357
Income taxes	(114)	(80)	(104)	(76)	(93)
Income after income taxes	272	178	277	179	264

Note:

(1) EBIT: earnings before financial result and taxes.

Selected Combined Statement of Financial Position Data

	As of June 30,		As of December 31,		
	2015	2014	2014	2013	2012
	(Unaudited)		(Audited)		
	(EUR in millions)				
Total noncurrent assets	6,217	6,441	6,011	6,304	6,510
Total current assets	4,572	4,183	4,381	3,829	3,955
Total equity	1,728	2,716	1,787	2,779	2,579
Total noncurrent liabilities	2,357	2,184	2,567	1,836	1,986
Total current liabilities	6,704	5,724	6,038	5,518	5,900
Total equity and liabilities	10,789	10,624	10,392	10,133	10,465

Selected Combined Cash Flow Statement Data

	Six months ended June 30,		Fiscal year ended December 31,		
	2015	2014	2014	2013	2012
	(Unaudited)		(Audited)		
	(EUR in millions)				
Gross cash flow	727	554	1,016	941	1,006
Net cash provided by (used in) operating activities (net cash flow)	545	154	925	998	814
Net cash provided by (used in) investing activities	(318)	(221)	(585)	(542)	(691)
Net cash provided by (used in) financing activities	(340)	59	(192)	(461)	(196)
Changes in cash and cash equivalents due to business activities	(113)	(8)	148	(5)	(73)
Cash and cash equivalents at end of period/year	106	30	201	37	44

Additional Key Figures

	Six months ended June 30,		Fiscal year ended December 31,		
	2015	2014	2014	2013	2012
	(Unaudited)		*(Audited, unless otherwise indicated)*		
	(EUR in millions)				
Adjusted EBITDA[(1)]	**914**	**625**	**1,161**	**1,056**	**1,244**
Adjusted depreciation, amortization and impairments[(2)]	(336)	(292)	(600)	(670)	(664)
Adjusted EBIT[(3)]	**578**	**333**	**561**	**386**	**580**
Special items	(105)	(19)	(44)	5	(38)
of which:					
Restructuring (unaudited)[(4)]	(103)	(19)	*(44)*	*(37)*	*(50)*
Adjustments to post-employment benefit entitlements (unaudited)[(5)]	—	—	—	—	*12*
Divestitures[(6)]	—	—	—	*42*	—
Revaluation of other receivables	(2)	—	—	—	—
EBIT[(7)]	**473**	**314**	**517**	**391**	**542**
Financial result	(87)	(56)	(136)	(136)	(185)
Income before income taxes	**386**	**258**	**381**	**255**	**357**

Notes:

(1) Adjusted EBITDA: EBITDA before special items, which comprise effects that the Group regards as non-recurring or that do not regularly recur or attain similar magnitudes.

EBITDA: earnings before financial result and taxes (EBIT) plus depreciation and impairment losses on property, plant and equipment, plus amortization and impairment losses on intangible assets and minus impairment loss reversals on intangible assets and property, plant and equipment.

(2) Adjusted depreciation, amortization and impairments: depreciation, amortization and impairments before special items, which comprise effects that the Group regards as non-recurring or that do not regularly recur or attain similar magnitudes.

(3) Adjusted EBIT: earnings before financial result and taxes plus special items, which comprise effects that the Group regards as non-recurring or that do not regularly recur or attain similar magnitudes.

(4) Restructuring charges consist primarily of severance payments and impairment charges relating to restructuring measures.

(5) The Company offered certain terminated employees with post-employment benefit entitlements the opportunity to receive a lump sum payment in lieu of a future monthly benefit from the defined-benefit pension plan.

(6) Gain from the sale of the global powder polyester resins business and its U.S.-based liquid polyester business in June 2013 and the sale of the Desmolux® resins business in September 2013.

(7) EBIT: earnings before financial result and taxes.

Significant changes to the issuer's financial condition and operating results.

The following significant changes in the Covestro Group's financial condition and operating results occurred in the six-month periods ended June 30, 2015 and 2014 and Fiscal Years 2014, 2013 and 2012:

Six months ended June 30, 2015 and 2014

The Covestro Group's net sales increased by €545 million, or 9.5%, to €6,264 million in the six months ended June 30, 2015 from €5,719 million in the six months ended June 30, 2014, driven by favorable currency effects and higher sales volumes. The favorable currency effects and positive effects from higher sales volume were partially offset by a decrease in overall selling prices.

EBIT increased by €159 million, or 50.6%, to €473 million in the six months ended June 30, 2015 from €314 million in the six months ended June 30, 2014, primarily driven by an increase in net sales and decreases in raw material costs only partially passed on to customers as well as higher utilization rates resulting in a higher

fixed cost absorption in the six months ended June 30, 2015. Additionally, positive currency effects supported the profitability improvement.

Noncurrent assets increased by €206 million, or 3.4%, to €6,217 million as of June 30, 2015, from €6,011 million as of December 31, 2014, mainly due to an increase in property, plant and equipment as a result of capital expenditures.

Current assets increased by €191 million, or 4.4%, to €4,572 million as of June 30, 2015, from €4,381 million as of December 31, 2014, primarily due to increases in trade accounts receivable and other financial assets, which were partially offset by a decrease in cash and cash equivalents and other receivables.

Noncurrent liabilities decreased by €210 million, or 8.2%, to €2,357 million as of June 30, 2015, from €2,567 million as of December 31, 2014, primarily due to a decrease in financial liabilities.

Current liabilities increased by €666 million, or 11.0%, to €6,704 million as of June 30, 2015, from €6,038 million as of December 31, 2014, mainly due to increases in financial liabilities partially offset by a decrease in other liabilities.

Fiscal Years 2014 and 2013

The Covestro Group's net sales increased by €404 million, or 3.6%, to €11,761 million in Fiscal Year 2014 from €11,357 million in Fiscal Year 2013, primarily driven by higher sales volume, which resulted in a 6.2% increase in net sales. The positive effect from the increase in sales volume was partially offset by a slight decline in overall selling prices, unfavorable currency effects and negative portfolio effects.

EBIT increased by €126 million, or 32.2%, to €517 million in Fiscal Year 2014 from €391 million in Fiscal Year 2013, primarily driven by an increase in sales volume that enabled higher capacity utilization and a higher fixed cost absorption in Fiscal Year 2014 and efficiency improvement measures. Additionally, lower material cost supported profitability while selling prices developed unfavorably.

Noncurrent assets decreased by €293 million, or 4.6%, to €6,011 million as of December 31, 2014 from €6,304 million as of December 31, 2013, primarily due to a decrease in loans to the Bayer Group, which was partially offset by an increase in property, plant and equipment as a result of capital expenditures and an increase in deferred taxes.

Current assets increased by €552 million, or 14.4%, to €4,381 million as of December 31, 2014 from €3,829 million as of December 31, 2013, which was mainly due to increases in inventories, trade accounts receivable and cash and cash equivalents, which were partially offset by a decrease in other financial assets.

Noncurrent liabilities increased by €731 million, or 39.8%, to €2,567 million as of December 31, 2014 from €1,836 million as of December 31, 2013, primarily due to an increase in provisions for pensions and other post-employment benefits primarily as a result of lower long-term capital market interest rates for high quality corporate bonds.

Current liabilities increased by €520 million, or 9.4%, to €6,038 million as of December 31, 2014 from €5,518 million as of December 31, 2013, mainly due to increases in trade accounts payable and financial liabilities.

Fiscal Years 2013 and 2012

The Covestro Group's net sales decreased by €253 million, or 2.2%, to €11,357 million in Fiscal Year 2013 from €11,610 million in Fiscal Year 2012, primarily driven by unfavorable currency effects, a slight decrease in overall selling prices and negative portfolio effects partially offset by a slight overall improvement in sales volume.

EBIT decreased by €151 million, or 27.9%, to €391 million in Fiscal Year 2013 from €542 million in Fiscal Year 2012, primarily resulting from increases in raw material cost as well as slightly lower selling prices as a result of supply and demand dynamics. These effects were partially compensated by slightly increased volumes, efficiency measures as well as positive currency effects.

Noncurrent assets declined by €206 million, or 3.2%, to €6,304 million as of December 31, 2013 from €6,510 million as of December 31, 2012, primarily due to decreases in property, plant and equipment and other intangible assets.

Current assets declined by €126 million, or 3.2%, to €3,829 million as of December 31, 2013 from €3,955 million as of December 31, 2012, mainly due to decreases in inventories and trade accounts receivable which were partially offset by an increase in other financial assets.

Noncurrent liabilities declined by €150 million, or 7.6%, to €1,836 million as of December 31, 2013 from €1,986 million as of December 31, 2012, mainly due to a decrease in provisions for pensions and other post-employment benefits.

Current liabilities declined by €382 million, or 6.5%, to €5,518 million as of December 31, 2013 from €5,900 million as of December 31, 2012, mainly due to decreases in financial liabilities, other liabilities and trade accounts payable.

Recent Developments

Covestro AG as the parent company of the Group was established as a German stock corporation (*Aktiengesellschaft*) on August 20, 2015 with a share capital of €140,000,000 which was created by a formation against contribution in cash and registered with the commercial register of the local court of Cologne (*Amtsgericht Köln*) on August 24, 2015 under docket number 85281.

The MaterialScience business was carved out of the Bayer Group and Bayer AG contributed all shares of Covestro Deutschland AG (formerly Bayer MaterialScience Aktiengesellschaft) to unrestricted capital reserves (*ungebundene Kapitalrücklage*) of the Company. Upon incorporation of Covestro AG, Dr. Richard Pott (chairman), Johannes Dietsch and Prof. Dr. Rolf Nonnenmacher were appointed members of the Supervisory Board and Patrick Thomas (chairman), Frank H. Lutz, Dr. Klaus Schäfer and Dr. Markus Steilemann members of the management board (*Vorstand*) of the Company (''**Management Board**'').

		The domination and profit and loss transfer agreement (*Beherrschungs- und Gewinnabführungsvertrag*) between Covestro Deutschland AG and Bayer AG dated March 11, 2003 was terminated effective August 31, 2015. The Company and Covestro Deutschland AG have entered *inter alia* into a profit and loss transfer agreement (*Ergebnisabführungsvertrag*) effective as of September 1, 2015. Bayer AG and Covestro Deutschland AG entered into a master agreement, dated August 24, 2015, pursuant to which both parties, among other things, conclusively determined the apportionment of liabilities in certain areas. In connection with the separation, inter-group debt in an amount of €5.2 billion and pension liabilities in an amount of approximately €1.5 billion, each as of September 1, 2015, were transferred from the Bayer Group to the Group. On September 4, 2015, the Company entered into a syndicated multicurrency term and revolving credit facilities agreement with a syndicate of banks including certain of the underwriters, consisting of a revolving credit facility in an amount of €1.5 billion and term loan facility in an amount of €1.2 billion.
B.8	**Selected key pro forma financial information.**	Not applicable. No pro forma financial information is required.
B.9	**Profit forecast or estimate.**	Not applicable. No profit forecast or estimate has been made.
B.10	**Qualifications in the audit report on the historical financial information.**	Not applicable. There are no qualifications.
B.11	**Insufficiency of the Issuer's working capital for its present requirements.**	Not applicable. The Group's working capital is sufficient.

1.3 C – SECURITIES

C.1	**A description of the type and the class of the securities being offered and/or admitted to trading, including any security identification number.**	Ordinary bearer shares with no par value (*Stückaktien*), each with a notional value of €1.00 and full dividend rights since the Company's inception. International Securities Identification Number (ISIN): DE0006062144 German Securities Code (*Wertpapierkennnummer*, WKN): 606214 Common Code: 127671311 Ticker symbol: 1COV
C.2	**Currency of the securities issue.**	Euro.
C.3	**The number of shares issued and fully paid and issued but not fully paid.**	140,000,000 ordinary bearer shares with no par value (*Stückaktien*). The share capital has been fully paid up.
	The par value per share, or that the shares have not par value.	Each of the Company's shares represents a notional value of €1.00 in the share capital of the Company.
C.4	**A description of the rights attached to the securities.**	Each share in the Company carries one vote at the shareholders' meeting of the Company. There are no restrictions on voting rights. The shares carry full dividend rights since the Company's inception.

C.5	**A description of any restrictions on the free transferability of the securities.**	Not applicable. The Company's shares are freely transferable in accordance with the legal requirements for bearer shares. There are no prohibitions or restrictions on disposals with respect to the transferability of the Company's shares.
C.6	**An indication as to whether the securities offered are or will be the object of an application for admission to trading on a regulated market and the identity of all the regulated markets where the securities are or are to be traded.**	The application for admission of all of the Company's shares to trading on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse)* with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard) is expected to be made on September 21, 2015. It is anticipated that the respective admissions will be granted on October 1, 2015. The shares are expected to be quoted on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) (ISIN DE0006062144/WKN 606214) as of October 2, 2015. For purposes of admission to trading on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange, the Prospectus relates to a total of up to 234,339,622 ordinary bearer shares with no par value (*Stückaktien*) of the Company.
C.7	**A description of dividend policy.**	The Company currently intends to propose a total dividend in the amount of €100 million to €150 million for Fiscal Year 2015 to its annual shareholders' meeting in 2016 taking into account that the listing will only occur in October 2015. Such dividend payment will be resolved by the annual shareholders' meeting of the Company in 2016. Starting for the fiscal year ended December 31, 2016 (''**Fiscal Year 2016**''), the Company intends to pay a dividend in the amount of 30 to 50% of the Group's annual net income calculated in accordance with IFRS and attributable to its shareholders. The Company aims to have a sustainable dividend policy that focuses on dividend continuity in Euros. However, the ability of the Company to pay dividends in future years will depend on the amount of distributable net earnings that are available. The Company can provide no assurance regarding the amounts of future net earnings, if any, and, consequently, it can provide no assurance that it will pay dividends in future years.
1.4	**D – RISKS**	As of the date of the Prospectus, the following key risks, alone or together with additional risks and uncertainties not currently known to the Company, or that the Company might currently deem immaterial, could materially adversely affect the Group's business, financial condition and results of operations. If any of these risks were to materialize, investors could lose some or all of their investment. The order in which the risks are presented is not an indication of the likelihood of the risks actually materializing, or the significance or degree of the risks or the scope of any potential harm to the Company's business, net assets, financial condition or results of operations. The risks mentioned herein may materialize individually or cumulatively.
D.1	**Key information on the key risks that are specific to the issuer or its industry.**	**Key Risks Related to the Group's Business and Industry** The polymer industry is affected by economic factors including risks associated with volatile economic conditions.

The Group is dependent on the development of its customers' end markets, in particular the automotive/transport, construction, wood/furniture, electrical/electronics and chemicals end markets, which are cyclical.

The polymer industry is characterized by periods of supply/demand imbalances due to production overcapacity that will result in periodic downward pressure on prices and short-term price volatility.

Fluctuations in the prices of raw materials may have a material adverse effect on the Group's results of operations.

The Group is dependent on the availability of certain raw materials, and any disruptions in the supply or logistics chain may have a material adverse effect on the Group's business, financial condition and results of operations.

Volatility in energy prices and factors impacting energy supply and prices could have a material adverse effect on the Group's business.

The Group operates in a highly competitive industry and faces competition from large, well-established producers as well as new entrants across each of the regions in which the Group operates, who may each compete more effectively than the Group and materially adversely affect the Group's profitability.

The Group may be unable to successfully execute its strategy for achieving profitable growth, and therefore, may grow much less than expected, if at all.

Production at the Group's facilities may be subject to planned and unplanned production interruptions, which could have a material impact on its ability to produce products for sale or maintain business operations and therefore, may materially adversely affect its business.

The Group's production processes and operations are subject to the inherent hazards and other risks associated with chemical processing, production, storage, and transportation.

If the Group is unable to sell, store, re-utilize or dispose of certain raw materials and by-products that it produces or acquires from third-parties, it may be required to limit or reduce its overall production levels and could also be materially adversely affected if the prices at which the Group sells certain raw materials and by-products decline.

Changes in foreign exchange rates could have material adverse effects on the Group's results of operations and the Group's hedging activities may not be effective.

The Group's failure to protect its intellectual property and other proprietary information may materially adversely affect its business.

The Group may fail to realize anticipated benefits from joint ventures and may be unable to exit a joint venture in a timely manner or without penalty.

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

The Group may be forced to make write-downs or additional impairments, in particular on goodwill and other intangible assets, that reduce the value of the Group.

The Group's reputation is one of its key assets and if it is harmed, the Group's business and results of operations may suffer.

Key Risks related to Legal, Regulatory and Tax Matters

Legal and regulatory changes in the jurisdictions in which it operates and trades may have an adverse effect on the Group.

The costs of complying with changing environmental, health and safety regulatory requirements could negatively impact the Group's financial results.

Regulatory requirements to reduce emissions of greenhouse gases could have an adverse effect on the Group's results of operations.

The Group may lose all or part of the subsidies that it receives in Germany and become subject to higher than anticipated surcharges under the German Renewable Energy Act.

The Group may be subject to losses due to liabilities or lawsuits related to contaminated land that it owns or operates or arising out of environmental damage or personal injuries associated with exposure to chemicals, the release of chemicals or other hazardous substances.

The Group may be liable for damages based on product liability claims brought against it or its customers or may be accused of having sold harmful products.

Key Risks Related to the Separation from the Bayer Group

The Group has no operating history as a separate company, and the Group's combined financial information is based on a series of assumptions and estimates that may prove inaccurate and not necessarily representative of the results the Group would have achieved as a stand-alone publicly-traded company.

The Group's structure and business activities have recently undergone substantial organizational changes in the context of the separation, which may make it difficult to correctly assess its historical past and future Group performance.

The separation from the Bayer Group may lead to the loss of business opportunities and decreased purchasing power and result in a loss of synergies.

Following the Group's separation from the Bayer Group, the Group will have a significant amount of debt that could materially adversely affect the Group's business.

The Group may not realize potential benefits from the separation of its business from the Bayer Group's other businesses.

As the Group builds its information technology infrastructure and transitions its data to its own systems, it could incur substantial additional costs and experience temporary business interruptions.

The Group may be unable to subsequently perform or replace the transitional services to be provided to the Group by the Bayer Group for a limited period of time without operational problems or additional cost.

		If the distributions of the stock of Covestro LLC by Bayer Corporation and Bayer US Holding LP do not qualify for tax-free treatment for U.S. federal income tax purposes, the Company may be required to indemnify Bayer AG for material taxes pursuant to indemnification obligations under a tax covenants agreement and Covestro LLC may be required to indemnify Bayer US Holding LP for material taxes pursuant to indemnification obligations under a tax sharing agreement. The Company, Covestro Deutschland AG, and Covestro LLC are subject to certain covenants and indemnification obligations that may reduce their strategic and operational flexibility.
D.3	**Key information on the key risks that are specific to the securities.**	**Key Risks Related to the Shares, the Listing and the Shareholder Structure** The Company's shares have not been publicly listed, and there is no guarantee that an active and liquid market for the shares will develop and be sustained following the initial offering of shares. The market price and trading volume of the Company's shares may fluctuate significantly and could decline upon completion of the offering, and investors could lose some or all of their investment. The payment of future dividends will depend on the Group's business, cash flows, financial condition, and results of operations. Future offerings of debt or equity securities by the Group may materially adversely affect the share price, and future capitalization measures could lead to substantial dilution of existing shareholders' interests in the Group. Bayer AG, the Group's largest shareholder following the offering, may have interests that conflict with the Group and may cause the Group to forgo desirable opportunities. Bayer AG could exert substantial influence on decisions reached by the general shareholders' meeting and could have diverging interests from those of the Group's other shareholders. Future sales of shares in the Company by Bayer AG or the perception that such sales may occur could depress the price of the shares.
1.5	**E – OFFER**	
E.1	**The total net proceeds and an estimate of the total expenses of the issue/offer, including estimated expenses charged to the investor by the issuer or the offeror.**	The Company will receive the proceeds of the Offering (as defined below in E.3) resulting from the sale of the New Shares (as defined below in E.3) after deduction of fees and commissions. The Company targets gross proceeds in an amount of around €2,500 million and will reduce the number of New Shares (as defined below in E.3) if the final offer price exceeds the low end of the Price Range (as defined below in E.3). Accordingly, subject to the final offer price, a lower amount of New Shares may be allocated. The number of New Shares (as defined below in E.3) will amount to 94,339,622 at the low end, 80,645,161 at the mid-point and 70,422,535 at the high end of the Price Range (as defined below in E.3). The costs of the Company related to the Offering (as defined below in E.3) of the New Shares (as defined below in E.3) and listing of the Company's entire share capital are expected to total

		approximately €12 million (excluding underwriting fees payable by the Company to the Underwriters). The underwriting fees with respect to the New Shares (as defined below in E.3) payable to the Underwriters amount to approximately €20 million based on the targeted gross proceeds of the Company of around €2,500 million, excluding incentive fees, if any. In addition to the underwriting fees, the Existing Shareholder may pay the Underwriters incentive fees, payable entirely at the discretion of the Existing Shareholder, of up to €16.67 million. The Existing Shareholder will arrange for the payment of incentive fees, if any, within 35 days after commencement of the exchange trading of the Company's shares on the Regulated Market of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*). The net proceeds of the Company after deduction of the costs related to the Offering (as defined below in E.3) and the Underwriters' underwriting fees payable by the Company are expected to amount to approximately €2,468 million. None of the Company or the Underwriters will charge expenses to investors. Investors will have to bear customary transaction and handling fees charged by their brokers or financial institutions through which they hold their securities.
E.2a	**Reasons for the offer, use of proceeds, estimated net amount of the proceeds.**	The Offering (as defined below in E.3) and listing gives Covestro AG greater flexibility to independently pursue its business goals, strategic freedom to execute asset optimization initiatives, focus on achieving business process and cost efficiencies, strategic flexibility to develop business portfolio and the ability to access the capital markets. The Company estimates net proceeds of approximately €2,468 million from the sale of the New Shares (as defined below in E.3). Bayer AG is a diversified life science and chemicals group which regularly analyzes its strategy and portfolio composition. In September 2014, Bayer AG decided to focus entirely on its LifeScience businesses—HealthCare and CropScience—going forward, and to float its MaterialScience business on the stock market as a separate company. In connection with the carve-out of the MaterialScience business from the Bayer Group, inter-group debt in an amount of €5.2 billion and pension liabilities in an amount of approximately €1.5 billion, each as of September 1, 2015 were transferred to the Company. In connection with the Offering (as defined below in E.3), the Existing Shareholder will make a cash contribution in the amount of €715 million into the unrestricted capital reserves of the Company (*ungebundene Kapitalrücklage*), section 272 paragraph 2 number 4 of the German Commercial Code (*Handelsgesetzbuch* (*HGB*)), by no later than September 29, 2015 to increase the Company's equity before completion of the Offering (as defined below in E.3) (the "**Capital Contribution**") pursuant to a cash contribution and indemnity agreement between Bayer AG and the Company. The Company will use the proceeds from the Capital Contribution to repay inter-group debt owed to Bayer Antwerpen NV, a subsidiary of the Existing Shareholder (the "**Inter-Group Debt Repayment I**") The purpose of the Offering (as defined below in E.3) and listing of the Company's shares on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter*

		Wertpapierbörse) and, simultaneously, on the sub-segment thereof with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange is (i) mainly to further reduce inter-group debt owed to Bayer Antwerpen NV, a subsidiary of the Existing Shareholder, in an amount of €2,375 million (the ‘‘**Inter-Group Debt Repayment II**’’ and together with the Inter-Group Debt Repayment I, the ‘‘**Inter-Group Debt Repayments**’’) and (ii) to provide a small amount of funds for general corporate purposes. The amount of funds for general corporate purposes will be the difference between the net proceeds from the sale of the New Shares and the amount used for Inter-Group Repayment II, and is expected to be approximately €93 million. The Inter-Group Debt Repayments are expected to enable the Company to achieve a target capital structure of net financial debt together with pension liabilities to Adjusted EBITDA for 2015 of 2.5x to 3.0x that would allow for an investment grade rating of the Company following completion of the Offering (as defined below in E.3). The Company anticipates that, immediately following completion of the Offering (as defined below in E.3) and implementation of the Inter-Group Debt Repayments, its net financial debt together with pension liabilities will amount to approximately €4.0 billion.
E.3	**A description of the terms and conditions of the offer.**	This offering relates to 94,339,622 newly issued ordinary bearer shares with no par value (*Stückaktien*), each such share representing a notional value of €1.00 and full dividend rights since inception from a capital increase against contributions in cash to be resolved by an extraordinary shareholders' meeting of the Company (the ‘‘**Offering**’’), expected to take place on September 30, 2015 (the ‘‘**New Shares**’’). The Offering relates to a public offering in Germany and Luxembourg, and a private placement in certain jurisdictions outside of Germany. In the United States, the New Shares are being offered to qualified institutional buyers in accordance with Rule 144A of the U.S. Securities Act of 1933, as amended (the ‘‘**Securities Act**’’). Outside the United States, the New Shares are being offered by means of a private placement in accordance with Regulation S under the Securities Act.
	Offer Period.	The Offer Period during which investors will have the opportunity to submit offers to purchase New Shares commences on September 21, 2015, and is expected to end on October 1, 2015 (the ‘‘**Offer Period**’’). During the Offer Period, offers to purchase New Shares may be submitted to the Underwriters. On the last day of the Offer Period, retail investors will be able to submit offers to purchase New Shares until 12:00 noon Central European Summer Time (‘‘**CEST**’’), and institutional investors will be able to submit offers to purchase New Shares until 14:00 CEST. Purchase orders must be in full Euro amounts or Euro cent figures of 25, 50 or 75 cents. Multiple purchase orders are permitted.
	Amendments to the Term of the Offering.	The Company and the Existing Shareholder, together with the Underwriters, reserve the right to increase or reduce the number of New Shares, to reduce or increase the upper and/or lower limits of the Price Range (as defined further below in E.3), and/or to extend or shorten the Offer Period. The change in the number of New Shares or the Price Range (as defined further below in E.3) or the extension or reduction of the Offer Period will not invalidate

	purchase orders already submitted. If such change requires publication of a supplement to the Prospectus, investors who submitted purchase orders before the supplement was published have the right, under the German Securities Prospectus Act (*Wertpapierprospektgesetz*), to withdraw these offers to purchase within two business days of publication of the supplement. Instead of withdrawing the offers to purchase placed prior to publication of the supplement, investors also have two business days after the supplement's publication to change their orders or place new limited or unlimited offers to purchase. To the extent that the terms of the Offering are changed, such change will be published by electronic media, such as Reuters or Bloomberg, and, to the extent required by the German Securities Trading Act (*Wertpapierhandelsgesetz*) and the German Securities Prospectus Act (*Wertpapierprospektgesetz*), as an *ad hoc* announcement via an electronic information system and on the Company's website and as a supplement to the Prospectus. Investors who have submitted purchase orders will not be notified individually.
Placement Price.	After the expiration of the Offer Period, the offer price is expected to be set on October 1, 2015, jointly by the Company, the Existing Shareholder and the Joint Global Coordinators on the basis of the order book prepared during the bookbuilding process. The order book will be built based on the Price Range (as defined further below in E.3) from €26.50 to €35.50. The determination of the offer price will depend on the offers to purchase the New Shares submitted by investors during the Offer Period and collected in the above-mentioned order book. Once the Offer Period has expired, the final number of New Shares and the offer price will be determined jointly by the Company and the Existing Shareholder after consultation with the Joint Bookrunners using the order book prepared during the bookbuilding process and taking into consideration the targeted gross proceeds for the Company. This is expected to take place on or about October 1, 2015.
Price Range and Offer Price.	The price range within which offers to purchase New Shares may be submitted is €26.50 to €35.50 (the ''**Price Range**'').
Delivery and Payment.	The delivery of the New Shares against payment of the offer price is expected to take place on October 6, 2015. The New Shares will be made available to the shareholders as co-ownership interests in the respective global share certificate.
Stabilization Measures, Over-Allotments and Greenshoe Option.	In connection with the placement of the New Shares, Deutsche Bank or its affiliates, acting for the account of the Underwriters, will act as the stabilization manager (the ''**Stabilization Manager**'') and may, as Stabilization Manager, and acting in accordance with legal requirements (section 20a(3)) of the German Securities Trading Act (*Wertpapierhandelsgesetz*) in conjunction with Commission Regulation (EC) No. 2273/2003 of December 22, 2003, the ''**EU Stabilization Regulation**''), take stabilization measures to support the market price of the Company's shares and thereby counteract any selling pressure (the ''**Stabilization Measures**''). The Stabilization Manager is under no obligation to initiate Stabilization Measures. Accordingly, there is no guarantee that Stabilization Measures will be initiated at all. To the extent that Stabilization Measures are initiated, they can be terminated at any time without prior notice. Stabilization Measures may be

		undertaken beginning on the date on which the Company's shares are first traded on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and must be completed no later than 30 calendar days after such date (''**Stabilization Period**''). Stabilization Measures may result in the market price of the Company's shares being higher than would otherwise have been the case. Moreover, the market price may temporarily be at an unsustainable level. The Stabilization Manager may, as a result of the Stabilization Measures during the Stabilization Period, acquire on one or more occasions up to 9,433,962 shares of the Company (the ''**Stabilization Shares**'') at the then current market price, provided that such number of Company's shares acquired as a result of Stabilization Measures may not exceed 10% of the New Shares. To facilitate such Stabilization Measures Bayer Global Investments B.V. (the ''**Put-Grantor**'') has granted the Stabilization Manager the Put Option to sell to it the Stabilization Shares at the aggregate price at which it acquired the Stabilization Shares in connection with the Stabilization Measures. This option will terminate upon completion of the Stabilization Measures at the end of the Stabilization Period.
E.4	**A description of any interest that is material to the issue/offer including conflicting interests.**	The Underwriters have entered into a contractual relationship with the Company and the Existing Shareholder in connection with the Offering and admission to trading of the Company's shares. The Existing Shareholder and the Company have engaged Deutsche Bank, Morgan Stanley, BofA Merrill Lynch, Citigroup, Credit Suisse, J.P. Morgan, UBS Investment Bank, BNP PARIBAS and UniCredit Bank AG to serve as Underwriters. The Underwriters will advise the Company and the Existing Shareholder on the transaction and coordinate the structuring and execution of the transaction. Upon successful execution of the transaction, the Underwriters will receive a commission. The commission consists of a base fee that will be paid by the Company and may also include an incentive fee paid by the Existing Shareholder. In addition, Deutsche Bank and Morgan Stanley have been appointed to act as designated sponsors of the Company's shares and Deutsche Bank as paying agent. Furthermore, some of the Underwriters and their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial investment banking, financial advising, investment management, principal investment, hedging, financing and brokerage activities. Some of the Underwriters and/or their respective affiliates from time to time have provided in the past, and may provide in the future investment banking, financial advisory and commercial banking services to the Company or the Group in the ordinary course of business for which they have received or may receive customary fees and commissions. In connection with the Offering, each of the Underwriters and affiliated companies will be able to take up a portion of the New Shares as a principal position and hold, purchase or sell for their own accounts and can also offer or sell these New Shares outside of the Offering. Accordingly, references in the Prospectus to New Shares being offered or placed should be read as including any offering or placement of New Shares to any of the Underwriters or

any of their respective affiliates acting in such capacity. In addition, certain of the Underwriters or their affiliates may enter into financing arrangements (including swaps or contracts for differences) with investors in connection with which such Underwriters (or their affiliates) may from time to time acquire, hold or dispose of New Shares. None of the Underwriters intend to disclose the extent of any such investment or transaction otherwise than in accordance with any legal or regulatory obligation to do so.

Deutsche Bank, UniCredit Bank AG, Citigroup, and Bank of America Merrill Lynch International Limited, each of whom is an Underwriter or affiliate of an Underwriter, were mandated as lead arrangers of a syndicated multicurrency term and revolving credit facilities agreement, dated September 4, 2015, in a total amount of €2.7 billion with a syndicate of banks, which consists of a revolving credit facility and a term loan facility.

The Existing Shareholder will not sell shares in the Company in the Offering and receive no proceeds from the Offering. However, the Company intends to use the net proceeds from the sale of the New Shares (i) mainly to reduce inter-group debt owed to Bayer Antwerpen NV, a subsidiary of the Existing Shareholder, in an amount of €2,375 million (referred to as the Inter-Group Debt Repayment II) and (ii) to provide a small amount of funds for general corporate purposes.

As a result of the Offering, the share-based payment plans for employees and members of the Management Board that were in place prior to the Offering will be terminated for future tranches that have not yet started to run. With regard to already running tranches of the respective four-year-cycles, the Group intends to fix the outstanding rights according to the currently applicable rules and relevant metrics at the end of Fiscal Year 2015, and, once due, the rights will be settled by one-time payments in cash.

E.5 Name of the person or entity offering to sell the security.

The shares in the Company are being offered for sale by the Underwriters.

Lock-up agreements: the parties involved; and indication of the period of the lock up.

The Company agreed with the Underwriters that to the extent legally permissible, without the prior written consent of the Joint Global Coordinators (which may not be unreasonably withheld or delayed), the Company, will not or will not agree to, during the period ending six months after commencement of trading of the New Shares:

(i) announce or effect an increase of the Company’s share capital out of authorized capital; or

(ii) propose to its shareholders’ meeting an increase of the Company’s share capital; or

(iii) announce, effect or propose the issuance of securities with conversion, or option rights on the Company’s shares; or

(iv) enter into any transaction or perform any action economically similar to those described in (i) through (iii) above.

The Company may however issue or sell shares or other securities (i) to employees and members of executive bodies of the Company or its subsidiaries under future management participation plans or (ii) in consideration of all or a portion of the acquisition price of any business acquired by the Company or for

the purposes of entering into a joint venture, provided that in each case (a) the Company will consult with the Joint Global Coordinators prior to the issuance of such shares or such other securities of the Company and (b) the recipient of such shares or other securities assumes toward the Underwriters the obligation under the lock-up for the then remaining part of the lock-up period of the Company. The lock-up arrangement described above does not apply to the shares sold in the Offering.

Furthermore, the Existing Shareholder and the Put-Grantor agreed, severally and not jointly, with the Underwriters that, without the prior written consent of the Joint Global Coordinators (which shall not unreasonably be withheld or delayed) they will not, during a period ending six months after commencement of trading of the New Shares:

(i) offer, pledge, allot, sell, distribute, transfer or otherwise dispose of, directly or indirectly, any shares of the Company or any other securities of the Company; this also applies to any transactions economically similar to a disposal of securities, e.g. the issuance of options and warrants convertible into shares of the Company; or

(ii) cause or approve, directly or indirectly, the announcement, execution or implementation of any increase in the share capital of the Company or a direct or indirect placement of shares of the Company; or

(iii) propose, directly or indirectly, any increase in the share capital of the Company to any meeting of the shareholders for resolution, or vote in favor of such a proposed increase; or

(iv) cause or approve, directly or indirectly, the announcement, execution or proposal of any issuance of financial instruments provided with options and warrants convertible into shares of the Company; or

(v) enter into a transaction or perform any action economically similar to those described in (i) through (iv) above.

The lock-up does not include transactions with affiliates of the Existing Shareholder (other than the Group), provided that, in each case, such affiliate assumes toward the Underwriters the above obligation for the then remaining part of the lock-up period of the Existing Shareholder or the Put-Grantor, respectively.

Each member of the Management Board and the Supervisory Board has agreed that it will not—within a period of six months after the date of the commencement of trading shares of the Company on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*)—sell, or otherwise transfer or dispose of—directly or indirectly—of any shares of the Company it may acquire or enter into any other transaction with the same economic effect without the prior written consent of the Joint Global Coordinators which may not be unreasonably withheld.

E.6 The amount and percentage of immediate dilution resulting from the offer. In case of a subscription offer to the existing equity holders, the amount and percentage of immediate dilution if they do not subscribe to the new offer.

The net asset value (total assets less total liabilities less invested equity attributable to non-controlling interest) amounted to €1,717 million as of June 30, 2015, and would amount to €12.26 per share in the Company based on 140,000,000 outstanding shares in the Company immediately prior to the Offering. The net asset value as of June 30, 2015, adjusted for the Capital Contribution would have amounted to €17.37 per share based on 140,000,000 shares of the Company outstanding immediately before the Offering.

The dilutive effect of the Offering is illustrated in the table below demonstrating the amount by which the offer price at the low end, mid-point and high end of the Price Range exceeds the total net asset value per share of the Company after completion of the Offering, assuming the Offering had taken place on June 30, 2015 and adjusted for the Capital Contribution. The net asset value and the net asset value per share of the Company are adjusted for the effects of the Offering, assuming (a) the issuance of such number of New Shares at the offer price to achieve the targeted gross proceeds for the Company of around €2,500 million, which would result in 234,339,622, 220,645,161 and 210,422,535 outstanding shares of the Company at the low end, mid-point and high end of the Price Range after completion of the Offering and (b) the receipt of the net proceeds to the Company in an amount of €2,468 million.

The table below illustrates the amount by which the price per share of the Company would exceed the net asset value in the interim statement of financial position as of June 30, 2015 per share of the Company after completion of the Offering at the low end, at the mid-point and the high end of the Price Range, respectively:

	Low End	Mid-Point	High End
		(unaudited)	
Offer price in €	26.50	31.00	35.50
Total net asset value[1] per share of the Company as of June 30, 2015 (based on 140,000,000 outstanding shares before the Offering) in €	12.26	12.26	12.26
Total net asset value[1] per share of the Company as of June 30, 2015 (based on 140,000,000 outstanding shares before the Offering) and adjusted for the Capital Contribution in €	17.37	17.37	17.37
Net asset value per share of the Company (based on 234,339,622, 220,645,161 and 210,422,535 outstanding shares of the Company at the low end, mid-point and high end of the Price Range after completion of the Offering), in €	20.91	22.21	23.29
Amount by which the offer price exceeds the total net asset value[1] per share of the Company (immediate dilution per share, based on 234,339,622, 220,645,161 and 210,422,535 outstanding shares at the low end, mid-point and high end of the Price Range after completion of the Offering), in €	5.59	8.79	12.21
Immediate dilution to the new shareholders, in %	21.1%	28.4%	34.4%

Note:

(1) Net asset value refers to the Company's total assets minus its total liabilities less invested equity attributable to non-controlling interest.

		Under the assumption that the Capital Contribution and the capital increase regarding the New Shares are implemented, the accretion to the net asset value per share of the Company (comparing the net asset values prior to and after the Offering) will be €3.54, €4.84 and €5.92, respectively (based on 234,339,622, 220,645,161 and 210,422,535 outstanding shares of the Company at the low end, mid-point and high end of the Price Range after completion of the Offering assuming execution of the capital increase in an amount of 94,339,622, 80,645,161 and 70,422,535 offered New Shares). Each of the New Shares will have the same voting rights as the Company's existing shares.
E.7	**Estimated expenses charged to the investor by the issuer or the offeror.**	Not applicable. Investors will not be charged with expenses by the Company, the Existing Shareholder or the Underwriters.

2. GERMAN TRANSLATION OF THE SUMMARY OF THE PROSPECTUS— ZUSAMMENFASSUNG DES PROSPEKTS

Zusammenfassungen bestehen aus vorgeschriebenen Informationsblöcken, die als Angaben („**Angaben**") bezeichnet werden. Diese Angaben sind in Abschnitten A – E (A.1 – E.7) nummeriert. Diese Zusammenfassung enthält alle Angaben, die für eine Zusammenfassung für diese Art von Wertpapier und diese Emittentin erforderlich sind. Da einige Angaben nicht aufgenommen werden müssen, kann die Nummerierung Lücken enthalten. Auch wenn eine Angabe für diese Art von Wertpapier und diese Emittentin in diese Zusammenfassung aufgenommen werden muss, kann es sein, dass keine relevanten Informationen zur Verfügung stehen. In diesem Fall enthält die Zusammenfassung eine kurze Beschreibung der Angabe mit dem Hinweis „entfällt".

2.1 A – EINLEITUNG UND WARNHINWEISE

A.1	**Warnhinweise.**	Diese Zusammenfassung sollte als Einleitung zu diesem Prospekt (der „**Prospekt**") verstanden werden. Bei jeder Anlageentscheidung sollte sich der Anleger auf die Prüfung des gesamten Prospekts stützen. Ein Anleger, der wegen der in dem Prospekt enthaltenen Angaben Klage einreichen will, muss nach den nationalen Rechtsvorschriften eines Mitgliedstaates des Europäischen Wirtschaftsraumes möglicherweise für die Übersetzung des Prospekts aufkommen, bevor das Verfahren eingeleitet werden kann. Covestro AG, Leverkusen, Deutschland (die „**Gesellschaft**" oder „**Covestro AG**" und gemeinsam mit ihren direkten oder indirekten Tochtergesellschaften die „**Gruppe**"), Deutsche Bank AG, Frankfurt am Main, Deutschland, („**Deutsche Bank**") und Morgan Stanley & Co. International plc, London, Vereinigtes Königreich („**Morgan Stanley**", gemeinsam mit Deutsche Bank die „**Joint Global Coordinators**" und jeweils ein Global Coordinator), Merrill Lynch International, London, Vereinigtes Königreich, („**BofA Merrill Lynch**"), Citigroup Global Markets Limited, London, Vereinigtes Königreich („**Citigroup**"), Credit Suisse Securities (Europe) Limited, London, Vereinigtes Königreich („**Credit Suisse**"), J.P. Morgan Securities plc, London, Vereinigtes Königreich („**J.P. Morgan**") und UBS Limited, London, Vereinigtes Königreich, („**UBS Investment Bank**", zusammen die „**Joint Bookrunners**" und jeweils ein Joint Bookrunner), BNP Paribas, Paris, Frankreich („**BNP PARIBAS**") und UniCredit Bank AG, München, Deutschland, („**UniCredit Bank AG**", zusammen mit BNP PARIBAS die „**Co-Lead Managers**" und jeweils ein Co-Lead Manager, und gemeinsam mit den Joint Global Coordinators und den Joint Bookrunners die „**Konsortialbanken**") haben gemäß § 5 Abs. 2b Nr. 4 des Wertpapierprospektgesetzes die Verantwortung für den Inhalt dieser Zusammenfassung übernommen. Diejenigen Personen, die die Verantwortung für die Zusammenfassung einschließlich etwaiger Übersetzungen hiervon übernommen haben oder von denen der Erlass ausgeht, können haftbar gemacht werden, jedoch nur für den Fall, dass die Zusammenfassung irreführend, unrichtig oder widersprüchlich ist, wenn sie zusammen mit den anderen Teilen des Prospekts gelesen wird, oder sie, wenn sie zusammen mit den anderen Teilen des Prospekts gelesen wird, nicht alle erforderlichen Schlüsselinformationen vermittelt.
A.2	**Angaben zur späteren Verwendung des Prospekts.**	Entfällt. Die Gesellschaft erteilt keine Zustimmung zur Verwendung des Prospekts für eine spätere Weiterveräußerung oder Platzierung der Aktien.

2.2 B – EMITTENT

B.1	**Juristische und kommerzielle Bezeichnung.**	Die juristische Bezeichnung der Gesellschaft ist Covestro AG. Die Gesellschaft ist unter der kommerziellen Bezeichnung „Covestro" tätig und das MaterialScience-Geschäft (wie in B.7 unten definiert), das ihr zugeordnet wurde, war vorher unter der kommerziellen Bezeichnung „Bayer MaterialScience" tätig.
B.2	**Sitz, Rechtsform, für den Emittenten geltendes Recht, Land der Gründung.**	Die Gesellschaft hat ihren eingetragenen Sitz in der Kaiser-Wilhelm-Allee 60, 51373 Leverkusen, Deutschland und ist im Handelsregister des Amtsgerichts Köln, Deutschland, unter HRB 85281 eingetragen. Die Gesellschaft ist eine als Aktiengesellschaft organisierte Holdinggesellschaft, die in Deutschland gegründet wurde und deutschem Recht unterliegt.
B.3	**Art der derzeitigen Geschäftstätigkeit und Haupttätigkeiten des Emittenten samt der hierfür wesentlichen Faktoren, der Hauptprodukt- und/oder – Dienstleistungskategorien und der Hauptmärkte, auf denen der Emittent vertreten ist.**	Die Gruppe ist einer der weltweit führenden Anbieter von Hightech-Materiallösungen gemäß dem Branchenbericht "Analyses of Certain Aspects of the Polymer Industry" von Nexant Inc. und Orr & Boss Ltd. vom Juli 2015 und dem zugehörigen Datenbuch (der „**Branchenbericht**"). Die Tätigkeiten der Gruppe umfassen die Produktion und Lieferung von Rohstoffen für Polyurethane, Polycarbonatgranulate und -platten, von Lack-, Kleb- und Dichtrohstoffen sowie von ausgewählten chemischen Zwischenstoffen. Das Produktportfolio der Gruppe beinhaltet auch Nischenprodukte wie Thermoplastische Polyurethane („**TPU**"), polycarbonat- und TPU-basierte Folien, Heißgießelastomere und andere, auf textile, kosmetische und medizinische Anwendungen zugeschnittene Produkte. Die Gruppe verfügt über umfangreiche Erfahrung bei der Prozess- und Produktinnovation sowie über enge Kundenbeziehungen, die untermauern, dass die Gruppe seit langem marktgerechte Lösungen entwickelt. Die von der Gruppe hergestellten Produkte werden von den Kunden verarbeitet, um Produkte zu schaffen, die in verschiedenen Endmärkten, insbesondere den Automobil-/Transport-, Bau-, Holz-/Möbel-, Elektro-/Elektronik-, Sport-/Freizeit-, Kosmetik, Gesundheits- und Chemikalien-Endmärkten, verwendet werden. Die Gruppe profitiert von leistungsfähigen Produktionsanlagen mit nach ihrer Auffassung führender Prozesstechnik und einer nominalen Gesamtproduktionskapazität[1] von 4.700 Kilotonnen („**kt**") Kernprodukten in ihren Geschäftsbereichen für Polycarbonate und Polyurethane, einschließlich acht Produktionsanlagen mit sehr großer Kapazität in Europa, den Vereinigten Staaten und Asien. Der selektiv rückwärts integrierte Produktionsprozess der Gruppe zielt darauf ab, kritische Rohstoffe wie Chlor, Propylenoxid und andere Einsatzmaterialien intern oder über Joint Ventures zu beziehen und so die Abhängigkeit der Gruppe von externen Bezugsquellen zu verringern. Das Geschäft der Gruppe vereint die Vorteile standardisierter Produkte und maßgeschneiderter, hochwertiger Lösungen, die den Bedürfnissen der Kunden, die sich fundamentalen Makrotrends wie dem Klimawandel, einer zunehmenden Mobilität, dem Bevölkerungswachstum und einer zunehmenden Urbanisierung stellen müssen, gerecht werden sollen. Die Gruppe ist der Auffassung, dass sie aufgrund ihrer Wettbewerbsvorteile in einer guten Position ist, um das von diesen Trends getriebene Branchenwachstum zu nutzen. Gemäß dem Branchenbericht wird erwartet, dass die Branche aufgrund einer günstigen Nachfrageentwicklung in den nächsten fünf Jahren wächst.

[1] „**Nominale Produktionskapazität**" bezieht sich auf den vorgesehenen Ausstoß bei voller Auslastung einer Produktionsanlage oder einer Gruppe von Produktionsanlagen bei einer kontinuierlichen Produktion von 8.000 Stunden pro Jahr.

In dem Sechs-Monats-Zeitraum zum 30. Juni 2015 generierte die Covestro-Gruppe (wie in B.7 unten definiert) Umsatzerlöse in Höhe von €6,3 Milliarden, ein EBIT in Höhe von €473 Millionen[2], ein bereinigtes EBITDA[3] in Höhe von €914 Millionen (bereinigte EBITDA-Marge[4] von 14,6%) und einen freien operativen Kapitalfluss[5] aus Geschäftstätigkeit in Höhe von €321 Millionen. Im Geschäftsjahr 2014 generierte die Covestro-Gruppe (wie in B.7 unten definiert) Umsatzerlöse in Höhe von €11,8 Milliarden, ein EBIT von €517 Millionen, ein bereinigtes EBITDA in Höhe von €1,2 Milliarden (bereinigte EBITDA-Marge von 9,9%) und einen frei verfügbaren Kapitalfluss aus Geschäftstätigkeit in Höhe von €313 Millionen.

Das Geschäft der Gruppe ist in drei Geschäftsbereiche, welche auch die drei berichtspflichtigen Segmente der Gruppe sind, unterteilt:

- Der Geschäftsbereich Polyurethanes der Gruppe produziert Diphenylmethandiisocyanat („**MDI**“), Toluylendiisocyanat („**TDI**“) und Polyetherpolyole verschiedener Güten hauptsächlich für Hartschäume und Weichschäume. Hartschäume werden vor allem für die Dämmung von Gebäuden, die Dämmung in der Kühlkette und für Autoteile verwendet, während Weichschäume hauptsächlich für Möbel, Matratzen und Autositze verwendet werden. Der Geschäftsbereich produziert außerdem andere Produkte wie TPU, Styrol und Toluylen-Diamin („**TDA**“). Im Sechs-Monats-Zeitraum zum 30. Juni 2015 beliefen sich die externen Umsatzerlöse des Geschäftsbereichs auf €3,2 Milliarden (bzw. 50,9% der gesamten Umsatzerlöse), das EBIT belief sich auf €123 Millionen (26,0% des gesamten EBIT) und das bereinigte EBITDA belief sich auf €386 Millionen (42,2% des gesamten bereinigten EBITDA bei einer bereinigten EBITDA-Marge von 12,1%). Im Geschäftsjahr zum 31. Dezember 2014 („**Geschäftsjahr 2014**“) beliefen sich die externen Umsatzerlöse des Geschäftsbereichs auf €6,3 Milliarden (bzw. 53,4% der gesamten Umsatzerlöse), das EBIT belief sich auf €233 Millionen (45,1% des gesamten EBIT) und das bereinigte EBITDA belief sich auf €592 Millionen (51,0% des gesamten bereinigten EBITDA bei einer bereinigten EBITDA-Marge von 9,4%). Der Geschäftsbereich Polyurethanes umfasst die strategischen Geschäftseinheiten MDI, TDI und Polyetherpolyole, auf die ca. 40%, 20% bzw. 40% der externen Umsatzerlöse des Geschäftsbereichs Polyurethanes im Geschäftsjahr 2014 entfielen.
- Der Geschäftsbereich Polycarbonates der Gruppe produziert Polycarbonatgranulate, zusammengesetzte Granulate und Polycarbonatplatten. Polycarbonate haben einzigartige Eigenschaften, die ihre Verwendung in einem breiten Spektrum von Anwendungen in den Elektro-/Elektronik-Endmärkten, Automobil-Endmärkten, Bau-Endmärkten, Endmärkten für Verbraucheranwendungen, Medizin-

[2] „**EBIT**“ ist definiert als Ergebnis vor Finanzergebnis und Steuern.

[3] „**Bereinigtes EBITDA**“ ist definiert als EBITDA vor Sondereinflüssen, welches Effekte umfasst, die nach Einschätzung der Gruppe einmalig bzw. in ihrer Art oder Höhe nicht regelmäßig wiederkehrend sind. „**EBITDA**“ ist definiert als das Ergebnis vor Finanzergebnis und Steuern (EBIT) zuzüglich Abschreibungen und Verluste aus Wertberichtigungen auf Sachanlagen zuzüglich Abschreibungen und Verluste aus Wertberichtigungen in Bezug auf immaterielle Vermögenswerte und abzüglich Erträge aus der Auflösung von Wertberichtigungen auf immaterielle Vermögenswerte und Sachanlagen.

[4] „**Bereinigte EBITDA Marge**“ ist definiert als Bereinigtes EBITDA als Prozentsatz des Nettoumsatzes.

[5] „**Freier operativer Kapitalfluss (*free operating cash flow*)**“ ist definiert als Mittelzufluss/-abfluss aus der laufenden Geschäftstätigkeit (Nettogeldfluss) abzüglich von Kapitalabflüssen für Investitonen in Sachanlagen und immaterielle Vermögenswerte.

Endmärkten, Verpackungs-Endmärkten und Endmärkten für optische Medien ermöglichen. Im Sechs-Monats-Zeitraum zum 30. Juni 2015 beliefen sich die externen Umsatzerlöse des Geschäftsbereichs auf €1,6 Milliarden (bzw. 25,4% der gesamten Umsatzerlöse), das EBIT belief sich auf €177 Millionen (37,4% des gesamten EBIT) und das bereinigte EBITDA belief sich auf €266 Millionen (29,1% des gesamten bereinigten EBITDA bei einer bereinigten EBITDA-Marge von 16,7%). Im Geschäftsjahr 2014 beliefen sich die externen Umsatzerlöse des Geschäftsbereichs auf €2,8 Milliarden (bzw. 24,0% der gesamten Umsatzerlöse), das EBIT belief sich auf €(32) Millionen und das bereinigte EBITDA belief sich auf €160 Millionen (13,8% des gesamten bereinigten EBITDA bei einer bereinigten EBITDA-Marge von 5,7%).

- Der Geschäftsbereich Coatings, Adhesives, Specialties produziert hauptsächlich aliphatische Isocyanate und deren Derivate, aromatische Isocyanat-Derivate, Polyurethan-Dispersionen und andere Spezialitäten. Der Geschäftsbereich produziert ungefähr 2.300 Produkte für über 4.300 Kunden in mehr als zehn Endmärkten, einschließlich der Automobil-, Bau-, Holz-/Möbel-, Schuh-, Verpackungs-/Textil-/Kleidungs- und Elektronik-Endmärkte. Im Sechs-Monats-Zeitraum zum 30. Juni 2015 beliefen sich die externen Umsatzerlöse des Geschäftsbereichs auf €1,1 Milliarden (bzw. 17,5% der gesamten Umsatzerlöse), das EBIT belief sich auf €224 Millionen (47,4% des gesamten EBIT) und das bereinigte EBITDA belief sich auf €270 Millionen (29,5% des gesamten bereinigten EBITDA bei einer bereinigten EBITDA-Marge von 24,6%). Im Geschäftsjahr 2014 beliefen sich die externen Umsatzerlöse des Geschäftsbereichs auf €1,9 Milliarden (bzw. 16,4% der gesamten Umsatzerlöse der Gruppe), das EBIT belief sich auf €354 Millionen (68,5% des gesamten EBIT) und das bereinigte EBITDA belief sich auf €437 Millionen (37,6% des gesamten bereinigten EBITDA bei einer bereinigten EBITDA-Marge von 22,7%).

Alle sonstigen geschäftlichen Aktivitäten der Gruppe, die keinem der drei berichtspflichtigen Segmente zugeordnet werden können, werden unter „alle sonstigen Segmente“ ausgewiesen, was hauptsächlich die Umsatzerlöse bei Chlor und bestimmten Nebenprodukten umfasst, die bei der Produktion von Chlor und der Verarbeitung von Chlor im Rahmen der Produktion von Isocyanat anfallen, insbesondere Natronlauge und Salzsäure. Darüber hinaus umfassen „alle sonstigen Segmente“ auch die Erbringung bestimmter Dienstleistungen an Dritte (wie Gebäudemanagement, technischer Kundendienst, Vermietung von Gebäuden, Grundstücken und Büroräumen als auch der Verkauf des von der Gruppe hergestellten Stroms) und den Verkauf von nicht-chemischen Produkten (wie etwa gebrauchte Vermögenswerte). In den am 30. Juni 2015 zu Ende gegangenen sechs Monaten und im Geschäftsjahr 2014 beliefen sich die externen Umsatzerlöse für „alle sonstigen Segmente“ auf €382 Millionen (oder 6,1% der gesamten Umsatzerlöse) bzw. auf €729 Millionen (oder 6,2% der gesamten Umsatzerlöse).

Die Gruppe unterhält fortlaufende Programme für die Forschung an und Entwicklung von neuen Produkten und Produktionsprozessen, für die Verbesserung und Weiterentwicklung bestehender Produkte und Prozesse und für die Entwicklung neuer Anwendungen für bestehende Produkte. Im Geschäftsjahr 2014 hat die Covestro-Gruppe (wie in B.7 unten definiert) €212 Millionen für Forschungs- und Entwicklungsaktivitäten aufgewendet, die häufig in enger Zusammenarbeit mit Kunden durchgeführt werden.

Die Gruppe verfügt über eine regionale Verkaufs- und Vermarktungsstruktur mit Verteilungszentren und lokalen Betrieben, die von einer Plattform für elektronischen Handel und regionalen oder lokalen Vertriebsstellen gestützt wird. Die Verkaufsaktivitäten der Gruppe sind für jeden Geschäftsbereich in drei Regionen—Europa, Naher Osten, Afrika und Lateinamerika mit Ausnahme von Mexiko („**EMLA**"), Region Asien-Pazifik („**APAC**") und den Vereinigten Staaten, Kanada und Mexiko („**NAFTA**") aufgeteilt. In jeder dieser Regionen sind unter den Kunden der Gruppe global, regional und lokal tätige Unternehmen, von denen viele zu den langjährigen Kunden der Gruppe zählen. Im Geschäftsjahr 2014 entfielen 46,6%, 27,7% und 25,7% der Umsatzerlöse der Covestro-Gruppe (wie in B.7 unten definiert) auf die Regionen EMLA, APAC und NAFTA.

Das MaterialScience-Geschäft (wie in B.7 unten definiert) war und ist ein Teil der Bayer-Gruppe, welche aus der Bayer Aktiengesellschaft (die „**Bayer-AG**") und ihren konsolidierten Tochtergesellschaften (zusammen mit der Bayer AG die „**Bayer-Gruppe**") besteht, und hat seinen Geschäftsbetrieb unabhängig im Einklang mit den vorgegebenen Zielen der Bayer AG geführt. Im Jahr 2014 hat die Bayer AG bekanntgegeben, dass sie eine Mehrheitsbeteiligung an der Gruppe zu veräußern beabsichtigt. Nach der Separierung von der Bayer AG kommt die Gruppe in den Genuss bestimmter Dienstleistungen der Bayer-Gruppe. Die Gruppe hat ihren Hauptsitz in Leverkusen, Deutschland, und beschäftigte weltweit im Durchschnitt 14.397 Vollzeitmitarbeiter (Stand: Geschäftsjahr 2014).

Stärken

Die Gesellschaft ist der Auffassung, dass die folgenden Wettbewerbsstärken die Treiber ihres Erfolgs sind und die Gesellschaft auch in der Zukunft von Wettbewerbern absetzen werden:

- Weltweit führende Positionen in der Branche, die verteidigt werden können und auf einem fokussierten Produktportfolio mit globaler Reichweite basieren
- Eine günstige Branchendynamik mit im Vergleich zum BIP überdurchschnittlichen Wachstumsperspektiven in unterschiedlichen Endmärkten
- Eine gute Position zum Aufbau von Mengenwachstum durch leistungsfähige Produktionsanlagen mit sehr großer Kapazität und einer wettbewerbsfähigen Kostenposition
- Ein Portfolio, das hochwertige Rohstoffe für Lack-, Kleb- und Dichtstoffe und andere Spezialitäten beinhaltet und ein attraktives und historisch gesehen robustes Margenprofil bietet
- Eine attraktive Perspektive für das Wachstum der finanziellen Überschüsse, gestützt von einem disziplinierten Kostenmanagement
- Ein erfahrenes Management mit vollem Engagement für die Wertschöpfung

Strategie

Die Strategie der Gruppe, um zukünftig profitables Wachstum zu erreichen, basiert auf folgenden Kernelementen:

- Nutzung des Branchenwachstums innerhalb der nächsten fünf Jahre mit den vorhandenen Produktionsanlagen mit sehr großer Kapazität

- Optimierung der Vermögensbasis durch Konsolidierung von Standorten, Restrukturierung und Effizienzprojekte
- Verbesserung der Kostenposition und Ausrichtung der Gesamtkosten an den führenden Vergleichsmaßstäben der Chemiebranche
- Schutz und Aufbau profitabler Wettbewerbspositionen durch fokussierte Forschung und Entwicklung
- Verankerung von Nachhaltigkeit in allen Elementen der Strategie zur weiteren Steigerung der Rentabilität

B.4a Wichtigste jüngste Trends, die sich auf den Emittenten und die Branchen, in denen er tätig ist, auswirken.

Kernelemente, die die Ertragslage der Gruppe beeinflussen, sind die allgemeinen ökonomischen Trends weltweit und insbesondere in den geographischen Märkten EMLA, APAC und NAFTA, in denen die Gruppe tätig ist, soweit deren Auswirkungen auf die Branchen, in denen die direkten oder indirekten Kunden der Gruppe agieren, die Nachfrage nach den Produkten der Gruppe beeinflusst. Negative ökonomische Entwicklungen resultieren üblicherweise in einer Abnahme des Verkaufsvolumens der Gruppe, was wiederum negativen Einfluss auf die Ertragslage der Gruppe hat.

Die Ertragslage der Gruppe wird auch durch die Dynamik von Angebot und Nachfrage beeinflusst, was die Kapazitätsauslastung in der Industrie beeinflusst. Das Angebot wird hauptsächlich durch die in der Branche verfügbare Produktionskapazität beeinflusst. Eine Abnahme der Nachfrage bzw. des Verkaufsvolumens führt irgendwann zu einer Abnahme der Kapazitätsauslastung, was die Margen wegen des hohen Fixkostenanteils in der Polymerindustrie und wegen der fallenden Verkaufspreise negativ beeinflusst. Wenn die Kapazität schneller aufgebaut wird als die Nachfrage steigt, werden die Preise eher fallen. Auf der anderen Seite ist ein Anstieg der Preise zu erwarten, wenn die Nachfrage schneller steigt als die Kapazität aufgebaut wird.

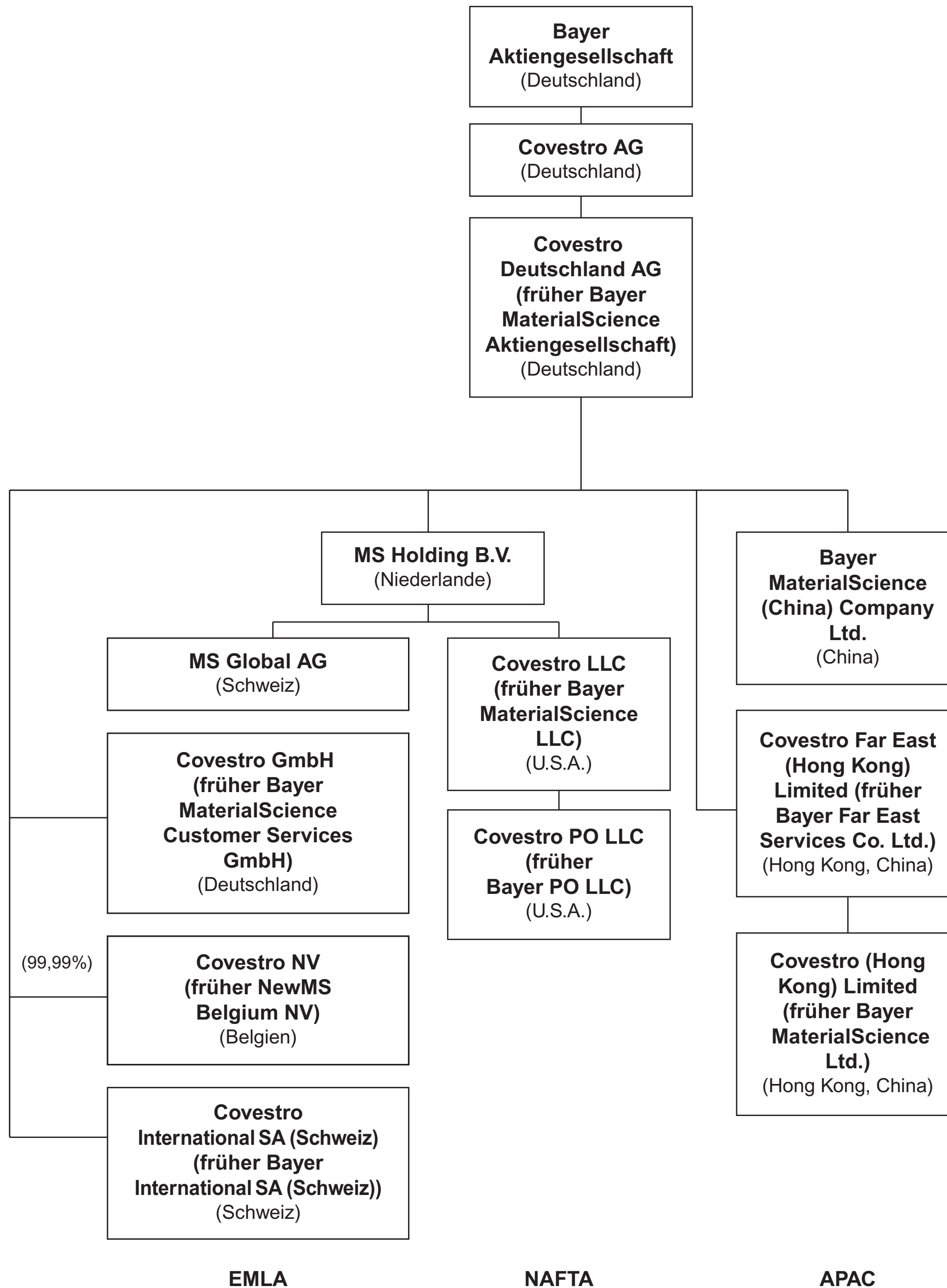
Für Rohstoffe wird ein Großteil der gesamten Produktionskosten der Covestro-Gruppe (wie in B.7 unten definiert) aufgewendet, im Geschäftsjahr 2014 ein Betrag von €5,6 Milliarden. Die hauptsächlichen Rohstoffe der Gruppe sind petrochemische Derivate wie Benzol und Phenol, auf die zusammen rund ein Drittel der gesamten Rohstoffkosten der Gruppe im Geschäftsjahr 2014 entfällt, Propylenoxid, Toluol, Azeton und Hexamethylendiamin („**HDA**"). In letzter Zeit wurde die Ertragslage der Gruppe positiv durch die Fähigkeit der Gruppe beeinflusst, den Rückgang der Gesamtverkaufspreise trotz des allgemeinen Verfalls der Rohstoffpreise am Ende des Geschäftsjahres 2014 und zu Beginn des Geschäftsjahres zum 31. Dezember 2015 („**Geschäftsjahr 2015**") zu begrenzen. Die Rohstoffpreise stiegen im zweiten Quartal des Geschäftsjahres 2015, stabilisierten sich zu Beginn des dritten Quartals und zeigen aktuell einen Abwärtstrend. Die Gruppe ist möglicherweise nicht in der Lage, ihre Verkaufspreise beizubehalten. Dies könnte die Margen in der zweiten Hälfte des Geschäftsjahrs 2015 nachteilig beeinflussen.

In den Geschäftsjahren 2014, 2013 und 2012 hatten die Währungseffekte—hauptsächlich aufgrund des stärker werdenden Euro—nachteilige Auswirkungen auf die kombinierte Ertragslage der Covestro-Gruppe (wie in B.7 unten definiert). Im Sechs-Monats-Zeitraum zum 30. Juni 2015 wirkten sich die Währungseffekte jedoch wegen des schwächeren Euro positiv auf die Ertragslage der Covestro-Gruppe (wie in B.7 unten definiert) aus.

B.5 Beschreibung der Gruppe und der Stellung des Emittenten innerhalb dieser Gruppe.

Bis zur Eintragung der Kapitalerhöhung hinsichtlich der neu ausgegebenen Aktien wird die Gesellschaft eine hundertprozentige Tochtergesellschaft der Bayer AG sein. Die Gesellschaft ist die Holdinggesellschaft der Gruppe.

Die folgende Grafik zeigt eine (vereinfachte) Zusammenfassung der Muttergesellschaft und ausgewählter Tochtergesellschaften der Gesellschaft zum Datum des Prospekts. Die dargestellten Beteiligungen umfassen auch Beteiligungen an verbundenen Unternehmen gemäß §§ 15 ff. des Aktiengesetzes.



B.6	**Personen, die eine direkte oder indirekte Beteiligung am Eigenkapital des Emittenten oder einen Teil der Stimmrechte halten oder den Emittenten beherrschen.**	Vor dem Angebot (wie in E.3 unten definiert) werden sämtliche Aktien der Gesellschaft von der Bayer AG (die „**Bestehende Aktionärin**") gehalten, bei der es sich um ein deutsches DAX-Unternehmen handelt, das unter anderem am Regulierten Markt (Prime Standard) der Frankfurter Wertpapierbörse notiert ist.
	Stimmrechte.	Jede Aktie der Gesellschaft berechtigt zu einer Stimme auf der Hauptversammlung der Gesellschaft. Alle Aktien der Gesellschaft verleihen dasselbe Stimmrecht. Die Stimmrechte unterliegen keinerlei Beschränkungen.
	Unmittelbare oder mittelbare Beherrschung des Emittenten und Art der Beherrschung.	Die Gesellschaft wird unmittelbar von ihrer einzigen Aktionärin, der Bayer AG, kontrolliert.
B.7	**Ausgewählte Finanzinformationen.**	**Ausgewählte kombinierte Finanzinformationen** Die in den nachfolgenden Tabellen enthaltenen Finanzinformationen wurden aus den geprüften kombinierten Abschlüssen für die Covestro-Gruppe (wie unten definiert) für die Geschäftsjahre zum 31. Dezember 2014, 2013 und 2012 („**Geschäftsjahre 2014, 2013 und 2012**") und aus dem ungeprüften verkürzten kombinierten Zwischenabschluss für die Covestro-Gruppe (wie unten definiert) für den Sechs-Monats-Zeitraum zum 30. Juni 2015 (einschließlich kombinierter Vergleichszahlen für den Sechs-Monats-Zeitraum zum 30. Juni 2014) entnommen oder daraus abgeleitet. Die geprüften kombinierten Abschlüsse für die Geschäftsjahre 2014, 2013 und 2012 wurden gemäß den International Financial Reporting Standards, wie sie in der EU anzuwenden sind („**IFRS**"), erstellt und von PricewaterhouseCoopers Wirtschaftsprüfungsgesellschaft AG („**PwC**") in Übereinstimmung mit den International Standards on Auditing geprüft und mit einem uneingeschränkten Bestätigungsvermerk versehen. Der ungeprüfte verkürzte kombinierte Zwischenabschluss für den Sechs-Monats-Zeitraum zum 30. Juni 2015 (einschließlich kombinierter Vergleichszahlen für den Sechs-Monats-Zeitraum zum 30. Juni 2014) wurde gemäß den International Accounting Standards („**IAS**") 34, erstellt. Die kombinierten Abschlüsse für die Geschäftsjahre zum 31. Dezember 2014, 2013 und 2012 sowie der verkürzte kombinierte Zwischenabschluss für den Sechs-Monats-Zeitraum zum 30. Juni 2015 (einschließlich kombinierter Vergleichszahlen für den Sechs-Monats-Zeitraum zum 30. Juni 2014), die jeweils in den Finanzinformationen des Prospekts enthalten sind und auf die im Prospekt Bezug genommen wird, wurden von der Covestro Deutschland AG (vormals Bayer MaterialScience Aktiengesellschaft), einer direkten und 100%igen Tochtergesellschaft der Gesellschaft, erstellt und beziehen sich auf das Bayer MaterialScience-Geschäft in den Bereichen Polymer-Werkstoffe und bestimmte anorganische Grundchemikalien (das „**MaterialScience-Geschäft**"), das aus der Bayer Aktiengesellschaft ausgegliedert wurde. Daher wird das MaterialScience-Geschäft für die Zwecke der kombinierten Abschlüsse und der im Prospekt enthaltenen kombinierten Finanzinformationen als die „**Covestro-Gruppe**" bezeichnet. Sofern die in den nachfolgenden Tabellen enthaltenen Finanzinformationen als „geprüft" gekennzeichnet sind, bedeutet dies, dass sie aus den geprüften kombinierten Abschlüssen für die Covestro-Gruppe für die Geschäftsjahre zum 31. Dezember 2014, 2013 und 2012 entnommen wurden. Die Kennzeichnung „ungeprüft" wurde in den nachfolgenden Tabellen verwendet, um Finanzinformationen zu kennzeichnen, die nicht aus den geprüften

kombinierten Abschlüssen für die Covestro-Gruppe sondern aus dem ungeprüften verkürzten kombinierten Zwischenabschluss für die Covestro-Gruppe für den Sechs-Monats-Zeitraum zum 30. Juni 2015 (einschließlich kombinierter Vergleichszahlen für den Sechs-Monats-Zeitraum zum 30. Juni 2014) oder dem internen Rechnungslegungssystem der Covestro Deutschland AG (vormals Bayer MaterialScience Aktiengesellschaft) entnommen bzw. daraus abgeleitet wurden oder auf Grundlage von Informationen berechnet wurden, die in den geprüften kombinierten Abschlüssen enthalten sind.

Ausgewählte Daten aus der kombinierten Gewinn- und Verlustrechnung

	Für den Sechs-Monats-Zeitraum zum 30. Juni		Für das Geschäftsjahr endend zum 31. Dezember		
	2015	**2014**	**2014**	**2013**	**2012**
	(ungeprüft)		*(geprüft)*		
			(in Mio. €)		
Umsatzerlöse	6.264	5.719	11.761	11.357	11.610
Herstellungskosten	(4.832)	(4.616)	(9.609)	(9.390)	(9.306)
Bruttoergebnis vom Umsatz	1.432	1.103	2.152	1.967	2.304
EBIT[7]	473	314	517	391	542
Finanzergebnis	(87)	(56)	(136)	(136)	(185)
Ergebnis vor Ertragsteuern	386	258	381	255	357
Ertragsteuern	(114)	(80)	(104)	(76)	(93)
Ergebnis nach Ertragsteuern	272	178	277	179	264

Anmerkung:

(1) EBIT: Ergebnis vor Finanzergebnis und Steuern.

Ausgewählte Daten aus der kombinierten Bilanz

	Zum 30. Juni		Zum 31. Dezember		
	2015	**2014**	**2014**	**2013**	**2012**
	(ungeprüft)		*(geprüft)*		
			(in Mio. €)		
Summe langfristige Vermögenswerte	6.217	6.441	6.011	6.304	6.510
Summe kurzfristige Vermögenswerte	4.572	4.183	4.381	3.829	3.955
Summe Eigenkapital	1.728	2.716	1.787	2.779	2.579
Summe langfristige Verbindlichkeiten	2.357	2.184	2.567	1.836	1.986
Summe kurzfristige Verbindlichkeiten	6.704	5.724	6.038	5.518	5.900
Gesamtkapital	10.789	10.624	10.392	10.133	10.465

Ausgewählte Daten aus der kombinierten Kapitalflussrechnung

	Für den Sechs-Monats-Zeitraum zum 30. Juni		Für das Geschäftsjahr endend zum 31. Dezember		
	2015	**2014**	**2014**	**2013**	**2012**
	(ungeprüft)		*(geprüft)*		
	(in Mio. €)				
Brutto-Kapitalfluss	727	554	1.016	941	1.006
Zu-/Abfluss aus operativer Geschäftstätigkeit (Netto-Kapitalfluss)	545	154	925	998	814
Zu-/Abfluss aus Investitionstätigkeit	(318)	(221)	(585)	(542)	(691)
Zu-/Abfluss aus Finanzierungstätigkeit	(340)	59	(192)	(461)	(196)
Zahlungswirksame Veränderung aus Geschäftstätigkeit	(113)	(8)	148	(5)	(73)
Zahlungsmittel und Zahlungsmitteläquivalente zum Ende des Berichtszeitraums.	106	30	201	37	44

Zusätzliche Schlüsselzahlen

	Für den Sechs-Monats-Zeitraum zum 30. Juni		Für das Geschäftsjahr zum 31. Dezember		
	2015	**2014**	**2014**	**2013**	**2012**
	(ungeprüft)		*(geprüft, sofern nicht anders angegeben)*		
	(in Mio. €)				
Bereinigtes EBITDA[1]	**914**	**625**	**1.161**	**1.056**	**1.244**
Bereinigte Abschreibungen[2]	(336)	(292)	(600)	(670)	(664)
Bereinigtes EBIT[3]	**578**	**333**	**561**	**386**	**580**
Sondereinflüsse	(105)	(19)	(44)	5	(38)
davon:					
Restrukturierung (ungeprüft)[4]	(103)	(19)	*(44)*	*(37)*	*(50)*
Anpassung von Leistungszusagen (ungeprüft)[5]	—	—	—	—	*12*
Desinvestitionen[6]	—	—	—	*42*	—
Neubewertung anderer Forderungen	*(2)*	—	—	—	—
EBIT[7]	**473**	**314**	**517**	**391**	**542**
Finanzergebnis	(87)	(56)	(136)	(136)	(185)
Ergebnis vor Ertragsteuern	**386**	**258**	**381**	**255**	**357**

Anmerkungen:

(1) Bereinigtes EBITDA: EBITDA vor Sondereinflüssen, welche Effekte umfasst, die nach Einschätzung der Gruppe einmalig bzw. in ihrer Art oder Höhe nicht regelmäßig wiederkehrend sind.

EBITDA: Ergebnis vor Finanzergebnis und Steuern (EBIT) zuzüglich Abschreibungen und Verlusten aus Wertberichtigungen auf Sachanlagen zuzüglich Abschreibungen und Verlusten aus Wertberichtigungen auf immaterielle Vermögenswerte und abzüglich Erträgen aus der Auflösung von Wertberichtigungen auf immaterielle Vermögenswerte und Sachanlagen.

(2) Bereinigte Abschreibungen: Abschreibungen vor Sondereinflüssen, welche Effekte umfasst, die nach Einschätzung der Gruppe einmalig bzw. in ihrer Art oder Höhe nicht regelmäßig wiederkehrend sind.

(3) Bereinigtes EBIT: Ergebnis vor Finanzergebnis und Steuern mit Sondereinflüssen, welches Effekte umfasst, die nach Einschätzung der Gruppe einmalig bzw. in ihrer Art oder Höhe nicht regelmäßig wiederkehrend sind.

(4) Die Restrukturierungskosten umfassen vorwiegend Abfindungszahlungen und Wertminderungsaufwand im Zusammenhang mit Restrukturierungsmaßnahmen.

(5) Die Gesellschaft hat verschiedenen Mitarbeitern mit Leistungszusagen, die gekündigt wurden, die Möglichkeit eröffnet, aus den leistungsorientierten Pensionsplänen eine Pauschalzahlung statt zukünftiger monatlicher Bezüge zu erhalten.

(6) Gewinn aus dem Verkauf des weltweiten Geschäfts mit pulverförmigen Polyesterharzen und des Geschäftsbereichs für Flüssigpolyester in den Vereinigten Staaten im Juni 2013 und dem Verkauf des Desmolux®-Harzgeschäfts im September 2013.

(7) EBIT: Ergebnis vor Finanzergebnis und Steuern.

Wesentliche Änderungen der Finanzlage und des Betriebsergebnisses des Emittenten.

Folgende wesentliche Änderungen in der Vermögens-, Finanz- und Ertragslage der Covestro-Gruppe sind in dem Sechs-Monats-Zeitraum zum 30. Juni 2015 bzw. zum 30. Juni 2014 und in den Geschäftsjahren 2014, 2013 und 2012 eingetreten:

Sechs-Monats-Zeitraum zum 30. Juni 2015 bzw. zum 30. Juni 2014

Die Umsatzerlöse der Covestro-Gruppe erhöhten sich im Sechs-Monats-Zeitraum zum 30. Juni 2015 um €545 Millionen bzw. 9,5% auf €6.264 Millionen von €5.719 Millionen im Sechs-Monats-Zeitraum zum 30. Juni 2014, beeinflusst durch günstige Währungseffekte und ein höheres Verkaufsvolumen. Die günstigen Währungseffekte und die sich aus dem höheren Verkaufsvolumen ergebenden positiven Effekte wurden teilweise durch einen Rückgang der Gesamtverkaufspreise aufgewogen.

Das EBIT erhöhte sich um €159 Millionen bzw. 50,6% auf €473 Millionen im Sechs-Monats-Zeitraum zum 30. Juni 2015 von €314 Millionen im Sechs-Monats-Zeitraum zum 30. Juni 2014, maßgeblich beeinflusst durch eine Erhöhung der Umsatzerlöse und einen Rückgang der Rohstoffkosten, der nur teilweise an die Kunden weitergegeben wurde, sowie durch höhere Auslastungsraten, die zu einer höheren Fixkostendeckung im Sechs-Monats-Zeitraum zum 30. Juni 2015 führten. Zusätzlich unterstützten positive Währungseffekte die Verbesserung der Rentabilität.

Die langfristigen Vermögenswerte erhöhten sich um €206 Millionen bzw. 3,4% auf €6.217 Millionen zum 30. Juni 2015 von €6.011 Millionen zum 31. Dezember 2014, hauptsächlich aufgrund einer Erhöhung der Sachanlagen infolge von Investitionsausgaben.

Die kurzfristigen Vermögenswerte erhöhten sich um €191 Millionen bzw. 4,4% auf €4.572 Millionen zum 30. Juni 2015 von €4.381 Millionen zum 31. Dezember 2014, was in erster Linie auf eine Erhöhung der Forderungen aus Lieferungen und Leistungen und anderer finanzieller Vermögenswerte zurückzuführen ist. Diese Erhöhung wurde teilweise durch einen Rückgang der Zahlungsmittel und Zahlungsmitteläquivalente sowie anderer Forderungen ausgeglichen.

Die langfristigen Verbindlichkeiten gingen um €210 Millionen bzw. 8,2% zurück auf €2.357 Millionen zum 30. Juni 2015 von €2.567 Millionen zum 31. Dezember 2014, hauptsächlich aufgrund von Rückgängen der Finanzverbindlichkeiten.

Die kurzfristigen Verbindlichkeiten erhöhten sich um €666 Millionen bzw. 11,0% auf €6.704 Millionen zum 30. Juni 2015 von €6.038 Millionen zum 31. Dezember 2014, hauptsächlich aufgrund eines Anstiegs der Finanzverbindlichkeiten, der teilweise durch einen

Rückgang der sonstigen Verbindlichkeiten ausgeglichen wurde.

Geschäftsjahre 2014 und 2013

Die Umsatzerlöse der Covestro-Gruppe erhöhten sich im Geschäftsjahr 2014 um €404 Millionen bzw. 3,6% auf €11.761 Millionen von €11.357 Millionen im Geschäftsjahr 2013, maßgeblich beeinflusst durch ein höheres Verkaufsvolumen, welches eine Erhöhung der Umsatzerlöse um 6,2% zur Folge hatte. Dieser sich aus dem höheren Verkaufsvolumen ergebende positive Effekt wurde teilweise durch einen leichten Verfall der Gesamtverkaufspreise, nachteilige Währungseffekte und negative Portfolioeffekte aufgewogen.

Das EBIT erhöhte sich um €126 Millionen bzw. 32,2% auf €517 Millionen im Geschäftsjahr 2014 von €391 Millionen im Geschäftsjahr 2013, maßgeblich beeinflusst durch eine Erhöhung des Verkaufsvolumens, was zu einer höheren Kapazitätsauslastung und einer höheren Fixkostendeckung im Geschäftsjahr 2014 führte, sowie Maßnahmen zur Effizienzsteigerung. Zusätzlich haben geringere Materialkosten die Profitabilität unterstützt, wobei sich die Verkaufspreise nachteilig entwickelt haben.

Die langfristigen Vermögenswerte verringerten sich um €293 Millionen bzw. 4,6% auf €6.011 Millionen zum 31. Dezember 2014 von €6.304 Millionen zum 31. Dezember 2013, hauptsächlich aufgrund einer Verringerung von Darlehen gegenüber der Bayer-Gruppe, welche teilweise durch eine Erhöhung der Sachanlagen infolge von Investitionsausgaben sowie eine Erhöhung der latenten Steuern ausgeglichen wurde.

Die kurzfristigen Vermögenswerte erhöhten sich um €552 Millionen bzw. 14,4% auf €4.381 Millionen zum 31. Dezember 2014 von €3.829 Millionen zum 31. Dezember 2013, was hauptsächlich auf eine Erhöhung der Vorräte, der Forderungen aus Lieferungen und Leistungen sowie der Zahlungsmittel und Zahlungsmitteläquivalente zurückzuführen ist. Diese Erhöhung wurde teilweise durch einen Rückgang anderer finanzieller Vermögenswerte ausgeglichen.

Die langfristigen Verbindlichkeiten erhöhten sich um €731 Millionen bzw. 39,8% auf €2.567 Millionen zum 31. Dezember 2014 von €1.836 Millionen zum 31. Dezember 2013, hauptsächlich aufgrund der Erhöhung von Pensionsrückstellungen und anderer Versorgungsleistungen, die aus geringeren langfristigen Kapitalmarktzinsen von Unternehmensanleihen höchster Bonität resultieren.

Die kurzfristigen Verbindlichkeiten erhöhten sich um €520 Millionen bzw. 9,4% auf €6.038 Millionen zum 31. Dezember 2014 von €5.518 Millionen zum 31. Dezember 2013, hauptsächlich aufgrund von einer Erhöhung der Verbindlichkeiten aus Lieferungen und Leistungen und Finanzverbindlichkeiten.

Geschäftsjahre 2013 und 2012

Die Umsatzerlöse der Covestro-Gruppe verringerten sich um €253 Millionen bzw. 2,2% auf €11.357 Millionen im Geschäftsjahr 2013 von €11.610 Millionen im Geschäftsjahr 2012, maßgeblich beeinflusst durch ungünstige Währungseffekte, eine leichte Abnahme der Gesamtverkaufspreise und negative Portfolioeffekte, die teilweise durch eine leichte Verbesserung des Verkaufsvolumens ausgeglichen wurde.

Das EBIT verringerte sich um €151 Millionen bzw. 27,9% auf €391 Millionen im Geschäftsjahr 2013 von €542 Millionen im Geschäftsjahr 2012, maßgeblich beeinflusst durch einen Anstieg der Rohstoffpreise als auch einen geringfügigen Rückgang der Verkaufspreise als Ergebnis der Dynamik von Angebot und Nachfrage. Diese Effekte wurden teilweise durch leicht steigende Absatzvolumen, Effizienzsteigerungen und positive Währungseffekte kompensiert.

Die langfristigen Vermögenswerte verringerten sich um €206 Millionen bzw. 3,2% auf €6.304 Millionen zum 31. Dezember 2013 von €6.510 Millionen zum 31. Dezember 2012, hauptsächlich aufgrund einer Verringerung von Sachanlagen und immateriellen Vermögenswerten.

Die kurzfristigen Vermögenswerte verringerten sich um €126 Millionen bzw. 3,2% auf €3.829 Millionen zum 31. Dezember 2013 von €3.955 Millionen zum 31. Dezember 2012, was hauptsächlich auf eine Abnahme der Vorräte und der Forderungen aus Lieferungen und Leistungen zurückzuführen ist. Diese Abnahme wurde teilweise durch eine Erhöhung anderer finanzieller Vermögenswerte ausgeglichen.

Die langfristigen Verbindlichkeiten verringerten sich um €150 Millionen bzw. 7,6% auf €1.836 Millionen zum 31. Dezember 2013 von €1.986 Millionen zum 31. Dezember 2012, hauptsächlich aufgrund der Abnahme von Pensionsrückstellungen und anderer Versorgungsleistungen.

Die kurzfristigen Verbindlichkeiten verringerten sich um €382 Millionen bzw. 6,5% auf €5.518 Millionen zum 31. Dezember 2013 von €5.900 Millionen zum 31. Dezember 2012, hauptsächlich aufgrund einer Abnahme von Finanzverbindlichkeiten, anderen Verbindlichkeiten und Verbindlichkeiten aus Lieferungen und Leistungen.

Aktuelle Entwicklungen

Die Covestro AG, die Muttergesellschaft der Gruppe, wurde am 20. August 2015 als Aktiengesellschaft mit einem Grundkapital in Höhe von €140.000.000 durch Gründung gegen Bareinlage errichtet und am 24. August 2015 unter HRB 85281 im Handelsregister des Amtsgerichts Köln eingetragen.

Das MaterialScience-Geschäft wurde von der Bayer-Gruppe abgespalten und die Bayer AG legte alle Aktien der Covestro Deutschland AG (vormals Bayer MaterialScience Aktiengesellschaft) in die ungebundene Kapitalrücklage der

		Gesellschaft ein. Nach der Gründung der Covestro AG wurden Dr. Richard Pott (Vorsitzender), Johannes Dietsch und Prof. Dr. Rolf Nonnenmacher zu Mitgliedern des Aufsichtsrats der Gesellschaft bestellt und Patrick Thomas (Vorsitzender), Frank H. Lutz, Dr. Klaus Schäfer sowie Dr. Markus Steilemann zu Mitgliedern des Vorstands der Gesellschaft (der „**Vorstand**“) bestellt. Der Beherrschungs- und Gewinnabführungsvertrag zwischen der Covestro Deutschland AG und der Bayer AG vom 11. März 2003 wurde mit Wirkung zum 31. August 2015 gekündigt. Die Gesellschaft und die Covestro Deutschland AG haben unter anderem einen Ergebnisabführungsvertrag mit Wirkung zum 1. September 2015 geschlossen. Die Bayer AG und die Covestro Deutschland AG haben am 24. August 2015 einen Rahmenvertrag (*Master Agreement*) geschlossen, in denen die beiden Parteien unter anderem die Aufteilung der Haftung in bestimmten Bereichen abschließend festgelegt haben. Im Zusammenhang mit der Separation wurden zwischen den Gruppen bestehende Verbindlichkeiten in einer Höhe von €5,2 Milliarden und Pensionsverbindlichkeiten in einer Höhe von ca. €1,5 Milliarden zum 1. September 2015 von der Bayer-Gruppe auf die Gruppe übertragen. Am 4. September 2015 hat die Covestro AG eine syndizierte, auf mehrere Währungen lautende revolvierende Finanzierungsvereinbarung mit einem Bankenkonsortium, welches auch einige der Konsortialbanken umfasst, geschlossen, die aus einem auf mehrere Währungen lautenden revolvierenden Kreditvertrag in Höhe von insgesamt €1,5 Milliarden und einem befristeten Kreditvertrag in einer Höhe von €1,2 Milliarden besteht.
B.8	**Ausgewählte wesentliche Pro-forma-Finanzinformationen.**	Entfällt. Es sind keine Pro-Forma-Finanzkennzahlen erforderlich.
B.9	**Gewinnprognosen oder -schätzungen.**	Entfällt. Die Gesellschaft legt keine Gewinnprognosen oder-schätzungen vor.
B.10	**Beschränkungen im Bestätigungsvermerk zu den historischen Finanzinformationen.**	Entfällt. Es gibt keine Beschränkungen.
B.11	**Nichtausreichen des Geschäftskapitals des Emittenten zur Erfüllung bestehender Anforderungen.**	Entfällt. Das Geschäftskapital der Gruppe ist ausreichend.

2.3 C – WERTPAPIERE

C.1	**Beschreibung von Art und Gattung der angebotenen und/oder zum Handel zuzulassenden Wertpapiere, einschließlich jeder Wertpapierkennung.**	Auf den Inhaber lautende Stammaktien ohne Nennwert (*Stückaktien*), jeweils mit einem anteiligen Betrag am Grundkapital von €1,00 und mit voller Dividendenberechtigung seit Beginn der Gesellschaft. International Securities Identification Number („ISIN“): DE0006062144 Wertpapierkennnummer („WKN“): 606214 Common Code: 127671311 Ticker-Symbol: 1COV

C.2	**Währung.**	Euro.
C.3	**Zahl der ausgegebenen und voll eingezahlten Aktien und der ausgegebenen, aber nicht voll eingezahlten Aktien.**	140.000.000 auf den Inhaber lautende Stammaktien ohne Nennwert (*Stückaktien*). Das Grundkapital wurde vollständig eingezahlt.
	Nennwert pro Aktie bzw. Angabe, dass die Aktien keinen Nennwert haben.	Jede Aktie der Gesellschaft repräsentiert einen anteiligen Betrag am Grundkapital der Gesellschaft von €1,00.
C.4	**Beschreibung der mit den Wertpapieren verbundenen Rechte.**	Jede Aktie der Gesellschaft berechtigt zu einer Stimme auf der Hauptversammlung der Gesellschaft. Die Stimmrechte unterliegen keinerlei Beschränkungen. Die Aktien sind mit voller Dividendenberechtigung seit Beginn der Gesellschaft ausgestattet.
C.5	**Beschreibung aller etwaigen Beschränkungen für die freie Übertragbarkeit der Wertpapiere.**	Entfällt. Die Aktien der Gesellschaft sind in Übereinstimmung mit den gesetzlichen Bestimmungen für auf den Inhaber lautende Stammaktien frei übertragbar. Es bestehen keine Verfügungsverbote oder -beschränkungen hinsichtlich der Übertragbarkeit der Aktien der Gesellschaft.
C.6	**Angabe, ob für die angebotenen Wertpapiere die Zulassung zum Handel an einem geregelten Markt beantragt wurde bzw. werden soll, und Nennung aller geregelten Märkte, an denen die Wertpapiere gehandelt werden oder werden sollen.**	Die Zulassung aller Aktien der Gesellschaft zum regulierten Markt der Frankfurter Wertpapierbörse mit gleichzeitiger Zulassung zu einem Teilbereich des regulierten Marktes mit weiteren Zulassungsfolgepflichten (Prime Standard) wird voraussichtlich am 21. September 2015 beantragt werden. Die Zulassung wird voraussichtlich am 1. Oktober 2015 erfolgen. Die Aktien werden voraussichtlich am 2. Oktober 2015 an der Frankfurter Wertpapierbörse notiert (ISIN DE0006062144/WKN 606214). Für Zwecke der Zulassung zum regulierten Markt der Frankfurter Wertpapierbörse mit gleichzeitiger Zulassung zum Teilbereich des regulierten Marktes mit weiteren Zulassungsfolgepflichten (Prime Standard) der Frankfurter Wertpapierbörse bezieht sich der Prospekt auf insgesamt bis zu 234.339.622 auf den Inhaber lautende Stammaktien ohne Nennwert (Stückaktien) der Gesellschaft.
C.7	**Beschreibung der Dividendenpolitik.**	Die Gesellschaft beabsichtigt derzeit, ihrer ordentlichen Hauptversammlung im Jahr 2016 eine Dividende in Höhe von insgesamt €100 Millionen—150 Millionen für das Geschäftsjahr 2015 vorzuschlagen—unter Berücksichtigung der Tatsache, dass die Börsennotierung im Oktober 2015 erfolgt. Diese Dividendenzahlung wird auf der ordentlichen Hauptversammlung der Gesellschaft im Jahr 2016 beschlossen. Weiter beabsichtigt die Gesellschaft, ab einschließlich des Geschäftsjahres zum 31. Dezember 2016 („**Geschäftsjahr 2016**") eine Dividende in Höhe von 30-50% des nach IFRS berechneten und auf die Aktionäre entfallenden Jahresüberschusses der Gruppe zu zahlen. Ziel der Gesellschaft ist eine nachhaltige Dividendenpolitik mit einer Dividendenkontinuität gemessen in Euro. Die Fähigkeit der Gesellschaft zur Zahlung von Dividenden in künftigen Jahren hängt jedoch von dem Betrag des Reingewinns ab, der zur Ausschüttung verfügbar ist. Die Gesellschaft kann keinerlei Zusicherungen hinsichtlich künftiger Reingewinnbeträge (sofern diese anfallen) machen

und folglich auch nicht zusichern, dass sie in zukünftigen Jahren Dividenden zahlen wird.

2.4 D – RISIKEN

Zum Datum des Prospekts könnten sich die folgenden Schlüsselrisiken allein oder zusammen mit weiteren Risiken und Unwägbarkeiten, die der Gesellschaft derzeit nicht bekannt sind oder die sie derzeit als unwesentlich erachtet, in wesentlichem Maße nachteilig auf die Geschäfts-, Vermögens-, Finanz- und Ertragslage der Gruppe auswirken. Bei Eintritt jedes einzelnen dieser Risiken könnten Anleger ihre Anlage ganz oder teilweise verlieren.

Die Reihenfolge, in der die Risiken dargestellt sind, stellt weder eine Aussage über die Eintrittswahrscheinlichkeit noch über die Bedeutung oder Höhe der Risiken oder das Ausmaß eines möglichen Schadens für die Geschäfts-, Vermögens-, Finanz- und Ertragslage der Gesellschaft dar. Die hier genannten Risiken können einzeln oder gemeinsam eintreten.

D.1 Zentrale Angaben zu den zentralen Risiken, die dem Emittenten oder seiner Branche eigen sind.

Schlüsselrisiken im Zusammenhang mit der Geschäftstätigkeit und Branche der Gruppe

Die Polymerindustrie ist Wirtschaftsfaktoren einschließlich Risiken in Verbindung mit einem volatilen wirtschaftlichen Umfeld ausgesetzt.

Die Gruppe ist von der Entwicklung der Endmärkte ihrer Kunden abhängig, insbesondere der zyklischen Automobil-/Transport-, Bau-, Holz-/Möbel-, Elektro-/Elektronik- und Chemikalien-Endmärkte.

Die Polymerindustrie ist gekennzeichnet durch Phasen des Ungleichgewichts zwischen Angebot und Nachfrage aufgrund von Produktionsüberkapazitäten, die regelmäßig einen Druck auf die Preise und kurzfristige Preisschwankungen zur Folge haben können.

Preisschwankungen bei Rohstoffen können sich in wesentlichem Maße nachteilig auf die Ertragslage der Gruppe auswirken.

Die Gruppe ist auf die Verfügbarkeit bestimmter Rohstoffe angewiesen. Unterbrechungen in der Versorgungs- oder Logistikkette können sich in wesentlichem Maße nachteilig auf die Geschäfts-, Vermögens-, Finanz- und Ertragslage der Gruppe auswirken.

Energiepreisschwankungen sowie die Energieversorgung und -preise beeinträchtigende Faktoren können sich in wesentlichem Maße nachteilig auf das Geschäft der Gruppe auswirken.

Die Gruppe ist in einer wettbewerbsintensiven Branche tätig und konkurriert in allen Regionen, in denen die Gruppe tätig ist, mit großen, gut etablierten Herstellern sowie neuen Teilnehmern, von denen jeder sich im Wettbewerb erfolgreicher als die Gruppe behaupten könnte, was sich wesentlich nachteilig auf die Rentabilität der Gruppe auswirken könnte.

Die Gruppe ist möglicherweise nicht in der Lage, ihre Strategie zur Erzielung profitablen Wachstums erfolgreich

umzusetzen und könnte deshalb, falls sie überhaupt wächst, weniger stark wachsen als erwartet.

Die Produktion in den Anlagen der Gruppe kann von planmäßigen und außerplanmäßigen Unterbrechungen betroffen werden, wodurch die Fähigkeit, Produkte für den Verkauf zu produzieren oder die Geschäftstätigkeit aufrechtzuerhalten, wesentlich beeinflusst werden kann. Dies könnte das Geschäft der Gruppe wesentlich nachteilig beeinflussen.

Die Produktionsverfahren und der Produktionsbetrieb der Gruppe unterliegen den inhärenten Gefahren und sonstigen Risiken, die mit der Verarbeitung, der Produktion, der Lagerung und dem Transport von Chemikalien verbunden sind.

Wenn es der Gruppe nicht möglich ist, bestimmte Rohstoffe oder Nebenprodukte, die sie selbst produziert oder von Dritten erwirbt, zu verkaufen, zu lagern, wiederzuverwenden oder zu entsorgen, kann sie gezwungen sein, ihr Produktionsvolumen insgesamt zu begrenzen oder zu reduzieren. Außerdem könnte sich ein Rückgang der Preise, zu denen die Gruppe bestimmte Rohstoffe und Nebenprodukte verkauft, in wesentlichem Maße nachteilig auf die Gruppe auswirken.

Änderungen von Wechselkursen können wesentliche nachteilige Auswirkungen auf die Ertragslage der Gruppe haben, und die Hedging-Geschäfte der Gruppe sind möglicherweise nicht effektiv.

Sollte es der Gruppe nicht gelingen, ihr geistiges Eigentum und andere geschützte Informationen zu schützen, so kann sich dies in wesentlichem Maße nachteilig auf ihr Geschäft auswirken.

Der Gruppe gelingt es möglicherweise nicht, erwarteten Nutzen aus Joint Ventures zu erzielen, und sie ist möglicherweise nicht in der Lage, zeitnah oder ohne Vertragsstrafe aus einem Joint Venture auszusteigen.

Aufgrund ihres internationalen Geschäfts ist die Gruppe dem Risiko erheblicher Veränderungen der wirtschaftlichen, politischen und sozialen Bedingungen ausgesetzt, welche ihr Geschäft beeinträchtigen und wesentliche nachteilige Auswirkungen auf die Aussichten der Gruppe haben können.

Die Gruppe kann gezwungen sein, außerplanmäßige Abschreibungen oder zusätzliche Wertberichtigungen insbesondere auf den Geschäftswert und andere immaterielle Vermögenswerte vorzunehmen, wodurch der Wert der Gruppe vermindert wird.

Ihre Reputation ist von zentraler Bedeutung für die Gruppe; eine Rufschädigung kann das Geschäft und die Ertragslage der Gruppe beeinträchtigen.

Rechtliche, regulatorische und steuerliche Schlüsselrisiken

Rechtliche und regulatorische Veränderungen in den Rechtsordnungen, in denen die Gruppe tätig ist und Handel treibt, können sich nachteilig auf die Gruppe auswirken.

Die Kosten für die Erfüllung sich ändernder regulatorischer Anforderungen hinsichtlich Umwelt- und Arbeitsschutz können die Finanzergebnisse der Gruppe beeinträchtigen.

Regulatorische Anforderungen zur Reduzierung der Emission von Treibhausgasen können sich nachteilig auf die Ertragslage der Gruppe auswirken.

Die Gruppe verliert möglicherweise alle oder einen Teil der Subventionen, die sie in Deutschland erhält, und muss möglicherweise höhere Zuschläge als erwartet unter dem Erneuerbare-Energien-Gesetz zahlen.

Die Gruppe erleidet möglicherweise Verluste aufgrund von Verbindlichkeiten oder Gerichtsverfahren, die in Zusammenhang mit kontaminierten Grundstücken stehen, die sie besitzt oder betreibt, oder auf Umwelt- oder Personenschäden zurückzuführen sind, die mit dem Kontakt mit Chemikalien oder der Freisetzung von Chemikalien oder anderen gefährlichen Substanzen in ihren Anlagen in Zusammenhang stehen.

Die Gruppe ist möglicherweise aufgrund von gegen sie oder ihre Kunden geltend gemachten Produkthaftpflichtansprüchen schadensersatzpflichtig oder kann beschuldigt werden, schädliche Produkte verkauft zu haben.

Schlüsselrisiken im Zusammenhang mit der Abspaltung von der Bayer-Gruppe

Die Gruppe hat keine operative Vergangenheit als eigenständiges Unternehmen, und die kombinierten Finanzinformationen der Gruppe, die auf einer Reihe von Annahmen und Schätzungen basieren, könnten sich als nicht zutreffend herausstellen bzw. nicht zwangsläufig die Ergebnisse darstellen, die die Gruppe als eigenständiges börsennotiertes Unternehmen erzielt hätte.

Die Struktur und die geschäftlichen Aktivitäten der Gruppe waren zuletzt Gegenstand erheblicher organisatorischer Änderungen im Rahmen der Separierung, was es schwierig macht, die frühere und künftige Ertragskraft der Gruppe richtig einzuschätzen.

Die Separierung von der Bayer-Gruppe kann zum Verlust von Geschäftsmöglichkeiten und zu einer geringeren Kaufkraft führen und einen Verlust von Synergieeffekten zur Folge haben.

Nach der Separierung der Gruppe von der Bayer-Gruppe wird die Gruppe erhebliche Schulden haben, die sich in wesentlichem Maße nachteilig auf das Geschäft der Gruppe auswirken können.

Der Gruppe gelingt es möglicherweise nicht, den möglichen Nutzen aus der Separierung ihres Geschäfts von den übrigen Geschäftsteilen der Bayer-Gruppe zu erzielen.

Der Aufbau der eigenen IT-Infrastruktur und die Übertragung ihrer Daten in ihr eigenes System können für die Gruppe

		erhebliche zusätzliche Kosten sowie vorübergehende Betriebsausfälle zur Folge haben. Die Gruppe ist möglicherweise nicht in der Lage, die Dienstleistungen, die die Bayer-Gruppe in der Übergangsphase für einen begrenzten Zeitraum für die Gruppe erbringen soll, später ohne operative Probleme oder zusätzliche Kosten zu erbringen oder zu ersetzen. Falls die Ausschüttungen der Anteile an der Covestro LLC durch die Bayer Corporation und die Bayer US Holding LP für Ertragsteuerzwecke auf Bundesebene der USA nicht als steuerfrei behandelt werden können, könnte die Gesellschaft dazu verpflichtet sein, die Bayer AG gemäß den im Rahmen einer Vereinbarung über steuerrelevante Handlungs- und Unterlassungspflichten bestehenden Freistellungsverpflichtungen von wesentlichen Steuern freizustellen, und es könnte erforderlich sein, dass die Covestro LLC die Bayer US Holding LP von wesentlichen Steuern aufgrund der Freistellungsverpflichtungen aus der Steuerabgrenzungsvereinbarung freistellt. Die Gesellschaft, Covestro Deutschland AG und Covestro LLC unterliegen bestimmten Vereinbarungen und Freistellungsverpflichtungen, die ihre strategische und operative Flexibilität reduzieren können.
D.3	**Zentrale Angaben zu zentralen Risiken, die den Wertpapieren eigen sind.**	**Schlüsselrisiken im Zusammenhang mit den Aktien, der Börsennotierung und der Aktionärsstruktur** Die Aktien der Gesellschaft sind nicht börsennotiert und es besteht keine Garantie, dass sich nach dem Erstangebot der Aktien ein aktiver und liquider Markt für die Aktien entwickelt und aufrechterhalten bleibt. Der Aktienkurs und das Handelsvolumen der Aktien der Gesellschaft können wesentlichen Schwankungen unterworfen sein und nach Abschluss des Angebots sinken; Anleger können ihre Anlage ganz oder teilweise verlieren. Die Zahlung künftiger Dividenden wird vom Geschäft, dem Kapitalfluss und von der Vermögens-, Finanz- und Ertragslage der Gruppe abhängen. Künftige Angebote von Schuldtiteln oder Beteiligungspapieren durch die Gruppe können sich in wesentlichem Maße nachteilig auf den Aktienkurs auswirken und künftige Kapitalmaßnahmen können zu einer wesentlichen Verwässerung der Beteiligungen der bestehenden Aktionäre an der Gruppe führen. Die Bayer AG als nach dem Angebot größter Aktionär der Gruppe könnte Interessenkonflikte mit der Gruppe haben und dadurch mögliche Geschäftschancen der Gruppe verhindern. Die Bayer AG kann erheblichen Einfluss auf Entscheidungen der Hauptversammlung der Aktionäre ausüben und Interessen verfolgen, die von denen der übrigen Aktionäre der Gruppe abweichen. Künftige Verkäufe von Aktien der Gesellschaft durch die Bayer AG oder die Annahme, dass solche Verkäufe möglicherweise erfolgen, können den Kurs der Aktien drücken.

2.5 E – ANGEBOT

E.1	**Gesamtnettoerlöse und geschätzte Gesamtkosten der Emission/des Angebots, einschließlich der geschätzten Kosten, die dem Anleger vom Emittenten oder Anbieter in Rechnung gestellt werden.**	Die Gesellschaft erhält die aus dem Verkauf der Neuen Aktien (wie unten in E.3 definiert) stammenden Erlöse aus dem Angebot nach Abzug von Gebühren und Provisionen. Die Gesellschaft möchte Bruttoerlöse in Höhe von ca. €2.500 Millionen erzielen und wird die Anzahl Neuer Aktien (wie unten in E.3 definiert) reduzieren, wenn der endgültige Angebotspreis das untere Ende der Preisspanne (wie unten in E.3 definiert) überschreitet. Dementsprechend könnte abhängig von dem endgültigen Angebotspreis eine geringere Anzahl Neuer Aktien zugeteilt werden. Die Anzahl Neuer Aktien (wie unten in E.3 definiert) wird sich auf 94.339.622 am unteren Ende, 80.645.161 zum Mittelwert und 70.422.535 am oberen Ende der Preisspanne (wie unten in E.3 definiert) belaufen. Die der Gesellschaft durch das Angebot (wie unten in E.3 definiert) der Neuen Aktien (wie unten in E.3 definiert) und die Börsennotierung des gesamten Aktienbestands entstehenden Kosten werden sich voraussichtlich auf ca. €12 Millionen (ausgenommen von der Gesellschaft an die Konsortialbanken zu zahlende Gebühren für die Übernahme und die Platzierung) belaufen. Die für die Neuen Aktien (wie unten in E.3 definiert) an die Konsortialbanken zu zahlenden Gebühren für die Übernahme und die Platzierung belaufen sich auf ca. €20 Millionen (ausschließlich erfolgsabhängige Gebühren), wenn man die angestrebten Bruttoerlöse der Gesellschaft in Höhe von ca. €2.500 Millionen zugrunde legt. Zusätzlich zu den Gebühren für die Übernahme und die Platzierung kann die Bestehende Aktionärin den Konsortialbanken erfolgsabhängige Gebühren zahlen, die nach alleinigem Ermessen der Bestehenden Aktionärin zu zahlen sind und bis zu €16,67 Millionen betragen können. Die Bestehende Aktionärin veranlasst ggf. die Zahlung von erfolgsabhängigen Gebühren innerhalb von 35 Tagen nach Aufnahme des Börsenhandels der Aktien der Gesellschaft im regulierten Markt an der Frankfurter Wertpapierbörse. Die Nettoerlöse der Gesellschaft werden sich nach Abzug der Kosten im Zusammenhang mit dem Angebot (wie unten in E.3 definiert) sowie der von der Gesellschaft zu zahlenden Gebühren der Konsortialbanken für die Übernahme und die Platzierung voraussichtlich auf ca. €2.468 Millionen belaufen. Weder die Gesellschaft noch die Konsortialbanken werden den Anlegern Kosten in Rechnung stellen. Die Anleger werden die üblichen Transaktions- und Abwicklungskosten tragen müssen, die ihnen ihre depotführenden Broker oder Finanzinstitute, bei denen sie ihre Wertpapiere halten, in Rechnung stellen.
E.2a	**Gründe für das Angebot, Zweckbestimmung der Erlöse, geschätzte Nettoerlöse.**	Das Angebot (wie unten in E.3 definiert) und die Notierung verleihen der Covestro AG größere Flexibilität zur unabhängigen Umsetzung ihrer Geschäftsziele, strategische Freiheit zur Durchführung von Initiativen zur Vermögensoptimierung, eine Ausrichtung auf das Erreichen von Geschäftsprozess- und Kosteneffizienz, strategische Flexibilität zur Entwicklung des Geschäftsportfolios sowie

die Möglichkeit des Zugangs zu den Kapitalmärkten. Die Gesellschaft erwartet einen Nettoerlös von ca. €2.468 Millionen aus der Veräußerung der Neuen Aktien (wie unten in E.3 definiert).

Die Bayer AG ist ein Konzern im Bereich Life-Science und Chemie mit breiter Diversifikation, der seine Strategie und sein Portfolio regelmäßig einer Analyse unterzieht. Im September 2014 beschloss die Bayer AG, sich künftig ausschließlich auf ihr Life-Science-Geschäft — HealthCare und CropScience — zu konzentrieren und ihr MaterialScience-Geschäft als eigenständiges Unternehmen an die Börse zu bringen.

Im Zusammenhang mit der Ausgliederung des MaterialScience-Geschäfts aus der Bayer-Gruppe wurden zwischen den Gruppen bestehende Verbindlichkeiten in Höhe von €5,2 Milliarden und Pensionsverpflichtungen in Höhe von ca. €1,5 Milliarden zum 1. September 2015 auf die Gesellschaft übertragen.

Im Zusammenhang mit dem Angebot (wie unten in E.3 definiert) wird die Bestehende Aktionärin spätestens bis zum 29. September 2015 eine Bareinlage in Höhe von €715 Millionen in die ungebundene Kapitalrücklage der Gesellschaft gemäß § 272 Absatz 2 Nummer 4 des Handelsgesetzbuches (HGB) leisten, um das Eigenkapital der Gesellschaft vor Abschluss des Angebots (wie unten in E.3 definiert) zu erhöhen (die „**Kapitaleinlage**") gemäß einem Vertrag über die Bareinlage und die Freistellung zwischen der Bayer AG und der Gesellschaft. Die Gesellschaft wird den Erlös aus der Kapitaleinlage zur Rückzahlung von zwischen den Gruppen bestehenden Verbindlichkeiten, die sie der Bayer Antwerpen NV, einer Tochtergesellschaft der Bestehenden Aktionärin, schuldet, verwenden (die „**Zwischen den Gruppen bestehende Schuldentilgung I**").

Zweck des Angebots (wie unten in E.3 definiert) und der Notierung der Aktien am regulierten Markt der Frankfurter Wertpapierbörse mit gleichzeitiger Notierung im Teilbereich des regulierten Marktes mit weiteren Zulassungsfolgepflichten (Prime Standard) der Frankfurter Wertpapierbörse ist (i) hauptsächlich die weitere Reduzierung der zwischen den Gruppen bestehenden Verbindlichkeiten, die sie der Bayer Antwerpen NV, einer Tochtergesellschaft der Bestehenden Aktionärin, schuldet und die sich auf €2.375 Millionen belaufen (die „**Zwischen den Gruppen bestehende Schuldentilgung II**" und zusammen mit der Zwischen den Gruppen bestehende Schuldentilgung I die „**Zwischen den Gruppen bestehenden Schuldentilgungen**") und (ii) mit einem geringen Teil der Einnahmen die Finanzierung allgemeiner Unternehmenszwecke. Die Summe der für allgemeine Unternehmenszwecke zur Verfügung stehenden Mittel ergibt sich aus der Differenz zwischen dem Nettoerlös aus dem Verkauf der Neuen Aktien und dem Betrag, der für die Zwischen den Gruppen bestehende Schuldentilgung II verwendet wird, und wird sich voraussichtlich auf ca. €93 Millionen belaufen.

		Die Zwischen den Gruppen bestehenden Schuldentilgungen sollen es der Gesellschaft ermöglichen, eine Zielkapitalstruktur der Nettofinanzschulden zusammen mit den Pensionsverpflichtungen eines bereinigten EBITDA für 2015 von 2,5x-3,0x zu erreichen, was ein Investment-Grade-Rating der Gesellschaft nach Abschluss des Angebots (wie unten in E.3 definiert) ermöglichen würde. Die Gesellschaft erwartet, dass ihre Nettofinanzschulden zusammen mit ihren Pensionsverpflichtungen unmittelbar nach Durchführung des Angebots (wie unten in E.3 definiert) und Umsetzung der Zwischen den Gruppen bestehenden Schuldentilgungen ca. €4.0 Milliarden betragen werden.
E.3	**Beschreibung der Angebotskonditionen.**	Dieses Angebot bezieht sich auf 94.339.622 neu emittierte, auf den Inhaber lautende Stammaktien ohne Nennwert (Stückaktien) (die „**Neuen Aktien**“), jeweils mit einem anteiligen Wert am Grundkapital von €1,00 und mit voller Dividendenberechtigung ab Beginn aus einer Kapitalerhöhung gegen Bareinlage, die voraussichtlich am 30. September 2015 von der außerordentlichen Hauptversammlung der Gesellschaft zu beschließen ist (das „**Angebot**“). Das Angebot bezieht sich auf ein öffentliches Angebot in Deutschland und Luxemburg sowie einer Privatplatzierung in bestimmten Rechtsordnungen außerhalb Deutschlands. In den Vereinigten Staaten von Amerika werden die Neuen Aktien qualifizierten institutionellen Anlegern (*qualified institutional buyers*) gemäß *Rule* 144 A des *U.S. Securities Act* von 1933 in der jeweils geltenden Fassung (der „**Securities Act**“) angeboten. Außerhalb der Vereinigten Staaten von Amerika werden die Neuen Aktien im Rahmen einer Privatplatzierung gemäß *Regulation* S des Securities Act angeboten.
	Angebotszeitraum.	Der Angebotszeitraum, innerhalb dessen Anleger die Gelegenheit haben, ihre Angebote zum Kauf Neuer Aktien abzugeben, beginnt am 21. September 2015 und endet voraussichtlich am 1. Oktober 2015 (der „**Angebotszeitraum**“). Während des Angebotszeitraums können Angebote zum Kauf Neuer Aktien bei den Konsortialbanken abgegeben werden. Am letzten Tag des Angebotszeitraums können Privatanleger ihre Angebote zum Kauf Neuer Aktien bis 12.00 Uhr mittags (Mitteleuropäische Sommerzeit, „**MESZ**“) und institutionelle Anleger ihre Angebote zum Kauf Neuer Aktien bis 14.00 Uhr MESZ abgeben. Kaufaufträge müssen in vollen Eurobeträgen oder Eurocentbeträgen von 25, 50 oder 75 Cent abgegeben werden. Mehrfache Kaufaufträge sind zulässig.
	Änderung der Angebotsbedingungen.	Die Gesellschaft und die Bestehende Aktionärin behalten sich zusammen mit den Konsortialbanken das Recht vor, die Anzahl an Neuen Aktien zu erhöhen oder zu vermindern, die Ober- und/oder Untergrenze der Preisspanne (wie unten in E.3 definiert) zu senken oder zu erhöhen und/oder den Angebotszeitraum zu verlängern oder zu verkürzen. Durch die Änderung der Anzahl Neuer Aktien oder der Preisspanne (wie unten in E.3 definiert) oder durch die Verlängerung bzw. Verkürzung des Angebotszeitraums werden bereits abgegebene Kaufaufträge nicht unwirksam. Sollte solch eine Änderung die Veröffentlichung eines Nachtrags zu dem

	Prospekt erfordern, steht Anlegern, die ihre Kaufaufträge vor Veröffentlichung des Nachtrags unterbreitet haben, gemäß dem Wertpapierprospektgesetz das Recht zu, diese Kaufaufträge innerhalb von zwei Werktagen nach Veröffentlichung des Nachtrags zu widerrufen. Anstelle des Widerrufs der vor der Veröffentlichung des Nachtrags abgegebenen Kaufangebote haben die Anleger auch die Möglichkeit, innerhalb von zwei Werktagen nach Veröffentlichung des Nachtrags ihre Aufträge zu ändern oder neue begrenzte oder unbegrenzte Kaufangebote zu platzieren. Bei einer Änderung der Angebotsbedingungen wird diese Änderung durch elektronische Medien wie Reuters oder Bloomberg und, sofern nach dem Wertpapierhandelsgesetz oder dem Wertpapierprospektgesetz erforderlich, als Ad-hoc-Mitteilung über ein elektronisches Informationssystem, auf der Webseite der Gesellschaft und als Nachtrag zu dem Prospekt veröffentlicht. Anleger, die Kaufaufträge abgegeben haben, werden nicht einzeln benachrichtigt.
Platzierungspreis.	Der Angebotspreis wird voraussichtlich am 1. Oktober 2015 gemeinsam von der Gesellschaft, der Bestehenden Aktionärin und den Joint Global Coordinators nach Ablauf des Angebotszeitraums auf Grundlage des während des Bookbuilding-Verfahrens erstellten Orderbuches festgelegt. Das Orderbuch wird auf Grundlage der Preisspanne (wie unten in E.3 definiert) von €26,50 bis €35,50 erstellt. Die Bestimmung des Angebotspreises ist abhängig von den Angeboten zum Kauf Neuer Aktien, die Anleger während des Angebotszeitraums abgegeben haben und die in dem oben genannten Orderbuch erfasst sind. Nach Ablauf des Angebotszeitraums werden die endgültige Anzahl Neuer Aktien und der Angebotspreis von der Gesellschaft zusammen mit der Bestehenden Aktionärin in Abstimmung mit den Joint Bookrunners unter Verwendung des während des Bookbuilding-Verfahrens erstellten Orderbuchs und unter Berücksichtigung des angestrebten Bruttoerlöses der Gesellschaft bestimmt. Dies findet voraussichtlich am oder um den 1. Oktober 2015 statt.
Preisspanne und Angebotspreis.	Die Preisspanne, innerhalb derer Angebote zum Kauf Neuer Aktien abgegeben werden dürfen, beträgt €26,50 bis €35,50 (die „**Preisspanne**").
Lieferung und Abrechnung.	Die Neuen Aktien werden voraussichtlich am 6. Oktober 2015 gegen Zahlung des Angebotspreises geliefert. Die Neuen Aktien werden den Aktionären als Miteigentumsanteile an der Globalurkunde zur Verfügung gestellt.
Stabilisierungsmaßnahmen, Mehrzuteilungen und Greenshoe-Option.	Im Zusammenhang mit der Platzierung der Neuen Aktien handelt die Deutsche Bank oder mit ihr verbundene Unternehmen, die sämtlich für Rechnung der Konsortialbanken handeln, als Stabilisierungsmanager (der „**Stabilisierungsmanager**") und kann bzw. können in Übereinstimmung mit den rechtlichen Bestimmungen (§ 20a Abs. 3 Wertpapierhandelsgesetz in Verbindung mit der Verordnung (EG) Nr. 2273/2003 vom 22. Dezember 2003, die „**EU-Stabilisierungsverordnung**") Stabilisierungsmaßnahmen ergreifen, um den Marktpreis der Aktien der Gesellschaft zu stützen und dadurch einem etwaigen Verkaufsdruck entgegenzuwirken (die „**Stabilisierungsmaßnahmen**").

		Der Stabilisierungsmanager ist nicht verpflichtet, Stabilisierungsmaßnahmen einzuleiten. Dementsprechend gibt es keine Garantie dafür, dass überhaupt Stabilisierungsmaßnahmen eingeleitet werden. Soweit Stabilisierungsmaßnahmen eingeleitet werden, können diese jederzeit ohne vorherige Mitteilung eingestellt werden. Stabilisierungsmaßnahmen dürfen ab einschließlich dem Tag ergriffen werden, an dem die Aktien zum ersten Mal am regulierten Markt der Frankfurter Wertpapierbörse gehandelt werden, und müssen spätestens 30 Kalendertage nach diesem Tag abgeschlossen sein (der „**Stabilisierungszeitraum**"). Stabilisierungsmaßnahmen können dazu führen, dass der Börsenkurs der Aktien der Gesellschaft höher ist als er andernfalls wäre. Darüber hinaus kann der Börsenkurs zeitweilig ein nicht aufrechtzuerhaltendes Niveau erreichen. Infolge der Stabilisierungsmaßnahmen kann der Stabilisierungsmanager während des Stabilisierungszeitraums ein- oder mehrmals bis zu 9.433.962 Aktien der Gesellschaft zum aktuellen Börsenkurs (die „**Stabilisierungsaktien**") unter der Voraussetzung erwerben, dass die Anzahl der infolge der Stabilisierungsmaßnahmen erworbenen Aktien der Gesellschaft 10% der Neuen Aktien nicht überschreitet. Um derartige Stabilisierungsmaßnahmen zu erleichtern, hat Bayer Global Investments B.V. (der „**Put-Optionsverkäufer**") dem Stabilisierungsmanager die Verkaufsoption gewährt, die Stabilisierungsaktien zu dem Gesamtpreis, zu dem er die Stabilisierungsaktien im Zusammenhang mit den Stabilisierungsmaßnahmen erworben hat, an sie zu veräußern. Diese Option endet mit Abschluss der Stabilisierungsmaßnahmen zum Ende des Stabilisierungszeitraums.
E.4	**Beschreibung aller für die Emission/das Angebot wesentlichen, einschließlich kollidierender Interessen.**	Im Zusammenhang mit dem Angebot und der Zulassung der Aktien der Gesellschaft zum Handel sind die Konsortialbanken eine Vertragsbeziehung mit der Gesellschaft und der Bestehenden Aktionärin eingegangen. Die Bestehende Aktionärin und die Gesellschaft haben Deutsche Bank, Morgan Stanley, BofA Merrill Lynch, Citigroup, Credit Suisse, J.P. Morgan, UBS Investment Bank, BNP PARIBAS und UniCredit Bank AG als Konsortialbanken beauftragt. Die Konsortialbanken beraten die Gesellschaft und die Bestehende Aktionärin bei der Transaktion und koordinieren die Strukturierung und die Durchführung der Transaktion. Nach erfolgreicher Durchführung der Transaktion erhalten die Konsortialbanken eine Provision. Die Provision besteht aus einer durch die Gesellschaft zu zahlenden Grundgebühr und kann eine durch die Bestehende Aktionärin zu zahlende erfolgsabhängige Gebühr umfassen. Darüber hinaus wurden die Deutsche Bank und Morgan Stanley als Designated Sponsors für die Aktien der Gesellschaft sowie die Deutsche Bank als Zahlstelle ernannt. Zudem sind einige der Konsortialbanken und ihrer verbundenen Unternehmen volldienstleistende Finanzinstitute, die verschiedene Tätigkeiten betreiben, die Wertpapierhandel, kommerzielles Investmentbanking, Finanzberatung, Anlagemanagement, direkte Unternehmensbeteiligungen (*Principal Investment*),

Absicherungsgeschäfte, Finanzierungs- und Vermittlungstätigkeiten einschließen können. Einige der Konsortialbanken und/oder mit ihnen verbundene Unternehmen haben im Rahmen ihres gewöhnlichen Geschäftsbetriebs in der Vergangenheit gelegentlich Investmentbanking-, Finanzberatungs- und kommerzielle Bankdienstleistungen für die Gesellschaft oder die Gruppe erbracht und könnten diese in der Zukunft erbringen; dafür haben sie übliche Gebühren und Provisionen erhalten oder könnten diese erhalten.

Im Zusammenhang mit dem Angebot kann jede der Konsortialbanken und jedes der mit ihnen verbundenen Unternehmen einen Teil der Neuen Aktien als Eigenposition erwerben und diese auf eigene Rechnung halten, kaufen oder veräußern und sie können diese Neuen Aktien auch außerhalb dieses Angebots kaufen oder verkaufen. Dementsprechend sind Bezugnahmen des Prospekts auf die angebotenen oder platzierten Neuen Aktien so zu verstehen, dass diese auch jedes Angebot und jede Platzierung Neuer Aktien für jede der Konsortialbanken oder jedes mit diesen verbundene Unternehmen, das in dieser Eigenschaft handelt, einschließen. Zudem könnten einige Konsortialbanken oder mit ihnen verbundene Unternehmen Finanzierungsvereinbarungen (einschließlich Swapgeschäfte oder Differenzkontrakte) mit Anlegern abschließen, wobei diese Konsortialbanken (oder mit ihnen verbundene Unternehmen) möglicherweise im Rahmen dieser Finanzierungsvereinbarungen gelegentlich Neue Aktien erwerben, halten oder veräußern werden. Keine der Konsortialbanken beabsichtigt, über den Umfang derartiger Investitionen oder Transaktionen mehr Informationen offen zu legen als gesetzlich oder aufsichtsrechtlich vorgeschrieben.

Die Deutsche Bank, die UniCredit Bank AG, die Citigroup und die Bank of America Merrill Lynch International Limited, von denen jede eine Konsortialbank oder ein mit einer Konsortialbank verbundenes Unternehmen ist, waren beauftragte führende Arrangeure einer auf mehrere Währungen lautenden, syndizierten und revolvierenden Finanzierungsvereinbarung, welche aus einem revolvierenden und einem befristeten Kredit besteht, mit einem Bankenkonsortium vom 4. September 2015 in einer Höhe von insgesamt €2,7 Milliarden.

Die Bestehende Aktionärin wird keine Aktien der Gesellschaft im Rahmen des Angebots verkaufen und keine Erlöse aus dem Angebot erhalten. Die Gesellschaft beabsichtigt jedoch die Nettoerlöse aus dem Verkauf der Neuen Aktien (i) hauptsächlich zur Reduzierung bestehender Verbindlichkeiten in Höhe von €2.375 Millionen gegenüber der Bayer Antwerpen NV, einer Tochtergesellschaft der Bestehenden Aktionärin (bezeichnet als die Zwischen den Gruppen bestehende Schuldentilgung II), und (ii) in einem geringen Teil zur Finanzierung allgemeiner Unternehmenszwecke, zu verwenden.

Infolge des Angebotes werden die aktienbasierten Vergütungspläne mit den Arbeitnehmern und den

		Mitgliedern des Vorstandes, die bereits vor dem Angebot bestanden, für zukünftige Tranchen, die noch nicht begonnen haben, gekündigt. Hinsichtlich bereits laufender Tranchen des entsprechenden Vier-Jahres-Zeitraums beabsichtigt die Gruppe, die ausstehenden Ansprüche bei Fälligkeit gemäß den aktuell geltenden Regeln und relevanten Metriken zum Ende des Geschäftsjahres 2015 festzusetzen und bei Fälligkeit mit einer Einmalzahlung in bar abzugelten.
E.5	**Name der Person/des Unternehmens, die/das das Wertpapier zum Verkauf anbietet.**	Die Aktien der Gesellschaft werden von den Konsortialbanken zum Verkauf angeboten.
	Bei Lock-up-Vereinbarungen: die beteiligten Parteien und die Lock-up-Frist.	Die Gesellschaft hat mit den Konsortialbanken vereinbart, dass die Gesellschaft—soweit rechtlich zulässig—ohne die vorherige schriftliche Zustimmung der Joint Global Coordinators (die nicht unangemessen verweigert oder verzögert werden darf) während eines Zeitraums von sechs Monaten nach dem ersten Handelstag der Neuen Aktien (i) keine Erhöhung des Grundkapitals der Gesellschaft aus genehmigtem Kapital ankündigen oder durchführen wird bzw. einer solchen Erhöhung nicht zustimmen wird; oder (ii) der Hauptversammlung eine Erhöhung des Grundkapitals der Gesellschaft nicht vorschlagen bzw. einem solchen Vorschlag nicht zustimmen wird; oder (iii) keine Begebung von Wertpapieren mit Umwandlungs- oder Optionsrechten in Bezug auf die Aktien der Gesellschaft ankündigen, durchführen oder vorschlagen wird bzw. einer solchen Ankündigung, Durchführung oder einem solchen Vorschlag nicht zustimmen wird; oder (iv) keine Transaktionen abschließen oder Handlungen vornehmen wird, die ökonomisch denen in (i) bis (iii) entsprechen, bzw. solchen Transaktionen oder Handlungen nicht zustimmen wird. Die Gesellschaft darf jedoch wie folgt Aktien oder andere Wertpapiere ausgeben oder verkaufen: (i) im Rahmen künftiger Managementbeteiligungsprogramme an Mitarbeiter und Mitglieder von Leitungsorganen der Gesellschaft oder ihrer Tochtergesellschaften oder (ii) als Gegenleistung für den gesamten Kaufpreis oder eines Teils des Kaufpreises eines von der Gesellschaft erworbenen Geschäfts oder für die Zwecke der Gründung eines Joint Ventures, wobei in jedem Fall (a) sich die Gesellschaft mit den Joint Global Coordinators vor der Emission solcher Aktien oder anderer solcher Wertpapiere der Gesellschaft beraten wird, und (b) der Erwerber dieser Aktien oder anderer Wertpapiere die Verpflichtung unter der Lock-up-Vereinbarung gegenüber den Konsortialbanken für den dann verbleibenden Lock-up-Zeitraum der Gesellschaft übernimmt. Die oben beschriebene Lock-up-Vereinbarung findet keine Anwendung auf die im Rahmen des Angebotes veräußerten Aktien.

Darüber hinaus haben die Bestehende Aktionärin und der Put-Optionsverkäufer jeweils einzeln mit den Konsortialbanken vereinbart, dass sie ohne die vorherige schriftliche Zustimmung der Joint Global Coordinators (die nicht unangemessen verweigert oder verzögert werden darf) während eines Zeitraums von sechs Monaten nach dem ersten Handelstag der Neuen Aktien

(i) weder direkt oder indirekt Aktien oder sonstigen Wertpapiere der Gesellschaft anbieten, verpfänden, zuteilen, verkaufen, vermarkten, übertragen oder anderweitig veräußern werden; dies gilt auch für der Veräußerung von Wertpapieren ökonomisch entsprechende Transaktionen, z.B. die Begebung von Optionen und Optionsscheinen, die in Aktien der Gesellschaft umgewandelt werden können; oder

(ii) weder direkt noch indirekt eine Ankündigung, Durchführung oder Umsetzung einer Erhöhung des Grundkapitals der Gesellschaft oder einer direkten oder indirekten Platzierung von Aktien der Gesellschaft veranlassen werden oder einer solchen Ankündigung, Durchführung oder Umsetzung zustimmen werden; oder

(iii) weder direkt noch indirekt einer Hauptversammlung eine Erhöhung des Grundkapitals der Gesellschaft zur Beschlussfassung vorschlagen werden oder für eine solche vorgeschlagene Erhöhung stimmen werden; oder

(iv) weder direkt noch indirekt eine Ankündigung oder Durchführung oder den Vorschlag einer Ausgabe von Finanzinstrumenten, die mit in Aktien der Gesellschaft wandelbaren Optionen oder Optionsscheinen ausgestattet sind, veranlassen werden oder einer solchen Ankündigung oder Durchführung bzw. einem solchen Vorschlag zustimmen werden; oder

(v) keine Transaktionen abschließen und keine Handlungen vornehmen werden, die ökonomisch denen in (i) bis (iv) oben entsprechen.

Die Lock-up-Vereinbarung umfasst keine Transaktionen mit verbundenen Unternehmen der Bestehenden Aktionärin (bei denen es sich nicht um die Gruppe handelt), wobei das betreffende verbundene Unternehmen jeweils die oben genannte Verpflichtung der Bestehenden Aktionärin bzw. des Put-Optionsverkäufers gegenüber den Konsortialbanken für den dann verbleibenden Teil der Lock-up-Frist übernimmt.

Jedes Mitglied des Vorstands und des Aufsichtsrats hat sich verpflichtet, ohne vorherige schriftliche Zustimmung der Joint Global Coordinators, die nicht ohne Vorliegen eines angemessenen Grundes verweigert werden darf, innerhalb einer Frist von sechs Monaten nach dem Datum der Notierungsaufnahme der Aktien an der Frankfurter Wertpapierbörse keine Aktien der Gesellschaft, die von ihm erworben werden, zu verkaufen, anderweitig zu übertragen,—unmittelbar oder mittelbar—zu veräußern oder sonstige Rechtsgeschäfte mit denselben wirtschaftlichen Folgen abzuschließen.

E.6	**Betrag und Prozentsatz der aus dem Angebot resultierenden unmittelbaren Verwässerung. Im Falle eines Zeichnungsangebots an die existierenden Anteilseigner Betrag und Prozentsatz der unmittelbaren Verwässerung, für den Fall, dass sie das neue Angebot nicht zeichnen.**	Der Nettobuchwert (Summe der Aktiva abzüglich der Verbindlichkeiten und abzüglich des investierten, auf den nicht beherrschenden Anteil entfallenden Eigenkapitals), zum 30. Juni 2015 hat sich auf €1.717 Millionen und bei 140.000.000 ausstehenden Aktien der Gesellschaft unmittelbar vor dem Angebot auf €12,26 je Aktie der Gesellschaft belaufen. Der um die Kapitaleinlage angepasste Nettobuchwert zum 30. Juni 2015 hätte sich bei 140.000.000 ausstehenden Aktien der Gesellschaft unmittelbar vor dem Angebot auf €17,37 je Aktie belaufen. Die verwässernde Wirkung des Angebots ist in der untenstehenden Tabelle dargestellt, aus welcher der Betrag ersichtlich ist, um den der Angebotspreis am unteren Ende, zum Mittelwert und am oberen Ende der Preisspanne den Gesamtnettobuchwert je Aktie der Gesellschaft nach Abschluss des Angebots übersteigt, unter der Annahme, dass das Angebot am 30. Juni 2015 durchgeführt und um die Kapitaleinlage angepasst worden wäre. Der Nettobuchwert und der Nettobuchwert je Aktie der Gesellschaft werden um die Auswirkungen des Angebots unter der Annahme angepasst, dass (a) diese Anzahl Neuer Aktien zum Angebotspreis begeben wurde, um die angestrebten Bruttoerlöse von ca. €2.500 Millionen für die Gesellschaft zu erzielen, was dann nach Abschluss des Angebots zu 234.339.622, 220.645.161 und 210.422.535 ausstehenden Aktien der Gesellschaft am unteren Ende, zum Mittelwert und am oberen Ende der Preisspanne führen würde, und (b) dass die Gesellschaft Nettoerlöse in Höhe von €2.468 Millionen erzielt hat.

Der nachstehenden Tabelle ist der Betrag zu entnehmen, um den der Preis je Aktie der Gesellschaft den Nettobuchwert je Aktie der Gesellschaft gemäß Zwischenbilanz zum 30. Juni 2015 nach Abschluss des Angebots am unteren Ende, zum Mittelwert bzw. am oberen Ende der Preisspanne übersteigen würde:

	Unteres Ende	Mittel-wert	Oberes Ende
		(ungeprüft)	
Angebotspreis in €	26,50	31,00	35,50
Gesamtnettobuchwert[(1)] je Aktie der Gesellschaft zum 30. Juni 2015 (auf Grundlage von 140.000.000 ausstehenden Aktien der Gesellschaft vor dem Angebot), in €	12,26	12,26	12,26
Gesamtnettobuchwert[(1)] je Aktie der Gesellschaft zum 30. Juni 2015 (auf Grundlage von 140.000.000 ausstehenden Aktien der Gesellschaft vor dem Angebot) und um die Kapitaleinlage bereinigt), in €	17,37	17,37	17,37
Nettobuchwert je Aktie der Gesellschaft (auf Grundlage von 234.339.622, 220.645.161 und 210.422.535 ausstehenden Aktien der Gesellschaft am unteren Ende, zum Mittelwert und am oberen Ende der Preisspanne nach Abschluss des Angebots), in €	20,91	22,21	23,29
Betrag, um den der Angebotspreis den Gesamtnettobuchwert[(1)] je Aktie der Gesellschaft übersteigt (unmittelbare Verwässerung je Aktie, auf Grundlage von 234.339.622, 220.645.161 und 210.422.535 ausstehenden Aktien am unteren Ende, zum Mittelwert und am oberen Ende der Preisspanne nach Abschluss des Angebots), in €	5,59	8,79	12,21
Unmittelbare Verwässerung in Bezug auf die neuen Aktionäre, in %	21,1%	28,4%	34,4%

Anmerkung:

(1) Nettobuchwert bezieht sich auf die Summe der Aktiva der Gesellschaft abzüglich ihrer Gesamtverbindlichkeiten und abzüglich des investierten, auf den nicht beherrschenden Anteil entfallenden Eigenkapitals.

Unter der Annahme, dass die Kapitaleinlage und die Kapitalerhöhung bezüglich der Neuen Aktien erfolgt sind, beträgt die Wertsteigerung des Nettobuchwerts je Aktie der Gesellschaft (berechnet durch Gegenüberstellung der Nettobuchwerte vor und nach dem Angebot) €3,54, €4,84 bzw. €5,92 (auf Grundlage von 234.339.622, 220.645.161 und 210.422.535 ausstehenden Aktien der Gesellschaft am unteren Ende, zum Mittelwert und am oberen Ende der Preisspanne nach Abschluss des Angebots, unter der Annahme, dass die Kapitalerhöhung in Höhe von 94.339.622, 80.645.161 bzw. 70.422.535 Neuen Aktien erfolgt ist).

Jede der Neuen Aktien ist mit denselben Stimmrechten wie die bestehenden Aktien der Gesellschaft ausgestattet.

E.7	**Schätzung der Ausgaben, die dem Anleger vom Emittenten oder Anbieter in Rechnung gestellt werden.**	Entfällt. Weder die Gesellschaft noch die Bestehende Aktionärin oder die Konsortialbanken werden den Anlegern Kosten in Rechnung stellen.

3. RISK FACTORS

*Investors should consider carefully, in light of their financial circumstances and investment objectives, all the information of the prospectus (the "**Prospectus**") and, in particular, the specific risk factors set out below, before making an investment decision with respect to the shares of Covestro AG, Leverkusen, Germany (the "**Company**" or "**Covestro AG**")(the "**Shares**"). The risks described below may not be the only risks to which the Company and its direct and indirect subsidiaries (the "**Group**") and/or the shareholders are exposed. The additional risks not presently known or currently deemed immaterial, may also impair the Group's business, financial condition, results of operations and prospects. The realization of one or more of these risks could individually or together with other circumstances materially adversely affect the Group's business, financial condition, results of operations and prospects. In addition, each of the risks set out below could materially adversely affect the share price and investors may lose part or all of their investment. The Prospectus also contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in such forward-looking statements as a result of certain factors, including the risks the Group faces that are described below. The selected sequence of the risk factors mentioned below represents neither a statement about the probability of the risks' realization nor an assessment of the extent of the economic effects or the importance of the risks. The risks mentioned could materialize individually or cumulatively.*

*The combined financial statements as of and for the fiscal years ended December 31, 2014, 2013 and 2012 and the condensed combined interim financial statements as of and for the six months ended June 30, 2015 (including combined comparative figures for the six months ended June 30, 2014), each included in the financial section of the Prospectus and referred to in the Prospectus, have been prepared by Covestro Deutschland AG (formerly Bayer MaterialScience Aktiengesellschaft), a direct and wholly-owned subsidiary of the Company, and reflect the Bayer MaterialScience business, consisting of the activities in the area of polymer materials and certain inorganic basic chemicals (the "**MaterialScience business**") that were separated from Bayer Aktiengesellschaft ("**Bayer AG**") and its consolidated subsidiaries (together with Bayer AG, the "**Bayer Group**"). Therefore, for purposes of the combined financial statements and combined financial information included in the Prospectus, the Bayer MaterialScience business is referred to as the "**Covestro Group**."*

3.1 RISKS RELATED TO THE GROUP'S BUSINESS AND INDUSTRY

3.1.1 The polymer industry is affected by economic factors including risks associated with volatile economic conditions.

General economic conditions affect the polymer industry, including the polyurethanes, polycarbonates and coatings, adhesives and sealants industry segments in which the Group operates. Deteriorating economic conditions, negative perceptions about economic conditions or a negative or uncertain economic outlook could result in a substantial decrease in demand for the Group's products and negatively impact capacity utilization, selling prices and volumes, hence affecting the Group's profit margins. Due to the Group's significant fixed cost base, a decrease in sales volume tends to have a material adverse impact on the Group's results of operations. For example, the global economic and financial crisis in 2008 and 2009 had a significant negative impact on the Group's business and results of operations. If gross domestic product ("**GDP**") declines, the Group typically experiences a greater decline in sales. The economic environment may also be negatively affected by volatile financial markets, rising interest rates, international or regional conflicts, political instability or unrest, epidemics, terrorism, natural disasters or other events.

The Group's results of operations are substantially dependent on regional economic conditions in Europe, the Middle East, Africa and Latin America excluding Mexico ("**EMLA**"), Asia and the Pacific ("**APAC**"), and the United States, Canada and Mexico ("**NAFTA**") and in certain emerging economies that are generally more volatile than developed markets. In EMLA, which includes the Eurozone and accounted for 46.6% of the Covestro Group's total net sales in the fiscal year ended December 31, 2014 ("**Fiscal Year 2014**"), concerns regarding sovereign debt, in particular of Greece, have resulted in the European Central Bank purchasing sovereign debt in an effort to boost growth and reduce the risk of deflation. The circumstances surrounding Eurozone members with high debt-to-GDP levels may negatively impact growth in the Eurozone. Factors affecting economic conditions in other geographic areas included in EMLA such as Russia, the Ukraine, the Middle East, Africa and Brazil may also have a material impact on the Group. For example, the current conflict between Russia and Ukraine and the political instability in the Middle East and North Africa have negatively affected economic conditions in these regions. The economy in Brazil has recently slowed down significantly. In Africa, the infectious viral disease Ebola recently negatively impacted economic conditions in certain regions. APAC accounted for

27.7% of the Covestro Group's total net sales in Fiscal Year 2014, of which 55.0% were attributable to China. In Fiscal Year 2014, China accounted for 15.2% of the Group's total net sales. In recent years, the growth of China's GDP has gradually slowed and generally declined compared to previous decades, which has had a noticeable impact on Group sales. In August 2015, the central bank of China cut its daily reference rate for the renminbi, triggering a significant drop of the renminbi and thereby increasing concerns about an economic slowdown in China. In September 2015, the Chinese government revised down its estimate for the Chinese GDP growth rate for 2014 and Chinese trade data showed a further slowdown in the growth of imports and exports in August 2015, which both added to concerns regarding the extent of the deceleration of the Chinese economic growth and the global economic outlook. It is possible that China's GDP growth will continue to weaken, which could have adverse effects on GDP growth in emerging economies and may entail a contagion effect across the globe. Decelerating economic growth in China and concerns regarding the extent of such deceleration and the impact it may have on the global economic outlook have recently increased the volatility in the Group's industry and have negatively impacted demand for some of the Group's products and related margins since July 2015, in particular in the Group's Polyurethanes business unit, and may adversely affect the Group's net sales and results of operations in the second half of Fiscal Year 2015 and beyond. In NAFTA, which in particular includes the United States and accounted for 25.7% of the Covestro Group's total net sales in Fiscal Year 2014, monetary policy has continued to support GDP growth. Any changes to the current monetary policy in the United States could negatively affect GDP growth prospects.

Uncertain global economic factors and changes in GDP growth in key countries make it difficult for the Company to forecast demand trends for its products and its profitability. It can be difficult to accurately predict the development of factors affecting the industry segments, and negative developments could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.1.2 The Group is dependent on the development of its customers' end markets, in particular the automotive/transport, construction, wood/furniture, electrical/electronics and chemicals end markets, which are cyclical.

The Group is highly dependent on demand in the end markets in which the Group's customers operate, in particular the automotive/transport, construction, wood/furniture, electrical/electronics and chemicals end markets, which accounted for 22%, 19%, 18%, 13% and 9%, respectively, of the Covestro Group's total net sales in Fiscal Year 2014. The remaining 19% of the Covestro Group's total net sales in Fiscal Year 2014 was attributable to sales in the sports/leisure, cosmetics, health and other end markets. Since the Group's business is characterized by high fixed costs, any material decline in demand in one of the Group's core end markets that results in falling production volumes will decrease the Group's earnings.

The Group's end markets are cyclical in nature; however, the level of cyclicality differs by end market and region. The level of activity in the Group's end markets is generally affected by economic developments (including GDP growth and disposable income) as well as a wide range of other factors beyond the control of the Group and its customers. Within the automotive/transport end market, the Group is primarily exposed to light vehicle production, which tends to move directionally with changes in GDP, albeit with greater volatility, and is sensitive to, among other things, consumer spending and preferences, which can be affected by a number of factors, including employment, consumer confidence and income, energy costs, interest rate levels, inflation and the availability of consumer financing. This is also true with respect to the construction end market, in which the Group is primarily exposed to new construction and renovation projects, which are highly dependent on the overall economic condition of each country and are particularly sensitive to interest rates, inflation, public funding of infrastructure projects and other fiscal stimuli, the cost of financing, especially mortgage financing, energy prices and local regulatory requirements that incentivize the use of the Group's raw materials for insulation foams. Within the wood/furniture end market, the Group is primarily exposed to furniture manufacturing and flooring, which tends to correlate with construction activity. Within the electrical/electronics end market, the Group is primarily exposed to the production of electronic devices such as LCD-TVs, mobile phones, PCs, tablets, printers, copiers and household appliances, which is affected by changes in GDP, consumer purchasing power and technology innovation. The chemical end market is primarily driven by the conditions in the industries in which the Group's by-products are used. Those industries are largely different from the end markets, in which the Group's customers for finished goods operate. The real or perceived conditions in each of the Group's end markets are in turn linked to general economic conditions that affect the particular geographic region.

Customers of chemical and polymer companies such as the Group typically adapt their procurement activities to the expected growth rates in their relevant end market. In an actual or expected economic

downturn, customers try to reduce their working capital and their inventories, which can lead to a significant decline in the Group's sales volumes and net sales. In times of recovery, customers tend to increase their inventories, leading to increased demand for the Group's products. These re- and destocking activities affect both the Group's actual and projected demand for its products. The Group bases its projections of future developments in supply and demand in each of the end markets upon which it is dependent on publicly available sources and internal estimates. Such future market developments, including expected net sales and results of operations, are difficult to forecast because of the cyclical nature of the end markets and other factors beyond the Group's control. Furthermore, the Group's results of operations are highly correlated with volume, prices, raw material and energy costs as well as production capacity utilization within the polyurethanes and polycarbonates segments of the polymer industry and of its production facilities, all of which are difficult to project and could materially adversely affect the Group's ability to predict future financial results and plan capital expenditures accurately. A decline in demand in any of the Group's end markets, even during periods of strong general economic conditions, may materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.1.3 The polymer industry is characterized by periods of supply/demand imbalances due to production overcapacity that will result in periodic downward pressure on prices and short-term price volatility.

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

Any oversupply in the industry segments may lead to a decline in industry capacity utilization rates and, in particular, the Group's capacity utilization rates, which may negatively impact profit margins due to the high fixed cost base of production facilities. The materially adverse effects of supply and demand imbalances can be significantly exacerbated by economic conditions. The Group experienced such effects in the fiscal year ended December 31, 2012 (''**Fiscal Year 2012**'') when a significant amount of production capacity in the polycarbonates industry entered operation while growth in the leading global economies slowed, stagnated or declined, leading to a decline in capacity utilization rates and a significant decrease in polycarbonates sales prices and volumes sold.

Any capacity increases that are not offset by demand may cause over-supply and result in downward pressure on prices and reduced profit margins. The Group expects that competitors from developed as well as emerging economies will continue to add production capacity in the industry segments in which the Company operates. In addition, the Group has planned to increase its production of certain products such as toluene diisocyanate (''**TDI**''), polycarbonates and raw materials for coatings, adhesives, sealants and specialties in the short term. According to the Industry Report ''Analyses of Certain Aspects of the Polymer Industry'' of Nexant Inc. and Orr & Boss Ltd. dated July 2015 and the related databook (the ''**Industry Report**''), global demand for such products is expected to outpace global supply; however, there can be no assurance that demand will increase as expected or that competitors will not add additional capacities that were not considered by the Industry Report. Moreover, the construction of new production facilities, or the expansion of capacity at existing production facilities, often begins years in advance of that capacity entering operation. Accordingly, there is a risk that such new capacity eventually enters operation when economic conditions are weak which may further depress prices and profit margins.

In addition, other factors largely beyond the Group's control, such as the actual or perceived changes in levels of supply and demand, the availability and cost of substitute materials and inventory maintained by competitors, all influence product prices and may lead to short-term price volatility and a downward pressure on prices, which may ultimately decrease the Group's margins. Levels of supply in the industry segments that outpace demand for products, such as those produced by the Group, can materially adversely affect the Group's ability to generate profit and materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.1.4 Fluctuations in the prices of raw materials may have a material adverse effect on the Group's results of operations.

Raw materials constitute a large proportion of the Covestro Group's total production costs, amounting to €5,612 million in Fiscal Year 2014 and constituting more than 50% of total cost of goods sold in each of the periods under review. In consequence, the Group has significant exposure to fluctuations in the prices of raw materials. The Group's primary raw materials are petrochemical derivatives, such as benzene and phenol, which together accounted for roughly one-third of the Group's total raw material costs in Fiscal Year 2014, propylene oxide, toluene, acetone, hexamethylenediamine (''**HDA**'') and more than 300 other raw materials (with each accounting for less than 3% of total raw material costs). The volatility in the prices the Group has to pay for raw materials, which generally change on a monthly basis, makes it challenging to manage product pricing and pass the increases on to customers. The extent of the impact of price fluctuations on the Group's net sales and results of operations depends primarily on whether the Group is able to pass on increases in raw material prices to its customers through higher selling prices without significant delays or to maintain its selling prices despite decreases in raw material prices. The Group's ability to do so primarily depends on the conditions of supply and demand in the industry and resulting industry capacity utilization as well as competition. Oversupply and low utilization of the production capacity in the industry have affected and will continue to affect the Group's ability to pass on increases in raw material prices to its customers, which negatively affects the Group's margins. An unfavorable balance between supply and demand or decreasing demand and utilization of production capacity in the industry will reduce the Group's ability to maintain its selling prices or to delay decreases in its selling prices despite decreases in raw material prices. For example, the Covestro Group's results of operations in the six months ended June 30, 2015 were positively affected by the Group's ability to maintain overall selling prices despite general decreases in raw material prices towards the end of Fiscal Year 2014 and the beginning of Fiscal Year 2015. Raw material prices increased in the second quarter of Fiscal Year 2015, stabilized at the beginning of the third quarter and are currently showing a downward trend. The Group may not be able to maintain its overall selling prices, which could negatively affect margins in the second half of Fiscal Year 2015.

As the Group's primary raw materials are petrochemical derivatives, their prices are typically determined based on the price of crude oil, which generally creates the floor for prices of petrochemical derivatives, and the supply and demand dynamics for the relevant raw material. Political instabilities, wars or other conflicts with oil producing or refining countries could negatively affect the supply of oil and result in a significant increase in prices for oil and petrochemical derivatives.

The Group purchases raw materials primarily pursuant to long-term framework agreements with suppliers with defined volumes, which generally require the Group to purchase certain volumes monthly at a price determined at the beginning of each month. In addition, the Group has entered into some take-or-pay supply agreements, which require the Group to pay for a raw material irrespective of whether the Group actually takes delivery of that raw material.

Increases in the prices of raw materials that cannot be passed on to customers through corresponding increases in selling prices or otherwise be compensated for will result in reduced margins. Even if the Group is able to pass on raw material price increases to customers, the increase in selling prices may result in decreased demand and lower sales volume as customers reduce their purchases or shift to substitute products.

3.1.5 The Group is dependent on the availability of certain raw materials, and any disruptions in the supply or logistics chain may have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's production processes are dependent on the availability and timely delivery of raw materials, including petrochemical derivatives, intermediates and other materials needed for its production, including additives, carbon monoxide and chlorine. The continuous nature of the Group's production processes, the desire to keep inventories at a minimum and the difficulty of storing hazardous, gaseous, bulky and/or packed materials increase the importance of a well-functioning supply and logistics chain.

The Group is dependent on its ability to use raw materials and certain of its by-products in a variety of production processes at its production facilities. Some of the Group's production processes are connected through a pipeline system with suppliers or are part of a fence-to-fence operation in which the Group's facility is part of an integrated production platform that is shared with another production facility, belonging to the Group or a third party, or a third party supplier. For example, at the Baytown, Texas,

United States facilities, the Group sources carbon monoxide via pipeline from a single supplier, and has experienced disruptions in its ability to produce and sell products to customers due to disruptions in the supply of carbon monoxide. At the Leverkusen, Germany facility, the Group provides chlorine to certain customers via pipeline and also distributes raw materials such as chlorine and carbon monoxide among its production facilities using pipelines and railways. The Group also produces certain materials such as nitric acid and additives at a few production facilities to service its regional or global needs for those materials and additives. Any significant disruptions in the Group's logistics chain that transports its raw materials and certain of its by-products within the integrated production platforms is likely to result in production interruptions, a loss of customers, damage claims and significant downstream consequences. In addition, if the Group exits a site with a production platform that is integrated with a third party, the Group may incur substantial additional costs related to obligations to such a party.

In cases where the Group sources raw materials from third parties via a shared platform or distributes raw materials among its production facilities via owned and operated infrastructure, the Group's production processes are highly dependent on the ability of these suppliers to adequately maintain their own production processes and the availability and proper functioning of its infrastructure. For example, the permits underlying the pipeline between Dormagen and Leverkusen, Germany, for the supply of carbon monoxide are being challenged in court by a local property owner. The Group's production facilities in Leverkusen, Germany, are materially dependent on the availability of the pipeline, in the absence of which some of the Group's production facilities located in Leverkusen, Germany, will be unable to continue production. In addition, some of the Group's production facilities rely on harbors that are inoperable during severe weather events and others rely on waterways such as the Rhine River in Germany that are impassable for ships at full payload or at all during low or high water levels.

At most of the Group's production facilities, including its world-scale facilities, it is dependent on single third party suppliers for certain raw materials, intermediates and other additives. The Group's operations are particularly dependent on its joint ventures with certain subsidiaries of LyondellBasell Industries N.V. (''**LyondellBasell**'') for the production and supply of propylene oxide in the United States (''**Lyondell US Joint Venture**'') and Europe (''**Lyondell European Joint Venture**''), which is the key raw material to produce polyether polyols. Pursuant to the Lyondell European Joint Venture, the Group is also required to take significant amounts of styrene, which the Group must sell or otherwise dispose of at its expense.

Any disruptions in the Group's supply or logistics chain resulting from the inability or unwillingness of the Group's suppliers or logistics partners to fulfill their contractual obligations or its failure to ensure the proper operation of its integrated production platform could result in production stops and loss of customers, for reasons such as the unavailability of the necessary materials in sufficient quantities or because storage capacity is exhausted, which could have a material adverse effect on the Group's business, financial condition and results of operations.

If certain of the Group's suppliers are unable to meet their contractual obligations under existing supply agreements, the Group may be forced to pay higher prices to obtain the necessary raw materials from other sources and it may not be able to increase prices for its products to offset the higher raw materials costs. If certain raw materials become unavailable within a geographic region from which they are currently sourced, then the Group may not be able to obtain suitable or cost-effective substitutes. The raw materials used by the Group may become unavailable due to regulatory restrictions related to various factors including transportation and the environment and health and safety, and no suitable or cost-effective alternative raw materials may be available. For example, the operations of the Polyurethanes business unit's diphenylmethane diisocyanate (''**MDI**'') production facility in Tarragona, Spain are entirely dependent on a single supplier of chlorine that produces chlorine using a production technology that pursuant to current regulations applicable in the European Union (the ''**EU**'') will no longer be permitted as of December 2017. The inability to obtain suitable or cost-effective raw materials may require the Group to close certain production operations, entire production facilities or product lines, which in turn may result in a shortfall in the Group's production of certain chemical intermediates and by-products that it consumes internally. In consequence, the Group may be required to purchase such substances from third-parties at a significantly higher cost or close certain other production operations. Certain customers of the Group may be materially dependent on the Group's products and may seek an alternative supplier or hold the Group liable for its inability to supply its products at agreed quantities and times.

Any disruptions in the Group's supply or logistics chain could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.1.6 Volatility in energy prices and factors impacting energy supply and prices could have a material adverse effect on the Group's business.

The Group requires large quantities of energy from various sources for use in its production operations, the most important of which are electricity, natural gas and steam. Chlorine production is the largest consumer of electricity. The Group's energy costs are affected by various factors, including the availability of supplies of particular sources of energy, energy prices and regulatory decisions. The prices for electricity and steam under the Group's supply agreements are generally driven by the price of the fossil fuel used for the electricity and steam production, which is generally either natural gas or coal. In the past, prices for natural gas and coal have been volatile. Such volatility may increase as a result of political instability, such as unrests currently occurring in Russia, the Ukraine, the Middle East and North Africa. The Group's main production facilities are located in China, the United States and Germany and are therefore subject to the developments regarding energy prices in these countries.

In China, the availability and price of electricity is presently controlled by the Chinese government. Energy intensive operations in China, such as a significant portion of the Group's operations, are subject to volume or price control by the government over which the Group is unable to exercise any influence. In the United States, the Group has long-term electricity and steam supply agreements, pursuant to which the prices for electricity and steam are generally linked to a common price index for natural gas. In Germany, the Group sources its electricity requirements through purchases in the spot markets and also has long-term electricity and steam supply agreements, pursuant to which prices for the electricity and steam consumed by the Group are linked to market prices for coal and natural gas.

In Germany, the Group currently benefits from three tax reduction and exemption schemes that allow energy-intensive industries to operate at a lower cost level to support competitiveness. The electricity consumption of the Group's production processes in Germany is eligible for an exemption from the German Renewable Energies Act (*Erneuerbare-Energien-Gesetz*) (''**EEG**''), the network compensation regulation (*Netzentgeltverordnung*) and power price compensation (*Strompreiskompensation*), tax reduction and exemption schemes. Together, the schemes provided for a substantial reduction in the Group's energy costs in the periods under review. If there is a change or cancellation of the tax reduction and exemption scheme legislation in Germany, or if the Group no longer qualifies or if regulators exercise discretion contrary to the Group, this may lead to the Group paying significantly higher energy prices, which would negatively impact the Group's business, financial condition, results of operations and prospects. In addition, regulatory decisions, such as restrictions on nuclear power production in Germany and elsewhere, as well as governmental support measures for renewable energy, have led and may continue to lead to increases in electricity prices or negatively affect the availability of energy for industrial uses that negatively impact the Group worldwide.

Any significant increase in energy prices, transportation costs, grid fees or taxes associated with the supply of energy would increase the Group's operating costs and, thus, may negatively affect its results of operations if it is unable to pass the increased costs on to customers. Any inability or delay in passing on increases in energy costs to the Group's customers or any interruption or shortage of energy supply may materially adversely affect the Group's business, financial condition, results of operations and prospects. The competitiveness of the Group's production facilities in EMLA, APAC and NAFTA depends on whether the Group has access to energy at competitive rates. Significant increases in energy prices in certain regions that the Group is unable to pass on to customers, may result in a loss of competitiveness of any of the Group's production facilities in such regions, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

3.1.7 The Group operates in a highly competitive industry and faces competition from large, well-established producers as well as new entrants across each of the regions in which the Group operates, who may each compete more effectively than the Group and materially adversely affect the Group's profitability.

The Group operates in a highly competitive landscape characterized by significant regional differences in terms of the importance of factors such as selling prices, products, product properties, quality, logistics, availability, reliability and innovation. The Group competes against large international producers as well as smaller regional producers. According to the Industry Report, MDI, TDI, polyether polyols, polycarbonates and coatings, adhesives and sealants industry segments and sub-segments in EMLA and NAFTA are generally characterized by a few producers each with significant production capacity whereas in APAC they are generally more fragmented with several regional and local producers. NAFTA

and EMLA have historically had higher profit margins relative to APAC. Any further increase in competition in any of the regions in which the Group operates may adversely affect the Group's profit margins and volumes sold.

Some competitors of the Group, mainly in emerging economies, may supply certain products below global prices and, thereby, compel the Group to lower its prices, which could materially adversely affect the Group's margins and profitability. Several factors can influence the price at which a competitor is willing to supply its products, including access to favorably priced raw materials and government subsidies to which the Group does not have access. Furthermore, state owned or state subsidized competitors may take actions such as adding capacity and lowering their prices to a level below that which is profitable for the Group regardless of their production cost and prices.

The Group's ability to maintain or increase its profitability is dependent upon its ability to offset decreases in the prices and margins of its products by improving production efficiency and volumes sold, shifting to customized products with higher margins and improving existing products and their applications through innovation, all of which competitors may do better and more cost efficiently than the Group. For products such as the Group's differentiated polyurethane raw materials and systems, polycarbonates and coatings, adhesives, sealants and other specialties raw materials, competition is based on other criteria in addition to price such as product performance and quality, pricing strategies, product availability and security of supply. Competitors may be more successful at meeting the product characteristics required by customers and producing more cost effectively. Going forward, price competition with respect to a larger portion of the Group's products may become more intense, forcing the Group to lower its prices.

Competition may also increase due to new entrants or companies that consolidate operations and thereby achieve greater scale. The removal of trade barriers such as the currently proposed Trans-Pacific Partnership and Transatlantic Trade and Investment Partnership, may change the competitive landscape detrimentally for the Group. Some of the Group's competitors have or may develop greater production capacity than the Group and may have greater financial resources. Those competitors may also be able to maintain significantly greater operating and financial flexibility than the Group. As a result, those competitors may be better able to withstand volatility within the polymer industry, changes in the prices of raw materials and energy and adverse economic conditions. The Group may also experience increased competition from companies that offer products based on alternative materials, technologies and processes that may be more competitive or better in terms of price or performance, causing the Group to lose customers, which could result in a decline in its sales and volumes sold and, in turn, could materially adversely affect the Group's business, financial condition, results of operations and prospects. Any inability to compete effectively could have an adverse effect on the Group's profitability.

3.1.8 The Group may be unable to successfully execute its strategy for achieving profitable growth, and therefore, may grow much less than expected, if at all.

The Group is executing a number of strategic initiatives designed to achieve profitable growth. For example, the Group aims to capture growth and benefit from expected higher utilization rates in the polyurethanes and polycarbonates industry segments as a result of favorable demand and supply dynamics. The Group is also implementing a structured profitability program, consisting of an asset optimization plan and cost improvements aimed at further enhancing profitability by 2019 through targeted significant net savings above inflation by 2019.

The anticipated benefits from these strategic initiatives are based on several assumptions and projections that may prove to be inaccurate. For example, the Group's growth strategy in its business units depends on projections regarding demand and supply dynamics, in particular that the expected growth in demand in the polyurethanes, polycarbonates and coatings, adhesives and sealants industry segments will be higher than the estimated global GDP growth in the period from 2014 to 2020 and that demand will outpace additional supply, leading to higher utilization rates.

The Group may not be able to successfully implement these strategies and realize any of the expected benefits, including growth targets and cost savings, it aims to achieve or it may be more costly to do so than the Group currently anticipates. A variety of risks could cause the Group not to realize some or all of the targeted benefits. These risks include, among others, delays in the anticipated timing of key implementing measures or difficulties in implementing its asset optimization and general cost saving measures for any reason including conditions imposed by regulatory authorities. In light of recent events in China, and in particular a recent large explosion in Tianjin, China, regulations in China governing the production, use, storage, handling and transportation of chemicals, including those produced by the

Group, may be tightened and the approval processes for new production facilities or for the expansion of existing production facilities may take longer. The Group expects that the approval for the planned capacity expansion of polycarbonates and HDI at the production facility in Shanghai, China, will be delayed for an uncertain period, which may result in significant costs to the Group that will increase over the length of the delay. In addition, the delay may negatively impact the Group's ability to implement its growth strategy. Moreover, the Group's continued implementation of its strategic initiatives may disrupt its operations and performance.

As a result, there can be no assurance that the Group will be able to successfully execute its strategy and achieve profitable growth. If, for any reason, the benefits the Group realizes are less than expected or the implementation of its strategy adversely affects its operations or costs more or takes longer than the Group expects, or if assumptions and projections prove inaccurate, the Group's business, financial condition, results of operations and prospects may be materially adversely affected.

3.1.9 With limited exceptions, the Group generally does not have long-term agreements with its customers, and the loss of a significant number of customers could materially adversely affect its sales and profitability.

The Group generally does not have long-term agreements with its customers and customers may choose to obtain products similar to those produced by the Group from the Group's competitors at short notice. Customers have consolidated their operations in certain geographic areas and any other consolidation of a customer's operations from one region to another may result in the loss of that customer. In addition, significant levels of customer consolidation may enable customers to exert substantial pricing pressure on the Group. The negative effects set out above may be amplified in those regions where the Group is required to pay for raw materials it does not need due to long-term supply agreements with defined volumes or, in exceptional cases, with take-or-pay obligations. If, as a result, demand for the Group's products declines, it may be required to decrease its production volumes, which could materially adversely affect its business, financial condition, results of operations and prospects.

3.1.10 The Group's business may be affected by its inability to meet its customers' requirements in terms of product quality and specifications.

As many of the Group's products are critical to, or enhance the performance of, its customers' applications and products, many customers rely on the Group for products and services that meet their specifications and quality requirements. The Group's differentiated polyurethane raw materials and systems, polycarbonates, and coatings, adhesives, sealants and other specialties raw materials are produced to meet customers' requirements. Any failure by the Group's products to meet customers' requirements or expectations in terms of quality, performance or otherwise may result in reputational harm, customers reducing the volume of orders they place with the Group or having to replace products at the Group's expense. The Group's customers typically have high standards of product quality and detailed product specifications, and require that the Group is a registered supplier of the relevant chemical or that the chemical has been approved for use in the intended application. This applies in particular to the automotive/transport, electrical/electronics and construction end markets. The Group's quality control systems and in-process production controls provide for regular inspection of its products. However, there can be no assurance that the Group's products will meet agreed upon specifications or quality requirements, will not contain impurities or will not be mistakenly comingled with other products. If the Group fails to detect such quality deficiencies or otherwise delivers products that do not meet its customers' requirements, the Group may be required to deliver replacement products at the Group's expense or pay damages. Such failures could also result in reputational harm and customers placing orders for lower volumes with the Group or terminating their relationship with the Group, which could also have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

3.1.11 Financial difficulties and any related problems of the Group's customers could have a material adverse effect on its business.

Volatile global economic conditions, even without a sustained downturn, may materially adversely affect the Group's customers' access to the capital and liquidity with which they maintain their inventories, production levels and product quality, causing them to raise prices or lower production levels or to increase pressure to procure raw materials at lower prices or on adjusted payment terms. During periods of economic volatility and periods of heightened competition in end markets, Group's customers may

experience financial difficulties, including insolvency, restructurings and liquidations. In jurisdictions where insolvency laws and practices may vary, the Group may experience difficulty collecting receivables from insolvent customers as unpaid debts are generally not covered by credit insurance. Difficulties faced by the Group's customers could adversely affect the prices at which the Group can sell its products and lead the Group to extend trade credit to customers, thereby reducing the Group's cash flows. A significant adverse change in a customer relationship or in a customer's financial position could cause the Group to limit or discontinue business with that customer, require it to assume more credit risk relating to that customer's receivables or limit its ability to collect accounts receivable from that customer and could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.1.12 Production at the Group's facilities may be subject to planned and unplanned production interruptions, which could have a material impact on its ability to produce products for sale or maintain business operations and therefore, may materially adversely affect its business.

The Group operates multiple and complex technical processes, which may be subject to breakdowns, inefficiencies, operational human errors, sabotage and technical failures that may interrupt production operations or delay a resumption of production following a plant modification or a turnaround. Any material disruption at any of the Group's production facilities, in particular the Group's facilities with large production capacity, could impair its ability to use its facilities, have a material impact on its ability to produce products for sale or maintain business operations. The Group's strategy to consolidate its production operations in each of the three core regions while increasing capacity utilization across its remaining production facilities will increase the risks associated with any material planned and unplanned interruptions as other facilities may not have enough available capacity to make up for the capacity of a disrupted facility. Furthermore, the Group at times enters into product swap agreements and similar arrangements with other producers to adequately supply customers. The operations of such producers are also subject to unplanned disruptions that may impact the Group's relationship with its customers.

Production disruptions may be caused by several factors including natural disasters, weather, severe pandemic/epidemic, supply disruptions—particularly from sole-source suppliers or the unanticipated unavailability of one of the Group's reusable by-products—strikes, transportation interruption, government regulation, political unrest or terrorism, or internal reasons, such as fires, equipment failure, unplanned maintenance, operational human errors or other production problems. In the fourth quarter of Fiscal Year 2015, the Group's production facilities in Shanghai, China, will be shut down to allow for scheduled and routine maintenance work and to tie-in new production facilities, impacting all units for a period of up to six weeks. Due to certain expected delays in connection with the governmental approval of the Group's planned capacity expansion of polycarbonates and HDI at the production facility in Shanghai, China, the Group anticipates that a separate turnaround at the production facility in Shanghai, China, is likely to be necessary to tie-in the new production facilities, which will result in significant costs for the Group.

Disruptions at one or more of the Group's production facilities, at any of the Group's suppliers' fence-to-fence production facilities or at the Group's owned and operated infrastructure such as pipelines and railways, may also interrupt production further up or down the production chain and lead to a decrease in volumes and sales, potential loss of customers and damage claims by customers. Adequate spare parts and maintenance services may not be available in a timely manner to secure the continuation of the operations. If disruptions occur, alternative facilities with sufficient capacity or capabilities may not be available (or may be located in another region), may be characterized by substantially higher costs or may take significant time to start production. Moreover, long-term production disruptions may cause the Group's customers to seek alternative sources of supply, which could exacerbate any adverse effects experienced by the Group. Material disruptions at any of the Group's production facilities could materially adversely affect the Group's business, financial condition, results of operations and prospects.

The Group is currently involved in litigation regarding the permit for the operation of the Group's carbon monoxide pipeline between Dormagen and Leverkusen, which guarantees the supply of carbon monoxide to the Group's production facilities in Leverkusen, Germany. A revocation of the permit for the operation of this pipeline would have a material effect on the Group's business, financial condition, result of operations and prospects, as it would result in a production stop at the Group's production facilities in Leverkusen. A revocation of the permit could also require the Group to construct a carbon monoxide facility at its production facility in Leverkusen to ensure the Group's access to it, which would require the grant of another permit and significant capital expenditure.

While the Group has defined operation recovery plans that are intended to allow it to recover from natural disasters or other events that could disrupt its operations, it cannot provide assurances that its plans would fully protect it from all such disasters or events. In addition, insurance may not adequately compensate the Group from any losses incurred as a result of natural or other disasters. In areas prone to frequent natural or other disasters, insurance may become increasingly expensive or not available at all. Any failure to ensure continuous production, due to failures in planning or due to unforeseen events, could result in a loss of business and customers and materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.1.13 The Group's production processes and operations are subject to the inherent hazards and other risks associated with chemical processing, production, storage, and transportation.

The Group's production processes and operations are subject to the hazards and risks associated with chemical processing, production and the related storage and transportation by the Group or its subcontractors. The Group's production processes rely on hazardous substances such as chlorine, phosgene, carbon monoxide, phenol, ethylene oxide, propylene oxide, isocyanates and the corresponding amines, which can present major risks to the health and safety of workers, neighboring populations and the environment. Other potential hazards associated with chemical production and operations include accidents, explosions, fires, inclement weather, transport risks, terrorist attacks, natural disasters, mechanical failure, transportation interruptions, remediation, pipeline leaks and ruptures, storage tank leaks, chemical spills, discharges or releases of toxic or hazardous substances or gases and other risks. These hazards could expose workers, suppliers, the community and others to toxic chemicals and other hazards, contaminate property and the environment, damage property, result in personal injury or death, lead to an interruption, relocation or suspension of operations and materially adversely affect the productivity and profitability of a particular production facility or the Group's business operations as a whole, and result in governmental enforcement, regulatory shutdowns, the imposition of government fines and penalties and claims brought by governmental entities or third parties. The occurrence of any such event, which is not entirely preventable despite the application of a high standard of care, could be seriously detrimental to the Group's reputation and harm the Group's ability to obtain or maintain its existing licenses or its key commercial, regulatory, and governmental relationships. In addition, the Group uses contractors, over whom the Group has little control, who may perform duties on behalf of the Group in a manner that may cause harm to the health and safety of other workers, neighboring populations and the environment. The costs associated with any of these events may be substantial and could exceed or otherwise not be covered by the Group's insurance coverage. In addition, a number of governments have instituted regulations attempting to increase the protection and security of chemical plants and the transportation of hazardous substances, which could result in higher operating costs. Furthermore, improper handling of hazardous substances by the Group, its customers or its business partners due to the Group's failure to provide, if at all, appropriate handling instructions, failure by its customers or business partners to follow handling instructions or otherwise may lead to the release of toxic or hazardous substances, which may in turn result in stricter regulation or restriction of the use of such substances. Each of these scenarios could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.1.14 If the Group is unable to sell, store, re-utilize or dispose of certain raw materials and by-products that it produces or acquires from third-parties, it may be required to limit or reduce its overall production levels and could also be materially adversely affected if the prices at which the Group sells certain raw materials and by-products decline.

The Group's operations are dependent on its ability to sell, store, re-utilize or otherwise dispose of certain raw materials and by-products of the Group's production processes such as styrene monomers, caustic soda and hydrochloric acid. To a large extent, the Group either sells the by-products resulting from one production step or uses them in the production of further individual products, often at the same location, by using an integrated production structure or disposes of them. Cost efficient operations of many of the Group's production facilities are dependent in part on the sales price or the costs in connection with disposing of the by-products including the availability of waste water disposal facilities as well as waste incinerators, and on the re-utilization levels thereof. For example, hydrochloric acid produced at the Group's production facilities in the United States has historically been sold to the shale gas and oil fracking industries located there, but those sales have recently been affected by a slowdown in the fracking industries. In addition, pursuant to the Lyondell European Joint Venture, the Group is required to

take significant amounts of styrene, which the Group must sell or otherwise dispose at its expense. The Group may also be required to sell, store or dispose of certain raw materials that it is unable to consume due to factors such as unplanned production disruptions. The inventory expense related to storing hazardous and bulky materials, such as certain raw materials and the Group's by-products may be significant. Such inventories may ultimately become obsolete or decline in value, thereby adversely affecting the Group's earnings.

There can be no assurance that the Group will be able to sell, store, re-utilize or dispose of raw materials or by-products in the future. In addition, the Group may have historically had the ability to sell such raw materials or by-products at prices that may not be available in the future which may result in a decline in the Group's sales. The Group's ability to sell raw materials and by-products and the prices at which the Group is able to sell them, can have a material impact on the Group's net sales. The demand and prices for some of these raw materials and by-products, in particular styrene monomers, have historically been volatile and may continue to be volatile, which may affect the Group's results of operations. In the event that the Group is unable to sell such by-products, it may be required to reduce its production levels at all or some of its production facilities, invest in new treatment processes or incur substantial costs in connection with disposing of these by-products, which may have a material adverse effect on its business, financial condition, results of operations and prospects.

3.1.15 The Group's accession to the long-term site agreement (*Standortvereinbarung*), to which all companies that own real estate at relevant sites are party, and other agreements with Currenta GmbH & Co OHG (and its affiliated companies Tectrion and Chemion) in connection with the Group's key production facilities in Germany, may have negative effects on the Group.

Pursuant to a site agreement (*Standortvereinbarung*), dated December 30, 2004 between Bayer AG, the Lanxess Group and Currenta GmbH & Co OHG (''**Currenta**,'' formerly named Bayer Industry Services GmbH & Co. OHG), a joint venture between Bayer AG (60%) and Lanxess Deutschland GmbH (40%), amongst others, Currenta is the sole operator of the chemical park sites located in Leverkusen (i.e. the ''**Chempark**''), Dormagen and Uerdingen, Germany, where—apart from the sites in Brunsbüttel, Germany—the Group has its major German production facilities and other business operations. Currenta exclusively operates the main infrastructure, utilities and other services at these locations. Pursuant to the site agreement, all companies settled at these locations must obtain certain services from Currenta. With respect to other services, resident companies have the choice of using other suppliers; however, at these locations there are in fact no viable alternatives for some services. The Group will be also bound by the site agreement. Furthermore in the course of the agreed real estate transfer agreement, Currenta will (i) be party to a long term property and building usage agreement (*Grundstücks- und Bauwerksnutzungsvertrag*) with the companies of the Group that secures the use of certain real estate and assets that Currenta uses and/or intends to use for its site operator business and (ii) be able to draw on *in rem* usage rights (*dingliche Nutzungsrechte*) that will be registered in the land register, *inter alia* on the Group's real property, securing the use of assets that are considered necessary to the operations of Currenta. In case of future Currenta projects that are not yet eligible by law for *in rem* protection the same effect will be created by registering buy-back reservations (*Vormerkungen auf Rückkauf und -übereignung*).

In accordance with the aforementioned site agreement, the relevant Group companies and Currenta have entered into a long term services agreement relating to the delivery of energy, maintenance services, environmental services, logistic services and infrastructure services in particular relating to basic infrastructure for chemical production facilities, electricity grid, pipeline services, railway services, harbor services, waste treatment facilities and site security. The agreement entitles the Group and correspondingly puts it under the obligation to utilize infrastructure services. For a period of three years after Covestro AG is no longer an affiliate of Bayer AG, these services will be offered at the terms (including prices) which are similar to those of the Bayer Group. Due to this situation, prices payable by the Group may increase after the three years, and the Group may have only limited flexibility to choose alternative suppliers and may also be subject to limitations of its own development ability in terms of infrastructure.

Pursuant to a real estate agency agreement with the Group, Currenta will also have the ability for a period of up to 20 years to market the Group's real property to third parties, thereby limiting the Group's flexibility to develop its own land and the Chempark as a whole, despite the fact that the Group is the major land owner.

One or a combination of some of the factors described above may result in considerably unfavorable conditions for the Group. The Group's dependence on Currenta could materially adversely affect the Group's business, financial conditions, results of operations and prospects.

3.1.16 Any failure to successfully develop new, improved, or more cost-effective materials, production processes and technologies, or delays in development, may lead to the Group's products becoming superseded and could reduce the Group's future sales and profitability.

The Group depends on its continued ability to develop new, improved, or more cost-effective materials for end market applications, methods of production, technologies, and to successfully commercialize and distribute products.

The trend towards commoditization and standardization in major parts of the Group's industry segments has increased the importance of research and development in supporting overall margins, particularly in terms of cost-efficient production technologies. Furthermore, the Group must offer ever more specialized products that are intended to offer higher value to customers while managing production costs in order to achieve satisfactory margins. For example, the Group believes that it derives certain cost advantages relative to its competitors from using its proprietary gas-phase phosgenation technology and melt polycarbonate production process, which ultimately may prove to offer less cost benefits than originally expected. In addition, the Group is developing a proprietary polyether polyol production technology, in which a portion of the petrochemical raw materials used in the production of polyether polyols can be replaced with carbon dioxide, and other cutting edge technologies and products, which the Group may be unable to commercialize due to a lack of demand from customers. The Group may be unable to develop new methods to gain additional efficiencies in its production processes in the future, and its products may not perform as well as anticipated, which may decrease the profitability of some or all of the Group's products. If the Group's competitors develop better and more cost-efficient production technologies, the value of the Group's proprietary production technologies could be significantly reduced. The Group's ability to compete effectively also depends to a significant extent on its continuous ability to manage its cost base and its competitors may be more successful than it is in achieving or maintaining a competitive cost base by lowering their production costs.

The Group may also not be successful in expanding or improving its product portfolio or may lack the expertise or financial resources in the development of new products. In addition, competitors may develop new materials with favorable physical characteristics or which comply more effectively with government regulations for content or production, or may improve existing products in a similar manner. Competitors may also develop materials with similar characteristics that can be produced at lower costs relative to the Group. Further, the risk of technological substitution of the use of products, which the Group currently provides, by other products provided by competitors could have a material adverse effect on the Group's business. If the Group is unable to provide end market relevant products or to otherwise maintain its competitive position, it may lose customers to its competitors. The Group expects that its competitors will continue to develop and introduce new and enhanced products, which could cause a decline in customer acceptance of the Group's products. An inability to compete effectively could have an adverse effect on the Group's profitability.

The Group may commit errors or misjudgments in its planning and misallocate resources, for instance, by developing materials, methods or technologies that require large investments in research and development and capital expenditure but that are not commercially viable. In the Group's current strategy, the importance of providing products and solutions that conserve natural resources and protect the climate has increased. There is, however, always a risk that the demand for such products and solutions will not grow as expected and that opportunities will be missed. Any failure to successfully develop new, improved, or more cost-effective materials, production processes and technologies, or delays in development may lead to the Group's products or technologies becoming outdated, which could cause impairments and could reduce the Group's future sales. Any material failures in the Group's research and development processes could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.1.17 The Group is likely to incur costs in connection with the construction, modernization, maintenance, repair or expansion of production facilities, which may prove more costly than budgeted, require a longer shut down period and ultimately may lead to production capacity constraints.

Production facilities and infrastructure such as pipelines distributing raw materials between production facilities, including the ones owned and operated by the Group, require a significant amount of investment to maintain, repair, modernize and expand. In the fiscal years ended December 31, 2014, 2013 and 2012 (the ''**Fiscal Years**'') the Covestro Group's capital expenditures, defined as additions to property, plant and equipment and intangible assets, amounted to €673 million, €631 million and €652 million, respectively. The Group believes that its capital expenditures will generally be lower than in the preceding three years and largely attributable to the maintenance of its production facilities with only a limited need for additional investments to support additional production capacity in the period up to 2020. The Group has dedicated and will continue to dedicate significant expenditures to the maintenance of its production facilities.

The Group plans to continuously explore the improvement of its asset base through efficiency and smaller expansion measures, which may require higher than anticipated expenditures. Accordingly, the amounts that the Group may be required to invest going forward may be higher than in the preceding three years. The planned major investment projects may prove more costly than budgeted and require additional capital commitments to those already committed by the Group. In addition, investments related to scheduled maintenance and intermittent repairs may disrupt production processes and interfere with the ordinary operation of production facilities and infrastructure. Investments may also prove more costly than budgeted, require longer shut down periods than planned, and may ultimately lead to production capacity constraints. At times the contractors the Group uses to perform maintenance or repairs at the Group's facilities or infrastructure may prove more costly than expected, may not be available or may only be available with reduced resources. In addition, costs anticipated in connection with the maintenance of the Group's facilities or infrastructure may significantly increase at production facilities that operate at high capacity utilization levels for extended periods of time.

The mechanisms the Group uses to manage the risk of delays and cost overruns may prove insufficient. Any unanticipated costs in connection with the construction, modernization, maintenance, repair or expansion of production facilities may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

3.1.18 The Group relies on the proper functioning of its computer and data processing systems that must be regularly upgraded or replaced, and a larger-scale malfunction could result in material disruptions to its business.

The Group relies primarily on globally and locally functioning information technology systems across its operations, including for management, supply chain and financial information and various other processes and transactions. This applies particularly to the Group's global enterprise resource planning system, which electronically captures and controls group business and financial transactions. The Group's ability to effectively manage its business depends on the security, reliability and capacity of these systems. Information technology system failures, network disruptions or breaches of security could materially disrupt its operations, cause material delays or cancellations of customer orders or impede the production or shipment of products, processing of transactions or reporting of financial results. An attack on or other problems with the Group's systems could also result in the disclosure of proprietary information about its business or confidential information concerning its customers or employees, which could result in significant damage to its business and its reputation.

The Group has put in place security measures designed to protect against the misappropriation or corruption of its systems, intentional or unintentional disclosure of confidential information, or disruption of its operations. However, these security measures may prove ineffective. Current employees have, and former employees may have, access to a significant amount of information regarding the Group's operations, which could be disclosed to its competitors or otherwise used to harm the business. Any breach of the Group's security measures could result in unauthorized access to and misappropriation of its information, corruption of data or disruption of operations or transactions, any of which could materially adversely affect the Group's business, financial condition, results of operations and prospects.

The Group has and will continue to expend material amounts, including the dedication of personnel, to upgrade and maintain its information technology systems to protect against threatened or actual security

breaches. In addition, the Group could be required to expend significant amounts to respond to unanticipated information technology issues. The Group may not have been able and may not be able to effectively implement measures that will protect against all of the significant risks to its information technology systems. Failure to implement these measures that could protect against all significant risks could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.1.19 Increased obligations and expenses related to the Group's post-employment benefit plans could negatively affect the Group's financial condition and results of operations.

The Group has obligations to current and former employees related to pensions and other post-employment benefits in Germany and a number of other countries. Changes in relevant measurement parameters such as interest rates, mortality and salary increase rates may raise the present value of the Group's pension obligations. This may lead to increased costs in connection with the Group's pension plans or diminish equity due to the recognition of actuarial losses. A large proportion of the Group's pension and other post-employment benefit obligations are covered by plan assets including fixed-income securities, shares, real estate and other investments. Declining or even negative returns on these investments may adversely affect the future fair value of plan assets. Both of these effects may negatively impact the development of equity, and may require additional payments by the Group. Also, future changes in certain legal environments, especially in local regulation, may in the future have negative effects on the Group's results and may also trigger the necessity for additional payments by the Group.

As of December 31, 2014, the present value of the Covestro Group's pension obligations (defined benefit obligations) was €3,282 million and the fair value of the plan assets was €1,894 million resulting in net defined benefit liabilities of €1,388 million.

3.1.20 The Group may not be able to recruit or retain qualified employees, senior executives and other key members of management in the future, which could disrupt the Group's business.

Skilled and engaged employees, in particular chemists, engineers, senior executives and other key members of management, are essential to the Group's success. There is strong competition among companies for highly qualified personnel, particularly in countries with high levels of employment and in emerging economies such as those in APAC. If the Group is unable to create its own employer brand and/or recruit and retain a sufficient number of qualified employees, senior executives and other members of management, the Group's development could suffer significant adverse consequences.

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

Personnel expenses make up a significant portion of the Group's costs. Employees have traditionally been unionized, particularly in Germany and elsewhere in Europe. Some of the Group's employees in NAFTA, APAC and elsewhere are also organized in country-specific organizations. The Group regularly conducts, or is involved in, negotiations with labor union representatives and other employee representative bodies, such as works councils, and is obliged to comply with various collective agreements, such as collective bargaining agreements and works council agreements. Any failure by the Group or the employers' association of which it is a part to negotiate salaries, wages, and other key employment conditions that are reasonable and fair in the Group's perspective could materially adversely affect the Group's business, financial condition, results of operations and prospects. In addition, the successful implementation of restructurings is possible only if both a viable agreement with the Group's employees and their representatives and an agreement on any necessary amendment to existing works council agreements can be reached. In 2014, the Company entered into a worker employment protection agreement (*Arbeitssicherungsvertrag*) with the Group's employees of Covestro AG, Covestro Deutschland AG and two subsidiaries, which limits the Group's flexibility to reduce the number of its employees in these companies. Any material industrial action could adversely affect the Group's business, financial condition, results of operations and prospects.

3.1.22 Changes in foreign exchange rates could have material adverse effects on the Group's results of operations and the Group's hedging activities may not be effective.

Foreign currency risks for the Group result from exchange rate changes of financial and operational booked exposure (including receivables and payables) as well as from anticipated operational exposure. The exposures include raw materials and/or the sales of products priced in other currencies than the functional currency of the operating subsidiary. Unfavorable exchange rates may lead to higher costs or lower sales than expected at the time of signing the contract and may reduce margins.

The Group's reporting currency is the Euro. However, the Group conducts its business in a large number of countries across the globe and in several international currencies. In Fiscal Year 2014, 57.0% of the Covestro Group's net sales were generated by operating subsidiaries with a functional currency other than the Euro. In terms of the Group's results of operations, the U.S. dollar and the Chinese renminbi are the most important foreign currencies. Other relevant currencies include the Hong Kong dollar, the Mexican peso, the Brazilian real, the Japanese yen and the Indian rupee. Any change in exchange rates between foreign currencies and the Euro affects the Group's reported results of operations and assets and liabilities when the results of those subsidiaries are translated into Euro for reporting purposes. In preparing combined and consolidated financial statements, assets and liabilities of subsidiaries are translated into Euro at the foreign exchange rates at the balance sheet date. Income statements of subsidiaries are translated to Euro at the average exchange rates for the period. Accordingly, fluctuations in the value of other currencies against the Euro reduce or increase these subsidiaries' contribution to, among other things, the Group's net sales and profit and thus affect the Group's balance sheet. The exchange rates between the foreign currencies and the Euro have fluctuated significantly in recent years and may continue to do so in the future.

Unfavorable fluctuations in the values of the currencies in which the Group's international subsidiaries' financial statements are prepared against the Euro could have a material negative impact on the Group's future consolidated financial statements.

In Fiscal Years 2014, 2013 and 2012, currency effects negatively impacted the Covestro Group's combined results of operations, primarily as a result of the strengthening Euro. However, in the six months ended June 30, 2015, currency effects positively impacted the Covestro Group's combined results of operations as a result of a weaker Euro.

The Group generally manages its foreign currency risks related to booked transactions through foreign exchange hedging, mainly by using spot and forward over-the-counter ("**OTC**") contracts. The Group continues booked exposure hedging. Since separation from the Bayer Group, the Group no longer engages in hedging transactions related to anticipated foreign currency exposure, which exposes the Group to increased currency exchange risks related to anticipated exposure. The Group plans to commence hedging of anticipated foreign currency exposure again if the exchange rate risk increases significantly.

The exposure to exchange rate volatility and failure to adequately hedge could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.1.23 The terms of the Group's existing debt financings as well as credit market conditions, changes in interest rates and declines in credit ratings may restrict the Group's financial and operational flexibility.

Some of the financing agreements the Group has entered into with banks, other financial institutions or other creditors contain restrictions, undertakings, warranties, limitations as to further financing, covenants and definitions of events of default that may reduce the Group's financial and operational flexibility. Through cross-default clauses, the breach of covenants or other obligations of one or more financing agreements may lead to a default under other financing agreements. Any such restrictions contained in the Group's financing arrangements could also have a material adverse effect on its ability to react to changes in its business environment and its ability to incur additional debt to fund future liquidity requirements or re-financing. If the Group cannot meet its repayment obligations, it may have to pursue financial restructuring, which may be achieved only at increased cost or not at all and could materially adversely affect the Group's business, financial condition, results of operations and prospects.

As of December 31, 2014, most of the Group's outstanding financial liabilities had fixed interest rates. Nevertheless, the Group remains exposed to interest rate fluctuations. These fluctuations could increase the interest expense on its existing floating interest debt, the cost of new financing and the valuation of its

defined benefit obligations. While interest rates have been low during the past several years, the Group anticipates that interest rates will rise making it more costly for the Group to access additional financing. Furthermore a downgrade in the ratings of the Group or the debt securities of the Group could result in increased interest and other financial expenses related to future borrowings of the Group and could restrict the Group's access to additional capital or financing.

3.1.24 The Group's failure to protect its intellectual property and other proprietary information may materially adversely affect its business.

The Group's success depends to a significant degree upon its ability to protect, preserve and enforce its intellectual property and other proprietary information. However, the Group may be unable to prevent third parties from using its intellectual property and other proprietary information without its authorization or independently developing intellectual property that is similar to or competes with the Group's, particularly in those countries where the laws do not protect proprietary rights to the same degree as in Germany, the European Union or the United States. Any inability by the Group to effectively prevent the unauthorized use of its intellectual property and other proprietary information by others could reduce or eliminate any competitive advantage it has developed, cause it to lose sales or otherwise harm its business. If it becomes necessary for the Group to initiate litigation to protect its proprietary rights, any proceedings could be burdensome and costly, and the Group may not prevail.

The Group maintains its trade secrets and proprietary information through confidentiality agreements and other arrangements with its employees, contractors, developers, joint venture partners and customers, but the Group's confidentiality agreements and other arrangements could be breached and may not prevent its trade secrets and other proprietary information from being misappropriated by others. While a presumption of validity exists with respect to patents issued to the Group in various jurisdictions, there can be no assurance that any of its patents will not be challenged, invalidated, circumvented or rendered unenforceable. Third parties may infringe on the Group's patents or other intellectual property rights, and the Group may not be able to stop any such infringement. Furthermore, if any pending patent application filed by the Group does not result in an issued patent, or if patents are issued to the Group but such patents do not provide meaningful protection of the Group's intellectual property, then its ability to compete may be materially adversely affected. The Group may have to rely on judicial enforcement of its patents and other proprietary rights. The Group may not be able to effectively protect its intellectual property rights from misappropriation or infringement in countries where effective patent, trademark, trade secret and other intellectual property laws and judicial systems may be unavailable, or may not protect its proprietary rights to the same extent as German law. Furthermore, the Group may not be aware of infringement or misappropriation of the Group's intellectual property rights or may in certain cases decide not to enforce them due to the prohibitive costs associated with their enforcement. Even if the Group enforces its rights proactively, injunctions, fines and other penalties may be insufficient to deter violation of the Group's intellectual property rights. Additionally, the Group's competitors or other third parties may obtain patents that restrict or preclude its ability to lawfully produce or sell its products in a competitive manner, which could have a material adverse effect on its business, results of operations, financial condition and liquidity.

The Group also relies upon unpatented proprietary know-how, continued technological innovation and other trade secrets to develop and maintain its competitive position. While in many cases it is the Group's policy to maintain the confidentiality of its unpatented proprietary know-how through confidentiality agreements with its employees, contractors, developers, joint venture partners and customers to protect its intellectual property, these confidentiality agreements may be breached, may not provide meaningful protection for its unpatented proprietary know-how, or adequate remedies may not be available in the event of an unauthorized access, use or disclosure of its unpatented proprietary know-how. In addition, others could obtain knowledge of its unpatented proprietary know-how through independent development or access by legal means, such as through information requests, under laws that implement the so called Arhus Convention or similar laws, directed to regulatory bodies to whom the Group has disclosed such trade secrets.

The Group has obtained or applied for trademarks on various brand names. It is possible that the Group's applications may be denied and it may be unable to register trademarks in other jurisdictions in which it operates or to renew the registrations of its trademarks. Furthermore, there is no assurance that the registration of trademarks can completely protect the Group against any infringement or keep it away from any potential challenges raised by the Group's competitors.

Cyber-attacks or security breaches could compromise confidential, business critical information or cause a disruption in the Group's operations. The Group has attractive information assets, including intellectual property, proprietary know-how, trade secrets and other sensitive, business critical information. While the Group has a cyber-security program that is continuously reviewed, maintained and upgraded, and an awareness program, a significant cyber-attack could result in the loss of critical business information and could negatively impact operations, which could have a negative impact on the Group's financial results.

The failure of the Group's patents or confidentiality agreements to protect its processes, product know-how, apparatuses, technology, trade secrets or proprietary know-how or the failure of adequate legal remedies for related actions could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.1.25 The Group may inadvertently infringe on the intellectual property rights of third parties and could be required to pay substantial damages and/or be enjoined from using or selling the infringing products or technology.

The Group continually seeks to improve its business processes and develop new production technologies and new products and applications. Many of its competitors have a substantial amount of intellectual property that the Group must continually strive to avoid infringing. Although it is the Group's policy and intention not to infringe valid patents of which it is aware, the Group cannot provide assurances that its processes and products and other activities do not and will not infringe issued patents (whether present or future) or other intellectual property rights belonging to others. The Group could be liable for infringement of intellectual property rights of third parties or could experience supply and production restrictions and disruptions as a result of actual or alleged infringements of intellectual property rights. The Group may also be subject to indemnity claims by its customers and business partners arising out of claims of their alleged infringement of the patents, trademarks and other intellectual property rights of third parties in connection with their use of the Group's products.

The Group may have to obtain third-party licenses to gain access to technology, which could entail considerable costs. The Group may be unable to acquire licenses that it will need for its future business with the appropriate scope, under acceptable conditions or at all. In addition, licenses the Group currently holds may not continue to be effective, and the Group may be prevented from making or marketing products.

Intellectual property litigation often is expensive and time-consuming, regardless of the merits of any claim, and the Group's involvement in such litigation could divert its management's attention from operating its business. Moreover, if the Group is sued for infringement and loses, the Group could be required to pay substantial damages and/or be enjoined from using or selling the infringing products or technology. Failure to avoid infringement of the intellectual property held by third parties or disputes related to intellectual property could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.1.26 The Group may not have validly acquired intellectual property rights from its present or former employees and cooperation partners such as customers and research organizations in the past and potentially may not always validly acquire them in the future.

It is possible that the Group's present or former employees' and cooperation partners' intellectual property rights may not have been validly claimed by the Group. Present or former employees and cooperation partners could continue to hold rights to their intellectual property, may demand the registration of intellectual property rights solely in their name and may also claim damages. In such cases, the Group may not be able to use the relevant intellectual property because the inventor may obtain an injunction prohibiting use. Furthermore, it is also possible that current or former employees and cooperation partners may have claims to inventor remuneration that must be fulfilled or that have not been completely fulfilled. In addition, it is possible that cooperation partners may have claims with respect to inventions made within the scope of cooperation. The realization of any of these risks could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.1.27 The Group's growth strategy contemplates business integrations and/or future acquisitions and divestments that the Group may not execute successfully.

The Group continuously evaluates opportunities for growth and change. These initiatives may involve making acquisitions, entering into partnerships, divesting assets and creating new financial structures—

any of which could require a significant investment and subject it to new kinds of risks. The Group's failure to timely and effectively integrate and develop past and future acquisitions may materially adversely affect its results. If expected synergies are not fully realized, commitments are imposed or restructurings or integrations are more costly than initially anticipated, this may result in lower than expected results of operations and impaired goodwill. Anticipated synergies may not materialize and liabilities that are unknown at the time of the acquisition may also materialize and as a result the purchase price may later prove to have been too high. Acquisitions, in particular, may expose the Group to liabilities that are unknown at the time of the acquisition and which the Group may be unable to settle effectively such as legacy tax claims, claims from former employees and claims for breach of contract. In addition, the acquired company may not perform according to the Group's expectations or may fail. The Group may incur indebtedness to finance future initiatives. It could also issue additional shares of the Group or its subsidiaries to finance such initiatives. If the Group's strategies for growth and change are not successful, it could face increased financial pressure, such as increased cash flow demands, reduced liquidity and diminished access to financial markets and the equity value of its businesses could be diluted.

Although the Group's current and expected liquidity needs are covered in the medium term, the Group may require additional financial resources to fund any strategy for growth in the medium to long term, which may be difficult to obtain, or may result in higher costs and additional covenants. The implementation of strategies for growth and change may create additional risks for the Group, including problems with effective integration of operations or separation of divested assets, diversion of management time and attention away from existing operations, requiring capital investment that could otherwise be used for the operation and growth of its existing businesses, disruptions to important business relationships, increased operating costs, usage of limited investment and other baskets under its debt covenants, difficulties due to lack of or limited prior experience in any new markets it may enter and difficulties in realizing projected efficiencies, synergies and cost savings, which could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.1.28 The Group may fail to realize anticipated benefits from joint ventures and may be unable to exit a joint venture in a timely manner or without penalty.

The Group has entered into, and may continue to enter into, joint ventures for a variety of reasons including to gain access to end markets, relevant know-how or to raw materials on preferential terms. The Group's current joint ventures include, among others, various joint ventures in the Netherlands, the United States and Japan. The Group's joint venture partners include, among others, LyondellBasell, Sumitomo Chemical Company Limited and Dainippon Ink and Chemicals, Inc. The Group is significantly dependent on its joint ventures and its operations are particularly dependent on its joint ventures with LyondellBasell for the production and supply of propylene oxide, which is the key raw material to produce polyether polyols and sales related to styrene monomers. The joint ventures with affiliates of LyondellBasell were transferred to members of the Group pursuant to an agreement that requires the Group, in certain limited circumstances, to seek the consent of LyondellBasell or its affiliates prior to the sale or disposal of Shares subsequent to the Offering by the Bayer Group or the Company. It also grants LyondellBasell or its affiliates the right to change certain payment terms in case of a significant change in the rating of the Company and if certain other requirements are fulfilled. Furthermore, the Group intends to expand and further globalize its cooperative ventures in the area of research and development and customer access.

In some cases, the relevant partners provide a major portion of the capital investment for a project and/or provide raw or other materials, real estate, or other services. In the corresponding agreements, the Group may agree with the joint venture partners or the joint ventures to provide raw or other materials or to perform certain services for the project. If the Group fails to fulfil, or if a partner alleges that the Group failed to fulfil, its obligations under these contracts, either in whole or in part, the consequences may be claims for damages, contractual penalties, or termination of the joint venture by the partner or by the joint venture.

The success of a joint venture requires that the respective partners constructively pursue the same goals and may therefore be jeopardized or impaired due to a deadlock with or a breach of contract by, a partner, the joint venture, or through other unforeseen events. The Group may lack sufficient control over, and information regarding, its joint venture partners and must, to a certain extent, rely on their integrity. This is especially true for joint ventures in regions where the Group is a new entrant. Illegal or unethical activities by the joint venture partner may have negative consequences for the Group's reputation and may result in legal disputes, fines or other adverse consequences. In addition, technology and know-how may also be

revealed or required to be revealed to joint venture partners and, particularly in countries with comparatively less stringent intellectual property protection, these partners may use this technology and know-how for their own purposes outside the scope of the venture. Non-competition and exclusivity undertakings in joint venture agreements may prevent the Group from rendering services or producing, marketing and distributing the relevant products for its own account in certain areas. Moreover, the Group may not be able to exit a joint venture in a timely manner, on acceptable terms, or at all, and such an action may be subject to the written approval of the joint venture partner, the Group's acquiring full ownership of the joint venture or rights of first offer.

To the extent such joint venture has been consolidated in the past, the Group may not be able to deconsolidate the joint venture. In the event of the loss of a joint venture partner, the Group may be required to make a compensation payment to such partner, and considerable resources may need to be invested in a new partnership. Alternatively, the Group may decide to exit a particular venture, in which case it may not be able to recover the investments it has made. In addition, conflicts with its partners or the failure of one of its joint ventures or joint undertakings could lead to the loss of the respective investment or financial penalties and prevent the Group from implementing its strategy. In many cases, joint venture agreements are subject to foreign laws, the effects of which is in some instances difficult to predict. Potential disputes with joint venture partners may fall under the jurisdiction of foreign courts or arbitral tribunals, which might lead to unforeseen obstacles or results. The realization of one or more of the above factors could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.1.29 The Group's international presence, complex group structure, competitive environment and large customer accounts create risks of illegal business practices and it must rely on a compliance system to prevent irregularities in its business activities.

The Group's significant global footprint across APAC, EMLA and NAFTA, its competitive environment and number of customer accounts create risks of illegal business practices, which could lead to sanctions from national or supranational authorities such as the European Commission, reputational damage or other risks. Furthermore, the Group's operations are located across many countries, and its size and complex group structure may lead to inefficiencies, inconsistent application of Group wide compliance and management standards and inadequate or delayed internal reporting to the Company as publicly listed company. Although the Group maintains a compliance program—including a compliance management system—throughout the Group to mitigate legal compliance risks such as corruption or violations of antitrust laws, violations of the relevant laws and regulations may result in criminal or civil sanctions, including material monetary fines, penalties and other costs against the Group or its employees, and may have a material adverse effect on its business.

A compliance program is expensive to operate and maintain, and may prevent the Group from acting as rapidly as it otherwise could in pursuit of potentially profitable business opportunities or entering into some ventures. In addition, the complexities of such a program may require certain processes that are not completed in accordance with an imposed time frame and, therefore, lead the Group to forgo certain beneficial opportunities.

These risks, if they materialize, could materially adversely affect the Group's business, financial condition, results of operations and prospects.

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

The Group sells its products worldwide and has a global production platform across countries, including emerging economies such as China, Thailand, and India. Many of the agreements that the Group enters in connection with customers and suppliers are subject to foreign laws, the effects of which are in some instances difficult to predict. The general conditions in some of the countries in which the Group has production operations or into which it supplies products are different from, and the general economic, political and legal environment may be less stable than, those in Western Europe and North America. In particular, the Group's operations and its growth in emerging economies require it to respond to rapid changes in conditions within legal and regulatory systems that are less developed and less well enforced than those in Western Europe and North America, which often has consequences on the prevailing political and social conditions. There is a risk that changes in these frameworks may materially adversely

affect the Group's business environment. International operations are also at risk of being adversely affected by a variety of trade barriers, limits on the repatriation of profits, tariffs and exchange controls. For example, in the past the Group's operations in Argentina, Venezuela, China, Taiwan, Iran and Russia have been affected by capital controls to a limited extent. Furthermore, processes of law may vary from country to country and the Group may experience difficulty enforcing agreements. The Group may face difficulties in managing sales, research and development operations and post-sales logistics and support across the regions in which it operates. The Group's overall success depends, in part, on its ability to succeed under a variety of different conditions. The Group may fail to develop and implement policies and strategies that are effective in each region and country in which it operates and such failure could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.1.31 Conflicts, military action, terrorist attacks, and general instability throughout the world could materially adversely affect the Group's business.

Conflicts, military action and terrorist attacks have precipitated economic instability and turmoil in the economies of some countries in which the Group operates, sells its products or on which the industry is particularly dependent such as energy-producing nations. Instability and turmoil, particularly in, or affecting, such countries, may lead to plant disruptions or result in raw material supply constraints, cost increases or an inability of the Group to conduct its business. The uncertainty and economic disruption resulting from hostilities, military action and acts of terrorism may impact any or all of the Group's facilities and operations or those of its suppliers or customers. Accordingly, any conflict, military action or terrorist attack could severely impact the supply of the Group's raw materials, sales, production operations and logistics, could lead to a loss of markets and could have a material adverse effect on its business, financial condition, results of operations and prospects.

3.1.32 The Group may be forced to make write-downs or additional impairments, in particular on tangible assets, that reduce the value of the Group.

The Group is active in an industry that requires significant investments in its production facilities. Any such property, plant and equipment associated with the Group's operations and recorded on the balance sheet, as well as the existing intangibles including goodwill make the Group susceptible to impairments. As of December 31, 2014, the Covestro Group's property, plant and equipment recorded on the balance sheet totaled €4,893 million and the intangible assets recorded on the balance sheet totaled €376 million and related predominantly to goodwill, marketing and production rights. These assets with a determined useful life are amortized accordingly on a straight-line basis over a period of up to 30 years. An impairment test is performed if there is an indication of possible impairment. Goodwill and other intangible assets are tested for impairment on an annual basis or in case of an indication of possible impairment. If the carrying amount of an asset or asset group may not be recoverable, impairment losses may be recorded in accordance with applicable accounting standards. Impairment charges could become necessary in the future if, for example, the Group's prospects deteriorate such that the carrying amounts of its assets are no longer recoverable under applicable accounting rules. According to applicable accounting rules the Group has to perform quantitative testing for all cash generating units. Since the Group utilizes a discounted cash flow methodology to calculate the fair value of its cash generating units, continued weak demand for a specific product line, oversupply in the industry, and high raw material prices could result in an impairment. Accordingly, any impairment test requiring the write-down or additional impairment could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.1.33 The Group's reputation is one of its key assets and if it is harmed, the Group's business and results of operations may suffer.

The Group is exposed to the risk of negative publicity, press speculation and potential or actual legal proceedings concerning its business, which may harm its reputation. The development of a negative social perception for the chemical industry in general or the processes or products of the Group in particular could also have a negative impact on the reputation of the Group. The incorrect use and handling of the Group's products by third parties can also harm the Company's reputation. In addition, concerns about product safety and environmental protection could influence public perceptions regarding the Group's products and operations, the viability of certain products, its reputation, and the ability to attract and retain employees. Due to the technical expertise required to fully understand the impact of the compounds used in the production of and in the products produced by the Group, the reputation of the

Group may suffer due to claims, which may prove unsubstantiated, that such compounds are of a harmful nature. Such claims may lead to changes in consumer preferences or additional government regulations even before any harm is scientifically substantiated and possibly despite scientific evidence to the contrary. Such changes in consumer preferences may ultimately lead to consumers avoiding consumer products that are perceived to be hazardous because they are produced using some raw materials that are hazardous when assessed individually, whether or not such perception is scientifically valid with respect to the consumer product. Any significant damage to the Group's reputation could cause existing customers to terminate their relationship with the Group or prevent it from winning new contracts. Such general concerns may also lead to the increased scrutiny of authorities and more restrictive legislation. Any of these negative effects could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.1.34 The Group's business is subject to many operational risks for which it may not be adequately insured.

The Group believes that Covestro AG and its subsidiaries have reasonable insurance protection, to the extent customary in the industry. However, such insurance does not cover all risks associated with the operation of its business such as accidents and other events that could potentially lead to interruptions of its business operations or to it incurring significant costs, or with its production processes and the related use, storage and transportation of hazardous and non-hazardous raw materials, products and wastes in or from its production facilities or its distribution centers. In addition, the Group is exposed to legal liabilities such as environmental and product liability which may also not be fully covered by insurance. While the Group has purchased what it deems to be insurance coverage customary in the industry, such coverage is subject to limitations or exclusions, self-insured retentions and maximum limits of insurance. The Group is potentially at additional risk if one or more of the insurance companies it uses became insolvent. Additionally, severe disruptions in the financial markets could materially adversely impact the ratings and survival of some insurers. Future downgrades in the ratings of several insurers could materially adversely impact both the availability of appropriate insurance coverage and its cost. In the future, the Group may not be able to obtain coverage at current levels, if at all, and its premiums may increase significantly on coverage that it maintains, which may have a material adverse effect on its business, financial condition, results of operations and prospects.

3.2 RISKS RELATED TO LEGAL, REGULATORY AND TAX MATTERS

3.2.1 Legal and regulatory changes in the jurisdictions in which it operates and trades may have an adverse effect on the Group.

Due to the international nature of its business, the Group must comply with, and is affected by, a large number of different legal and regulatory frameworks, including tax laws. There is a risk that changes in these frameworks may materially adversely affect the Group's legal and regulatory environment. The risks faced by the Group include, but are not limited to:

- foreign currency control regulations and other regulations related to exchange rates and foreign currencies (such as the abandonment of exchange rate pegs);
- changes in laws and regulations, in particular related to environment, health and safety;
- measures to counter foreign trade imbalances such as foreign direct investment controls and export controls;
- restrictions on the ability to repatriate funds from subsidiaries;
- restrictions on the ability to own or operate subsidiaries or acquire new businesses in certain countries, including rules on local ownership of businesses;
- differences in legal and administrative systems, which could lead to insufficient protection of intellectual property, impair the Group's ability to enforce contracts or jeopardize its ability to collect accounts receivables and other claims outstanding;
- nationalizations; and
- imposition of withholding or other taxes and transfer pricing regulations.

The materialization of any of these risks could severely impact the Group's sourcing, sales, production operations and logistics, could lead to a loss of customers and access to customers, know-how and

tangible and intangible property, and could have material adverse effects on its business, net assets, financial condition, and results of operations.

3.2.2 The costs of complying with changing environmental, health and safety regulatory requirements could negatively impact the Group's financial results.

The Group uses large quantities of hazardous substances, generates hazardous wastes and emits wastewater and air pollutants in its production operations. Consequently, its operations are subject to extensive environmental, health and safety (''**EHS**'') laws, regulations, rules and ordinances at the supranational, national and local level in multiple jurisdictions across APAC, EMLA and NAFTA. EHS regulations apply to most of the Group's activities and the Group must dedicate substantial resources to complying with them. The Group's cost of compliance with EHS regulations is part of its operating cost and, ultimately, must be covered by the prices at which the Group is able to sell its products. Competitors of the Group who do not face EHS regulations to the same extent as the Group may have lower operating costs and, as a consequence, their products may be priced lower than those of the Group. In addition, the Group's suppliers are subject to EHS regulations that may impact their ability to supply the Group with the raw materials it needs. For example, the operations of the Polyurethanes business unit's MDI production facility in Tarragona, Spain, are entirely dependent on a single supplier of chlorine that produces chlorine using a production technology that pursuant to current regulations applicable in the EU, will no longer be permitted as of December 2017. The inability to obtain certain raw materials may require the Group to close certain production operations, entire production facilities or product lines. The Group's products are also used in a variety of end markets such as automotive/transport, construction, electrical/electronics and furniture that have specific regulatory requirements such as those relating to human safety or recycling that may impact the demand for the Group's products in those end markets.

The Group and many of the applications for the Group's products are regulated by EHS regulations, including the EU's Registration, Evaluation, Authorization, and Restriction of Chemicals Regulation (''**REACH**''). In the first two phases of the implementation of REACH in 2010 and 2013, the Group registered approximately 110 pre-registered substances. The Group estimates that it will be required to register approximately 30 additional substances by May 2018. Going forward, restriction and authorization requirements pursuant to EHS regulations including REACH could impair the Group's business by interfering materially with the manner in which the Group currently conducts its operations or with the manner in which the Group's products can be used. Pursuant to REACH, the EU Commission can establish a set of criteria for substances, such as those produced by the Group, that may lead to a ban or a selective authorization process which is anticipated to provide authorization only for limited periods. The risk remains that the distribution of some of the compounds the Group imports, produces and sells currently will be prohibited in the future or be subject to an extensive, time and cost intensive authorization process that ultimately may not permit the Group to continue producing some or all of its products. As a corollary to the REACH Regulation, the EU has adopted the Classification, Labeling and Packaging Regulation to harmonize the EU's system of classifying, labelling and packaging chemical substances with the United Nation's Globally Harmonized System. The regulation aims to standardize communication of hazard information of chemicals and to promote regulatory efficiency. It stipulates classification criteria, hazard symbols and labelling phrases, while taking account of elements that are part of EU legislation. Recently, a German regulatory authority indicated its intention to regulate the industrial and professional use of diisocyanates under a REACH restriction. Proposals for a restriction may range from implementing a training and certification scheme defining minimum conditions for the safe handling of diisocyanates to an authorization process as well as prohibiting the use of these substances. In the United States, the Group's products and raw materials are subject to environmental and health regulations, including the U.S. Toxic Substances Control Act (''**TSCA**''), requiring the registration and safety analysis of the substances contained in them. The U.S. Environmental Protection Agency (the ''**EPA**'') is undergoing a reassessment of the TSCA which may result in additional or more stringent regulatory testing, labelling and notification requirements. In light of recent events in China, and in particular in light of a recent large explosion in Tianjin, China, regulations in China governing the production, use, handling and transportation of chemicals, including those produced by the Group, may be tightened and the approval processes for new production facilities or for the expansion of existing production facilities may take longer. The Group expects that the approval for the planned capacity expansion of polycarbonates and HDI at the production facility in Shanghai, China, will be delayed for an uncertain period, which may result in significant costs to the Group that will increase over the length of the delay. Many EHS regulations have become more stringent over time and the trend is likely to continue, especially as societal concerns regarding the safe use of chemicals and their products in commerce, as

well as their potential impact on health and the environment are likely to manifest themselves in more stringent regulatory intervention. Several countries in which the Group operates have instituted EHS regulations attempting to increase the protection and security of chemical plants, which could result in higher operating costs. In addition, many EHS regulations require the Group to hold operating permits for its production facilities, which are subject to periodic renewal and, in circumstances of noncompliance, may be subject to operating restrictions, revocation or fines. The necessary permits may not be issued or continue in effect, and any issued permits may contain more stringent limitations that restrict the Group's operations or that require further expenditures to meet additional requirements imposed by permits.

Compliance with more stringent EHS regulations will likely increase the Group's operating costs including costs related to the transportation and storage of raw materials and finished products, as well as the costs of storage and disposal of waste. The Group's capital expenditures and costs relating to the implementation of EHS regulations will fluctuate due to factors that are out of the Group's control, such as the timing of the promulgation and enforcement of specific standards which impose requirements on the Group's operations. Capital expenditures and costs beyond those currently anticipated may therefore be required under existing or future EHS regulations. Accordingly, EHS regulations may cause the Group to incur significant unanticipated losses, costs or liabilities, which could reduce its profitability. In addition, laws and regulations may be newly imposed or amended on short notice, becoming more stringent in a short period of time. The Group may incur substantial costs, including penalties, fines, damages, criminal or civil sanctions and remediation costs, experience interruptions in its operations, or be required to cease operations in certain locations for failure to comply with these laws or permit requirements.

Changes in EHS regulations in jurisdictions where the Group produces and sells its products could also lead to a decrease in demand for its products. Concerns about product safety and environmental protection could influence public perception of the Group's products and operations, the viability of some or all of its products, its reputation, and the ability to attract and retain employees. For example, a significant portion of the Group's raw materials for rigid foams are combined with a flame retardant to meet building code and customer application requirements. If such flame retardants were prohibited by EHS regulations, then polyurethane rigid foams, such as those for which the Group's raw materials are used, could no longer be used as building insulation. For example, the Group produces and sells bisphenol-A, a key raw material to produce polycarbonates. The risk assessment of BPA has been subject to scientific debate and regulatory scrutiny. Regulatory authorities around the world such as the European Food Safety Authority (''**EFSA**'') and the United States Food and Drug Administration have regularly reviewed available data and have stated that bisphenol-A and bisphenol-A-based products can be used safely in intended consumer applications at currently projected levels of exposure. The EFSA confirmed in 2015 that there are no consumer health risks from bisphenol-A exposure in its intended uses at currently projected levels of exposure. This view is shared by numerous competent authorities around the world, including the German Federal Institute for Risk Assessment. Nevertheless, bisphenol-A has raised controversies that may result in future regulations restricting the production or use of the Group's bisphenol-A and polycarbonates, liability for adverse environmental or health effects linked to certain of the Group's products, and/or de-selection of our products for specific applications. For example, a law in France banning the use of bisphenol-A in food contact materials became effective on January 1, 2015, and a regulatory authority in the State of California, United States, voted to classify bisphenol-A as a female reproductive toxicant, which however, has not yet resulted in concrete regulatory requirements. The developments restricting the use of bisphenol-A have generally applied to food-contact applications, which are applications to which the Group currently has limited exposure. However, future restrictions on the use of bisphenol-A may apply more generally and even ban the use of bisphenol-A in other applications. As the Group sells a significant amount of bisphenol-A and uses bisphenol-A to produce its polycarbonates, such a ban would have a material adverse affect on the Group. Further to regulatory changes, health and safety concerns could increase the costs incurred by the Group's customers to use its products and otherwise limit the use of the Group's products, which could lead to decreased demand for these products. Such a decrease in demand would have a materially adverse effect on the Group's business and results of operation.

Given the diversification and global operations of the Group's business, there is an elevated risk that the Group may not comply with all applicable laws, regulations or permits in all the jurisdictions in which it operates. The significant number of EHS regulations differs across jurisdictions and results in a complex regulatory environment with which the Group must continually comply.

Moreover, even if the Group is in compliance with regulatory and permit requirements, the actions or regulatory non-compliance of other companies may lead to industry-wide investigations by regulatory

authorities that could interrupt some or all of the Group's production operations for significant periods. The costs of complying with changing EHS regulations and the liabilities including penalties, fines, damages, criminal or civil sanctions and remediation costs the Group may incur for failing to adequately comply with applicable EHS regulations could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.2.3 Regulatory requirements to reduce emissions of greenhouse gases could have an adverse effect on the Group's results of operations.

Globally, the Group's operations are increasingly subject to regulations that seek to reduce emissions of greenhouse gases (''**GHGs**''), such as carbon dioxide and methane, which may be contributing to changes in the earth's climate. At the Durban negotiations of the Conference of the Parties to the Kyoto Protocol in 2012, a limited group of nations, including the EU, agreed to a second commitment period for the Kyoto Protocol, an international treaty that provides for reductions in GHG emissions. More significantly, the EU GHG emissions trading system, established pursuant to the Kyoto Protocol to reduce GHG emissions in the EU, continues into its third phase. To cope with a surplus of allowances built up in the ETS since 2009 and, as a result, low carbon prices, the European Commission postponed the auctioning of 900 million allowances until 2019-2020 as a short-term measure. As a long-term solution, the Commission has proposed to make a structural change in the ETS by establishing a market stability reserve as of 2019. This proposal was approved by the European Parliament and still requires approval by the Council prior to becoming effective. In addition, the EU announced its intention to cut GHG emissions to 40% below 1990 levels by 2030 and impose a 27% renewable energy requirement at the EU level. In addition, in December 2014, the German Government released the Climate Action Program 2020 (*Aktionsprogramm Klimaschutz 2020*) pursuing a reduction of 40% of GHG emissions by 2020 in comparison to GHG emissions in 1990. Key policy measures designed to meet the 40% target in Germany are (i) the National Action Plan on Energy Efficiency, (ii) a climate-friendly building and housing strategy, (iii) measures in the transport sector, (iv) reduction in non-energy-related emissions in industry, the commerce/trade/services sector, waste management and agriculture, (v) the reform of the emissions trading scheme, and (vi) further measures, especially in the energy sector. Collectively, these actions may increase the Group's operating costs. European production facilities that produce ''organic commodity chemicals'' with a capacity of over 100 tons per day are required to participate in the European trading scheme for GHGs, and the German GHGs trading program is costly to implement at the Group's German production facilities. In addition, the Group anticipates that price increases of carbon dioxide certificates within the EU's trading system for GHGs will lead to an increase in operating costs, particularly those in connection with energy consumption and electricity prices, which could materially adversely affect the Group. In the United States, the EPA has moved forward on requirements for new air emission regulations covering GHG emissions from large sources. Finally, China has launched four regional cap-and-trade programs that will ultimately serve as the backbone of a national cap-and-trade program. To the extent that these cap-and-trade programs impose compliance obligations upon the Group's operations, they may increase the Group's operating costs.

The Group is already managing and reporting GHG emissions, to varying degrees, as required by law for its sites in locations subject to Kyoto Protocol obligations and the requirements of national and regional emission trading schemes. Although the Group's production facilities located in such areas are subject to existing GHG legislation, the Group has historically not experienced significant cost increases as a result of these programs, although it is possible that GHG emission restrictions may increase over time. Additional future regulation of GHGs could occur pursuant to future international treaty obligations, regulatory changes under national or local law in multiple jurisdictions or regional adoption of GHG regulatory schemes, or any combination of the foregoing or otherwise. Potential consequences of such regulations include capital costs to modify operations as necessary to meet GHG emission limits and additional energy costs, as well as direct compliance costs. Currently, however, it is not possible to estimate the likely financial impact of potential future regulation on any of the Group's production facilities, its products or its business. Regulatory requirements to reduce emissions of GHGs could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.2.4 The Group may lose all or part of the subsidies that it receives in Germany and become subject to higher than anticipated surcharges under the German Renewable Energy Act.

The EEG grants financial support to operators of renewable energy facilities via a feed-in-tariff or a direct marketing premium, depending on the date of commissioning and the size of the installation, to be paid by

the grid operator. Both the fixed feed-in-tariff and the market premium are an above-market payment to the producers of energy generated from renewable sources. These payments to the operators of renewable energy facilities are balanced by a levy that is imposed on the consumers of energy (''**EEG-levy**'').

Given that the Group's operations qualify as an energy-intensive industry under the EEG, its German production facilities currently benefit from staggered rebates from the EEG-levy. The European Commission has investigated whether the exemptions under the EEG 2012 constituted illegal state aid. The European Commission in principle authorized the staggered rebates granted under the EEG 2012; however, in a few cases the amount of the rebates was held to be unlawful. The affected companies were requested to repay portions of the EEG-levy that they had received. Therefore, it could be that companies such as the Group may be found liable for apportionment payments for past periods, which could materially adversely affect the Group's business and results of operations. The staggered rebates under the current version of the EEG were approved by the European Commission in July 2014.

In addition, the Group currently benefits from staggered rebates for paying grid charges for companies in electricity-intensive industry sectors on the basis of the German Electricity Grid Access Charge Ordinance (*Stromnetzentgeltverordnung*) (''**StromNEV**'') and the exemption scheme provided by the power price compensation system (*Strompreiskompensation*).

In order to comply with German constitutional principles and to maintain a reliable regulatory regime for investments in Germany, in the past, amendments to the EEG and StromNEV were implemented with transitional rules providing certain transition periods. If, due to the new legislation, the Group were to no longer benefit from these staggered rebate mechanisms, it could incur significantly higher energy costs. In addition, the German government intends to reduce carbon dioxide emissions by reducing coal and lignite based power production in Germany, which may lead to further increases in energy prices. Any regulatory action that reduces the availability of financial relief for energy-intensive industrial producers could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.2.5 The Group may be subject to losses due to liabilities or lawsuits related to contaminated land that it owns or operates or arising out of environmental damage or personal injuries associated with exposure to chemicals, the release of chemicals or other hazardous substances.

Many of the Group's sites have an extensive history of industrial operations, storage and related activities and some of the Group's buildings have in the past contained and may still contain asbestos or other harmful substances. As is typical for such businesses, soil and ground water contamination have occurred in the past at some sites such as those in Leverkusen, Dormagen and Uerdingen and may occur or be discovered at the Group's sites in the future. In addition, the Group owns a large number of industrial sites containing, in some cases, pre-existing contamination requiring securing or remediation and the associated costs often cannot be estimated. The Group has been and is likely in the future to be liable for the costs of investigating and cleaning up or stabilizing environmental contamination on or from its properties or at off-site locations where it transported, disposed of or arranged for the disposal or treatment of hazardous materials and waste or from disposal activities that predated its purchase of its businesses. The Group may therefore incur additional costs and expenditures beyond those currently anticipated to address all such known and unknown situations under existing and future EHS regulations. In some countries in which the Group operates, the Group may also be exposed to claims for damages, penalties, operating restrictions or the revocation of permits to operate its sites.

In addition, the Group faces the risk that individuals could seek damages for personal injury due to exposure to chemicals or other hazardous substances at its production facilities or other business sites, chemicals or other hazardous substances that have been released from its production facilities or other business sites, chemicals or other hazardous substances otherwise owned or controlled by the Group, or chemicals or other hazardous substances that allegedly migrated from products containing the Group's products. Risks are inherent in the industry segments, particularly risks associated with safety, health and the environment. The Group is subject to numerous laws in the national and local jurisdictions in which it operates relating to the management of workplace risks associated with highly hazardous chemicals. Failure to comply with such laws could subject the Group to both civil and criminal penalties, which could affect its product sales, reputation and profitability. The Group may be subject to claims with respect to workplace exposure, workers' compensation and other health and safety matters.

The environmental liabilities at any particular production facility could increase as a result of, among other things, changes in laws and regulations, modifications to the site's investigation and remediation plans, unanticipated construction problems, identification of additional areas or quantities of contamination, increases in labor, equipment and technology costs, significant changes in the financial condition of the Group or other responsible parties and the outcome of any related legal and administrative proceedings to which the Group may become a party. Any increase in liability may be found to be outside the scope of the indemnity provided by the Bayer Group to the Group in the separation related agreements, resulting in increased costs payable by the Group. It is not possible for the Group to reasonably estimate the amount and timing of all future expenditures related to environmental or other contingent matters. Accruals for environmental matters are recorded by the Group when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based on current law and existing technologies.

At December 31, 2014, the Covestro Group had other provisions of €41 million for probable environmental remediation and restoration costs. This is the Group's best estimate of the costs for remediation and restoration with respect to environmental matters for which the Group has accrued liabilities, although it is reasonably possible that the total cost with respect to these particular matters could increase substantially. High costs and capital expenditures relating to environmental, health or safety matters are subject to changing regulatory requirements and depend on the timing of the promulgation and enforcement of specific standards which impose the requirements.

Liabilities or lawsuits related to contaminated land that the Group owns or operates or arising out of environmental damage or personal injuries associated with exposure to chemicals and the release of chemicals or other hazardous substances may materially adversely affect the Group's business, reputation, financial condition, results of operations and prospects.

3.2.6 The Group is exposed to ongoing litigation and other legal and regulatory actions and risks in the course of its business, and could incur significant liabilities and substantial legal fees.

The Group is subject to litigation and other legal and regulatory actions in the ordinary course of business. The results of litigation and other legal and regulatory actions cannot be predicted with certainty. The Group cannot guarantee that the results of current or future proceedings will not materially harm its business, reputation or brands, nor can it guarantee that it will not incur losses in connection with current or future legal proceedings that exceed any provisions it may have set aside with respect to such proceedings or that exceed any applicable insurance coverage.

For example, the Group is involved in administrative litigation in Germany in which the claimants seek to prevent the Group from obtaining a permit to operate a pipeline from Dormagen to Uerdingen, Germany, for the transportation of carbon monoxide. While the Higher Administrative Court Münster (*Oberverwaltungsgericht Münster*) had no concerns regarding the safety and route of the pipeline, in August 2014, it held that the underlying statute authorizing the pipeline was unconstitutional. The case is currently pending before the German Federal Constitutional Court for a hearing on the constitutional issue. This proceeding may result in the Group having to deconstruct the pipeline at its cost and its inability to source carbon monoxide cost-effectively at certain production facilities.

Covestro Deutschland AG filed successfully at the Administrative Court of Cologne (*Verwaltungsgericht Köln*) to join an administrative action initiated by a plaintiff against the Regional District Council of Cologne (*Bezirksregierung Köln*) requesting that the local authority revoke the permits (*Genehmigungsrücknahme*) for the operation of the Group's carbon monoxide pipeline between Dormagen and Leverkusen. The operations of the Group's production facilities in Leverkusen, Germany, are materially dependent on the availability of this pipeline for the supply of carbon monoxide, in the absence of which it is unable to continue production.

The Group is also involved in arbitration in the Netherlands relating to certain claims by Utility Centre Maasvlakte Leftbank B.V. against the Lyondell European Joint Venture. The plaintiff has brought a claim for the costs of purchasing carbon dioxide certificates that it acquired to fulfil a supply contract with the Lyondell European Joint Venture. The claims amount to €30.7 million plus the statutory interest for commercial transactions in the Netherlands and, in the worst case, the Group could be found liable for 50% of this claim. The first hearing is scheduled for the first week of December 2015.

If any disputes, litigation or other legal or regulatory actions are resolved against the Group, it could incur significant liabilities or materially adversely affect the Group's business, reputation, financial condition, results of operations and prospects.

3.2.7 The Group may be liable for damages based on product liability claims brought against it or its customers or may be accused of having sold harmful products.

Many of the Group's products provide critical performance attributes to customers' products, which are in turn sold to consumers. If a product fails to perform in a manner consistent with quality specifications, a customer could seek replacement of the product or damages for costs incurred as a result of the product failing to perform as designed and marketed. The sale of these products may also give rise to product liability claims or other claims based on damage caused by the Group's products. If a consumer were to bring a product liability claim with respect to a product that contains the Group's products, the Group could be named as a defendant in that claim or could become subject to separate litigation brought by one of its customers. A successful claim or series of claims against the Group could cause reputational harm and could result in a loss of customers.

In addition, the Group's product portfolio contains some substances that are harmful to human health. Other products of the Group that are not currently considered harmful to human health may be discovered to be harmful to human health in the future, which could lead to liability claims. In addition, the Group's products, once integrated into consumer end products, may also be found to be harmful as medical knowledge about health risks related to exposure evolves. Any allegation of harm caused by a product of the Group may significantly negatively affect the Group's reputation. Any threatened or actual future claims for damages based on product liability could significantly harm the Group's reputation and, in turn, could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.2.8 The Group's business may suffer from trading sanctions and embargoes.

In the past the United States, the EU and the United Nations have increased their imposition of various export control regulations, sanctions and embargoes on trading with countries such as Iran, Syria, Sudan and others. Given the global nature of the Group's activities and operations, the Group conducts business with customers in countries that are subject to such export control regulations, embargoes, sanctions or other forms of trade restrictions. Recently, sanctions were imposed by the United States and EU against Russia and subsequently by Russia against the United States and the EU. In case of non-compliance with such export control regulations, embargoes, sanctions or other forms of trade restrictions, civil or criminal penalties, including substantial monetary fines, may be imposed and/or other adverse financial consequences that could materially adversely affect the Group's business, financial condition, results of operations and prospects are possible. Furthermore, new or tightened export control regulations, sanctions, embargos or other forms of trade restrictions imposed on countries in which the Group does business may result in a curtailment of its existing business in such countries and require it to amend and adapt its policies accordingly. The cutback on the Group's activities in sanctioned countries may also expose it to customer claims and other actions. This may have a negative impact on the Group's business, financial condition, results of operations and prospects. In addition, competitors, distributors, suppliers and customers may not be able to comply with or may be otherwise affected by trading sanctions and embargoes. This may materially adversely impact the reputation of the Group and its products and in turn the Group's business.

3.2.9 The Group's tax burden could increase, in particular, as a result of tax audits, reassessments by the competent authorities and potential changes in applicable tax laws.

As an international group operating in multiple jurisdictions, the Group is and the MaterialScience business of Bayer AG was subject to laws and regulations on tax levies and other charges or contributions in many countries throughout the world, which often do not provide clear-cut or definitive guidance. The tax charge included in the financial statements is the Group's best estimate of the due tax. There is a degree of uncertainty regarding the final tax liability for any period until completion of tax audits by the relevant authorities (including for periods prior to the separation from the Bayer Group). In connection with the separation from the Bayer Group, the Group is responsible for and has also agreed to indemnify certain companies of the Bayer Group, in particular, against additional tax liabilities arising from risks relating to transfer pricing adjustments and the unintended maintenance of permanent establishments, each in connection with activities of the MaterialScience business.

Through the implementation of internal procedures and systems, capitalization and transfer pricing policies and internal controls, and in some cases through the use of external tax consultants and specialists, the Group structures and conducts, and the MaterialScience business has historically structured and conducted, its business globally in accordance with diverse regulatory requirements and the Group's commercial, financial and tax objectives, and in particular, has aimed and will continue to aim to comply with transfer pricing regulations and to avoid unintended permanent establishments. The Group cannot guarantee that its interpretation, or the interpretation by the Bayer Group prior to the separation, of applicable tax laws and regulations will not be questioned by the relevant tax authorities or that the relevant tax laws and regulations or the interpretation thereof by the relevant tax authorities will not change, which is likely to impact the deductibility of interests, certain costs and result in, amongst other consequences, the unintended creation of permanent establishments or transfer pricing adjustments. Any of such differences in interpretation or changes in tax laws and regulations could materially adversely affect the Group's effective tax rate, financial condition, results of operations and prospects.

Reassessments of taxes, changes to tax laws, rules and regulations, including changes in the interpretation or implementation of tax laws, rules and regulations by domestic or foreign governmental bodies, could affect the Group in substantial and unpredictable ways. Such reassessments and changes could subject the Group to additional compliance costs and tax liabilities, which could materially adversely affect the Group's business, financial condition, results of operations and prospects.

The Group operates in a significant number of jurisdictions, which contributes to the volatility of its effective tax rate. Changes in tax laws or the interpretation of tax laws in the jurisdictions in which it operates may affect its effective tax rate. National and international adverse tax developments could thus materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.2.10 There can be no assurance that the Group will be able to renew all necessary licenses, certificates, approvals and permits for its operations.

The Group, including its production facilities, infrastructure, products and waste disposal, is subject to various licenses, certificates, approvals and permits in different foreign jurisdictions. There can be no assurance that the Group will be able to renew its licenses, certificates, approvals and permits upon their expiration. In addition, licenses, certificates, approvals and permits currently held by the Group may be challenged in court by third parties such as the challenge involving the Group's license to operate the carbon monoxide pipeline between Dormagen and Leverkusen, which may lead to their revocation or operating restrictions. The eligibility criteria for such licenses, certificates, approvals and permits may change from time to time and may become more stringent. In addition, new requirements for licenses, certificates, approvals and permits may come into effect in the future. The introduction of any new and/or more stringent laws, regulation, licenses, certificates, approvals and permits requirements relevant to the Group's business operations may incur significant additional investment and maintenance costs to fulfill new regulatory requirements or may preclude it from continuing with its existing operation at some or all of its production facilities or may limit or prohibit it from expanding its business. In addition, relevant regulatory authorities may not grant licenses, certificates, approvals and permits as quickly as anticipated, which may result in project delays or the Group's production facilities laying idle for significant periods of time. The Group's inability to renew all necessary licenses, certificates, approvals and permits needed for its operations could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.3 RISKS RELATED TO THE GROUP'S SEPARATION FROM THE BAYER GROUP

3.3.1 The Group has no operating history as a separate company, and the Group's combined financial information is based on a series of assumptions and estimates that may prove inaccurate and not necessarily representative of the results the Group would have achieved as a stand-alone publicly-traded company.

The Covestro Group's combined financial information that is contained in the Prospectus presents the results of operations and financial position of the Bayer Group's MaterialScience business as that business has historically been operated by the Bayer Group and which will make up the future business of the Group. The Covestro Group's combined financial information contained in the Prospectus reflect the operations assigned to Bayer MaterialScience historically as included in the consolidated financial statements of the Bayer Group. Accordingly, the historical financial information may not be indicative of

the Group's future performance, nor necessarily reflect what the Group's financial position and results of operations or cash flows would have been had it operated as a separate, stand-alone publicly-traded entity during the periods presented.

Moreover, the Covestro Group's combined financial statements as of and for Fiscal Years 2014, 2013 and 2012 and the condensed combined interim financial statements as of and for the six months ended June 30, 2015 are based on a series of assumptions and estimates which affect the recognition and amount of assets and liabilities, income and expenses and contingent liabilities, including in particular income taxes and the inclusion of certain subsidiaries that were owned by the Bayer Group in the reporting periods. Accordingly, the historical financial information included in the Prospectus does not necessarily fully reflect changes that have occurred or will occur when the Group operates as a separate business. Some of the Company's subsidiaries were in the past part of different Bayer Group income tax groups in several jurisdictions (the "**Tax Groups**") such that related tax liabilities were not imposed on the Company. For purposes of the preparation of the combined financial statements, the Group has disregarded these Tax Groups and calculated income and trade taxes based on certain assumptions. Use of these assumptions and estimates means that the combined financial statements presented in the Prospectus are likely not to be fully representative of what the Group's financial position, results of operations and cash flows would have been had it been a fully stand-alone publicly-traded entity during the periods presented.

The Bayer Group performed various corporate functions for the Group, such as employee payroll and benefits administration, information technology services, technology development, financial and tax services, human resource services, engineering services, transportation and logistics, procurement services, order management and processing, regulatory compliance, operational support and other support services. Following the offering, the Bayer Group will provide some of these functions for a limited transitional period. The Group's condensed combined financial information reflect adjustments and allocations with respect to corporate and administrative costs relating to these functions; these adjustments and allocations may prove to be materially inaccurate and the expenses that would have been incurred had it operated as a fully stand-alone publicly-traded entity during the periods presented may prove to have been substantially higher.

Prior to the offering, the Group's business was integrated with the other subgroups of the Bayer Group. Historically, the Group has shared economies of scale in costs, employees, and vendor relationships. While the Group will enter into transitional agreements that will govern certain commercial and other relationships between the Group and the Bayer Group after the offering, those transitional arrangements will not fully capture the benefits the Group's business has enjoyed as a result of being part of the Bayer Group. The loss of these benefits could have a material adverse effect on the Group following the offering.

Generally, the Group's working capital requirements and capital for the Group's general corporate purposes, including acquisitions, research and development and capital expenditures, have historically been satisfied as part of the corporate wide cash management policies of the Bayer Group. Following the offering, the Group may need to obtain additional financing from banks, public offerings or private placements of debt or equity securities, strategic relationships or other arrangements. As a fully stand-alone publicly-traded entity listed in the regulated market of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) (Prime Standard), the cost of obtaining additional capital for the Group's business is likely to be higher than if it were a part of the Bayer Group.

It is uncertain how the Group will perform as a fully stand-alone publicly-traded entity. Significant changes may occur in the Group's cost structure, management, financing and business operations as a result of operating as a stand-alone publicly-traded entity separate from the Bayer Group, which could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.3.2 The Group's structure and business activities have recently undergone substantial organizational changes in the context of the separation, which may make it difficult to correctly assess its historical past and future Group performance.

The Group's structure and business activities have experienced substantial changes in recent periods in the context of the separation from the Bayer Group. Accordingly, the combined financial statements included in the Prospectus do not retrospectively reflect, for all periods presented, the many significant changes that have occurred or will occur in the Group's operations and may thus not be indicative of the Group's future operating results or financial performance. Further, the implementation of such reorganization measures may require additional administrative resources and lead to additional

expenses. The recent and prospective organizational changes made in connection with the Group's separation from the Bayer Group could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.3.3 The separation from the Bayer Group may lead to the loss of business opportunities and decreased purchasing power and result in a loss of synergies.

As part of the Bayer Group, the Group was able to take advantage of the Bayer Group's long-standing reputation, size and purchasing power in procuring goods, services and technology, such as management information services, software licenses, health insurance, pension and other employee benefits, payroll administration, risk management, tax, various forms of energy such as electricity and steam and other services. As a separate, stand-alone entity following the offering, the Group may lose, or may find it difficult to access, certain goods, services and technologies. The Group may have to pay higher costs due to a decline in purchasing scale if the Group is unable to obtain other similar goods, services and technologies at prices or on terms as favorable as those obtained prior to the offering. The operation as a separate company could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.3.4 Following the Group's separation from the Bayer Group, the Group will have a significant amount of debt that could materially adversely affect the Group's business.

After completion of the offering and taking into account the repayment of certain inter-group debt owed to Bayer Antwerpen NV, a subsidiary of the Existing Shareholder in connection with the offering, the Group expects its total financial indebtedness to amount to approximately €3,201 million. The amount of debt that the Group intends to incur could significantly affect the Group and the Group's investors: The Group may be required to use a substantial portion of the Group's cash flow from operations to make interest payments on this debt, which in turn reduces the cash flow available to fund capital expenditures and other corporate purposes and to grow the Group's business. As a consequence, the Group's vulnerability to generally adverse economic and industry conditions as well as the risk of a future downgrade of the Group's credit rating could increase. Further, future debt costs could increase and limit at the same time the future availability of debt financing, limiting the Group's ability to borrow additional funds as needed or take advantage of business opportunities as they arise. This could also limit the Group's flexibility in planning for, or reacting to, changes in the Group's business and the industry. The Group could consequently be placed at a competitive disadvantage to the Group's competitors that may not be as highly leveraged.

In addition, the Group's actual cash requirements in the future may be greater than expected. The Group's cash flow from operations may not be sufficient to repay all of the outstanding debt, and the Group may not be able to borrow money, sell assets or otherwise raise funds on acceptable terms, or at all, to refinance the debt. The significant amount of debt that the Group will carry after the separation may limit the flexibility of the Group to respond to future events and could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.3.5 The Group has not previously operated as a stand-alone publicly listed company and may be unable to operate effectively and fully implement its business strategy.

The Group has not previously operated as a stand-alone publicly listed company, and the Group's management has limited experience, as a group, in operating the Group's business as a stand-alone publicly listed company. Following the offering, the Group will be fully responsible for arranging the Group's own funding, managing all of the Group's own administrative and employee arrangements and supervising all of the Group's legal and financial affairs, including financial reporting requirements. The Group will adopt separate stock-based and performance-based incentive plans for the Group's employees and will develop the Group's own compliance and administrative procedures necessary for a publicly-held company. The Group has also entered into an agreement with the Bayer Group in which the Bayer Group will provide certain transitional services to the Group. In addition, the Group's ability to grow its business may be affected by the Group's indebtedness following the offering. The Group anticipates that its success in these endeavors will depend substantially upon the ability of the Company's management board (*Vorstand*) (the "**Management Board**"), senior management and other key employees to work together. Moreover, the inability of the Management Board or senior management to function cohesively could delay or prevent the Group from fully implementing the Group's business strategy, which could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.3.6 The Group may not realize potential benefits from the separation of its business from the Bayer Group's other businesses.

The Group may be unable to realize the potential benefits that it expects by separating from Bayer Group. These benefits include the ability of the Group to focus on its own strategic and operational plans, a more efficient allocation of capital for the Group, a distinct investment identity allowing investors to evaluate the merits, performance and future prospects of the Group separately from those of the Bayer Group, and a better tailoring of internal procedures to the nature of the Group's business and developing effective equity-based compensation to achieve greater alignment of management interests with the Group's business.

The Group may not achieve these and other anticipated benefits for a variety of reasons. Following the offering, the Group will not have the same access to the financial, managerial and professional resources from which the Group has benefited in the past and will incur significant costs, which may be greater than those for which the Group has planned, to replace these resources. In addition, the separation and offering will require significant amounts of management's time and effort, which may divert management's attention away from the Group's business. Furthermore, certain costs and liabilities that were otherwise less significant to the Bayer Group as a whole will be more significant to the Group as a stand-alone publicly listed entity, the Group may be more susceptible to market fluctuations and other adverse events than if it were still a part of the Bayer Group, and the Group's business will be significantly less diversified than the Bayer Group's business prior to the separation. If the Group is unable to achieve some or all of the benefits expected to result from the separation and the offering, or if such benefits are delayed, it could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.3.7 As a stand-alone publicly listed entity, the Company will have to comply with applicable corporate governance legislation as well as capital markets and stock exchange regulations.

As a stand-alone publicly listed entity, the Group must establish corporate governance functions and as a company listed on a regulated market it faces increased reporting and compliance requirements. As a result, management's attention may be diverted from other business functions. In addition, the Company may be required to hire additional employees or engage outside consultants to comply with such requirements, which could increase its costs and expenses and could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.3.8 As the Group builds its information technology infrastructure and transitions its data to its own systems, it could incur substantial additional costs and experience temporary business interruptions.

After the offering, the Group will continue to install and implement information technology infrastructure to support the Group's critical business functions, including systems relating to accounting and reporting, production process control, engineering, procurement, customer service, inventory control and distribution. The Group may incur temporary interruptions in business operations if it cannot transition effectively from the Bayer Group's existing transactional and operational systems and data centers and the transitional services that support these functions as it replaces these systems. The Group may not be successful in effectively and efficiently implementing its new systems and transitioning its data and the Group may incur substantially higher costs for implementation than currently anticipated. The Group's failure to avoid operational interruptions as it implements the new systems and replaces the Bayer Group's information technology services, or the Group's failure to implement the new systems and replace the Bayer Group's services effectively and efficiently, could disrupt the Group's business and could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.3.9 The Group may be unable to subsequently perform or replace the transitional services to be provided to the Group by the Bayer Group for a limited period of time without operational problems or additional cost.

The Group has entered into various transitional services agreements with the Bayer Group pursuant to which the Group and the Bayer Group and the Group's and the Bayer Group's respective affiliates will provide to each other certain transitional services for a period of time following the offering. These

services will include, among others, information technology services, human resource services, accounting services, and other support services.

It is possible that the transitional services agreements together with additional long-term service agreements will be insufficient to cover the Group's needs as a stand-alone company or that it may contain terms and conditions that are not favorable or competitive. Failure by Bayer Group to perform the services provided for under the transitional services agreements may result in operational problems and increased costs to the Group. If, after the expiration of the transitional services agreements, the Group is unable to perform these services or replace them in a timely manner or on reasonable terms, the Group may experience operational problems and increased costs to the Group. The transitional services to be provided by the Bayer Group may not function as efficiently as they did when the Group was a part of the Bayer Group and the Group may find it difficult to find an adequate replacement to provide similar services, which could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.3.10 If the distributions of the stock of Covestro LLC by Bayer Corporation and Bayer US Holding LP do not qualify for tax-free treatment for U.S. federal income tax purposes, the Company may be required to indemnify Bayer AG for material taxes pursuant to indemnification obligations under a tax covenants agreement and Covestro LLC may be required to indemnify Bayer US Holding LP for material taxes pursuant to indemnification obligations under a tax sharing agreement.

Covestro LLC (formerly Bayer MaterialScience LLC) is an indirect wholly owned subsidiary of the Company. Prior to the Company's acquisition of its indirect ownership of the shares of Covestro LLC and in furtherance of the separation of the MaterialScience division from other Bayer business divisions, the MaterialScience division in the United States was reorganized such that ownership of Covestro LLC was transferred in a series of transactions that were intended to enable Bayer Corporation and Covestro LLC to operate as independent companies. In connection with the separation, Bayer Corporation distributed the stock of Covestro LLC to Bayer US Holding LP, Bayer US Holding LP distributed the stock of Covestro LLC to Bayer Worldwide Investments BV, and Bayer Worldwide Investments BV distributed the stock of Covestro LLC to Bayer AG in transactions that were intended to be tax-free for U.S. federal income tax purposes (the ''**Distributions**''). Bayer Corporation received opinions of tax counsel as to the tax-free nature of the Distributions. Notwithstanding receipt by Bayer Corporation of the opinions of tax counsel, the U.S. Internal Revenue Service (the ''**IRS**'') could assert that the Distributions do not qualify for tax-free treatment for U.S. federal income tax purposes. If the IRS were successful in taking this position, Bayer Corporation and Bayer US Holding LP could be subject to significant U.S. federal income tax liability. In addition, the Distributions would be taxable to Bayer Corporation if the Distributions were later determined to be part of a plan (or series of related transactions) pursuant to which one or more persons acquire directly or indirectly stock representing a 50% or greater interest in Covestro LLC. For this purpose, direct or indirect acquisitions of the stock of Covestro LLC within the period beginning two years before the Distributions and ending two years after the Distributions are generally presumed to be part of such a plan, although this presumption is rebuttable.

Pursuant to the tax sharing agreement between Bayer AG, Bayer US Holding LP, Bayer Corporation, Covestro LLC and Covestro Deutschland AG dated December 31, 2014 as amended by an amendment agreement dated September 16, 2015 (the ''**Tax Sharing Agreement**'') Covestro LLC has agreed to indemnify Bayer US Holding LP and its affiliates against tax-related liabilities, if any, caused by the failure of the Distributions to qualify as tax-free transactions if the failure to so qualify is attributable to actions by Covestro Deutschland AG, Covestro LLC or its affiliates after the Distributions, including actions that are inconsistent with the representations and covenants provided in connection with the opinions of tax counsel issued in connection with the Distributions. In addition, pursuant to the tax covenants agreement dated September 17, 2015, between Bayer AG, Bayer US Holding LP, Bayer Corporation, and the Company (the ''**Tax Covenants Agreement**''), the Company agreed (i) to compensate Bayer AG in the amount resulting from tax-related liabilities caused by the failure of the Distributions to qualify as tax-free transactions (if the breach of the restrictions imposed on the Company causes such tax-related liabilities) or (ii) to indemnify Bayer AG and its affiliates, as well as their respective directors, officers and employees, and hold them harmless from and against any tax-related liabilities caused by the failure of the Distributions to qualify as tax-free transactions (unless the Company can prove that (x) an action of Bayer AG or any of its affiliates did cause such tax-related liabilities or (y) such tax-related liabilities would have been triggered even if the Company had not breached the restrictions imposed on it). If the failure of

the Distributions to qualify for tax-free treatment is for any reason for which none of Bayer AG, Bayer US Holding LP (and its affiliates), the Company, Covestro Deutschland AG or Covestro LLC (and its affiliates) is responsible, each of Bayer US Holding LP and Covestro LLC has agreed in the Tax Sharing Agreement to be responsible for 50% of the tax-related liabilities arising from the failure of the Distributions to qualify as tax-free transactions. Covestro LLC's indemnification obligations to Bayer US Holding LP and its affiliates are not limited in amount or subject to any cap and the Company's indemnification obligations to Bayer AG and its affiliates is under some circumstances subject to a cap agreed with Bayer AG. The amount to be indemnified by Covestro LLC and/or the Company could be significant notwithstanding the cap that is applicable in some circumstances.

3.3.11 The Company, Covestro Deutschland AG, and Covestro LLC are subject to certain covenants and indemnification obligations that may reduce their strategic and operational flexibility.

Pursuant to the Tax Sharing Agreement and the Tax Covenants Agreement, the Company, Covestro Deutschland AG, and Covestro LLC generally have agreed not to take certain actions, such as stock issuances, certain stock transfers, mergers, and asset sales. The Company, Covestro Deutschland AG and Covestro LLC have agreed not to undertake such transactions during the two year period following the Distributions without first obtaining an opinion of tax counsel or a private letter ruling issued by the IRS that any such action will not result in the Distributions failing to qualify as tax-free transactions. If the commencement of trading of the Shares on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) (Prime Standard) occurs after October 2, 2015, the Company, Covestro Deutschland AG and Covestro LLC will continue to be subject to these restrictions until fifteen months after the commencement of such trading. Further, as described above, Covestro LLC would generally be responsible for any tax-related liabilities caused by the failure of the Distributions to qualify as tax-free transactions if the failure to so qualify is attributable to actions by Covestro Deutschland AG, Covestro LLC or its affiliates after the Distributions. As a result of all of these covenants and indemnification obligations, the Company, Covestro Deutschland AG, and Covestro LLC may be unable to issue stock, pursue strategic transactions or engage in other transactions that may maximize the value of the business. Many of the competitors of the Group are not subject to similar restrictions and may issue their stock or undertake other transactions that enhance their strategic and operating flexibility. Therefore, these competitors may have a competitive advantage over the Group which could materially adversely affect the Group's business, financial condition, results of operations and prospects.

3.4 RISKS RELATED TO THE SHARES, THE LISTING AND THE COMPANY'S SHAREHOLDER STRUCTURE

3.4.1 The Company's shares have not been publicly listed, and there is no guarantee that an active and liquid market for the shares will develop and be sustained following the initial offering of shares.

Prior to the offering and listing, the Shares were not publicly listed and the Group has no experience operating as a publicly listed entity. The Group is therefore unable to predict to what extent a market for the Shares will develop and how liquid the market will be. The offer price will be set using the book building method as agreed between the Company and the Joint Global Coordinators. No assurance can be given that a liquid market will develop and be sustained following the listing of the Shares. Investors may be unable to sell the Shares quickly or at the current price if there is no active trading in the Shares.

3.4.2 The market price and trading volume of the Company's shares may fluctuate significantly and could decline upon completion of the offering, and investors could lose some or all of their investment.

The trading volume and price of the Shares may fluctuate significantly. If the Share price declines significantly, investors may be unable to resell their Shares at or above the purchase price. Some of the factors that could negatively affect the Share price or result in fluctuations in the price or trading volume of the Shares include, for example, variations in quarterly results, changes in net sales estimates, the contents of published research reports about it or the industry segments or the failure of securities analysts to cover the Shares following the offering, actions by institutional shareholders and general market conditions.

The Share price is determined by the supply of and demand for the Shares. This in turn is influenced in particular by fluctuations in its actual or projected operating results, changes in the Group's projected net sales or failure to meet securities analysts' net sales expectations, changes in general economic conditions, especially in the market for certain petrochemical derivatives, or special factors influencing companies in the industry segments in general. Fluctuations in the equity markets could also cause the Share price to decline, though such general fluctuations may not necessarily have any particular basis in the Group's business or prospects. The Group cannot guarantee that the price at which the Shares will be traded following the offering will be equivalent to the offer price. Investors might therefore only be able to sell their Shares at a price below the offer price.

3.4.3 The payment of future dividends will depend on the Group's business, cash flows, financial condition, and results of operations.

The decision to distribute future dividends will be made by the Group's general shareholders' meeting. This decision is always dependent on the circumstances at the time, including the Group's results of operations, financial and investment needs, the availability of distributable reserves and other relevant factors. These factors may restrict the Group's ability to distribute dividends. In some situations, the Group might distribute either no dividend or a dividend that is small relative to the sector as a whole.

Since the Company performs no operating activities itself, its ability to pay dividends depends in particular on whether profits from its operating subsidiaries, particularly Covestro Deutschland AG, are distributed to the parent company. There are some profit transfer agreements between certain companies of the Group.

3.4.4 Future offerings of debt or equity securities by the Group may materially adversely affect the share price, and future capitalization measures could lead to substantial dilution of existing shareholders' interests in the Group.

The Group plans to further expand in the future, whether organically or by acquisition of other companies. As a consequence, it may raise additional equity through the issuance of new Shares or convertible or exchangeable bonds. Increasing the number of issued Shares to the exclusion of subscription rights would dilute the ownership interests of existing shareholders. Shareholders' ownership interests could also be diluted if other companies or equity interests in companies are acquired in exchange for new shares of the Group to be issued and, to a lesser extent, if Shares are issued to employees under future profit-sharing plans. In certain limited circumstances subsequent to the Offering, the agreement, pursuant to which the joint ventures with affiliates of LyondellBasell were transferred to members of the Group, requires the Group to seek the consent of LyondellBasell or its affiliates prior to the sale or disposal by the Company of shares in the Company.

3.4.5 Bayer AG, the Group's largest shareholder following the offering, may have interests that conflict with the Group and may cause the Group to forgo desirable opportunities.

Upon completion of the offering, Bayer AG, and after execution of the put-option by the Underwriters together with Bayer Global Investments B.V., will hold up to a total maximum of approximately 69.9% of the Shares. Bayer AG holds other companies, and members of the Management Board and/or the Company's supervisory board (*Aufsichtsrat*) (the "**Supervisory Board**") may in the future serve as officers and/or directors of these entities. These relationships may lead to conflicts of interest. For example, certain investments desirable for the Group may also be desirable for one or more of these other companies, and the Bayer Group and their respective advisors or affiliates or their respective representatives on the Management Board and/or Supervisory Board may have obligations that conflict regarding whether to direct or facilitate the making of any particular investment through the Group or through another such company or regarding whether and how to advise with respect to such investments. Bayer AG also owns the majority (60%) of Currenta, the sole operator of the chemical parks located in Leverkusen, Dormagen and Uerdingen, Germany, which has many contractual relationships with the Group that may result in commercial conflicts.

3.4.6 Bayer AG could exert substantial influence on decisions reached by the general shareholders' meeting and could have diverging interests from those of the Group's other shareholders.

The Group's articles of association provide, among other things, that resolutions of the general shareholders' meeting are adopted by simple majority vote and, to the extent a majority of Shares is required, by simple majority of Shares, unless otherwise required by applicable law or the articles of association. In light of expected attendance level at the shareholders' meetings, the size of Bayer AG's shareholding in the Company means that Bayer AG will likely be in a position to pass resolutions at the Group's general shareholders' meeting regardless of how other shareholders vote, including resolutions electing the members of the Supervisory Board. In particular, Bayer AG will be able to determine the allocation of profit and hence the Group's dividend policy. In addition, Bayer AG will likely be able determine the future composition of the Supervisory Board and, therefore, indirectly, of the Management Board, and also adopt certain resolutions on other significant matters such as major capital measures or the conclusion of a domination and profit/loss transfer agreement, regardless of how other shareholders vote.

German company law requires the approval of at least three-quarters of the share capital represented at the time a vote is taken to pass resolutions on certain matters, such as creating authorized or conditional capital, changing the corporate purpose (*Unternehmensgegenstand*), mergers, spin-offs and conversions to a different form of legal entity. If participation at shareholders' meetings in the future is low, Bayer AG will still be in a position after the offering to hold the legally required majority of the votes to resolve upon important resolutions such as to amend the articles of association and capital increases/ decreases. Bayer AG will also be able to block resolutions at the general shareholders' meeting, including resolutions requiring a qualified majority of votes cast or share capital represented. Due to the voting power in the Group's general shareholders' meeting, Bayer AG can exercise substantial influence over the Group's business. The interests of Bayer AG may differ from the interests of some or all of the Group's shareholders.

3.4.7 Future sales of shares in the Company by Bayer AG or the perception that such sales may occur could depress the price of the shares.

If Bayer AG sold a large block of the Shares in the Company it holds upon completion of the offering, or a consensus formed in the market that such sales were imminent, the Group's share price may fall. Upon completion of the offering, the issued Shares will amount to up to 234,339,622 Shares. Upon completion of the offering, Bayer AG, and after execution of the put-option by the Underwriters together with Bayer Global Investments B.V., will hold up to a total maximum of approximately 69.9% of the Shares. While these Shares are subject to lock-up agreements, such arrangements are only contractual obligations and are only binding for the agreed lock-up period of six months. If such arrangements among the parties are broken, altered or waived, shareholders will not have any right of action against the parties. A sale of shares of the Company before the expiration of the lock-up period therefore cannot be ruled out. Bayer AG's proposed or perceived sale of Shares in the Company in the future may significantly depress the Share price especially at the point in time when any lock-up arrangements expire.

4. GENERAL INFORMATION

4.1 RESPONSIBILITY FOR THE CONTENTS OF THE PROSPECTUS

The Company, with its registered office at Kaiser-Wilhelm-Allee 60, 51373 Leverkusen, Germany, and registered with the commercial register of the local court of Cologne (*Amtsgericht Köln*) (the "**Commercial Register**") under docket number 85281, and Deutsche Bank AG, Frankfurt am Main, Germany, ("**Deutsche Bank**") and Morgan Stanley & Co. International plc, London, United Kingdom, ("**Morgan Stanley**", and together with Deutsche Bank, the "**Joint Global Coordinators**", and each a Global Coordinator), Merrill Lynch International, London, United Kingdom, ("**BofA Merrill Lynch**"), Citigroup Global Markets Limited, London, United Kingdom, ("**Citigroup**"), Credit Suisse Securities (Europe) Limited, London, United Kingdom, ("**Credit Suisse**"), J.P. Morgan Securities plc, London, United Kingdom, ("**J.P. Morgan**"), and UBS Limited, London, United Kingdom, ("**UBS Investment Bank**", and together the "**Joint Bookrunners**" and each a Joint Bookrunner), BNP Paribas, Paris, France, ("**BNP PARIBAS**") and UniCredit Bank AG, Munich, Germany, ("**UniCredit Bank AG**", and together with BNP PARIBAS, the "**Co-Lead Managers**", and each a Co-Lead Manager, and, together with the Joint Global Coordinators and the Joint Bookrunners, the "**Underwriters**"), have assumed responsibility for the contents of this prospectus (the "**Prospectus**") pursuant to section 5 (4) of the German Securities Prospectus Act (*Wertpapierprospektgesetz*) and declare that the information contained in the Prospectus is, to the best of their knowledge, correct and contains no material omissions.

If claims are brought before a court of law relating to information contained in the Prospectus, the investor asserting such claims may have to bear the costs of translating the Prospectus pursuant to the national legislation of the member states of the European Economic Area ("**EEA**") prior to the initiation of court proceedings.

The information in the Prospectus will not be updated subsequent to the date hereof except for any significant new event or significant error or inaccuracy relating to the information contained in the Prospectus that may affect an assessment of the Shares and occurs or comes to light following the approval of the Prospectus, but before the completion of the public offering or admission of the Shares to trading, whichever is later. These updates must be disclosed by means of a supplement to the Prospectus in accordance with section 16(1) sentence 1 of the German Securities Prospectus Act (*Wertpapierprospektgesetz*).

4.2 PURPOSE OF THE PROSPECTUS

For the purpose of the public offering of securities, the Prospectus relates to 94,339,622 of the Company's newly issued ordinary bearer shares with no par value (*Stückaktien*), each such share representing a notional value of €1.00 and full dividend rights since inception, from a capital increase against contributions in cash (the "**IPO Capital Increase**") to be resolved by an extraordinary shareholders' meeting of the Company expected to take place on September 30, 2015 (the "**New Shares**").

For the purpose of admission to trading on the regulated market of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and the simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard), the Prospectus relates to up to the New Shares and 140,000,000 of the existing ordinary bearer shares (together being the entire share capital of the Company following the registration of the capital increase) with no par value, each with a notional value of €1.00 and full dividend rights since inception (the "**Existing Shares**").

The Offering consists of a public offering in Germany and Luxembourg and a private placement in certain jurisdictions outside of Germany. In the United States, the New Shares are being offered to qualified institutional buyers in accordance with Rule 144A ("**Rule 144A**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"). Outside the United States, the New Shares are being offered by means of a private placement in accordance with Regulation S under the Securities Act ("**Regulation S**").

4.3 FORWARD-LOOKING STATEMENTS

The Prospectus contains forward-looking statements. A forward-looking statement is any statement that does not relate to present or historical facts and events. This applies, in particular, to statements in the Prospectus containing information on its financial position, future earning capacity, plans and expectations regarding its business, its growth and profitability, outlook and general economic conditions

to which it is exposed. Statements made using words such as ''will,'' ''expects,'' ''targets'' or ''intends,'' may indicate forward-looking statements.

The forward-looking statements in the Prospectus are subject to risks and uncertainties, as they relate to future events, and are based on estimates and assessments made to the best of the Company's present knowledge. These forward-looking statements are based on assumptions, uncertainties and other factors, the occurrence or non-occurrence of which could cause its actual results, including the financial condition and profitability of the Group, to differ materially from or fail to meet the expectations or targets expressed or implied in the forward-looking statements. Accordingly, investors are strongly advised to read the following sections of the Prospectus: ''*1. Summary of the Prospectus*,'' ''*3. Risk Factors*,'' ''*13. Management's Discussion and Analysis of Financial Condition and Results of Operations*,'' ''*15. Business*'' and ''*27. Recent Developments and Outlook*.'' These sections include more detailed descriptions of factors that might have an impact on its business and the business environment in which the Group operates.

In light of the uncertainties and assumptions, it is also possible that the future events mentioned in the Prospectus might not occur. In addition, the forward-looking estimates and forecasts reproduced in the Prospectus from third-party reports could prove to be inaccurate. For further information on third-party sources used in the Prospectus, see ''*—4.4 Sources of Certain Information Provided in the Prospectus.*'' Actual results, performance or events may differ materially from those in such statements due to, among other reasons:

- changes in global economic conditions, including political and social conditions;
- changes in the customer end markets, in particular the automotive/transport, construction, electrical/ electronics and furniture end markets and the polymer industry in general;
- fluctuations of the prices of raw materials, such as crude oil, or energy prices;
- the level of changes in industry utilization rates;
- changes in competition levels as well as downward pressure on prices and profitability;
- the occurrence of business or operational risks;
- changes in legal or tax matters and in environmental, health and safety regulations;
- changes affecting currency exchange rates; and
- changes affecting interest rate levels.

Forward-looking statements included in the Prospectus speak only as of the date on which they are made. Moreover, it should be noted that neither the Company nor any of the Underwriters assumes any obligation, except as required by law, to update any forward-looking statement or to confirm any such statement to actual events or developments. Nevertheless, the Company has the obligation to disclose any significant new event or significant error or inaccuracy relating to the information contained in the Prospectus that may affect an assessment of the Shares and occurs or comes to light following the approval of the Prospectus, but before the completion of the public offering or admission of the Shares to trading, whichever is later. These updates must be disclosed by means of a supplement to the Prospectus in accordance with section 16(1) sentence 1 of the German Securities Prospectus Act (*Wertpapierprospektgesetz*).

For a further description of some of the factors that may have an influence on the Company's forward-looking statements, see ''*3. Risk Factors.*''

4.4 SOURCES OF CERTAIN INFORMATION PROVIDED IN THE PROSPECTUS

The information contained in the Prospectus on the environment, developments, growth rates, trends and competition in the industry in which the Group operates is taken from the Industry Report ''Analyses of Certain Aspects of the Polymer Industry'' of Nexant Inc. and Orr & Boss Ltd. dated July 2015, and the related databook, or from publicly available sources, including, but not limited to, third-party studies or its estimates that are also primarily based on data or figures from publicly available sources or if indicated based on own estimates of the Company. The assessment is based, in particular, on an industry report which was commissioned in February 2015 and compiled by Nexant Inc. with regard to products such as MDI, TDI, polyether polyols, polycarbonates, chlorine and caustic soda, and Orr & Boss Ltd. with regard to niche products such as base and modified isocyanates, resins, elastomers and specialty films. The

results of the Group's proprietary industry analysis are largely consistent with the analysis presented by these two consultants. In the Industry Report and section *''14. Industry and Competitive Overview,''* references to ''EMEA'' mean Europe, the Middle East and Africa, references to ''APAC'' mean Asia and the Pacific, references to ''NAFTA'' mean the United States, Canada and Mexico, and references to ''LATAM'' mean Latin America, excluding Mexico.

The information from third-party sources that is cited here has been reproduced correctly. As far as the Company is aware and is able to ascertain from information published by such third party, no facts have been omitted that would render the reproduced information included in the Prospectus inaccurate or misleading. The Prospectus also contains estimates of industry data and information derived from these estimates that is not available from publications issued by industry research firms or from any other independent sources. This information is based on the Group's internal estimates and, as such, may differ from the estimates made by its competitors or from data collected in the future by industry research firms or other independent sources. To the extent the Group derived or summarized the industry information contained in the Prospectus from a number of different studies, an individual study is not cited unless the respective information can be taken from it directly.

The Company has not independently verified the industry data and other information on which third parties have based their studies or the external sources on which its own estimates are based, except to the extent set forth in the paragraph directly above. Therefore, the Company assumes no responsibility for the accuracy of the information, other than the correct reproduction of such information, on the industry environment, developments, growth rates, trends and competitive situation presented in the Prospectus from third-party studies or the accuracy of the information on which the Company's own estimates are based.

4.5 DOCUMENTS AVAILABLE FOR INSPECTION

For the period during which the Prospectus is valid, the following documents, or copies thereof, will be available for inspection during regular business hours at the Company's offices at Kaiser-Wilhelm-Allee 60, 51373 Leverkusen, Germany:

- the Company's articles of association (*Satzung*) (''**Articles of Association**''); and
- the audited combined financial statements of the Covestro Group as of and for the fiscal years ended December 31, 2014, 2013 and 2012, including the notes thereto, which have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (''**IFRS**''); and
- the unaudited condensed combined interim financial statements of the Covestro Group as of and for the six months ended June 30, 2015 (including combined comparative figures for the six-month period ended June 30, 2014), which have been prepared in accordance with International Accounting Standard (''**IAS 34**''); and
- the audited opening statement of financial position of Covestro AG as of August 21, 2015, which has been prepared in accordance with IFRS; and
- the audited opening statement of financial position (*Eröffnungsbilanz*) of Covestro AG as of August 21, 2015, which has been prepared in accordance with German Commercial Code (*Handelsgesetzbuch* (*HGB*)).

The aforementioned documents will also be available on the Company's website (http://investor.covestro.com/en/ipo and http://investor.covestro.com/de/boersengang) for a period of 12 months after publication of the Prospectus.

The future consolidated financial statements, unconsolidated financial statements and condensed consolidated interim financial statements of the Company will also be made available by the Company for inspection during regular business hours at the Company's offices and on the Company's website after the commencement of trading of the Shares on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*).

4.6 CURRENCY PRESENTATION AND PRESENTATION OF FINANCIAL INFORMATION

4.6.1 Currency Presentation

The amounts set forth in the Prospectus in ''€,'' ''EUR'' or ''Euro'' refer to the single currency of the participating member states in the third stage of the European Economic Union pursuant to the Treaty Establishing the European Community. The amounts in ''$,'' ''U.S. dollar'' or ''USD'' refer to the legal currency of the United States of America. ''Chinese renminbi'' refers to the legal currency of China, the ''Hong Kong dollar'' to the legal currency of Hong Kong, China, the ''Mexican peso'' to the legal currency of Mexico, the ''Brazilian real'' to the legal currency of Brazil, the ''Japanese yen'' to the legal currency of Japan, the ''Indian rupee'' to the legal currency of the Republic of India and ''DKK'' to the legal currency of Denmark.

4.6.2 Presentation of Financial Information

The combined financial statements as of and for the fiscal years ended December 31, 2014, 2013 and 2012 and the condensed combined interim financial statements as of and for the six months ended June 30, 2015 (including combined comparative figures for the six months ended June 30, 2014), each included in the financial section of the Prospectus and referred to in the Prospectus, have been prepared by Covestro Deutschland AG (formerly Bayer MaterialScience Aktiengesellschaft), a direct and wholly-owned subsidiary of the Company, and reflect the Bayer MaterialScience business, consisting of the activities in the area of polymer materials and certain inorganic basic chemicals that was separated from the Bayer Group. Therefore, for purposes of the combined financial statements and combined financial information included in the Prospectus, the Bayer MaterialScience business is referred to as the ''**Covestro Group**.''

The Prospectus contains:

- the audited combined financial statements for the Covestro Group as of and for the fiscal years ended December 31, 2014, 2013 and 2012, (''**Fiscal Year 2014**;'' ''**Fiscal Year 2013**'' and ''**Fiscal Year 2012**''), including the notes thereto, included in ''*25. Financial Information*,'' which have been prepared in accordance with IFRS and have been audited in accordance with International Standards on Auditing by PricewaterhouseCoopers Wirtschaftsprüfungsgesellschaft AG (''**PwC**''), as stated in their report included in ''*25. Financial Information*;''
- the unaudited condensed combined interim financial statements for the Covestro Group as of and for the six-month period ended June 30, 2015 (including combined comparative figures for the six-month period ended June 30, 2014), included in ''*25. Financial Information*,'' which have been prepared in accordance with IAS 34;
- the audited opening statement of financial position of Covestro AG as of August 21, 2015, included in ''*25. Financial Information*,'' which has been prepared in accordance with IFRS and has been audited in accordance with International Standards on Auditing by PwC, as stated in their report included in ''*25. Financial Information*;'' and
- the audited opening statement of financial position of Covestro AG as of August 21, 2015, included in ''*25. Financial Information*,'' which has been prepared in accordance with German Commercial Code (*Handelsgesetzbuch (HGB)*) and has been audited in accordance with International Standards on Auditing by PwC, as stated in their report included in ''*25. Financial Information*.''

In the Prospectus, the term ''audited combined financial statements'' refers to the audited combined financial statements for the Covestro Group as of and for the fiscal years ended December 31, 2014, 2013 and 2012. The term ''unaudited combined interim financial statements'' refers to unaudited condensed combined interim financial statements for the Covestro Group as of and for the six-month period ended June 30, 2015 (including combined comparative figures for the six-month period ended June 30, 2014). The term ''**combined financial statements**'' refers to both the audited combined financial statements and unaudited combined interim financial statements.

References to Fiscal Years 2014, 2013 and 2012 are references to the fiscal years ended December 31, 2014, 2013 and 2012.

Financial information marked as ''unaudited'' in the Prospectus was either derived from the unaudited combined interim financial statements, Bayer MaterialScience Aktiengesellschaft's accounting records,

internal management reporting systems or calculations based on unaudited amounts from the abovementioned sources.

4.7 MEASURES NOT DEFINED BY IFRS (NON-GAAP MEASURES) AND CONVERSION MEASURES

The Prospectus contains certain measures not defined by IFRS or the German Generally Accepted Accounting Principles (''**GAAP measures**''). Adjusted EBIT, Adjusted EBITDA, Adjusted EBITDA margin, currency- and portfolio-adjusted net sales, free operating cash flow and certain other items included herein are non-GAAP measures and should not be considered as an alternative to the applicable GAAP measures.

The Group has defined each of the following non-GAAP financial measures as follows:

- ''**Adjusted EBIT**'' is defined as earnings before financial result and taxes plus special items, which comprise effects that the Group regards as non-recurring or that do not regularly recur or attain similar magnitudes.
- ''**Adjusted EBITDA**'' is defined as EBITDA before special items, which comprise effects that the Group regards as non-recurring or that do not regularly recur or attain similar magnitudes.
- ''**Adjusted EBITDA margin**'' is defined as Adjusted EBITDA as a percentage of net sales.
- ''**Core sales volume**'' is defined as external sales volume derived from its core operations in its Polyurethanes, Polycarbonates and Coatings, Adhesives and Specialties segments that is not related to opportunistic business opportunities through sales of, for example, raw materials, intermediates (such as styrene and caustic soda) or other non-core products.
- ''**Currency- and portfolio-adjusted net sales**'' is defined as net sales adjusted for foreign currency translation and portfolio effects.
- ''**EBITDA**'' is defined as earnings before financial result and taxes (EBIT) plus depreciation and impairment losses on property, plant and equipment, plus amortization and impairment losses on intangible assets and minus impairment loss reversals on intangible assets and property, plant and equipment.
- ''**Free operating cash flow**'' is defined as net cash provided by (used in) operating activities (net cash flow) less cash outflows for additions to property, plant and equipment, and intangible assets.
- ''**Special items**'' is defined as effects that the Group regards as non-recurring or that do not regularly recur or attain similar magnitudes.

The Company has provided these non-GAAP measures in the Prospectus because it believes they provide investors with additional information to measure the economic performance of the business activities of the Group. The use of these non-GAAP terms may vary from other companies in the industry of the Group. The measures the Group uses should not be considered as an alternative to net income (loss), net sales or any other performance measure derived in accordance with IFRS or the German Commercial Code or to net cash provided by (used in) operating activities (net cash flow) as a measure of liquidity. These non-GAAP measures have limitations as analytical tools and should not be considered in isolation or as substitutes for analysis of the results of the Group as reported under IFRS or under the German Generally Accepted Accounting Principles (''**German GAAP**''). For definitions and further explanations of non-GAAP measures, see also ''*13. Management's Discussion and Analysis of Financial Condition and Results of Operations—13.5 Key Performance Indicators*.''

The Group presents its production data and certain consumption data using the following measures. Any reference to production capacity refers to per annum production capacity.

°C	Degrees Celsius
kt	Metric kiloton, a unit of weight equal to 1,000 tons
Nameplate production capacity	Refers to the intended full-load sustained output of a production facility or group of production facilities at 8,000 hours of continuous production
Ton	Metric ton, a unit of weight equal to 1,000 kilograms

4.8 NEGATIVE NUMBERS; ROUNDING

Numbers in parentheses in the Prospectus denote a negative amount. Certain numerical data, financial information and data (including percentages) in the Prospectus have been rounded according to established commercial standards. As a result, the aggregate amounts (sum totals or sub-totals or differences or if numbers are put in relation) in the Prospectus may not correspond in all cases to the amounts contained in the underlying (unrounded) figures appearing in the Prospectus. Furthermore, in tables and charts, these rounded figures may not add up exactly to the totals contained in the respective tables and charts.

5. CARVE-OUT AND REORGANIZATION

The Group comprises the raw material manufacturing business for polyurethanes, polycarbonates and raw materials for coatings, adhesives and specialties and selected inorganic basic chemicals of the Bayer Group. Prior to the carve-out, most of the Group's business was managed and reported as the MaterialScience business of Bayer AG. In general, the MaterialScience business was already organized to a significant extent in separate legal entities and subsidiaries to Bayer AG as a result of the restructuring of Bayer AG's activities in 2003 into three subgroups: Bayer HealthCare, Bayer CropScience and Bayer MaterialScience. Many, but not all of the legal entities to be carved-out were already held directly or indirectly as subsidiaries by Covestro Deutschland AG (formerly Bayer MaterialScience Aktiengesellschaft). However, certain business and service activities of the MaterialScience business were conducted by legal entities not yet fully separated, but rather held and operated by Bayer AG or by regional holding companies which were direct or indirect subsidiaries of Bayer AG's other subgroup holding companies.

Those business and service activities held within legal entities not already part of the MaterialScience business, in particular, including, but not limited to, the chemical and polymers business as well as certain service and corporate center functions, were transferred from the relevant owner entities to existing or newly formed direct or indirect subsidiaries of Covestro Deutschland AG. The transfers of the relevant assets, rights, liabilities and contracts were carried out in the legal form of sales, dividends in kind, contributions to equity or similar methods under the local law of the countries in which the transferred businesses are located. The transfers included all current and fixed assets, including trademarks and patents with the prefix ''Bay'' used in the relevant business, liabilities from operating activities, contracts pertaining to the relevant business activities as well as certain financial assets and liabilities.

In a number of cases, the business and service activities of the MaterialScience business were already organized in separate legal entities but the shares in such entities were not yet directly or indirectly held by Covestro Deutschland AG. In these instances, the shares in the relevant companies were sold and transferred by the relevant owner to Covestro Deutschland AG or one of its direct or indirect subsidiaries under the relevant local law of the country of incorporation.

Finally, in a number of cases, subsidiaries of Covestro Deutschland AG contained certain activities and assets pertaining to business activities of the other Bayer business subgroups. In these cases, the non-MaterialScience business activities were transferred out of such entities by asset transfers.

The consideration for the asset or share transfers was generally based on an independent valuation of an independent auditor. The above-mentioned transfers were made with warranties from companies of the Bayer Group, which were limited to the legal capacity of the transferor, legal title and the absence of third-party rights and, for the transfer of shares, that shares are fully paid in. Under the local share and asset transfer agreements, the respective transferring Bayer Group company typically granted a tax indemnity in favor of the respective company of the Group and such company vice versa agreed to a tax indemnity relating to specific areas. For further information on the local share and asset transfer agreements, see ''*16. Certain Relationships and Related Party Transactions—16.1 Relationship with the Bayer Group—16.1.5 Local Agreements.*'' Generally, share transfers were made with retroactive effect as of January 1, 2015, and asset transfers with effect as of June 30, 2015, or as of August 31, 2015.

All share and asset deals entered into in order to concentrate the entire MaterialScience business underneath Covestro Deutschland AG have been supplemented by a master agreement between Bayer AG and Covestro Deutschland AG, which governs the entire separation of the MaterialScience business from the other Bayer business subgroups, and in which the parties agreed on a number of overarching rules and principles that apply to all asset and share transfers (the ''**Master Agreement**''). Pursuant to the principles outlined in the Master Agreement, Covestro Deutschland AG has assumed certain responsibility *inter alia* for: (i) environmental contamination arising in connection with properties owned by it or its subsidiaries or transferred to it or its subsidiaries as part of the formation of the MaterialScience business or transferred or to be transferred to it or its subsidiaries in the course of the carve-out and reorganization, (ii) warranty and product liability claims of third parties arising out of or in connection with defective products which were put on the market prior to August 31, 2015 (the ''**Separation Date**'') and (iii) liabilities resulting from violations of the law. For further information on the Master Agreement, see ''*16. Certain Relationships and Related Party Transactions—16.1 Relationship with the Bayer Group—16.1.3 Master Agreement between Covestro Deutschland AG and Bayer AG.*'' Covestro Deutschland AG will be responsible for pension entitlements of all of the employees transferred to it as part of the asset deals described in this paragraph, of all employees employed after the Separation Date by itself and its

direct and indirect subsidiaries and of all persons who ceased to be employees of the Group after the Separation Date but had their last employment prior to the time of their departure with Covestro Deutschland AG or another company of the MaterialScience business.

For a certain number of countries, where the MaterialScience business only had sales support functions that were carried out by personnel employed by a local company of the Bayer Group and where it was decided not to establish a legal entity of the MaterialScience business, the personnel and the related assets were transferred to MS Global AG, Switzerland, which continues to operate these functions as branch offices and other organizational forms in the relevant countries.

As part of the carve-out and reorganization Covestro Deutschland AG and its direct and indirect subsidiaries acquired *inter alia* all shares in Covestro Polyurethanes B.V. (formerly Bayer Polyurethanes B.V.), Nieuwegein, Netherlands, Covestro B.V. (formerly Bayer MaterialScience B.V.), Nieuwegein, Netherlands, Covestro LLC, Pennsylvania, United States, Bayer MaterialScience A/S, Oterrup, Denmark, and 95.6% of the shares in Bayer MaterialScience Taiwan Limited, Taipei, Taiwan, from companies of the Bayer Group in the first six month of 2015 and 99.3% of the shares in Covestro (India) Private Limited (formerly Bayer MaterialScience Private Limited), Thane, India, were transferred as contribution in kind from Bayer AG, Germany.

In addition, companies of Covestro Group have acquired all shares in Covestro Antwerpen NV, Antwerp, Belgium, and Bayer MaterialScience S.r.l., Milan, Italy, and *inter alia* 99.0% of the shares in Bayer MaterialScience S.p.A., Milan, Italy, and parts of the Covestro business of Bayer S.A., São Paulo, Brazil, has been transferred to the Covestro Group since July 1, 2015. For further information regarding such transfers, see the notes to the combined financial statements included in *"25 Financial Information."*

6. THE OFFERING

6.1 SUBJECT MATTER OF THE OFFERING

This offering relates to newly issued ordinary bearer shares with no par value (*Stückaktien*), each such share representing a notional value of €1.00 and full dividend rights since inception, from a capital increase against cash contributions to be resolved by the extraordinary shareholders' meeting of the Company (the ''**Offering**'') expected to take place on September 30, 2015 (the ''**New Shares**'').

The Offering relates to a public offering in Germany and Luxembourg, and private placements in certain jurisdictions outside of Germany. In the United States, the New Shares are being offered to qualified institutional buyers in accordance with Rule 144A under the Securities Act. Outside the United States, the New Shares are being offered by means of a private placement in accordance with Regulation S under the Securities Act.

The Offering does not comprise any shares of the Company in connection with potential over-allotment and hence no securities lending will be provided by the Existing Shareholder. However, the Stabilization Manager (as defined in ''*—6.5 Stabilization Measures and Put Option*'') may acquire shares of the Company in connection with Stabilization Measures (as defined in ''*—6.5 Stabilization Measures and Put Option*''). To facilitate such Stabilization Measures, Bayer Global Investments B.V. (the ''**Put-Grantor**''), a group company of the Existing Shareholder, has granted the Stabilization Manager a put option to sell to it up to 10% of the New Shares to the extent such shares have been acquired in the market by the Stabilization Manager in connection with such measures at the aggregate price at which it acquired such shares (the ''**Put Option**''). For further information on the Stabilization Measures and Put Option, see ''*—6.5 Stabilization Measures and Put Option*.''

The IPO Capital Increase to create the New Shares, which is expected to be approved by the extraordinary shareholders' meeting of the Company on September 30, 2015 and to be registered with the Commercial Register on October 1, 2015, would result in an increase in the Company's share capital of up to €94,339,622 million. The New Shares will be issued upon registration of the IPO Capital Increase with the Commercial Register. Assuming the IPO Capital Increase is approved by the extraordinary shareholders' meeting of the Company and registered with the Commercial Register of the Company in the maximum amount, the total share capital of the Company will amount to €234,339,622 million. The share capital of the Company represented by the New Shares will total €94,339,622 million. Thus, approximately 40.3% of the Company's shares (after effectiveness of the issuance of all New Shares and assuming the maximum number of New Shares) will be offered.

Following the completion of the Offering, and assuming full placement of the New Shares at the low end, mid-point and high end of the Price Range (i.e., maximum, medium and minimum number of the New Shares) to achieve the targeted gross proceeds in an amount of around €2,500 million, the Existing Shareholder will hold approximately 59.7% at the low end, 63.5% at the mid-point, and 66.5% at the high end of the Price Range, respectively, of the Company's shares. For further information on the Company's shareholder structure, see ''*18. Shareholder Structure*.'' In the event that the Put Option is exercised in full, the Existing Shareholder together with the Put-Grantor will hold approximately 63.8% at the low end, 67.1% at the mid-point and 69.9% at the high end of the Price Range of the Company's shares.

In the Offering, the Company will receive the proceeds (after deduction of agreed commissions and expenses) from the sale of the New Shares. The Existing Shareholder will receive no proceeds from the Offering. However, the Company intends to use the net proceeds from the sale of the New Shares mainly to reduce existing debt owed to Bayer Antwerpen NV, a subsidiary of the Existing Shareholder, in an amount of €2,375 million (referred to as the Inter-Group Debt Repayment II) (each as defined below in ''*8. Reasons for the Offering and Listing and use of Proceeds*'').

The Underwriters are Deutsche Bank AG, Taunusanlage 12, 60325 Frankfurt am Main, Germany, and Morgan Stanley & Co. International plc, 25 Cabot Square, Canary Wharf, London, E14 4QA, United Kingdom, acting as Joint Global Coordinators, Merrill Lynch International, 2 King Edward Street, London, EC1A 1HQ, United Kingdom, Citigroup Global Market Limited, Citigroup Centre, Canada Square, London, E14 5LB, United Kingdom, Credit Suisse Securities (Europe) Limited, One Cabot Square, London, E14 4QJ, United Kingdom, J.P. Morgan Securities plc, 25 Bank Street, Canary Wharf, London, E14 5JP, United Kingdom, and UBS Limited, 1 Finsbury Avenue, London, EC2M 2PP, United Kingdom, acting as Joint Bookrunners as well as BNP Paribas, 16 Boulevard des Italiens, 75009 Paris, France, and UniCredit Bank AG, Arabellastrasse 14, 81925 München, Germany, acting as Co-Lead Managers, together with the Joint Global Coordinators and the Joint Bookrunners (the ''**Underwriters**'').

6.2 PRICE RANGE, OFFER PERIOD, OFFER PRICE AND ALLOTMENT

The Price Range within which offers to purchase New Shares may be submitted is €26.50 to €35.50 (the ''**Price Range**'').

The offer period during which investors will have the opportunity to submit offers to purchase New Shares commences on September 21, 2015, and is expected to end on October 1, 2015 (the ''**Offer Period**''). During the Offer Period, offers to purchase New Shares may be submitted to the Underwriters. On the last day of the Offer Period, retail investors will be able to submit offers to purchase New Shares until 12:00 noon Central European Summer Time (''**CEST**''), and institutional investors will be able to submit offers to purchase New Shares until 14:00 CEST. Purchase orders must be in full Euro amounts or Euro cent figures of 25, 50 or 75 cents. Multiple purchase orders are permitted.

The Company and the Existing Shareholder, together with the Underwriters, reserve the right to increase or reduce the number of New Shares, to reduce or increase the upper and/or lower limits of the Price Range, and/or to extend or shorten the Offer Period. The change in the number of New Shares or the Price Range or the extension or reduction of the Offer Period will not invalidate purchase orders already submitted. If such change requires publication of a supplement to the Prospectus, investors who submitted purchase orders before the supplement was published have the right, under the German Securities Prospectus Act (*Wertpapierprospektgesetz*), to withdraw these offers to purchase within two business days of publication of the supplement. Instead of withdrawing the offers to purchase placed prior to publication of the supplement, investors also have two business days after the supplement's publication to change their orders or place new limited or unlimited offers to purchase. To the extent that the terms of the Offering are changed, such change will be published by electronic media, such as Reuters or Bloomberg, and, to the extent required by the German Securities Trading Act (*Wertpapierhandelsgesetz*) and the German Securities Prospectus Act (*Wertpapierprospektgesetz*), as an *ad hoc* announcement via an electronic information system and on the Company's website and as a supplement to the Prospectus. Investors who have submitted purchase orders will not be notified individually.

Under certain conditions, the Joint Global Coordinators, on behalf of the Underwriters, may terminate the Underwriting Agreement relating to the Offering entered into between the Company, the Existing Shareholder, the Put Grantor and the Underwriters on September 18, 2015 (the ''**Underwriting Agreement**''), even after commencement of trading (*Aufnahme des Handels*) of the Shares on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*). For further information on termination of the Underwriting Agreement, see ''*22. Underwriting—22.6 Indemnification and Termination.*''

After the expiration of the Offer Period, the offer price is expected to be set on October 1, 2015, jointly by the Company, the Existing Shareholder and the Joint Global Coordinators on the basis of the order book prepared during the bookbuilding process. The order book will be built based on the Price Range from €26.50 to €35.50. The determination of the offer price will depend on the offers to purchase the New Shares submitted by investors during the Offer Period and collected in the above-mentioned order book. Once the Offer Period has expired, the final number of New Shares and the offer price will be determined jointly by the Company and the Existing Shareholder after consultation with the Joint Bookrunners using the order book prepared during the bookbuilding process and taking into consideration the targeted gross proceeds for the Company. This is expected to take place on or about October 1, 2015. The Company and Bayer AG target gross proceeds in an amount of around €2,500 million and will reduce the number of New Shares if the final offer price exceeds the low end of the Price Range. Accordingly, the number of New Shares will amount to 94,339,622 at the low end, 80,645,161 at the mid-point and 70,422,535 at the high end of the Price Range. The offer price and the final number of New Shares will be set on the basis of the purchase orders submitted by investors during the Offer Period that have been collated in the order book, taking into account the targeted gross proceeds for the Company. The offers to purchase New Shares will be evaluated according to the bid price and expectations regarding the qualities of a potential investor (e.g. expected holding strategy and order size). The offer price and the number of New Shares allocated to institutional investors will be determined on this basis. It will also be taken into account whether the offer price and number of New Shares allocated to investors will reasonably support the expectation that the share price in the secondary market will develop in a stable manner considering the demand for the New Shares indicated by the order book. In addition to the prices offered by investors and the number of investors interested in purchasing New Shares at a given price, the mix of investors in the

Company that would result from a possible allotment at a particular price and expectations regarding the qualities of a potential investor (e.g. expected holding strategy and order size) will also be considered.

Investors are free to withdraw their offers to purchase until the end of the Offer Period. After the offer price has been set, the New Shares will be allotted to investors on the basis of the offers to purchase then available. The offer price is expected to be published on October 1, 2015 by means of an *ad hoc* announcement on an electronic information system and the website of the Company. Investors who have placed offers to purchase New Shares with one of the Underwriters can obtain information from that Underwriter about the offer price and the number of New Shares allotted to them on the business day following the setting of the offer price. Book-entry delivery of the allotted New Shares against payment of the offer price is expected to occur on October 6, 2015. Until (and including) that day, the Underwriting Agreement may be terminated by the Joint Global Coordinators. In that case, the Offering will not take place, allocations of New Shares to investors will become ineffective, and investors will not have any claim to delivery of the New Shares. Should the placement volume prove insufficient to satisfy all orders placed at the offer price, the Underwriters reserve the right to reject orders, or to accept them in part only.

6.3 EXPECTED TIMETABLE FOR THE OFFERING

The Company anticipates the following timetable for the Offering, which is subject to extension or shortening:

September 18, 2015	Approval of the Prospectus by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) (''**BaFin**'')
	Notification of the approved Prospectus to the competent authority in Luxembourg (*Commission de Surveillance du Secteur Financier*) (''**CSSF**'')
	Publication of the Prospectus on the Company's website (http://investor.covestro.com/boersengang/ and http://investor.covestro.com/en/ipo/)
September 21, 2015	Commencement of the offer period
	Application for admission of the Shares to the regulated market of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) (Prime Standard)
September 30, 2015	Resolution on the IPO Capital Increase for the issuance of the New Shares
October 1, 2015	Registration of IPO Capital Increase
	Admission of the Shares to the regulated market of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) (Prime Standard)
	End of bookbuilding
	End of the Offer Period for retail investors at 12:00 CEST and for international investors at 14:00 CEST
	Determination of the offer price and allocation
	Publication of the offer price as an *ad hoc* announcement over an electronic information system and on the website of the Company
	Publication of the offer price in the German Federal Gazette (*Bundesanzeiger*) and *Börsen-Zeitung* and the Internet site of the Company
	Announcement of the results of the Offering on the Company's website (http://investor.covestro.com/boersengang/ and http://investor.covestro.com/en/ipo/)

October 2, 2015	Commencement of trading of the Shares on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) (Prime Standard)
October 6, 2015	Book-entry delivery of the New Shares against payment of the offer price (Closing)

The Prospectus will be published on the Company's website (http://investor.covestro.com/boersengang/ and http://investor.covestro.com/en/ipo/) on September 18, 2015; printed copies of the Prospectus will be available free of charge during regular business hours in the Company's offices located at Kaiser-Wilhelm-Allee 60, 51373 Leverkusen, Germany.

Information on the websites listed in this section and information accessible via these websites is neither part of nor incorporated by reference into the Prospectus.

6.4 INFORMATION ON THE SHARES IN THE COMPANY

6.4.1 Participation in Registered Capital

All Shares of the Company are ordinary bearer shares with no par value, each representing a notional value of €1.00 and carrying full dividend rights since inception.

6.4.2 Voting Rights

Each Share carries one vote at the general shareholders' meeting of the Company. There are no restrictions on the voting right. Voting rights are the same for all of the Shares.

6.4.3 Dividend and Liquidation Rights

The New Shares carry full dividend rights since inception. For information relating to the calculation of an amount, if any, that may be available for distribution, and the dividend policy, see "*10. Dividend Policy*." In the event of the Company's liquidation, any proceeds will be distributed to the holders of the Shares in proportion to their interest in the Company's share capital.

6.4.4 Statutory Subscription Rights

The extraordinary shareholders' meeting of the Company is expected to resolve the exclusion of subscription rights with respect to the New Shares on September 30, 2015, in accordance with the statutory requirements. For general information relating to statutory subscription rights, see "*20. Description of Share Capital—20.11 General Provisions Relating to Subscription Rights*."

6.4.5 Form and Representation of the Shares

All Shares were and are being issued in accordance with the current Articles of Association as ordinary bearer shares with no par value (*auf den Inhaber lautende nennwertlose Stückaktien*). The current registered share capital of the Company in the amount of €140,000,000 is represented by one global share certificate without dividend coupon which will be deposited with Clearstream Banking AG, Mergenthalerallee 61, 65760 Eschborn. The New Shares will also be certificated in a global share certificate on or about October 1, 2015, without dividend coupon and deposited with Clearstream Banking AG.

The right of the shareholders to an individual share certificate is excluded pursuant to section 5 paragraph 1 of the Articles of Association to the extent permitted by law and unless the issue of certificates is required by the rules of a stock exchange at which the Shares are admitted for trading. The New Shares provide holders thereof with the same rights as all of the other shares of the Company and do not provide any additional rights or disadvantages.

6.4.6 ISIN/WKN/Common Code/Ticker Symbol

International Securities Identification Number ("**ISIN**")	DE0006062144
German Securities Code (Wertpapierkennnummer) ("**WKN**")	606214
Common Code	127671311
Ticker Symbol	1COV

6.4.7 Transferability of the Shares

The New Shares are freely transferable. Except for the restrictions set forth in ''—*6.6 Lock-up Agreements,*'' there are no prohibitions on disposal or restrictions with respect to the transferability of the Shares.

6.4.8 Existing Shareholder

As at the date of the Prospectus, Bayer AG is the sole shareholder of the Company.

The following overview provides the information about the number of New Shares and the number of Shares which the Existing Shareholder holds at the mid-point of the Price Range. For further information on the Company's shareholder structure, see ''*18. Shareholder Structure*.''

		Upon completion of the Offering					
	Prior to the Offering	Full exercise of the Put Option			Without exercise of the Put Option		
		Low End	Mid-Point	High End	Low End	Mid-Point	High End
Bayer AG	100%	59.7%	63.5%	66.5%	59.7%	63.5%	66.5%
Bayer Global Investments B.V.	0%	4.0%	3.7%	3.3%	—	—	—
Free-float	0%	36.2%	32.9%	30.1%	40.3%	36.5%	33.5%

Bayer Global Investments B.V. may acquire Shares in case the Stabilization Manager exercises the Put Option which has been granted to it by Bayer Global Investments B.V. as Put-Grantor. For further information on the Stabilization Measures and Put Option, see ''—*6.5 Stabilization Measures and Put Option.*''

6.4.9 Criteria for Allotment

The allotment of the New Shares to retail investors (natural persons) and institutional investors will be decided after consultation with the Joint Bookrunners. The decision ultimately rests with the Company and the Existing Shareholder. Allotments to institutional investors will be made on the basis of the quality of the individual institutional investor (*inter alia* expected holding strategy and order size) and individual orders and other important allotment criteria to be determined after consultation with the Joint Global Coordinators. The allocation to retail investors (natural persons) will be compatible with the ''Principles for the Allotment of Share Issues to Private Investors'' (*Grundsätze für die Zuteilung von Aktienemissionen an Privatanleger*) published by the Commission of Stock Exchange Experts (*Börsensachverständigenkommission*) of the German Federal Ministry of Finance (*Bundesministerium für Finanzen*). ''Qualified investors'' (*qualifizierte Anleger*) under the German Securities Prospectus Act (*Wertpapierprospektgesetz*), as well as ''professional clients'' (*professionelle Kunden*) and ''suitable counterparties'' (*geeignete Gegenparteien*) as defined under the German Securities Trading Act (*Wertpapierhandelsgesetz*), are not viewed as ''private investors'' (*Privatanleger*) within the meaning of the allocation rules.

6.5 STABILIZATION MEASURES AND PUT OPTION

In connection with the placement of the New Shares, Deutsche Bank AG or its affiliates, acting for the account of the Underwriters, will act as the stabilization manager (the ''**Stabilization Manager**'') and may, as Stabilization Manager, and acting in accordance with legal requirements (section 20a(3)) of the German Securities Trading Act (*Wertpapierhandelsgesetz*) in conjunction with Commission Regulation (EC) No. 2273/2003 of December 22, 2003, the ''**EU Stabilization Regulation**''), take stabilization measures to support the market price of the Company's Shares and thereby counteract any selling pressure (the ''**Stabilization Measures**'').

The Stabilization Manager is under no obligation to initiate Stabilization Measures. Accordingly, there is no guarantee that Stabilization Measures will be initiated at all. To the extent that Stabilization Measures are initiated, they can be terminated at any time without prior notice. Stabilization Measures may be undertaken beginning on the date on which the Shares are first traded on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and must be completed no later than 30 calendar days after such date (''**Stabilization Period**''). Stabilization Measures may result in the market price of the Shares being higher than would otherwise have been the case. Moreover, the market price may temporarily be at an unsustainable level.

The Stabilization Manager may as a result of the Stabilization Measures during the Stabilization Period acquire on one or more occasions up to 9,433,962 shares of the Company (the ''**Stabilization Shares**'') at the then current market price, provided that such number of Company's shares acquired as a result of Stabilization Measures may not exceed 10% of the New Shares. To facilitate such Stabilization Measures, the Put-Grantor has granted the Stabilization Manager the Put Option to sell to it the Stabilization Shares at the aggregate price at which it acquired the Stabilization Shares in connection with the Stabilization Measures. This option will terminate upon completion of the Stabilization Measures at the end of the Stabilization Period.

Within one week of the end of the Stabilization Period, an announcement will be made in various media distributed across the entire the European Economic Area (''**EEA**'') (''*Medienbündel*'') as to whether Stabilization Measures were taken, when price stabilization started and finished, and the price range within which Stabilization Measures were taken; the latter will be made known for each occasion on which price Stabilization Measures were taken. The exercise of the Put Option, the timing of its exercise and the number and type of shares concerned will also be announced promptly in the same manner.

6.6 LOCK-UP AGREEMENTS

The Company agreed with the Underwriters that to the extent legally permissible, without the prior written consent of the Joint Global Coordinators (which may not be unreasonably withheld or delayed), the Company will not, or will not agree to, during the period ending six months after commencement of trading of the New Shares:

(i) announce or effect an increase of the Company's share capital out of authorized capital; or

(ii) propose to its shareholders' meeting an increase of the Company's share capital; or

(iii) announce, effect or propose the issuance of securities with conversion, or option rights on the Company's shares; or

(iv) enter into any transaction or perform any action economically similar to those described in (i) through (iii) above.

The Company may however issue or sell shares or other securities (i) to employees and members of executive bodies of the Company or its subsidiaries under future management participation plans or (ii) in consideration of all or a portion of the acquisition price of any business acquired by the Company or for the purposes of entering into a joint venture, provided that in each case (a) the Company will consult with the Joint Global Coordinators prior to the issuance of such shares or such other securities of the Company and (b) the recipient of such shares or other securities assumes toward the Underwriters the obligation under the lock-up for the then remaining part of the lock-up period of the Company. The lock-up arrangement described above does not apply to the shares sold in the Offering.

Furthermore, the Existing Shareholder and the Put-Grantor agreed, severally and not jointly, with the Underwriters that, without the prior written consent of the Joint Global Coordinators (which shall not unreasonably be withheld or delayed) they will not, during a period ending six months after commencement of trading of the New Shares:

(i) offer, pledge, allot, sell, distribute, transfer or otherwise dispose of, directly or indirectly, any Shares of the Company or any other securities of the Company; this also applies to any transactions economically similar to a disposal of securities, e.g. the issuance of options and warrants convertible into Shares of the Company; or

(ii) cause or approve, directly or indirectly, the announcement, execution or implementation of any increase in the share capital of the Company or a direct or indirect placement of Shares of the Company; or

(iii) propose, directly or indirectly, any increase in the share capital of the Company to any meeting of the shareholders for resolution, or vote in favor of such a proposed increase; or

(iv) cause or approve, directly or indirectly, the announcement, execution or proposal of any issuance of financial instruments provided with options and warrants convertible into Shares of the Company; or

(v) enter into a transaction or perform any action economically similar to those described in (i) through (iv) above.

The lock-up does not include transactions with affiliates of the Existing Shareholder (other than the Group) provided that, in each case, such affiliate assumes toward the Underwriters the above obligation for the then remaining part of the lock-up period of the Existing Shareholder or the Put-Grantor, respectively.

Each member of the Management Board and the Supervisory Board has agreed that it will not—within a period of six months after the date of the commencement of trading shares of the Company on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*)—sell, or otherwise transfer or dispose of—directly or indirectly—of any shares of the Company it may acquire or enter into any other transaction with the same economic effect without the prior written consent of the Joint Global Coordinators which may not be unreasonably withheld.

6.7 ADMISSION TO THE FRANKFURT STOCK EXCHANGE AND LISTING

The Company expects to apply on September 21, 2015 for admission of its Shares to trading on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and, simultaneously, in the sub-segment thereof with additional post-admission obligations (Prime Standard). An admission decision is expected to be made and announced for the Shares of the Company on October 1, 2015. The decision on the admission of the Shares for trading will be made at the discretion of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*). Currently, trading on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) is expected to commence on October 2, 2015 for the Shares.

6.8 DESIGNATED SPONSOR

Deutsche Bank AG, Taunusanlage 12, 60325 Frankfurt am Main, Germany, and Morgan Stanley & Co. International plc, 25 Cabot Square, Canary Wharf, London E14 4QA, United Kingdom, will assume the function of designated sponsors for the Shares trading on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), although both banks are entitled to delegate this duty to an authorized third party. According to the designated sponsor agreements executed by the Company with Deutsche Bank and Morgan Stanley, respectively, both banks will, among other things, submit limit orders to buy or sell Shares of the Company into the electronic trading system of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) during regular trading hours. This is designed in particular to achieve higher liquidity in the trading of the Shares.

6.9 DELIVERY AND SETTLEMENT

The delivery of the New Shares against payment of the offer price is expected to take place on October 6, 2015. The New Shares will be made available to the shareholders as co-ownership interests in the respective global share certificate.

At the shareholder's discretion, the New Shares purchased in the Offering will be credited to a securities deposit account maintained by a German bank with Clearstream Banking AG, Mergenthalerallee 61, 65760 Eschborn, Germany.

6.10 INTERESTS OF PERSONS PARTICIPATING IN THE OFFERING

The Underwriters have entered into a contractual relationship with the Company and the Existing Shareholder in connection with the Offering and admission to trading of the Shares. The Existing Shareholder and the Company have engaged Deutsche Bank, Morgan Stanley, BofA Merrill Lynch, Citigroup, Credit Suisse, J.P. Morgan, UBS Investment Bank, BNP PARIBAS and UniCredit Bank AG to serve as Underwriters. The Underwriters will advise the Company and the Existing Shareholder on the transaction and coordinate the structuring and execution of the transaction. Upon successful execution of the transaction, the Underwriters will receive a commission. The commission consists of a base fee that will be paid by the Company and may also include an incentive fee paid by the Existing Shareholder.

In addition, Deutsche Bank AG, Taunusanlage 12, 60325 Frankfurt am Main, Germany, and Morgan Stanley & Co. International plc, 25 Cabot Square, Canary Wharf, London E14 4QA, United Kingdom, have been appointed to act as designated sponsors for the Shares and Deutsche Bank as paying agent. Furthermore, some of the Underwriters and their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial investment banking, financial advising, investment management, principal investment, hedging, financing and brokerage activities.

Some of the Underwriters and/or their respective affiliates from time to time have provided in the past and may provide in the future investment banking, financial advisory and commercial banking services to the Company or the Group in the ordinary course of business for which they have received or may receive customary fees and commissions.

In connection with the Offering, each of the Underwriters and affiliated companies will be able to take up a portion of the New Shares as a principal position and hold, purchase or sell for their own accounts and can also offer or sell these New Shares outside of the Offering. Accordingly, references in the Prospectus to New Shares being offered or placed should be read as including any offering or placement of New Shares to any of the Underwriters or any of their respective affiliates acting in such capacity. In addition, certain of the Underwriters or their affiliates may enter into financing arrangements (including swaps or contracts for differences) with investors in connection with which such Underwriters (or their affiliates) may from time to time acquire, hold or dispose of New Shares. None of the Underwriters intend to disclose the extent of any such investment or transaction otherwise than in accordance with any legal or regulatory obligation to do so.

Deutsche Bank, UniCredit Bank AG, Citigroup, and Bank of America Merrill Lynch International Limited, each of whom is an Underwriter or affiliate of an Underwriter, were mandated as lead arrangers of a syndicated multicurrency term and revolving credit facilities agreement, dated September 4, 2015, in a total amount of €2.7 billion with a syndicate of banks, which consists of a revolving credit facility in an amount of €1.5 billion and a term loan facility in an amount of €1.2 billion.

In September 2014, the Existing Shareholder decided to focus entirely on its LifeScience businesses—HealthCare and CropScience—going forward and to float its MaterialScience business on the stock market as a separate company. The Existing Shareholder will not sell shares in the Company in the offering and receive no proceeds from the Offering. However, the Company intends to use the net proceeds from the sale of the New Shares (i) mainly to reduce inter-group debt owed to Bayer Antwerpen NV, a subsidiary of the Existing Shareholder, in an amount of €2,375 million (as defined below in ''*8. Reasons for the Offering and Listing and use of Proceeds*'') and (ii) to provide a small amount of funds for general corporate purposes.

As a result of the Offering, the share-based payment plans for employees and members of the Management Board that were in place prior to the Offering will be terminated for future tranches that have not yet started to run. With regard to already running tranches of the respective four-year-cycles, the Group intends to fix the outstanding rights according to the currently applicable rules and relevant metrics at the end of Fiscal Year 2015, and once due, the rights will be settled by one-time payments in cash.

7. PROCEEDS OF THE OFFERING AND COSTS OF THE OFFERING AND LISTING

The Company will receive the proceeds of the Offering resulting from the sale of the New Shares after deduction of fees and commissions.

The Company targets gross proceeds in an amount of around €2,500 million and will reduce the number of New Shares if the final Offer Price exceeds the low end of the Price Range. Accordingly, subject to the final offer price, a lower amount of New Shares may be allocated. The number of New Shares will amount to 94,339,622 at the low end, 80,645,161 at the mid-point and 70,422,535 at the high end of the Price Range.

The costs of the Company related to the Offering of the New Shares and listing of the Company's entire share capital are expected to total approximately €12 million (excluding underwriting fees payable by the Company to the Underwriters). The underwriting fees with respect to the New Shares payable to the Underwriters amount to approximately €20 million based on the targeted gross proceeds of the Company of around €2,500 million, excluding incentive fees, if any. In addition to the underwriting fees, the Existing Shareholder may pay the Underwriters incentive fees, payable entirely at the discretion of the Existing Shareholder, of up to €16.67 million. The Existing Shareholder will arrange for the payment of incentive fees, if any, within 35 days after commencement of the exchange trading of the Company's shares on the Regulated Market of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*).

The net proceeds of the Company after deduction of the costs related to the Offering and the Underwriters' underwriting fees payable by the Company are expected to amount to approximately €2,468 million.

None of the Company or the Underwriters will charge expenses to investors. Investors will have to bear customary transaction and handling fees charged by their brokers or financial institutions through which they hold their securities.

8. REASONS FOR THE OFFERING AND LISTING AND USE OF PROCEEDS

The Offering and listing gives Covestro AG greater flexibility to independently pursue its business goals, strategic freedom to execute asset optimization initiatives, focus on achieving business process and cost efficiencies, strategic flexibility to develop business portfolio and the ability to access the capital markets. The Company estimates net proceeds of approximately €2,468 million from the sale of the New Shares.

Bayer AG is a diversified life science and chemicals group which regularly analyzes its strategy and portfolio composition. In September 2014, Bayer AG decided to focus entirely on its LifeScience businesses—HealthCare and CropScience—going forward, and to float its MaterialScience business on the stock market as a separate company.

In connection with the carve-out of the MaterialScience business from the Bayer Group, inter-group debt in an amount of €5.2 billion as of September 1, 2015 and pension liabilities in an amount of approximately €1.5 billion, each as of September 1, 2015, were transferred to the Company.

In connection with the Offering, the Existing Shareholder will make a cash contribution in the amount of €715 million into the unrestricted capital reserves of the Company (*ungebundene Kapitalrücklage*), section 272 paragraph 2 number 4 of the German Commercial Code (*Handelsgesetzbuch* (*HGB*)), by no later than September 29, 2015 to increase the Company's equity before completion of the Offering (the ''**Capital Contribution**'') pursuant to a cash contribution and indemnity agreement between Bayer AG and the Company. The Company will use the proceeds from the Capital Contribution to repay inter-group debt owed to Bayer Antwerpen NV, a subsidiary of Bayer AG (the ''**Inter-Group Debt Repayment I**'').

The purpose of the Offering and listing of the Shares on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and, simultaneously, on the sub-segment thereof with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange is (i) mainly to further reduce inter-group debt owed to Bayer Antwerpen NV, a subsidiary of the Existing Shareholder, in an amount of €2,375 million (the ''**Inter-Group Debt Repayment II**'' and together with the Inter-Group Debt Repayment I, the ''**Inter-Group Debt Repayments**'') and (ii) to provide a small amount of funds for general corporate purposes. The amount of funds for general corporate purposes will be the difference between the net proceeds from the sale of the New Shares and the amount used for Inter-Group Repayment II, and is expected to be approximately €93 million.

The inter-group loan in an amount of €715 million due in September 2015 shall be fully repaid with the proceeds from the Capital Contribution (i.e. Inter-Group Debt Repayment I), and the inter-group loan in an amount of €2,375 million due in October 2015 shall be fully repaid with a substantial part of the net proceeds from the placement of the New Shares (i.e. Inter-Group Debt Repayment II).

The Inter-Group Debt Repayments are expected to enable the Company to achieve a target capital structure of net financial debt together with pension liabilities to Adjusted EBITDA for 2015 of 2.5x to 3.0x that would allow for an investment grade rating of the Company following completion of the Offering. The Company anticipates that, immediately following completion of the Offering and implementation of the Inter-Group Debt Repayments, its net financial debt together with pension liabilities will amount to approximately €4.0 billion.

9. DILUTION

The net asset value (total assets less total liabilities less invested equities attributable to non-controlling interest) amounted to €1,717 million as of June 30, 2015, and would amount to €12.26 per Share in the Company based on 140,000,000 outstanding Shares in the Company immediately prior to the Offering. The net asset value as of June 30, 2015, adjusted for the Capital Contribution, would have amounted to €17.37 per share based on 140,000,000 shares of the Company outstanding immediately before the Offering.

The dilutive effect of the Offering is illustrated in the table below demonstrating the amount by which the offer price at the low end, mid-point and high end of the Price Range exceeds the total net asset value per Share after completion of the Offering, assuming the Offering had taken place on June 30, 2015 and adjusted for the Capital Contribution. The net asset value and the net asset value per Share are adjusted for the effects of the Offering, assuming (a) the issuance of such number of New Shares at the offer price to achieve the targeted gross proceeds for the Company of around €2,500 million, which would result in 234,339,622, 220,645,161 and 210,422,535 outstanding Shares of the Company at the low end, mid-point and high end of the Price Range after completion of the Offering and (b) the receipt of the net proceeds to the Company in an amount of €2,468 million.

The table below illustrates the amount by which the price per Share would exceed the net asset value in the interim statement of financial position as of June 30, 2015 per Share after completion of the Offering at the low end, at the mid-point and the high end of the Price Range, respectively:

	Low End	Mid-Point	High End
		(unaudited)	
Offer price in €	26.50	31.00	35.50
Total net asset value[(1)] per Share as of June 30, 2015 (based on 140,000,000 outstanding Shares of the Company before the Offering) in €	12.26	12.26	12.26
Total net asset value[(1)] per Share as of June 30, 2015 (based on 140,000,000 outstanding Shares of the Company before the Offering) and adjusted for the Capital Contribution in €	17.37	17.37	17.37
Net asset value per Share of the Company (based on 234,339,622, 220,645,161 and 210,422,535 outstanding Shares of the Company at the low end, mid-point and high end of the Price Range after completion of the Offering) in €	20.91	22.21	23.29
Amount by which the offer price exceeds the total net asset value[(1)] per Share (immediate dilution per Share, based on 234,339,622, 220,645,161 and 210,422,535 outstanding Shares of the Company at the low end, mid-point and high end of the Price Range after completion of the Offering) in €	5.59	8.79	12.21
Immediate dilution to the new shareholders, in %	21.1%	28.4%	34.4%

Note:

(1) Net asset value refers to the Company's total assets minus its total liabilities less invested equities attributable to non-controlling interest.

Under the assumption that the Capital Contribution and the capital increase regarding the New Shares are implemented, the accretion to the net asset value per Share (comparing the net asset values prior to and after the Offering) will be €3.54, €4.84 and €5.92, respectively (based on 234,339,622, 220,645,161 and 210,422,535 outstanding Shares of the Company at the low end, mid-point and high end of the Price Range after completion of the Offering assuming execution of the capital increase in an amount of 94,339,622, 80,645,161 and 70,422,535 offered New Shares).

Each of the New Shares will have the same voting rights as the Company's Existing Shares. Prior to the Offering, the Existing Shareholder held 100% of the voting rights. Upon completion of the Offering (assuming full placement of the New Shares) the voting rights held by the Existing Shareholder would amount to 59.7%, 63.5% and 66.5%, respectively, at the low end, mid-point and high end of the Price Range.

10. DIVIDEND POLICY

10.1 GENERAL PROVISIONS RELATING TO DIVIDEND RIGHTS AND DIVIDEND PAYMENTS

The shareholders' share of the Company's profits is determined based on their respective interests in the Company's share capital. Regarding a German stock corporation (*Aktiengesellschaft*) under German law, the distribution of dividends for a given fiscal year and the amount and payment date thereof are resolved by the general shareholders' meeting (*Hauptversammlung*). Such resolution is the responsibility of the general shareholders' meeting (*Hauptversammlung*) of the following fiscal year, which must take place in the first eight months of the fiscal year and which decides on the proposal adopted by the Management Board and the Supervisory Board for the appropriation of profits.

Dividends may only be distributed from the distributable profit (*Bilanzgewinn*) of the Company. The distributable profit is calculated based on the Company's unconsolidated annual financial statements prepared in accordance with the accounting principles of German GAAP. Accounting principles set forth in German GAAP differ from IFRS in material respects.

When determining the amount available for distribution, net income for the year must be adjusted for profit/loss carry-forwards from the prior year and release of or allocations to reserves. Certain reserves are required to be set up by law and must be deducted when calculating profit available for distribution. The Management Board must prepare the financial statements (balance sheet, income statement and notes to the financial statements) and the management report for the previous fiscal year by the statutory deadline, and present these to the auditors and then the Supervisory Board after preparation. At the same time, the Management Board must present a proposal for the allocation of the Company's distributable profit pursuant to section 170 of the German Stock Corporation Act (*Aktiengesetz*) and present the proposal to the Supervisory Board which it intends to make to the general shareholders' meeting with regard to the distribution of profit. According to section 171 of the German Stock Corporation Act (*Aktiengesetz*), the Supervisory Board must review the financial statements, the Management Board's management report and the proposal for the allocation of the distributable profit, and report to the general shareholders' meeting in writing on the results. The Supervisory Board must submit its report to the Management Board within one month of the documents being received. If the Supervisory Board approves the financial statements after its review, these are deemed adopted unless the Management Board and Supervisory Board resolve to assign adoption of the financial statements to the general shareholders' meeting. If the Management Board and Supervisory Board choose to allow the general shareholders' meeting to adopt the financial statements, or if the Supervisory Board does not approve the financial statements, the Management Board must convene a general shareholders' meeting without delay.

The general shareholders' resolution on the allocation of the distributable profits requires a simple majority of votes to be passed. The general shareholders' meeting may also resolve that the dividends be distributed partially or entirely in kind, for example as a distribution of treasury shares if held by the Company at that time. The Management Board, subject to the consent of the Supervisory Board, may decide to pay an advance on dividends in compliance with section 59 of the German Stock Corporation Act (*Aktiengesetz*). Dividends resolved by the general shareholders' meeting are due and payable immediately after the relevant general shareholders' meeting, unless provided otherwise in the dividend resolution, in compliance with the rules of the respective clearing system. Dividend payment claims are subject to a three-year standard limitation period. Any dividends not claimed within three years become time-barred. Once time-barred, the dividend payment claim passes to the Company. Since all Shares of the Company are evidenced by global share certificates and are held in safekeeping at Clearstream Banking AG, dividends are paid via Clearstream Banking AG to the custodian banks for the benefit of shareholders. Domestic custodian banks have the same payout duty towards their clients. Shareholders who deposit their shares at foreign custodian banks must contact their custodian banks to inquire about the applicable conditions. Notifications of any distribution of dividends will be published in the German Federal Gazette (*Bundesanzeiger*) and in at least one official national publication for statutory stock market notices approved by the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) immediately after the general shareholders' meeting at which any distribution is approved. To the extent dividends can be distributed by the Company in accordance with German GAAP and corresponding decisions are taken, there are no restrictions on shareholder rights to receive dividends. Generally, withholding tax (*Kapitalertragsteuer*) of 25% plus a 5.5% solidarity surcharge thereon (total of 26.375% plus church tax (*Kirchensteuer*), if applicable) is withheld from dividends paid. For more information on the taxation of dividends, see ''*23. Taxation in the Federal Republic of Germany—23.2 Taxation of Shareholders*.''

10.2 DIVIDEND POLICY

The Company was only established as a stock corporation under German law on August 20, 2015. Therefore, the Company did not conduct any business and did not pay any dividends in the past and no distributions in the form of dividends have been made to date.

The Company's ability and intention to pay dividends in the future will depend on its financial position, results of operations, capital requirements, investment alternatives and other factors that the Management Board and Supervisory Board may deem relevant, and any proposals by the Management Board and Supervisory Board regarding dividend payments will be subject to the approval of the general shareholders' meeting. The Company expects that the principal source of funds for the payment of dividends will be dividends and other payments received from current and future subsidiaries. The determination of each subsidiary's ability to pay dividends is made in accordance with applicable law. The future dividend policy is as follows: the Company currently intends to propose a total dividend in the amount of €100 million to €150 million for Fiscal Year 2015 to its annual shareholders' meeting in 2016 taking into account that the listing will only occur in October 2015. Such dividend payment will be resolved by the annual shareholders' meeting of the Company in 2016. Starting for Fiscal Year 2016, the Company intends to pay a dividend in the amount of 30 to 50% of the Group's annual net income calculated in accordance with IFRS and attributable to its shareholders. The Company aims to have a sustainable dividend policy that focuses on dividend continuity in Euros. However, the ability of the Company to pay dividends in future years will depend on the amount of distributable net earnings that are available. The Company can provide no assurance regarding the amounts of future net earnings, if any, and consequently, it can provide no assurance that it will pay dividends in future years. Moreover, the results of operations set out in the combined financial statements and combined interim financial statements, respectively, may not be indicative of the amounts of future dividend payments.

Until and including August 31, 2015, Covestro Deutschland AG was party to a domination and profit and loss transfer agreement with Bayer AG. Pursuant to this agreement, Covestro Deutschland AG carried out its business at the direction of Bayer AG and was obligated to transfer its entire profit (subject to the allocation of amounts to retained earnings to the extent economically justified from a reasonable business assessment) to Bayer AG, and Bayer AG was obligated to assume Covestro Deutschland AG's loss in each Fiscal Year (in each case, as determined by the annual financial statements prepared in accordance with the German GAAP).

The table below sets forth the net income of Covestro Deutschland AG before profit (loss) transfer in Fiscal Years 2014, 2013 and 2012 (according to the annual financial statements prepared in accordance with the German GAAP for Fiscal Years 2014, 2013 and 2012).

	Fiscal year		
	2014	**2013**	**2012**
Net income (loss) before profit (loss) transfer (*audited*) (*EUR in millions*)	167	(20)	(179)
Net income (loss) before profit (loss) transfer (*unaudited*) per Share[(1)] *(in EUR)*	1.67	(0.20)	(1.79)
Generated income from transfer of losses/(expenses) from transfer of profits relating to Bayer AG (*audited*) (*EUR in millions*)	(155)[(2)]	20	179

Note:

(1) Calculation on the basis of the shares of Covestro Deutschland AG (formerly Bayer MaterialScience Aktiengesellschaft) of €100,000,000 as of December 31, 2014.

(2) An amount of €12 million has been allocated to distributable profit (*Bilanzgewinn*).

11. CAPITALIZATION AND INDEBTEDNESS; STATEMENT ON WORKING CAPITAL

11.1 GENERAL

The following tables set forth the capitalization and indebtedness of the Covestro Group (i) as of June 30, 2015, as well as adjustments to the line items ''Financial liabilities'' (current), ''Provisions for pensions and other post-employment benefits'' and ''Invested equity attributable to the Bayer Group'' of the capitalization table (below at 11.2) and to the line items ''Cash,'' ''Trading securities,'' ''Current financial receivables'' and ''Other current financial debt'' of the indebtedness table (below at 11.3) for (ii) transactions and business operations that occurred between July 1 and August 31, 2015, (iii) the Capital Contribution, (iv) the Inter-Group Debt Repayment I, (v) the net proceeds of €2,468 million from the placement of the New Shares (see ''*7. Proceeds of the Offering and Costs of the Offering and Listing*''), and (vi) the effects of the Inter-Group Debt Repayment II from net proceeds from the Offering in the amount of €2,375 million and the increase in cash attributable to the small amount of the net proceeds that will be used for general corporate purposes.

The Company was established as a stock corporation organized under German law on August 20, 2015 and registered with the Commercial Register of the local court of Cologne (*Amtsgericht Köln*), Germany, under docket number 85281 on August 24, 2015 under the legal name ''Covestro AG.'' Therefore the information set forth in the table below under column (i) ''As of June 30, 2015'' has been taken from the combined financial statements of the Covestro Group.

In connection with the transfer of the MaterialScience business from the Bayer Group to the Group, (i) most companies, assets and liabilities that were not yet controlled or owned by the Group, were legally transferred from the Bayer Group to the Group against payments made between July 1, 2015 and August 31, 2015; and (ii) a limited number of companies, assets and liabilities that were controlled or owned by the MaterialScience business were legally transferred from the Group to the Bayer Group against payments made between July 1, 2015 and August 31, 2015; and (iii) the Bayer Group paid €140,000,000 as cash contribution for the formation of Covestro AG in the context of the establishment in cash (*Bargründung*); and (iv) pension liabilities attributable to transferred employees in the total net amount of €85 million were transferred from the Bayer Group to the Group (together the ''**Transactions**'') (as reflected in column (ii) ''Transactions and Business Operations from July 1 to August 31, 2015'' in the table below together with the effects of business operations between July 1 and August 31, 2015). The Transactions mainly relate to transactions in Belgium, China, Italy and Spain. Furthermore, significant transactions occurred subsequent to August 31 until September 17, 2015 as further disclosed in note 9 to the capitalization table (see ''*11.2 Capitalization*'').

In connection with the Offering, the Existing Shareholder will make the Capital Contribution in the amount of €715 million in cash into the unrestricted capital reserves of the Company (*ungebundene Kapitalrücklage*), section 272 paragraph 2 number 4 German Commercial Code (*Handelsgesetzbuch (HGB)*), by no later than September 29, 2015 to increase the Company's equity before completion of the Offering (as reflected in column (iii) ''Capital Contribution'' in the table below).

On September 29, 2015, the Company plans to make the Inter-Group Debt Repayment I in the amount of €715 million (as reflected in column (iv) ''Inter-Group Debt Repayment I'' in the table below). For further information on these payments see ''*7. Proceeds of the Offering and Costs of the Offering and Listing.*''

The Company targets net proceeds of around €2,468 million resulting from the Offering (as reflected in column (v) ''Net proceeds from the placement of the New Shares'' in the table below).

The Company plans to apply the net proceeds from the Offering mainly to the Inter-Group Debt Repayment II in the amount of €2,375 million and keep the remainder for general corporate purposes (as reflected in column (vi) ''Application of net proceeds to Inter-Group Debt Repayment II and general corporate purposes'' in the table below).

Investors should read this table in conjunction with ''*12. Selected Combined Financial and Other Information*,'' ''*13. Management's Discussion and Analysis of Financial Condition and Results of Operations*'' and the unaudited combined interim financial statements of the Covestro Group prepared in accordance with IFRS as of and for the six months ended June 30, 2015, including the notes thereto, which are included in the Prospectus beginning on page F-2.

11.2 CAPITALIZATION

	(i) As of June 30, 2015	(ii) Transactions and Business Operations from July 1 to August 31, 2015[1]	(iii) Capital Contribution	(iv) Inter-Group Debt Repayment I[2]	(v) Net proceeds from the placement of the New Shares[3]	(vi) Application of net proceeds to Inter-Group Debt Repayment II and general corporate purposes[4]	(vii) Total[5][10]
				(unaudited) *(EUR in millions)*			
Total current debt							
Financial liabilities	4,697	1,073[9]	—	(715)	—	(2,375)	2,680
Trade accounts payable	1,456	—	—	—	—	—	1,456
Other current liabilities[6]	551	—	—	—	—	—	551
Total current debt	**6,704**	**1,073**	**—**	**(715)**	**—**	**(2,375)**	**4,687**
of which secured	—	—	—	—	—	—	—
of which guaranteed[7]	201	—	—	—	—	—	201
of which unsecured/ unguaranteed	6,503	1,073	—	(715)	—	(2,375)	4,486
Total non-current debt							
Provisions for pensions and other post-employment benefits	1,409	85	—	—	—	—	1,494
Financial liabilities	521	—	—	—	—	—	521
Other non-current liabilities[8]	427	—	—	—	—	—	427
Total non-current debt	**2,357**	**85**	**—**	**—**	**—**	**—**	**2,442**
of which secured	—	—	—	—	—	—	—
of which guaranteed[7]	227	—	—	—	—	—	227
of which unsecured/ unguaranteed	2,130	85	—	—	—	—	2,215
Invested equity							
Invested equity attributable to the Bayer Group	1,198	(1,013)	715	—	2,468	—	3,368
Other components of equity	519	—	—		—	—	519
Total invested equity attributable to the Bayer Group	**1,717**	**(1,013)**	**715**	**—**	**2,468**	**—**	**3,887**
Invested equity attributable to non-controlling interest	11	—	—	—	—	—	11
Total capitalization	**10,789**	**145**	**715**	**(715)**	**2,468**	**(2,375)**	**11,027**

Notes:

(1) For further information, see "*11. Capitalization and Indebtedness; Statement on Working Capital—11.1 General.*"

(2) The Inter-Group Debt Repayment I is expected to amount to €715 million. For further information, see "*7. Proceeds of the Offering and Costs of the Offering and Listing*."

(3) The net proceeds of the Company will amount to €2,468 million based on the targeted gross proceeds of the Company of around €2,500 million. For further information, see "*7. Proceeds of the Offering and Costs of the Offering and Listing.*"

(4) From the assumed net proceeds of the Offering amounting to €2,468 million an amount of €2,375 million is expected to be used for the Inter-Group Debt Repayment II and €93 million will be kept as cash on hand for general corporate purposes.

(5) Total capitalization comprises the capitalization as of June 30, 2015 adjusted for the Transactions and business operations from July 1 to August 31, 2015, the Capital Contribution, the Inter-Group Debt Repayment I, the net proceeds from placement of the New Shares and application of a substantial part of the net proceeds to Inter-Group Debt Repayment II.

(6) Other current liabilities comprise other provisions, income tax liabilities and other liabilities.

(7) Comprises two guarantees by companies of the Bayer Group for syndicated bank loans in China.

(8) Other noncurrent liabilities comprise other provisions, other liabilities and deferred taxes.

(9) The increase in financial liabilities relates to the completion of the Transactions and the effects of business operations between July 1 and August 31, 2015. It does not reflect the effects of certain significant transactions that settled subsequent to August 31 but prior to September 17, 2015, which resulted in an increase of net financial liabilities of €108 million consisting of effects relating to significant carve-out transactions in Thailand in an amount of €(172) million, in Belgium (purchase price adjustment) in an amount of €(28) million and in Mexico in an amount of €194 million as well as a lump-sum payment relating to pensions of €114 million representing an initial payment for Reimbursement Claims, as further referenced under *"16.1.4 Purchase Agreement regarding pension liabilities between Bayer AG and the Company".*

(10) Total capitalization does not reflect the effects of certain significant transactions that settled subsequent to August 31 but prior to September 17, 2015 described in more detail in footnote 9.

11.3 INDEBTEDNESS

	(i) As of June 30, 2015	(ii) Transactions and Business Operations from July 1 to August 31, 2015[(1)(13)]	(iii) Capital Contribution	(iv) Inter-Group Debt Repayment I[(2)]	(v) Net proceeds from the placement of the New Shares[(3)]	(vi) Application of net proceeds to Inter-Group Debt Repayment II and general corporate purposes[(4)]	(vii) Total[(5)(14)]
				(unaudited) *(EUR in millions)*			
A. Cash[(6)]	101	142	715	(715)	2,468	(2,375)	336
B. Cash equivalents	5	—	—	—	—	—	5
C. Trading securities[(7)]	96	(96)	—	—	—	—	0
D. Liquidity (A) + (B) + (C)	**202**	**46**	**715**	**(715)**	**2,468**	**(2,375)**	**341**
E. Current financial receivables[(8)]	**434**	**14**	**—**	**—**	**—**	**—**	**448**
F. Current bank debt[(9)]	403	—	—	—	—	—	403
G. Current portion of non-current debt	—	—	—	—	—	—	—
H. Other current financial debt[(10)]	4,294	1,073	—	(715)	—	(2,375)	2,277
I. Current financial debt (F) + (G) + (H)	**4,697**	**1,073**	**—**	**(715)**	**—**	**(2,375)**	**2,680**
J. Net current financial indebtedness (I) − (E) − (D)	**4,061**	**1,013**	**(715)**	**—**	**(2,468)**	**—**	**1,891**
K. Non-current bank loans[(11)]	228	—	—	—	—	—	228
L. Bond issued	—	—	—	—	—	—	—
M. Other non-current loans[(12)]	293	—	—	—	—	—	293
N. Non-current financial indebtedness (K) + (L) + (M)	**521**	**—**	**—**	**—**	**—**	**—**	**521**
O. Net financial indebtedness (J) + (N)	**4,582**	**1,013**	**(715)**	**—**	**(2,468)**	**—**	**2,412**

Notes:

(1) For further information, see "*11. Capitalization and Indebtedness; Statement on Working Capital—11.1 General*."

(2) The Inter-Group Debt Repayment I is expected to amount to €715 million. For further information, see "*7. Proceeds of the Offering and Costs of the Offering and Listing.*"

(3) The net proceeds of the Company will amount to €2,468 million based on the targeted gross proceeds of the Company of around €2,500 million. For further information, see "*7. Proceeds of the Offering and Costs of the Offering and Listing.*"

(4) From the assumed net proceeds of the Offering amounting to €2,468 million, an amount of €2,375 million is expected to be used both for the Inter-Group Debt Repayment II and €93 million will be kept as cash on hand for general corporate purposes.

(5) Total capitalization comprises the capitalization as of June 30, 2015 adjusted for the Transactions and business operations from July 1 to August 31, 2015, the Capital Contribution, the Inter-Group Debt Repayment I, and the net proceeds from placement of the New Shares and the application of a substantial part of the net proceeds to Inter-Group Debt Repayment II.

(6) The term Cash is used as defined in the combined financial statements. It does not include "intercompany loan receivables and cash pool receivables with the Bayer Group." Intercompany loan receivables and cash pool receivables with the Bayer Group amounted to €433 million as of June 30, 2015. Cash and cash equivalents amounted to €106 million and €248 million as of June 30, 2015 and August 31, 2015.

(7) Trading securities comprise available-for-sale financial assets measured at fair value.

(8) Current financial receivables comprise current portion of loans, financial receivables (including current portion of intercompany loan receivables and cash pool receivables with the Bayer Group) and receivables under lease agreements. Cash pool receivables with the Bayer Group amounted to €292 million and €420 million as of June 30, 2015 and August 31, 2015, respectively. Cash pool arrangements have been terminated as of August 31, 2015.

(9) Current bank debt comprises current portion of liabilities to banks.

(10) Other current financial debt comprises current portion of liabilities under finance leases, liabilities from derivatives and other financial liabilities (including current portion of intercompany loan payables and cash pool payables with the Bayer Group).

(11) Non-current bank loans comprise non-current portion of liabilities to banks.

(12) Other non-current loans comprise non-current portion of liabilities under finance leases, liabilities from derivatives and other financial liabilities (including non-current portion of intercompany loan payables and cash pool payables with the Bayer Group).

(13) Does not reflect the effects of certain significant transactions that settled subsequent to August 31 but prior to September 17, 2015, which resulted in an increase of the net financial liabilities of €108 million consisting of effects relating to carve-out transactions in Thailand in an amount of €(172) million, in Belgium (purchase price adjustment) in an amount of €(28) million and in Mexico in an amount of €194 million as well as a lump-sum payment relating to pension obligations of €114 million representing an initial payment for Reimbursement Claims, as further referenced under *''16.1.4 Purchase Agreement regarding pension liabilities between Bayer AG and the Company''*.

(14) Total indebtedness does not reflect the effects of certain significant transactions that settled subsequent to August 31 but prior to September 17, 2015 described in more detail in footnote 13.

Covestro AG has entered into a syndicated multicurrency term and revolving credit facilities agreement, dated September 4, 2015, in a total amount of €2.7 billion with a syndicate of banks, which consists of a revolving credit facility in the amount of €1.5 billion and a term loan facility in the amount of €1.2 billion. At the date of the Prospectus, the facilities have not been drawn and are available for utilization upon the shares of the Company having been admitted to trading on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) (and certain other customary conditions precedent being satisfied). For further information regarding the facilities see *''15. Business—5.19 Material Agreements—15.19.1 Financing Agreements*.''

The inter-group loan in an amount of €1,250 million due in March 2016 and the inter-group loan in an amount of €810 million due in June 2016 are currently planned to be repaid with the proceeds from future bond issuances or other financial instruments and operating cash generated by the Group. In case the repayment of the two remaining inter-group loans will not be made as currently planned, the Group plans to draw the term loan facility and to partially draw the revolving credit facility and to use the proceeds for the repayment of the two inter-group loans at their maturity.

11.4 INDIRECT AND CONTINGENT INDEBTEDNESS

11.4.1 Contingent Liabilities

As of June 30, 2015, other contingent liabilities existed, in the form of guarantees, in the amount of € 1 million and miscellaneous liabilities, in the amount of €15 million that are mainly related to a legal dispute.

11.4.2 Other Financial Commitments

Other financial commitments were as of June 30, 2015:

Orders already placed under purchase agreements: €77 million, Operate leases: €198 million

The non-discounted future minimum lease payments relating to operating leases totaled €198 million. The maturities of the respective payment obligations were as follows:

	As of June 30, 2015
	(unaudited) *(EUR in millions)*
Up to 1 year	46
1 to 2 years	43
2 to 3 years	27
3 to 4 years	22
4 to 5 years	21
More than 5 years	39

In cases where pension obligations attributable to the Group either remain with Bayer or are funded through pension institutions for which Bayer is liable, it is generally contractually ensured that the Group's share of all payments made to reduce or eliminate current or future funding shortfalls corresponds to its share of the respective obligation. This also applies to funding and/or financing measures for pension institutions that serve to ensure adequate funding status and/or solvency capital.

11.5 STATEMENT ON WORKING CAPITAL

The Company believes that the Group has sufficient working capital to meet all of its payment obligations that become due within at least the next 12 months of the date of the Prospectus.

12. SELECTED COMBINED FINANCIAL AND OTHER INFORMATION

*The financial information contained in the following tables has been taken or derived from the audited combined financial statements of the Covestro Group as of and for the fiscal years ended December 31, 2014, 2013 and 2012, and the unaudited condensed combined interim financial statements of the Covestro Group as of and for the six-month period ended June 30, 2015 (including combined comparative figures for the six-month period ended June 30, 2014). The audited combined financial statements as of and for the fiscal years ended December 31, 2014, 2013 and 2012 have been prepared in accordance with IFRS and have been audited in accordance with International Standards on Auditing by PricewaterhouseCoopers Wirtschaftsprüfungsgesellschaft AG (''**PwC**''), who issued an unqualified audit opinion thereon. The unaudited condensed combined interim financial statements as of and for the six-month period ended June 30, 2015 (including combined comparative figures for the six-month period ended June 30, 2014) have been prepared in accordance with IAS 34.*

Where financial data in the following tables is presented as ''audited,'' it indicates that the financial data has been taken from the audited combined financial statements for the Covestro Group as of and for the fiscal years ended December 31, 2014, 2013 and 2012. The label ''unaudited'' is used in the following tables to indicate financial data that has not been taken from the Covestro Group's audited combined financial statements but has been taken or derived from the Covestro Group's unaudited condensed combined interim financial statements as of and for the six-month period ended June 30, 2015 (including combined comparative figures for the six-month period ended June 30, 2014) or Covestro Deutschland AG's (formerly Bayer MaterialScience Aktiengesellschaft) internal reporting system or has been calculated based on information contained in the audited combined financial statements.

Unless otherwise indicated, all financial data presented in the text and tables in this section of the Prospectus is shown in million Euros (EUR in millions), commercially rounded to a whole number. Because of this rounding, the figures shown in the tables do not necessarily add up exactly to the respective totals given. Furthermore these rounded figures may not add up exactly to the totals contained in the tables. Financial information presented in parentheses denotes the negative of such number presented. A dash (''—'') signifies that the relevant figure is not available, while a zero (''0'') or nil signifies that the relevant figure is available but has been rounded to zero.

The following selected financial information should be read in conjunction with the sections ''3. Risk Factors,'' ''13. Management's Discussion and Analysis of Financial Condition and Results of Operations,'' ''15. Business'' and the audited combined financial statements as of and for the fiscal years ended December 31, 2014, 2013 and 2012, and the related notes therein, and the unaudited condensed combined interim financial statements as of and for the six-month period ended June 30, 2015 (including combined comparative figures for the six-month period ended June 30, 2014) and the related notes therein as included in ''25. Financial Information.''

12.1 SELECTED COMBINED INCOME STATEMENT DATA

The following table shows selected combined income statement data of the Covestro Group for the six months ended June 30, 2015 and 2014 and the Fiscal Years 2014, 2013 and 2012:

	Six months ended June 30,		Fiscal Year		
	2015	**2014**	**2014**	**2013**	**2012**
	(Unaudited)		*(Audited)*		
	(EUR in millions)				
Net sales	**6,264**	**5,719**	**11,761**	**11,357**	**11,610**
Cost of goods sold	(4,832)	(4,616)	(9,609)	(9,390)	(9,306)
Gross profit	**1,432**	**1,103**	**2,152**	**1,967**	**2,304**
Selling expenses	(632)	(518)	(1,097)	(1,094)	(1,120)
Research and development expenses	(125)	(111)	(212)	(243)	(255)
General and administrative expenses	(209)	(173)	(343)	(322)	(351)
Other operating income	51	54	97	161	110
Other operating expenses	(44)	(41)	(80)	(78)	(146)
EBIT[(1)]	**473**	**314**	**517**	**391**	**542**
Equity-method loss	—	(8)	(15)	(16)	(17)
Financial income	3	16	30	40	36
Financial expenses	(90)	(64)	(151)	(160)	(204)
Financial result	**(87)**	**(56)**	**(136)**	**(136)**	**(185)**
Income before income taxes	**386**	**258**	**381**	**255**	**357**
Income taxes	(114)	(80)	(104)	(76)	(93)
Income after income taxes	**272**	**178**	**277**	**179**	**264**

Note:

(1) EBIT: earnings before financial result and taxes.

12.2 SELECTED COMBINED STATEMENT OF FINANCIAL POSITION DATA

The following table shows selected combined statement of financial position data of the Covestro Group as of June 30, 2015 and 2014 and December 31, 2014, 2013 and 2012:

	As of June 30,		As of December 31,		
	2015	**2014**	**2014**	**2013**	**2012**
	(Unaudited)		*(Audited)*		
	(EUR in millions)				
Noncurrent assets					
Goodwill	259	234	243	239	243
Other intangible assets	138	145	133	164	226
Property, plant and equipment	5,061	4,412	4,893	4,442	4,577
Investments accounted for using the equity method	227	198	216	202	224
Other financial assets	57	1,060	39	1,021	1,028
Other receivables	70	78	74	76	71
Deferred taxes	405	314	413	160	141
Total noncurrent assets	**6,217**	**6,441**	**6,011**	**6,304**	**6,510**
Current assets					
Inventories	1,921	1,820	1,904	1,616	1,865
Trade accounts receivable	1,794	1,622	1,561	1,363	1,428
Other financial assets	539	452	431	546	344
Other receivables	206	252	277	259	252
Claims for income tax refunds	6	7	7	8	22
Cash and cash equivalents	106	30	201	37	44
Total current assets	**4,572**	**4,183**	**4,381**	**3,829**	**3,955**
Total assets	**10,789**	**10,624**	**10,392**	**10,133**	**10,465**
Total equity	**1,728**	**2,716**	**1,787**	**2,779**	**2,579**
Noncurrent liabilities					
Provisions for pensions and other post-employment benefits	1,409	1,045	1,395	622	798
Other provisions	217	178	187	167	189
Financial liabilities	521	736	779	827	827
Other liabilities	29	28	30	27	36
Deferred taxes	181	197	176	193	136
Total noncurrent liabilities	**2,357**	**2,184**	**2,567**	**1,836**	**1,986**
Current liabilities					
Other provisions	366	246	322	243	278
Financial liabilities	4,697	3,860	3,943	3,726	3,920
Trade accounts payable	1,456	1,350	1,522	1,329	1,378
Income tax liabilities	13	1	3	3	2
Other liabilities	172	267	248	217	322
Total current liabilities	**6,704**	**5,724**	**6,038**	**5,518**	**5,900**
Total equity and liabilities	**10,789**	**10,624**	**10,392**	**10,133**	**10,465**

12.3 SELECTED COMBINED CASH FLOW STATEMENT DATA

The following table shows selected combined cash flow statement data of the Covestro Group for the six months ended June 30, 2015 and 2014 and the Fiscal Years 2014, 2013 and 2012:

	Six months ended June 30,		Fiscal Year		
	2015	**2014**	**2014**	**2013**	**2012**
	(Unaudited)		*(Audited)*		
	(EUR in millions)				
Gross cash flow	727	554	1,016	941	1,006
Net cash provided by (used in) operating activities (net cash flow)	545	154	925	998	814
Net cash provided by (used in) investing activities	(318)	(221)	(585)	(542)	(691)
Net cash provided by (used in) financing activities	(340)	59	(192)	(461)	(196)
Changes in cash and cash equivalents due to business activities	(113)	(8)	148	(5)	(73)
Cash and cash equivalents at end of period/year	106	30	201	37	44

12.4 ADDITIONAL KEY FIGURES

The Group uses Adjusted EBIT and Adjusted EBITDA as key performance indicators because the Group believes that they provide a more accurate assessment of its business operations than the most closely comparable GAAP measures, EBIT and income before income taxes. The Group defines Adjusted EBITDA as EBITDA before special items, which comprise effects that the Group regards as non-recurring or that do not regularly recur or attain similar magnitudes. The Group defines EBITDA as EBIT plus depreciation and impairment losses on property, plant and equipment, plus amortization and impairment losses on intangible assets and minus impairment loss reversals on intangible assets and property, plant and equipment. The Group believes that Adjusted EBITDA is a meaningful indicator of operating performance since it is not affected by depreciation, amortization, impairment loss, impairment loss reversals or special items. Adjusted EBIT is defined as earnings before financial result and taxes plus special items, which comprise effects that the Group regards as non-recurring or that do not regularly recur or attain similar magnitudes. EBIT is defined as earnings before financial result and taxes. The Group believes that Adjusted EBIT is a meaningful indicator of operating performance since is not affected by special items.

The following table provides a reconciliation of the Covestro Group's Adjusted EBITDA and Adjusted EBIT to EBIT and income before income taxes for the periods indicated:

	Six months ended June 30,		Fiscal Year		
	2015	**2014**	**2014**	**2013**	**2012**
	(Unaudited)		*(Audited, unless otherwise indicated)*		
	(EUR in millions)				
Adjusted EBITDA[1]	**914**	**625**	**1,161**	**1,056**	**1,244**
Adjusted depreciation, amortization and impairments[2]	(336)	(292)	(600)	(670)	(664)
Adjusted EBIT[3]	**578**	**333**	**561**	**386**	**580**
Special items	(105)	(19)	(44)	5	(38)
of which:					
Restructuring (unaudited)[4]	(103)	(19)	*(44)*	*(37)*	*(50)*
Adjustments to post-employment benefit entitlements (unaudited)[5]	—	—	—	—	*12*
Divestitures[6]	—	—	—	*42*	—
Revaluation of other receivables	(2)	—	—	—	—
EBIT[7]	**473**	**314**	**517**	**391**	**542**
Financial result	(87)	(56)	(136)	(136)	(185)
Income before income taxes	**386**	**258**	**381**	**255**	**357**

Note:

(1) Adjusted EBITDA: EBITDA before special items, which comprise effects that the Group regards as non-recurring or that do not regularly recur or attain similar magnitudes.

EBITDA: earnings before financial result and taxes (EBIT) plus depreciation and impairment losses on property, plant and equipment, plus amortization and impairment losses on intangible assets and minus impairment loss reversals on intangible assets and property, plant and equipment.

(2) Adjusted depreciation, amortization and impairments: depreciation, amortization and impairments before special items, which comprise effects that the Group regards as non-recurring or that do not regularly recur or attain similar magnitudes.

(3) Adjusted EBIT: earnings before financial result and taxes plus special items, which comprise effects that the Group regards as non-recurring or that do not regularly recur or attain similar magnitudes.

(4) Restructuring charges consist primarily of severance payments and impairment charges relating to restructuring measures.

(5) The Company offered certain terminated employees with post-employment benefit entitlements the opportunity to receive a lump sum payment in lieu of a future monthly benefit from the defined-benefit pension plan.

(6) Gain from the sale of the global powder polyester resins business and its U.S.-based liquid polyester business in June 2013 and the sale of the Desmolux® resins business in September 2013.

(7) EBIT: earnings before financial result and taxes.

13. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the Covestro Group's financial condition and results of operations should be read in conjunction with the sections "12. Selected Combined Financial and Other Information," "3. Risk Factors," "15. Business" and the Covestro Group's audited combined financial statements as of and for the fiscal years ended December 31, 2014, 2013 and 2012, and the related notes therein, and the Covestro Group's unaudited condensed combined interim financial statements as of and for the six-month period ended June 30, 2015 (including combined comparative figures for the six-month period ended June 30, 2014) and the related notes therein as included in "25. Financial Information."

The audited combined financial statements as of and for the fiscal years ended December 31, 2014, 2013 and 2012 have been prepared in accordance with IFRS and have been audited in accordance with International Standards on Auditing by PricewaterhouseCoopers Wirtschaftsprüfungsgesellschaft AG, who issued an unqualified audit opinion thereon. The unaudited condensed combined interim financial statements as of and for the six-month period ended June 30, 2015 (including combined comparative figures for the six-month period ended June 30, 2014) have been prepared in accordance with IFRS IAS 34.

Certain information in the following discussion includes forward-looking statements. Since such statements involve inherent uncertainties, actual results may materially differ from the results described in or implied by such forward-looking statements. See "3. Risk Factors," "4. General Information—4.3 Forward-Looking Statements" and "15. Business" for a discussion of important factors that can cause actual results to materially differ from the results described in or implied by these forward-looking statements.

Where financial data in the following tables is presented as "audited," it indicates that the financial data has been taken from the audited combined financial statements for the Covestro Group as of and for the fiscal years ended December 31, 2014, 2013 and 2012. The label "unaudited" is used in the following tables to indicate financial data that has not been taken from the Covestro Group's audited combined financial statements but has been taken or derived from the Covestro Group's unaudited condensed combined interim financial statements as of and for the six-month period ended June 30, 2015 (including combined comparative figures for the six-month period ended June 30, 2014) or Covestro Deutschland AG's (formerly Bayer MaterialScience Aktiengesellschaft) internal reporting system or has been calculated based on information contained in the audited combined financial statements.

Unless otherwise indicated, all financial data presented in the text and tables in this section of the Prospectus is shown in million Euros, commercially rounded to one decimal point. Unless expressly otherwise noted, the percentage amounts that are stated in the text and tables have likewise been commercially rounded to one decimal point. Because of this rounding, the figures shown in the tables do not necessarily add up exactly to the respective totals given. Furthermore these rounded figures may not add up exactly to the totals contained in the tables. Financial information presented in parentheses denotes the negative of such number presented. A dash ("—") signifies that the relevant figure is not available, while a zero ("0") or nil signifies that the relevant figure is available but has been rounded to zero.

13.1 OVERVIEW

The Group is one of the world's leading providers of high-tech material solutions according to the Industry Report. Its activities comprise the production and supply of raw materials for polyurethanes, polycarbonate resins and sheets, and raw materials for coatings, adhesives and sealants, as well as selected chemical intermediates. The Group's product portfolio also includes niche products such as TPU, polycarbonate- and TPU-based films, hot cast elastomers and other products tailored to textile, cosmetic and medical applications. The Group has a strong track record of process and product innovation as well as close customer relationships that underpin its tradition of developing market-driven solutions. The products manufactured by the Group are processed by customers to create products used in various end markets, including, in particular, automotive/transport, construction, wood/furniture, electrical/electronics, sports/leisure, cosmetics, health and chemicals.

The Group benefits from a well-invested asset base with what it believes is leading process technology and a total nameplate production capacity of 4,700 kt of core products in its Polyurethanes and Polycarbonates business units, including eight world-scale production sites across Europe, the United

States and Asia. The Group's selectively backward integrated production process is aimed at sourcing critical raw materials such as chlorine, propylene oxide and other feedstock internally or through joint ventures, thereby reducing its dependency on external sourcing.

The Group's business combines the benefits of standardized products and customized high-value solutions, which aim to meet the needs of customers as they confront fundamental macro trends such as climate change, increasing mobility, population growth and increasing urbanization. The Group believes that it is well-positioned to capture industry growth driven by such trends due to its competitive advantages. According to the Industry Report, the industry is expected to grow due to favorable demand trends over the next five years.

For the six months ended June 30, 2015, the Covestro Group generated net sales of €6.3 billion, an EBIT of €473 million, an Adjusted EBITDA of €914 million (Adjusted EBITDA margin of 14.6%) and free operating cash flow of €321 million. In Fiscal Year 2014, the Covestro Group generated net sales of €11.8 billion, an EBIT of €517 million, an Adjusted EBITDA of €1.2 billion (Adjusted EBITDA margin of 9.9%) and free operating cash flow of €313 million.

The Group's business is divided into three business units, which are also the Group's three reportable segments:

- The Group's Polyurethanes business unit produces a variety of grades of MDI, TDI and polyether polyols mainly for rigid and flexible foams. Rigid foams are primarily used for building insulation, cold-chain insulation and for automotive parts, while flexible foams are primarily used for furniture, mattresses and car seats. The business unit also produces other products such as TPU, styrene and toluene diamine (''**TDA**''). For the six months ended June 30, 2015, the business unit's external net sales amounted to €3.2 billion (or 50.9% of total net sales), EBIT amounted to €123 million (26.0% of total EBIT) and Adjusted EBITDA amounted to €386 million (42.2% of total Adjusted EBITDA with an Adjusted EBITDA margin of 12.1%). In Fiscal Year 2014, the business unit's external net sales amounted to €6.3 billion (or 53.4% of total net sales), EBIT amounted to €233 million (45.1% of total EBIT) and Adjusted EBITDA amounted to €592 million (51.0% of total Adjusted EBITDA with an Adjusted EBITDA margin of 9.4%). The Polyurethanes business unit encompasses the strategic business entities, MDI, TDI and polyether polyols accounting for approximately 40%, 20% and 40% of external net sales of the Polyurethanes business unit, respectively, in Fiscal Year 2014.
- The Group's Polycarbonates business unit produces polycarbonate resins, compounded resins and polycarbonate sheets. Polycarbonates have unique properties that facilitate their use in a wide range of applications in the electrical/electronics, automotive, construction, consumer appliance, medical, packaging and optical media end markets. For the six months ended June 30, 2015, the business unit's external net sales amounted to €1.6 billion (or 25.4% of total net sales), EBIT amounted to €177 million (37.4% of total EBIT) and Adjusted EBITDA amounted to €266 million (29.1% of total Adjusted EBITDA with an Adjusted EBITDA margin of 16.7%). In Fiscal Year 2014, the business unit's external net sales amounted to €2.8 billion (or 24.0% of total net sales), EBIT amounted to €(32) million and Adjusted EBITDA amounted to €160 million (13.8% of total Adjusted EBITDA with an Adjusted EBITDA margin of 5.7%).
- The Coatings, Adhesives and Specialties business unit produces mainly aliphatic isocyanates and their derivatives, aromatic isocyanate derivatives, polyurethane dispersions and other specialties. The business unit produces approximately 2,300 products for more than 4,300 customers in more than ten end markets, including automotive, construction, wood/furniture, footwear, packaging/textiles/clothing and electronics. For the six months ended June 30, 2015, the business unit's external net sales amounted to €1.1 billion (or 17.5% of total net sales), EBIT amounted to €224 million (47.4% of total EBIT) and Adjusted EBITDA amounted to €270 million (29.5% of total Adjusted EBITDA with an Adjusted EBITDA margin of 24.6%). In Fiscal Year 2014, the business unit's external net sales amounted to €1.9 billion (or 16.4% of total net sales), EBIT amounted to €354 million (68.5% of total EBIT) and Adjusted EBITDA amounted to €437 million (37.6% of total Adjusted EBITDA with an Adjusted EBITDA margin of 22.7%).

All other business activities by the Group that cannot be allocated to one of the three reportable segments are recorded under ''All other segments,'' which mainly include external net sales of chlorine and certain by-products that are created during the production of chlorine and processing of chlorine during the isocyanate production, in particular caustic soda and hydrochloric acid. ''All other segments'' also includes the provision of certain services to third parties (such as facility management and technical

services, rental of buildings, land and offices as well as sale of energy produced by the Group) and the sale of non-chemical products (such as used assets). For the six months ended June 30, 2015 and Fiscal Year 2014, external net sales of ''All other segments'' amounted to €382 million, or 6.1% of total net sales, and €729 million, or 6.2% of the Covestro Group's total net sales, respectively. While the external net sales of chlorine and by-products are recorded under ''All other segments,'' the profits attributable to such activities are allocated to the reporting segments Polyurethanes, Polycarbonates and Coatings, Adhesives and Specialties mainly on the basis of the internal usage of chlorine. As the Group's Polyurethanes segment uses the largest proportion of the internally produced chlorine, the largest proportion of the profits attributable to the external net sales of chlorine and by-products is allocated to the Polyurethanes segment. The profits attributable to provision of certain services to third parties and the sale of non-chemical products are also allocated to the three reporting segments Polyurethanes, Polycarbonates and Coatings, Adhesives and Specialties.

The Group is engaged in continuous programs of research and development of new products and production processes, improvement and refinement of existing products and processes, and development of new applications for existing products. In Fiscal Year 2014, the Covestro Group spent €212 million on research and development activities, often conducted in close collaboration with customers.

The Group has a regional sales and marketing structure with supply chain centers and local operations supported by an e-commerce platform and regional or local distributors. The Group's sales for each business unit are organized in three regions—EMLA, APAC and NAFTA. In each of these regions, the Group's customers include global, regional and local operating businesses, many of whom are long-term customers of the Group. In Fiscal Year 2014, net sales in EMLA, APAC and NAFTA accounted for 46.6%, 27.7% and 25.7% of the Covestro Group's net sales, respectively.

The MaterialScience business was and is a part of the Bayer Group, independently managing its business operations in line with the preset objectives of Bayer AG. In 2014, Bayer AG announced its plans to dispose of a majority shareholding in the Group. Post-separation from Bayer AG, the Group will receive the benefit of certain services from the Bayer Group. The Group is headquartered in Leverkusen, Germany, and had an average of 14,397 full-time equivalent employees worldwide for Fiscal Year 2014.

13.2 SEPARATION FROM BAYER

On September 18, 2014, Bayer AG announced its plan to contribute the MaterialScience business into a new stock corporation (*Aktiengesellschaft*) and list the shares of such new stock corporation on a stock exchange. Following the announcement and prior to the Offering, the Bayer Group engaged in a carve-out and reorganization in order to combine the Bayer Group's activities in the area of polymer materials and certain inorganic basic chemicals within the Group. For further information regarding the carve-out and reorganization prior to the Offering, see ''*5. Carve-Out and Reorganization.*''

As a subgroup of the Bayer Group, the MaterialScience business has historically used certain services provided by Bayer AG and its service companies Bayer Business Services, Bayer Group Platform and Bayer Technology Services, including principally corporate services, agency business services, administrative services, information technology and management, services and solutions for business processes, technology development, project management and engineering as well as operations support and safety. In addition, the Group has historically used and will continue to use services provided by Currenta, which is a joint venture between Bayer AG (60%) and Lanxess Deutschland GmbH (40%). Currenta operates the chemical parks (Leverkusen, Dormagen and Uerdingen) that are used by the Covestro Group. The services furnished by Currenta include, in particular, the supply of energy, maintenance services, environmental services, logistics and infrastructure services, such as the basic park infrastructure, electricity networks, pipeline systems, rail networks, port structures, waste water treatment facilities and site security.

The cost of services provided in Fiscal Years 2014, 2013 and 2012 by companies in the Bayer Group to the Covestro Group totaled €989 million, €959 million and €958 million, respectively, and are reflected in the combined financial statements as of and for the fiscal years ended December 31, 2014, 2013 and 2012. The combined financial statements included in the Prospectus also reflect Bayer Group holding company costs that were allocated to the Covestro Group. These allocated holding company costs are presented in the Covestro Group's segment reporting as ''Corporate Center and Reconciliation.''

In connection with the carve-out from the Bayer Group, the service level agreements between the Group and the Bayer Group have been either terminated or replaced by transitional service agreements with the Bayer Group relating to IT, accounting and technology services. The agreement between the Group and Currenta remains in place. For further information on the Group's relationship with the Bayer Group, see "*16. Certain Relationships and Related Party Transactions—16.1 Relationship with the Bayer Group.*"

In addition, approximately 2,000 employees (full-time equivalents) of Bayer Group service companies who were dedicated to providing services to the Group have been transferred to the Group. The Group also expects to hire approximately 200 additional employees (full-time equivalents) for corporate and global functions (mainly human resources, controlling, accounting, finance, IT, procurement) and to build up country organizations.

13.3 PREPARATION OF THE COMBINED FINANCIAL STATEMENTS

The Bayer Group engaged in a carve-out and reorganization prior to the Offering in order to combine the Bayer Group's MaterialScience business, consisting of the Bayer Group's activities in the area of polymer materials and certain inorganic basic chemicals. As these activities have not been solely under the control of Covestro Deutschland AG, the Group does not have consolidated financial statements for the last three fiscal years. Instead, Covestro Deutschland AG (formerly Bayer MaterialScience Aktiengesellschaft) has prepared combined financial statements as of and for the fiscal years ended December 31, 2014, 2013 and 2012 and condensed combined interim financial statements as of and for the six-month period ended June 30, 2015 (including combined comparative figures for the six-month period ended June 30, 2014) regarding the Bayer MaterialScience business (referred to as "Covestro Group" for the purposes of the combined financial statements).

In preparing the combined financial statements, Covestro Deutschland AG (formerly Bayer MaterialScience Aktiengesellschaft) applied the predecessor accounting approach in accordance with the rules on business combinations under common control. The combined financial statements of the Covestro Group companies and operations assigned to the Covestro Group as historically included in the IFRS consolidated financial statements of the Bayer Group and managed by Covestro Deutschland AG management (economic-entity approach). In general, the Covestro Group used the same accounting policies and measurement principles in preparing the combined financial statements as those used by the included companies and operations assigned to the Covestro Group in preparing their financial information for inclusion in the IFRS consolidated financial statements of the Bayer Group. This approach is adjusted with respect to transactions with Bayer Group companies and to ensure IFRS compliance. Transactions between the Covestro Group and the remainder of the Bayer Group are recognized in accordance with IFRS and classified as related-entity transactions. The combined financial statements reflect all material transactions between the Covestro Group and the Bayer Group. In the combined financial statements, all IFRS standards whose application was mandatory for Fiscal Year 2014 have been consistently applied for each of the reporting periods 2012 through 2014.

The scope of combination for the combined financial statements of the Covestro Group was based on economic principles using the common management approach. The scope of combination includes companies directly or indirectly controlled by Covestro Deutschland AG along with the net assets (assets and liabilities) of corporate units that have conducted operations for the Covestro Group which were already centrally managed by the management board of Covestro Deutschland AG during the reporting periods but were not yet legally held, either directly or indirectly, by Covestro Deutschland AG but by Bayer AG. The scope of combination also includes assets, particularly land, production facilities, office buildings and other real estate that historically has been used by the Covestro Group or is connected with the business of the Covestro Group.

For further information regarding the basis for preparation of the combined financial statements, see note 3 to the combined financial statements as of and for the fiscal years ended December 31, 2014, 2013 and 2012.

13.4 KEY FACTORS INFLUENCING THE NET ASSETS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Group believes that the factors discussed below have contributed to the development of its net assets, financial condition and results of operations in the periods for which financial information is presented in the Prospectus. The Group expects that these factors will continue to influence the

development of its net assets, financial condition and results of operations in the future. These factors include, in particular:

13.4.1 General Economic Conditions

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

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

The impact of economic developments may be amplified by destocking and restocking effects. In times of economic weakness or uncertainty, the Group typically experiences a reduction in orders because its customers reduce their inventories. For example, in recent economic downturns, such as the economic crisis that began in late 2008, the Group experienced a significant decline in sales worldwide. During the latter part of 2008 and the first half of 2009, the Group experienced a larger decline in demand for its products than the decline in the underlying demand for its customers' products. Similarly, in a period of recovery or expected recovery from an economic downturn, such as in Fiscal Year 2010, the Group typically experiences a larger increase in demand for its products earlier than the increase in the underlying demand for its customers' products, given that its customers increase their inventory in anticipation of higher demand for their products.

For further information regarding the risks related to economic conditions, see ''*3. Risk Factors—3.1 Risks Related to the Group's Business and Industry—3.1.1 The polymer industry is affected by economic factors including risks associated with volatile economic conditions*.''

13.4.2 Conditions in the Core End Markets

Demand for the Group's products is driven by the conditions in the end markets in which its direct or indirect customers operate. The Group's key end markets are automotive/transport, construction, wood/furniture, electrical/electronics and chemicals, which the Group estimates accounted for approximately 22%, 19%, 18%, 13% and 9% of the Covestro Group's total net sales in Fiscal Year 2014, respectively. The remaining 19% of the Covestro Group's total net sales in Fiscal Year 2014 was attributable to sales in the sports/leisure, cosmetics, health and other end markets.

The Group's end markets are cyclical in nature. However, the level of cyclicality differs by end market and region. The level of activity in the Group's end markets is generally affected by economic developments (including GDP growth and disposable income) but also a wide range of other factors beyond the control of the Group and its customers.

Within the automotive/transport end market, the Group is primarily exposed to light vehicle production, which tends to move directionally with changes in GDP, albeit with greater volatility, and is sensitive to, among other things, consumer spending and preferences, which can be affected by a number of factors, including employment, consumer confidence and income, energy costs, interest rate levels, inflation and the availability of consumer financing. This is also true with respect to the construction end market, in which the Group is primarily exposed to new construction and renovation projects, which are highly dependent on the overall economic condition of each country and are particularly sensitive to interest rates, inflation, public funding of infrastructure projects and other fiscal stimuli, the cost of financing, especially mortgage financing, energy prices and local regulatory requirements that incentivize the use of the Group's raw materials for insulation foams. Within the wood/furniture end market, the Group is primarily exposed to furniture manufacturing and flooring, which tends to correlate with construction activity. Within the electrical/electronics end market, the Group is primarily exposed to the production of electronic devices such as LCD-TVs, mobile phones, PCs, tablets, printers, copiers and household appliances, which is affected by changes in GDP, consumer purchasing power and technology innovation. The chemical end market is primarily driven by the conditions in the industries in which the

Group's by-products are used. Those end markets are largely different from the end markets, in which the Group's customers for finished goods operate.

For further information regarding the risks related to the dependence on the development of the Group's end markets, see "*3. Risk Factors—3.1 Risks Related to the Group's Business and Industry—3.1.2 The Group is dependent on the development of its customers' end markets, in particular the automotive/transport, construction, wood/furniture, electrical/electronics and chemicals end markets, which are cyclical*."

13.4.3 Industry Production Capacity and Utilization

The Group's results of operations are affected by the balance between the supply and demand for the industry's products, which affects the capacity utilization rates in the industry. The supply side is primarily driven by the production capacity available in the industry. Decreases in demand and sales volume, respectively, eventually lead to decreases in capacity utilization, which negatively impact margins due to the high fixed-cost base in the polymer industry and due to decreasing selling prices.

When increases in capacity outpace growth in demand, prices tend to decline. On the other hand, when growth in demand outpaces increases in capacity, prices can be expected to rise. In addition, unused capacities negatively affect producers' ability to pass on increases in raw material and energy costs to customers, which has a negative impact on their margins. In an environment of increasing industry capacity utilization, producers may be able to extend the period during which they are able not to pass on decreases in raw material and energy costs to customers, which has a positive impact on their margins. Conversely, declining industry capacity utilization typically reduces the period during which producers are able not to pass on decreases in raw material and energy costs to their customers.

The materially adverse effects of supply and demand imbalances can be significantly exacerbated by economic conditions. For example, the Group experienced such effects in Fiscal Year 2012 when a significant amount of production capacity in the polycarbonates industry, commissioned before the crisis, came into operation while growth in the leading global economies slowed, stagnated or declined, leading to a significant decline in polycarbonates selling prices and sales volume.

The cyclical nature of industry production capacity is in part caused by the fact that the addition of significant capacity of new production assets is necessary to create economies of scale.

The industries in which the Group operates are highly competitive. Changes in competitors' behavior or the entry of new competitors can further intensify the competitive situation by creating overcapacities and increased pressure on prices. Competition is particularly intense in times of declining demand, decreasing demand growth or capacity additions in the industry, as many competitors aim to support their sales volumes by lowering their prices (or not adjusting prices to increases in their costs of goods sold) in order to retain or sustain utilization of production capacity.

For further information regarding the historical and expected supply/demand balance and industry utilization, see "*14. Industry and Competitive Overview*." For further information regarding the risks related to supply/demand imbalances and competition, see "*3. Risk Factors—3.1 Risks Related to the Group's Business and Industry—3.1.3 The polymer industry is characterized by periods of supply/demand imbalances due to production overcapacity that will result in periodic downward pressure on prices and short-term price volatility*." and "*3. Risk Factors—3.1 Risks Related to the Group's Business and Industry—3.1.7 The Group operates in a highly competitive industry and faces competition from large, well-established producers as well as new entrants across each of the regions in which the Group operates, who may each compete more effectively than the Group and materially adversely affect the Group's profitability.*"

13.4.4 Prices of Raw Materials

Raw materials constitute a large proportion of the Group's total production costs, amounting to €5,612 million in Fiscal Year 2014 and constituting more than 50% of total cost of goods sold of the Covestro Group in each of the periods under review. The Group's primary raw materials are petrochemical derivatives, such as benzene and phenol, which together accounted for roughly one-third of the Group's total raw material costs in Fiscal Year 2014, propylene oxide, toluene, acetone, HDA and more than 300 other raw materials (with each accounting for less than 3% of total raw material costs). Phenol and acetone are the principal raw materials used for the Group's production of polycarbonates. Benzene is the principal raw material used for the Group's production of MDI. Propylene oxide is the

principal raw material used for the Group's production of polyether polyols. Toluene and HDA are the principal raw materials used for the Group's production of TDI and HDI, respectively.

Movements in raw material prices, which generally change on a monthly basis, affect the Group's cost of goods sold and therefore the Group's results of operations. The extent of the impact of price fluctuations on the Group's net sales and results of operations depends primarily on whether the Group is able to pass on increases in raw material prices to its customers through higher selling prices without significant delays or is required to pass on decreases in raw material prices to its customers without delay. The Group attempts to pass on increases in raw material prices to its customers without significant delays, for example, through cost-based pricing provisions in its contracts. The ability to pass on raw material price increases to customers generally varies by product.

However, the Group's ability to pass on increases in raw material prices to its customers through higher selling prices or to maintain its selling prices despite decreases in raw material prices primarily depends on the conditions of supply and demand in the industry and resulting industry capacity utilization as well as competition. Oversupply and low utilization of the production capacity in the industry have affected and will continue to affect the Group's ability to pass on increases in raw material prices to its customers, which negatively affects the Group's margins. A favorable balance between supply and demand or increasing demand and utilization of production capacity in the industry may allow the Group to maintain its selling prices, or delay decreases in its selling prices despite decreases in raw material prices, which has a positive effect on the Group's margins. For example, the Covestro Group's results of operations in the six months ended June 30, 2015 were positively affected by the Group's ability to limit the reduction of overall selling prices despite general decreases in raw material prices towards the end of Fiscal Year 2014 and the beginning of Fiscal Year 2015. Raw material prices increased in the second quarter of Fiscal Year 2015, stabilized at the beginning of the third quarter and are currently showing a downward trend. The Group may not be able to maintain its overall selling prices, which could negatively affect margins in the second half of Fiscal Year 2015.

The Group purchases raw materials on the procurement markets, mainly under supply agreements. The supply of phenol is secured through longer-term contracts based on a combination of cost plus and/or market prices in a structurally liquid market. Other aromatics (benzene and toluene) are secured through shorter-term contracts and spot purchases with purchasing prices fixed on a monthly basis. The Group primarily secures its supply of propylene oxide through its joint-ventures with LyondellBasell. At selected production sites, chlorine, carbon monoxide and hydrogen are sourced from on-site partners at cost plus or externally via long-term contracts. The price adjustment clauses in these agreements typically provide that the price of the raw material to be delivered is determined at the beginning of each month. As the Group's primary raw materials are petrochemical derivatives, their prices are generally determined based on the price of crude oil, which generally creates the floor price for petrochemical derivatives, and the supply and demand dynamics for the relevant raw material.

For further information regarding the risks related to fluctuating raw material prices, see *"3. Risk Factors—3.1 Risks Related to the Group's Business and Industry—3.1.4 Fluctuations in the prices of raw materials may have a material adverse effect on the Group's results of operations."*

13.4.5 Ability to Manage the Group's Cost Base and Implement Its Profitability Enhancement Measures

Due to the high fixed-cost base in the polymer industry and significant price competition, the Group's ability to manage its fixed-cost base through continuous process innovation and optimization at the Group's production sites, efficiency improvements in the administrative functions within the Group, cost savings in relation to sourcing of raw materials, other materials and services as well as optimization of its asset footprint are key to the Group's margins.

In the periods under review, the Covestro Group has implemented continuous efficiency improvement initiatives, which resulted in cost savings. As part of these initiatives, the Covestro Group has been continuously reviewing its major cost items and processes. The main cost savings achieved in the periods under review as a result of these continuous efficiency improvement initiatives relate to supply agreements for raw materials and to a reduction of production costs (including savings for maintenance expenses, reduction of energy consumption and costs, and improved production processes).

In addition, the Covestro Group has implemented structural improvements in the periods under review that were designed to optimize the Group's product offering and asset footprint.

In the first half of Fiscal Year 2015, the Covestro Group decided to close its production facility located in Belford Roxo, Brazil, resulting in accruals for severance payments, decommissioning and demolition, onerous contracts, and impairment charges in an aggregate amount of €81 million, which the Covestro Group recorded as special items in the first half of Fiscal Year 2015.

In Fiscal Year 2014, the Covestro Group decided to restructure its polycarbonates business, including the restructuring of its polycarbonate sheets business in Germany (together with the closure of a site in Darmstadt), the divestment and closure of the polycarbonate sheets business in Australia, and the restructuring of the polycarbonate sheets business in China. The severance payments and impairment charges related to these restructuring measures amounted to €44 million in Fiscal Year 2014 and were recorded as special items.

In Fiscal Year 2013, the Covestro Group decided to divest its carbon nanotubes business and electroactive polymers business in the Coatings, Adhesives and Specialties business unit as well as to close systems houses in the Polyurethanes business unit in China and Italy, a specialty films laboratory in the Coatings, Adhesives and Specialties business unit in Singapore, and a polyether polyols production plant in Indonesia, which resulted in impairments and severance payments. The impact of these impairments and severance payments, which resulted in restructuring charges of €37 million in Fiscal Year 2013 and were recorded as special items, was offset by a book gain of €42 million from the divestment of the Covestro Group's global powder polyester resins business and its U.S. based liquid polyester business in June 2013 as well as the sale of the Desmolux resins business in September 2013.

In Fiscal Year 2012, the Covestro Group implemented a general voluntary separation program in the United States, closed one of two production lines of the spray foam business, also in the United States, reduced headcount at the Polyurethanes business unit in Germany, closed a Polyurethanes systems house in Greece, closed its organization in Canada and reduced headcount at the Polyurethanes business unit in Brazil, which resulted in severance payments and asset impairments. In addition, in Fiscal Year 2012, the Covestro Group recorded special items mainly related to asset impairments as a result of inventory impairments at the Coatings, Adhesives and Specialties business unit, and an accrual for the expected repayment of a government grant due to the announced closure of a Coatings, Adhesives and Specialties specialty films laboratory in Singapore (which was reversed in Fiscal Year 2014). Restructuring charges of €50 million in Fiscal Year 2012 were partially offset by adjustments to post-employment benefit entitlements of €12 million in the United States.

The Group aims to further increase efficiency by optimizing its asset base and generally improving its cost structure through a structured profitability program. Compared to the cost basis of Fiscal Year 2014, the Group is targeting annual gross cost savings of approximately €420 million by Fiscal Year 2019, consisting of gross cost savings of approximately €270 million as a result of the optimization of its asset footprint and €150 million as a result of its general cost improvement measures. The main asset optimization measures planned include the reduction of facility management costs, asset restructuring (including site consolidation) and efficiency projects, and continuous improvements of production processes. In particular, the Group aims to consolidate certain production operations to focus on the Group's core geographic regions and to further optimize the utilization of its world-scale production facilities.

In terms of generally improving its cost structure, the Group believes that business-unit level specific cost improvements, continuous cost improvement in the non-manufacturing area and corporate overhead reductions will allow alignment of costs with best-in class chemical industry benchmarks. Business-unit level specific cost savings are planned to result from streamlining of sales forces and back office functions, focus on core end markets and customers, the consolidation within regional functions, product management and sales and the maximization of the use of existing trade and distribution channels. The Group plans to achieve corporate overhead cost savings through the optimization of corporate functions, the streamlining of IT infrastructure and business model and more tailor-made service function designs to replace the transitional service agreements with the Bayer Group. The Group expects the resulting net cost savings to be well above the inflation-related cost increases by Fiscal Year 2019.

For further information regarding the risks related to the Group's structured profitability program, see "*3. Risk Factors—3.1 Risks Related to the Group's Business and Industry—3.1.8 The Group may be unable to successfully execute its strategy for achieving profitable growth, and therefore, may grow much less than expected, if at all.*"

13.4.6 Product Mix and Geographic Split

The Group has an extensive product portfolio with a wide range of pricing and margin levels. As is common for the industry, the relative demand for particular products, or "product mix," can therefore also affect the Group's results of operations. In addition, the Group's product mix within a period is subject to the fluctuating order patterns of its customers as well as decisions the Group may make on investments in certain product categories and geographic regions. Over time, the impact of the Group's product mix may fluctuate and affect period-to-period comparability.

Margins vary across the Group's business units and geographic regions. In Fiscal Year 2014, the Adjusted EBITDA margin in its Coatings, Adhesives and Specialties business unit was 22.7%, compared to 9.4% and 5.7% in its Polyurethanes and Polycarbonates business units, respectively. In terms of geographic split, the Group has historically achieved its highest margin in NAFTA, followed by EMLA and APAC. In Fiscal Year 2014, China accounted for 55.0% of net sales in APAC and 15.2% of total net sales.

13.4.7 Ability to Sell By-Products

During the production and internal usage of chlorine, certain by-products are created, in particular caustic soda and hydrochloric acid. Caustic soda is a natural by-product of chlorine production. For every ton of chlorine, approximately 1.1 tons of caustic soda are produced, which means that the volume of caustic soda produced by the Group depends on its chlorine production and consumption. Hydrochloric acid is a by-product of the chlorine processing during the isocyanate production, which means that the volume of hydrochloric acid produced by the Group depends on its isocyanate production. The Group sells these by-products to third parties to the extent that it cannot use them in its internal production processes. In addition, pursuant to the Lyondell European Joint Venture agreement, the Group is required to take significant amounts of styrene, a by-product of the propylene oxide production, which the Group must sell or otherwise dispose at its expense.

The Group's ability to sell by-products, in particular, caustic soda, hydrochloric acid and styrene, and the prices at which the Group is able to sell these by-products, can have a significant impact on the results of operations of the Group and its business units. The Group's inability to sell these by-products may also force the Group to limit the production of its finished goods. Demand for the Group's by-products is mainly driven by the conditions in the industries, in which the by-products are used, which are largely different to the end markets, in which the Group's customers for its finished goods operate. For example, the sale of hydrochloric acid in the United States has been affected by the recent slowdown in the fracking industry, which has been a key source of demand for the Group's hydrochloric acid. In the event that the Group's inability to sell its hydrochloric acid could have a material impact on its business or results of operations, the Group may decide to purchase chlorine from a third party under an existing supply agreement, instead of producing chlorine itself. This would allow the Group to return any hydrochloric acid produced in connection with the processing of such purchased chlorine to such third party. The prices for styrene monomers are also highly volatile, which may impact the results of operations of the Polyurethanes segment.

For further information related to the risks in connection with the Group's by-products, see "*3. Risk Factors—3.1 Risks Related to the Group's Business and Industry—3.1.14 If the Group is unable to sell, store, re-utilize or dispose of certain raw materials and by-products that it produces or acquires from third-parties, it may be required to limit or reduce its overall production levels and could be materially adversely affected if the prices at which the Group sells certain raw materials and by-products declines.*"

13.4.8 Energy Prices

The operation of the Group's production facilities requires large quantities of energy, mostly in the form of electricity, natural gas and steam. Chlorine production is the largest consumer of electricity.

The Group's energy expenses are affected by various factors, including the availability of supplies of particular sources of energy, energy prices and regulatory decisions. The prices for electricity and steam under the Group's supply agreements are generally driven by the price of the fossil fuel used for the electricity and steam production, which is generally either natural gas or coal. In the past, prices for natural gas and coal have been volatile. The Group's main production facilities are located in China, the United States and Germany and are therefore subject to the developments regarding energy prices in these countries.

In China, the availability and prices of electricity are presently controlled by the Chinese government. Energy intensive operations in China, comprising a significant portion of the Group's operations, are subject to volume or price control by the government, which the Group is unable to influence.

In the United States, the Group has long-term electricity and steam supply agreements, pursuant to which the prices for electricity and steam are generally linked to a common price index for natural gas. In Germany, the Group sources its electricity requirements through purchases in the spot markets and also has long-term electricity and steam supply agreements, pursuant to which prices for the electricity and steam consumed by the Group are linked to market prices for coal and natural gas.

In Germany, the Group currently benefits from three tax reduction and exemption schemes that allow energy-intensive industries to operate at a lower cost level to support competitiveness. The electricity consumption of the Group's production processes in Germany is eligible for an exemption from the EEG, an individual network compensation regulation (*Netzentgeltverordnung*) and power price compensation (*Strompreiskompensation*) tax reduction and exemption schemes. Together, the schemes provided for a substantial reduction in the Group's energy costs in the periods under review.

For further information regarding the risks related to volatile energy prices, see ''*3. Risk Factors—3.1 Risks Related to the Group's Business and Industry—3.1.6 Volatility in energy prices and factors impacting energy supply and prices could have a material adverse effect on the Group's business*.''

13.4.9 Investments in Production Facilities

Since 2005, the Group has invested approximately €7 billion in its production facilities, of which approximately €4 billion related to growth. In Fiscal Years 2014, 2013 and 2012, the Covestro Group's capital expenditures amounted to €673 million, €631 million and €652 million, respectively, as reflected in the statement of changes in property, plant and equipment and intangible assets. For further information regarding the Group's past, current and planned principal capital expenditures and the financing of capital expenditures, see ''*—13.11 Capital Expenditures*.'' As a result of the significant investments in its production facilities, the Group expects there to be only a limited need for additional investments in new capacity in the period up to 2020. In the period from Fiscal Year 2015 to Fiscal Year 2017, the Group expects that approximately 60%, 30% and 10% of its capital expenditures will relate to maintenance, growth and efficiency, respectively. The Group plans to focus its investment program during this period on growth regions, in particular APAC and EMLA, where it plans to invest approximately 60% and 36% of its growth capital expenditures, respectively.

The Group's ability to benefit from increases in demand by expanding volume at largely flat fixed costs will be a key factor affecting its results of operations. For further information regarding the historical and expected supply/demand balance and utilization, see ''*14. Industry and Competitive Overview*.'' In addition, the Group believes that its recently expanded and well-invested asset base will generally translate into higher asset reliability with less expenditure needed to maintain the assets in the short term.

While investments in production capacity support volume increases, they also have a negative impact on cash flows during the construction period and lead to higher fixed costs, which result in higher depreciation charges. In addition, the success of capacity increases depends on the timing and the ramp-up of facilities in line with prevailing demand. The Group runs the risk of expanding its production capacity beyond demand, which would negatively affect the industry's and the Group's utilization rates and therefore its profitability.

From time to time, production at the Group's facilities has to be halted to allow for scheduled maintenance work, or turnarounds, including for purposes of meeting legal or regulatory requirements. Such turnarounds typically take several weeks and may affect the period-to-period comparability, in particular of the Group's working capital, cash position and costs related to the turnarounds. In preparation for turnarounds, the Group typically builds up inventory which is then released during the turnaround. For example, in the fourth quarter of Fiscal Year 2015, the Group's production facilities in Shanghai, China, will be shut down to allow for scheduled and routine maintenance work, impacting all units for a period of up to six weeks. The main reasons for this scheduled turnaround are legal inspections, tie-in of new plants and replacement of catalysts. Due to expected delays in connection with the governmental approval of the Group's planned capacity expansion of polycarbonates and HDI at the production facility in Shanghai, China, the Group anticipates that a separate turnaround at the production facility in Shanghai, China, is likely to be necessary to tie-in the new production facilities, which will result in significant costs for the Group.

13.4.10 Exchange Rate Fluctuations

The Group's reporting currency is the Euro. However, the Group conducts its business in a large number of countries across the globe and in several international currencies. In Fiscal Year 2014, 57.0% of the Covestro Group's net sales was generated by operating subsidiaries with a functional currency other than the Euro. In terms of the Covestro Group's results of operations, the U.S. dollar and the Chinese renminbi are the most important foreign currencies and accounted for 23.5% and 12.1% of the Covestro Group's total net sales, respectively, based on functional currencies of operating subsidiaries. Other relevant currencies include the Hong Kong dollar, the Mexican peso, the Brazilian real, the Japanese yen and the Indian rupee.

Any change in exchange rates between foreign currencies and the Euro affects the Group's reported results of operations and assets and liabilities when the results of those subsidiaries are translated into Euro for reporting purposes. In preparing combined and consolidated financial statements, assets and liabilities of subsidiaries are translated into Euro at the foreign exchange rates at the balance sheet date. Income statements of subsidiaries are translated to Euro at the average exchange rates for the period. Accordingly, fluctuations in the value of other currencies against the Euro reduce or increase these subsidiaries' contribution to, among other things, the Group's net sales and profit and thus affect the Group's balance sheet.

Foreign currency risks for the Group result from exchange rate changes of financial and operational booked exposure (including receivables and payables) as well as from anticipated operational exposure. The exposures include raw materials and/or the sales of products priced in other currencies than the functional currency of the operating subsidiary. Unfavorable exchange rates may lead to higher costs or lower sales than expected at the time of signing the contract and may reduce margins.

In Fiscal Years 2012, 2013 and 2014 and the first half of Fiscal Year 2015, the average Euro/U.S. dollar exchange rate fluctuated considerably. In Fiscal Year 2012, the Euro depreciated against the U.S. dollar by 7.9%; in Fiscal Year 2013, the Euro appreciated against the U.S. dollar by 3.9%; in Fiscal Year 2014 the average Euro/U.S. dollar exchange rate remained stable compared against Fiscal Year 2013; and, in the first half of Fiscal Year 2015, the Euro depreciated against the U.S. dollar by 18.2%.

In Fiscal Years 2012, 2013 and 2014 and the first half of Fiscal Year 2015, the average Euro/Chinese renminbi exchange rate fluctuated considerably. In Fiscal Year 2012, the Euro depreciated against the Chinese renminbi by 9.9%; in Fiscal Year 2013, the Euro appreciated against the Chinese renminbi by 0.7%; in Fiscal Year 2014, the Euro appreciated against the Chinese renminbi by 0.1%; and, in the first half of Fiscal Year 2015, the Euro depreciated against the Chinese renminbi by 17.9%. In August 2015, the central bank of China cut its daily reference rate for the renminbi, triggering a significant drop of the renminbi.

In Fiscal Years 2012, 2013 and 2014 and the first half of Fiscal Year 2015, the average Euro/Hong Kong dollar exchange rate fluctuated considerably. In Fiscal Year 2012, the Euro depreciated against the Hong Kong dollar by 8.0%; in Fiscal Year 2013, the Euro appreciated against the Hong Kong dollar by 3.3%; in Fiscal Year 2014, the Euro remained stable compared against the Hong Kong dollar; and, in the first half of Fiscal Year 2015, the Euro depreciated against the Hong Kong dollar by 18.6%.

In Fiscal Years 2012, 2013 and 2014 and the first half of Fiscal Year 2015, the average Euro/Mexican peso exchange rate fluctuated considerably. In Fiscal Year 2012, the Euro depreciated against the peso by 2.0%; in Fiscal Year 2013, the Euro appreciated against the peso by 0.2%; in Fiscal Year 2014, the Euro appreciated against the peso by 4.3%; and, in the first half of Fiscal Year 2015, the Euro depreciated against the peso by 6.1%.

In Fiscal Years 2012, 2013 and 2014 and the first half of Fiscal Year 2015, the average Euro/Brazilian real exchange rate fluctuated considerably. In Fiscal Year 2012, the Euro appreciated against the real by 7.8%; in Fiscal Year 2013, the Euro appreciated against the real by 14.0%; in Fiscal Year 2014, the Euro appreciated against the real by 9.5%; and, in the first half of Fiscal Year 2015, the Euro appreciated against the real by 4.8%.

In Fiscal Years 2012, 2013 and 2014 and the first half of Fiscal Year 2015, the average Euro/Japanese yen exchange rate fluctuated considerably. In Fiscal Year 2012, the Euro depreciated against the yen by 7.6%; in Fiscal Year 2013, the Euro appreciated against the yen by 26.2%; in Fiscal Year 2014, the Euro appreciated against the yen by 8.6%; and, in the first half of Fiscal Year 2015, the Euro depreciated against the yen by 4.5%.

In Fiscal Years 2012, 2013 and 2014 and the first half of Fiscal Year 2015, the average Euro/Indian rupee exchange rate fluctuated considerably. In Fiscal Year 2012, the Euro appreciated against the rupee by 5.8%; in Fiscal Year 2013, the Euro appreciated against the rupee by 12.8%; in Fiscal Year 2014, the Euro appreciated against the rupee by 4.7%; and, in the first half of Fiscal Year 2015, the Euro depreciated against the rupee by 15.8%.

The Group generally manages its foreign currency risks related to booked transactions through hedging of 100% of its booked foreign currency exposure (transactional currency exposure), which is consistent with the hedging policy applied by the Bayer Group in the periods under review, mainly by using spot and forward OTC contracts. Prior to September 1, 2015, the Bayer Group's policy was to hedge approximately 50% of the anticipated transactional currency exposure. From September 1, 2015, the Group no longer engages in hedging transactions related to the Group's anticipated transactional currency exposure, which increases the Group's exposure to potential future currency exchange fluctuations. The Group plans to commence hedging of anticipated transactional currency exposure again if the exchange rate risk increases significantly.

For further information related to exchange rate fluctuations, see ''*3. Risk Factors—3.1 Risks Related to the Group's Business and Industry—3.1.22 Changes in foreign exchange rates could have material adverse effects on the Group's results of operations and the Group's hedging activities may not be effective.*''

13.4.11 Regulation

The Group is subject to a wide range of government regulations, which impact its results of operations in various ways. Government regulation can have a positive impact on the Group's results of operations by increasing demand for its products. For example, the Group's sales of rigid polyurethane foams benefit from government regulations aimed at improving energy efficiency of buildings. In both the United States and the EU, various regulations and policies promote the use of insulation in both residential and commercial buildings. In addition, China has adopted targets to improve environmental and energy performance as well as new carbon reduction regulation. Such regulations and policies tend to increase demand for rigid polyurethane foams. On the other hand, increased regulation can increase the Group's costs of production or distribution.

For further information related to regulatory risks, see ''*3. Risk Factors—3.2 Risks Related to Legal, Regulatory and Tax Matters.*''

13.4.12 Seasonality

The Group is subject to certain seasonal fluctuations in demand over the course of a year. Specifically, the Group's net sales in the second and third quarter are generally higher than in the other two quarters of the year, which are characterized by holiday periods and inclement weather that tend to have a dampening effect on demand in important geographies as described below. The Group's costs are generally not significantly affected by the seasonality of the underlying end markets, resulting in comparatively stronger results of operations during the second and third quarter of each year than during the first and fourth quarter of each year.

Illustrating the above, sales are typically lower during the period from November to February due to lower construction industry demand for polyurethanes construction insulation in EMLA and NAFTA as a result of less construction activity during the winter season. Sales in APAC are typically lower in February due to Chinese New Year. In NAFTA and EMLA, sales in December are typically lower due to the Christmas holiday periods and lower customer purchasing activities driven by stock optimization measures at year-end. The Group typically experiences increases in demand in September and October due to increasing demand from the construction, appliance and furniture industries after the summer break, and before the winter season.

13.4.13 Portfolio Changes

In Fiscal Year 2013, the Group's results of operations were impacted by the sale of the global powder polyester resins business and its U.S.-based liquid polyester business in June 2013 as well as the sale of the Desmolux resins business in September 2013.

13.5 KEY PERFORMANCE INDICATORS

In the Prospectus, the Group presents certain non-GAAP measures used by the Group's management or which management regards as being useful for investors as financial measures to monitor the performance of the Group. These figures are not recognized measures under IFRS or under the German Commercial Code and should, for this reason, not be considered as an alternative to the applicable GAAP measures. These non-GAAP measures have been derived from the audited combined financial statements. The Group has provided these non-GAAP measures and other information because it believes they provide investors with additional information to measure the operating performance of its business activities. The Group may use these non-GAAP measures differently than other companies in the Group's industry, which use similar non-GAAP measures. The measures the Group uses should not be considered as an alternative to net income (loss), net sales or any other performance measure derived in accordance with IFRS or the German Commercial Code or to net cash provided by (used in) operating activities (net cash flow) as a measure of liquidity. The non-GAAP measures have limitations as analytical tools and should not be considered in isolation or as substitutes for analysis of the Group's results as reported under IFRS or the German Commercial Code. They may exclude or include amounts that are excluded or included, as applicable, in the calculation of the most directly comparable GAAP measures in accordance with IFRS or the German Commercial Code. Their usefulness is therefore subject to limitations, which are described below. The non-GAAP measures should be considered in conjunction with the Group's combined financial statements and interim condensed combined financial statements prepared in accordance with IFRS and the respective notes thereto. The following discussion provides definitions of non-GAAP measures, information regarding the usefulness of non-GAAP measures and, where appropriate, a reconciliation of non-GAAP measures to their most directly comparable GAAP measures.

13.5.1 Adjusted EBIT and Adjusted EBITDA

The Group uses Adjusted EBIT and Adjusted EBITDA as key performance indicators because the Group believes that they provide a more accurate assessment of its business operations than the most closely comparable GAAP measures, EBIT and income before income taxes. The Group defines Adjusted EBITDA as EBITDA before special items, which comprise effects that the Group regards as non-recurring or that do not regularly recur or attain similar magnitudes. The Group defines EBITDA as EBIT plus depreciation and impairment losses on property, plant and equipment, plus amortization and impairment losses on intangible assets and minus impairment loss reversals on intangible assets and property, plant and equipment. The Group believes that Adjusted EBITDA is a meaningful indicator of operating performance since it is not affected by depreciation, amortization, impairment loss, impairment loss reversals or special items. Adjusted EBIT is defined as earnings before financial result and taxes before special items, which comprise effects that the Group regards as non-recurring or that do not regularly recur or attain similar magnitudes. EBIT is defined as earnings before financial result and taxes. The Group believes that Adjusted EBIT is a meaningful indicator of operating performance since it is not affected by special items.

The following table provides a reconciliation of the Covestro Group's Adjusted EBITDA and Adjusted EBIT to EBIT and income before income taxes for the periods indicated:

	Six months ended June 30,		Fiscal Year		
	2015	**2014**	**2014**	**2013**	**2012**
	(Unaudited)		*(Audited, unless otherwise indicated)*		
	(EUR in millions)				
Adjusted EBITDA[1]	**914**	**625**	**1,161**	**1,056**	**1,244**
Adjusted depreciation, amortization and impairments[2]	(336)	(292)	(600)	(670)	(664)
Adjusted EBIT[3]	**578**	**333**	**561**	**386**	**580**
Special items	(105)	(19)	(44)	5	(38)
of which:					
Restructuring (unaudited)[4]	(103)	(19)	*(44)*	*(37)*	*(50)*
Adjustments to post-employment benefit entitlements (unaudited)[5]	—	—	—	—	*12*
Divestitures[6]	—	—	—	*42*	—
Revaluation of other receivables	(2)	—	—	—	—
EBIT[7]	**473**	**314**	**517**	**391**	**542**
Financial result	(87)	(56)	(136)	(136)	(185)
Income before income taxes	**386**	**258**	**381**	**255**	**357**

Notes:

(1) Adjusted EBITDA: EBITDA before special items, which comprise effects that the Group regards as non-recurring or that do not regularly recur or attain similar magnitudes.

EBITDA: earnings before financial result and taxes (EBIT) plus depreciation and impairment losses on property, plant and equipment, plus amortization and impairment losses on intangible assets and minus impairment loss reversals on intangible assets and property, plant and equipment.

(2) Adjusted depreciation, amortization and impairments: depreciation, amortization and impairments before special items, which comprise effects that the Group regards as non-recurring or that do not regularly recur or attain similar magnitudes.

(3) Adjusted EBIT: earnings before financial result and taxes before special items, which comprise effects that the Group regards as non-recurring or that do not regularly recur or attain similar magnitudes.

(4) Restructuring charges consist primarily of severance payments and impairment charges relating to restructuring measures.

(5) The Company offered certain terminated employees with post-employment benefit entitlements the opportunity to receive a lump sum payment in lieu of a future monthly benefit from the defined-benefit pension plan.

(6) Gain from the sale of the global powder polyester resins business and its U.S.-based liquid polyester business in June 2013 and the sale of the Desmolux® resins business in September 2013.

(7) EBIT: earnings before financial result and taxes.

Adjusted EBITDA in the Fiscal Years 2014, 2013 and 2012 was impacted by increases in raw materials costs not being compensated by corresponding increases in selling prices due to supply/demand conditions and sales volume developments as a result of capacity expansions in all segments impacting industry utilization rates.

Adjusted EBITDA in the six months ended June 30, 2015 was positively impacted by decreases in raw material costs only partially passed on to customers, as well as positive effects from the Euro depreciating and from volume growth. These effects were partially offset by lower miscellaneous operating income and higher accruals for the short-term incentive program in the six months ended June 30, 2015.

13.5.2 Free Operating Cash Flow

From Fiscal Year 2016 onwards, the Group will use free operating cash flow as a key performance indicator because the Group believes that it gives an indication of the long-term cash-generating ability of the Group's business, as it shows the cash generated by the Group's operations after deducting cash outflows for additions to property, plant and equipment, and intangible assets. The Group defines free operating cash flow as net cash provided by (used in) operating activities (net cash flow) less cash outflows for additions to property, plant and equipment, and intangible assets. Free operating cash flow has not been used as a key performance indicator by the Bayer Group and will not be used by the Group as a key performance indicator for Fiscal Year 2015.

The following table provides a reconciliation of the Covestro Group's free operating cash flow to net cash provided by (used in) operating activities (net cash flow) for the periods indicated:

	Six months ended June 30,		Fiscal Year		
	2015	**2014**	**2014**	**2013**	**2012**
	(Unaudited)		*(Audited, unless otherwise indicated)*		
	(EUR in millions)				
Net cash provided by (used in) operating activities (net cash flow)	**545**	**154**	**925**	**998**	**814**
Cash outflows for additions to property, plant and equipment, and intangible assets	(224)	(239)	(612)	(583)	(633)
Free operating cash flow[(1)] (*unaudited*)	**321**	**(85)**	**313**	**415**	**181**

Note:

(1) Free operating cash flow is net cash provided by (used in) operating activities (net cash flow) less cash outflows for additions to property, plant and equipment, and intangible assets.

The Covestro Group's free operating cash flow in the periods presented was affected by high levels of cash outflow for capital expenditures, as reflected in the table above, and fluctuations in net working capital driven by scheduled turnarounds.

13.5.3 Net Sales Adjusted for Foreign Currency Translation Effects and Portfolio Effects

The Group presents the impact of foreign currency translation, in absolute amounts and as a percentage of total net sales, on a consolidated basis and for the Group's three reportable segments Polyurethanes, Polycarbonates and Coatings, Adhesives and Specialties as well as for ''All other segments.'' On a consolidated basis, the Group also presents portfolio effects, which reflect the impact of acquisitions or divestitures, on net sales, in absolute amounts and as a percentage of total net sales.

The Group's reporting currency is the Euro. However, a significant proportion of net sales is generated in other functional currencies and is therefore subject to foreign currency translation effects. Converting numbers from these currencies into Euro affects the comparability of the Group's results of operations between the reporting periods when the exchange rates for the Group's main currencies fluctuate. The foreign currency translation effects in net sales are calculated as follows: (1) (a) net sales for the current period, based on the currency exchange rate of the current period minus (b) net sales for the current period, based on the currency exchange rate of the previous period, divided by (2) net sales for the previous period, based on the currency exchange rate of the previous period.

Portfolio effects in connection with the acquisition and disposition of businesses also impact the comparability of the Group's results of operations between the reporting periods. The portfolio effects are calculated, in case of acquisitions, as follows: (1) net sales of the acquired business in the reporting period divided by (2) net sales of the Group for the previous period; or, in case of divestitures, (1) net sales of the divested business for the previous period divided by (2) net sales of the Group for the previous period.

The Group believes that the presentation of net sales adjusted for foreign currency translation and portfolio effects provides useful information to investors because a meaningful analysis of the net sales development from one period to the next requires comparable data and therefore an understanding of the business development net of the impact of foreign currency translation and portfolio effects.

13.5.4 Core Sales Volume Growth

From Fiscal Year 2016 onwards, the Group will use core sales volume growth, measured in percent of core sales volume which in turn is measured in million tons, as a key performance indicator because the Group believes that it gives an indication of the Group's ability to grow its sales volume from core operations. The Group defines core sales volume as external sales volume derived from its core operations in its Polyurethanes, Polycarbonates and Coatings, Adhesives and Specialties segments that is not related to opportunistic business opportunities through sales of, for example, raw materials, intermediates (such as styrene and caustic soda) or other non-core products. Total sales volume also includes non-core sales volume in its Polyurethanes, Polycarbonates and Coatings, Adhesives and

Specialties business units as well as sales volume from inorganic basic chemicals. Sales volume does not include sales to Bayer Group companies. In the Fiscal Year 2014 core sales volume growth amounted to 4.8% for the Covestro Group based on core sales volume growth on segment level of 3.9% for Polyurethanes, 9.0% for Polycarbonates and 1.3% for Coatings, Adhesives and Specialties.

While the Group's management will use core sales volume growth as a key performance indicator from Fiscal Year 2016 onwards, the Group will have a strong focus on its overall profitability and will not pursue volume growth at any price.

13.6 EXPLANATION OF KEY LINE ITEMS IN THE COMBINED INCOME STATEMENT

Certain individual line items in the Covestro Group's combined income statement are described below.

13.6.1 Net Sales

Net sales comprises net sales derived from the sale of products, the provision of services or from licensing agreements. Sales are recorded net of sales taxes, other taxes and sales deductions. Sales deductions are estimated amounts of rebates, cash discounts and product returns.

13.6.2 Cost of Goods Sold

Cost of goods sold comprises all expenses relating to the Group's production function that are associated with the goods sold and services rendered during the period. It therefore includes expenses related to the raw materials and supplies necessary for the production of the Group's products and services (including procurement, transportation and warehousing), personnel expenses associated with the production process and goods sold and services rendered during the period (including wages and salaries, social security contributions and expenses for pensions and other employee benefits), energy and maintenance costs, depreciation and amortization associated with property used for the production function, impairment losses on inventories and other expenses, such as rental and leasing expenses for real property and machinery used to produce goods and render services during the period.

13.6.3 Selling Expenses

Selling expenses are expenses incurred in connection with the sale, storage and transportation of saleable products, advertising and industry research, and comprise expenses for the Group's internal and external sales force, advertising and customer service, physical distribution and warehousing of finished products, commission and licensing expenses and other selling expenses.

13.6.4 Research and Development Expenses

Research and development expenses mainly comprise expenses in connection with in-house research and development activities as well as numerous research and development collaborations and alliances with third parties.

13.6.5 General and Administrative Expenses

General and administrative expenses include all costs related to the administrative function of the Group, such as personnel costs for management and the board of directors, IT and financial department, audit fees and other general office costs.

13.6.6 Other Operating Income

Other operating income includes gains from retirements of noncurrent assets, the reversal of impairment losses on receivables, reversals of unutilized provisions, derivatives and miscellaneous operating income. For a detailed breakdown of the Covestro Group's other operating income in Fiscal Years 2014, 2013 and 2012, see note 9 to the Covestro Group's combined financial statements.

13.6.7 Other Operating Expenses

Other operating expenses include losses on retirements of noncurrent assets, impairment losses on receivables, derivatives and miscellaneous operating expenses. For a detailed breakdown of the Covestro Group's other operating expenses in Fiscal Years 2014, 2013 and 2012, see note 10 to the Covestro Group's combined financial statements.

13.6.8 Financial Income

Financial income comprises income from investments accounted for using the equity method, interest and similar income, miscellaneous financial income and gains from investments in affiliated companies and from profit and loss transfer agreements (net). For a detailed breakdown of the Covestro Group's financial result in Fiscal Years 2014, 2013 and 2012, see note 12 to the Covestro Group's combined financial statements.

13.6.9 Financial Expenses

Financial expenses comprise interest and similar expenses, interest portion of interest-bearing provisions and losses from investments in affiliated companies. For a detailed breakdown of the Covestro Group's financial result in Fiscal Years 2014, 2013 and 2012, see note 12 to the Covestro Group's combined financial statements.

13.6.10 Income Taxes

Income taxes comprise the taxes levied on taxable income in the individual countries as well as changes in deferred tax assets and liabilities that are recognized in profit or loss. For purposes of the combined financial statements, income taxes were determined using the separate tax return approach on the assumption that the companies and business activities of the Group constitute separate tax subjects. The income taxes recognized are reflected at the amounts likely to be payable under the statutory regulations in force, or already enacted in relation to future periods, at the end of the respective reporting year.

13.7 RESULTS OF OPERATIONS OF THE COVESTRO GROUP

13.7.1 Six Months Ended June 30, 2015 Compared with Six Months Ended June 30, 2014

The following provides an overview of the Covestro Group's results of operations for the periods presented:

	Six months ended June 30,		
	2015	**2014**	**Change**
	(Unaudited)		
	(EUR in millions)		
Net sales	**6,264**	**5,719**	**9.5%**
Cost of goods sold	(4,832)	(4,616)	4.7%
Gross profit	**1,432**	**1,103**	**29.8%**
Selling expenses	(632)	(518)	22.0%
Research and development expenses	(125)	(111)	12.6%
General and administrative expenses	(209)	(173)	20.8%
Other operating income	51	54	(5.6)%
Other operating expenses	(44)	(41)	7.3%
EBIT[(1)]	**473**	**314**	**50.6%**
Equity-method loss	—	(8)	—%
Financial income	3	16	(81.3)%
Financial expenses	(90)	(64)	40.6%
Financial result	**(87)**	**(56)**	**(55.4)%**
Income before income taxes	**386**	**258**	**49.6%**
Income taxes	(114)	(80)	42.5%
Income after income taxes	**272**	**178**	**52.8%**
of which attributable to non-controlling interest	5	—	—%
of which attributable to the Bayer Group	**267**	**178**	**50.0%**

Note:

(1) EBIT: earnings before financial result and taxes.

Net sales

Net sales increased by €545 million, or 9.5%, to €6,264 million in the six months ended June 30, 2015 from €5,719 million in the six months ended June 30, 2014.

The following table provides a breakdown of the factors that affected the Covestro Group's net sales in the six months ended June 30, 2015, in absolute amounts and as a percentage of net sales:

	Six months ended June 30, 2015	
	(Unaudited)	
	(EUR in millions)	*Change*
Volume	277	4.9%
Price	(307)	(5.4)%
Currency	575	10.0%
Portfolio	—	—%
Total	**545**	**9.5%**

The total increase in net sales by 9.5% in the six months ended June 30, 2015 compared to the six months ended June 30, 2014 was attributable to favorable currency effects and higher sales volume, which resulted in increases in net sales of 10.0% and 4.9%, respectively. The favorable currency effects and positive effects from higher sales volume were partially offset by a decrease in overall selling prices, which decreased net sales by 5.4%.

The volume-driven increase in net sales resulted from higher sales volumes in all segments. The higher sales volume in the Polycarbonates segment was principally driven by temporarily short market supply and greater demand especially in the automotive/transport end market in all major regions. The sales volume increase in Coatings, Adhesives and Specialties was driven by solid customer demand, especially in NAFTA and APAC. In the Polyurethanes segment sales volume increased primarily for TDI and polyether polyols while MDI sales volumes were slightly below prior year.

Total sales volume of 5,246 kt in the six months ended June 30, 2015 remained stable compared to the total sales volume of 5,247 kt in the six months ended June 30, 2014. While core sales volume rose by 91 kt, or 4.3%, from 2,149 kt in the six months ended June 30, 2014 to 2,240 kt in the six months ended June 30, 2015, non-core volumes decreased by 92 kt, or 3%. The solid core sales volume growth in the six months ended June 30, 2015 was driven by higher core sales volumes in the Polycarbonates, the Coatings, Adhesives and Specialties and Polyurethanes segments. The increase in core sales volume in the Polyurethanes segment was principally driven by higher core sales volume of TDI.

The decline in selling prices in the six months ended June 30, 2015 was primarily driven by lower selling prices in the Polyurethanes and Polycarbonates segments while the selling prices in the Coatings, Adhesives and Specialties segment were only slightly below the prior-year period. The lower selling prices in the Polyurethanes segment reflected lower raw material costs that were partially passed on to customers. The lower selling prices in the Polycarbonates segment were driven by lower raw material costs which were partially passed on to customers.

The favorable currency effects in the six months ended June 30, 2015 were primarily the result of the Euro depreciating against the U.S. dollar, the Chinese renminbi and the Hong Kong dollar. On a currency-adjusted basis, net sales decreased by 0.5%.

For a more detailed analysis of net sales in each of the Group's segments, see "*—13.8 Selected Segment Information*."

Net sales by region

The following table presents the Covestro Group's net sales by geographic region based on region for the periods indicated, in absolute amounts and as a percentage of the Covestro Group's total net sales, as well as the change in net sales by geographic region as a percentage of total net sales on an actual and an adjusted basis to reflect currency effects:

	Six months ended June 30,			
	2015	**2014**	**Change**	**Currency-Adjusted Change**
			(Unaudited)	
	(EUR in millions, except percentages)			
EMLA	2,780	2,786	(0.2)%	0.1%
% of net sales	*44.4%*	*48.7%*		
NAFTA	1,719	1,444	19.0%	(1.1)%
% of net sales	*27.4%*	*25.2%*		
APAC	1,765	1,489	18.5%	(1.1)%
% of net sales	*28.2%*	*26.0%*		
Total net sales	**6,264**	**5,719**	**9.5%**	**(0.5)%**

Sales volume in EMLA increased, primarily due to an increase in sales volumes in the Polyurethanes, Polycarbonates and Coatings, Adhesives and Specialties segments. This increase was offset by lower selling prices primarily in the Polyurethanes segment as a result of lower raw material costs that were partially passed on to customers.

Sales volume in NAFTA increased, primarily due to an increase in sales volumes in the Polycarbonates and Coatings, Adhesives and Specialties segments. Sales volume in the Polyurethanes segment increased primarily as a result of polyether polyols. The sales volume increase was offset by a decrease in selling prices mainly in the Polyurethanes and Polycarbonates segments, which was primarily driven by lower raw material costs that were partially passed on to customers. Net sales in NAFTA were significantly impacted by favorable currency effects due to the depreciation of the Euro against the U.S. dollar.

Sales volume in APAC increased in all segments. The sales volume increase in the Polyurethanes segment resulted primarily from MDI. The sales volume increase was offset by a decrease in selling prices primarily in the Polyurethanes segments, which was principally driven by lower raw material costs that were partially passed on to customers. Net sales in APAC were significantly impacted by favorable currency effects due to the depreciation of the Euro against the Chinese renminbi and the Hong Kong dollar. The Covestro Group experienced strong core sales volume growth in China in the six months ended June 30, 2015, largely supported by all businesses.

Cost of goods sold

Cost of goods sold increased by €216 million, or 4.7%, to €4,832 million in the six months ended June 30, 2015 from €4,616 million in the six months ended June 30, 2014. This increase was principally driven by unfavorable currency effects as a result of the Euro depreciating against other currencies, which were partially offset by lower raw material costs. The effects of lower raw material costs in the six months ended June 30, 2015 overcompensated the effects of higher sales volume. The increase in cost of goods sold in the six months ended June 30, 2015 also reflects higher special items of €83 million in the six months ended June 30, 2015, which mainly related to the closure of the Group's production site in Belford Roxo in Brazil. In the six months ended June 30, 2014, special items within cost of goods sold amounted to €9 million and mainly related to the restructuring of the polycarbonate sheets business in Germany.

As a percentage of net sales, cost of goods sold declined from 80.7% in the six months ended June 30, 2014 to 77.1%, which was primarily due to lower raw material costs that the Covestro Group did not have to fully pass on to its customers and higher capacity utilization resulting in a higher fixed cost absorption in the six months ended June 30, 2015.

Gross profit

As a result of the forgoing, gross profit increased by €329 million, or 29.8%, to €1,432 million in the six months ended June 30, 2015 from €1,103 million in the six months ended June 30, 2014.

Selling expenses

Selling expenses increased by €114 million, or 22.0%, to €632 million in the six months ended June 30, 2015 from €518 million in the six months ended June 30, 2014. This increase was largely due to unfavorable currency effects, higher sales volume, a one-time effect related to an adjustment of non-deductible taxes and a change of the disclosure of license fees for propylene oxide production technology in the Covestro Group's polyether polyols business, which resulted in an increase of costs for license fees which was offset by an identical increase in net sales. This change became effective on July 1, 2014 due to one company migrating to the Covestro Group's standard SAP system.

Research and development expenses

Research and development expenses increased by €14 million, or 12.6%, to €125 million in the six months ended June 30, 2015 from €111 million in the period ended June 30, 2014. This increase was largely due to unfavorable currency effects.

General and administrative expenses

General and administrative expenses increased by €36 million, or 20.8%, to €209 million in the six months ended June 30, 2015 from €173 million in the six months ended June 30, 2014. This increase was largely due to special items related to the Offering.

Other operating income

Other operating income decreased by €3 million, or 5.6%, to €51 million in the six months ended June 30, 2015 from €54 million in the six months ended June 30, 2014. This decrease was largely due to lower miscellaneous operating income and gains from derivatives compared to the six months ended June 30, 2014, which were partially offset by higher gains on retirements of noncurrent assets in the six months ended June 30, 2015.

Other operating expenses

Other operating expenses increased by €3 million, or 7.3%, to €44 million in the six months ended June 30, 2015 from €41 million in the six months ended June 30, 2014. This increase was largely due to increased write-downs of receivables and higher losses from derivatives, whereas miscellaneous operating expenses decreased.

EBIT

As a result of the foregoing, EBIT increased by €159 million, or 50.6%, to €473 million in the six months ended June 30, 2015 from €314 million in the six months ended June 30, 2014.

Equity-method loss

The Covestro Group's equity-method loss amounted to €0 in the six months ended June 30, 2015, compared to €8 million in the six months ended June 30, 2014.

Financial income

Financial income decreased by €13 million, or 81.3%, to €3 million in the six months ended June 30, 2015 from €16 million in the six months ended June 30, 2014. This decrease was largely due to the decrease in other financial assets as a result of a significant decrease in loans to the Bayer Group.

Financial expenses

Financial expenses increased by €26 million, or 40.6%, to €90 million in the six months ended June 30, 2015 from €64 million in the six months ended June 30, 2014. This increase was largely due to higher exchange losses as well as increased expenses for interest accrued on pension provisions.

Financial result

As a result of the foregoing, the Covestro Group's financial result decreased by €31 million, or 55.4%, to €(87) million in the six months ended June 30, 2015 from €(56) million in the six months ended June 30, 2014.

Income before income taxes

As a result of the foregoing, income before income taxes increased by €128 million, or 49.6%, to €386 million in the six months ended June 30, 2015 from €258 million in the six months ended June 30, 2014.

Income taxes

Income taxes increased by €34 million, or 42.5%, to €114 million in the six months ended June 30, 2015 from €80 million in the six months ended June 30, 2014. This increase was largely due to higher income in the six months ended June 30, 2015.

Income after income taxes

As a result of the foregoing, income after income taxes increased by €94 million, or 52.8%, to €272 million in the six months ended June 30, 2015 from €178 million in the six months ended June 30, 2014.

13.7.2 Fiscal Year 2014 Compared with Fiscal Year 2013

The following table provides an overview of the Covestro Group's results of operations for the periods indicated:

	Fiscal Year		
	2014	**2013**	**Change**
	(Audited)		*(Unaudited, unless otherwise indicated)*
	(EUR in millions)		
Net sales (*audited*)	**11,761**	**11,357**	**3.6%**
Cost of goods sold	(9,609)	(9,390)	2.3%
Gross profit	**2,152**	**1,967**	**9.4%**
Selling expenses	(1,097)	(1,094)	0.3%
Research and development expenses	(212)	(243)	(12.8)%
General and administrative expenses	(343)	(322)	6.5%
Other operating income	97	161	(39.8)%
Other operating expenses	(80)	(78)	2.6%
EBIT(1)	**517**	**391**	**32.2%**
Equity-method loss	(15)	(16)	(6.3)%
Financial income	30	40	(25.0)%
Financial expenses	(151)	(160)	(5.6)%
Financial result	**(136)**	**(136)**	**0.0%**
Income before income taxes	**381**	**255**	**49.4%**
Income taxes	(104)	(76)	36.8%
Income after income taxes	**277**	**179**	**54.7%**
of which attributable to non-controlling interest	5	(1)	—
of which attributable to the Bayer Group	**272**	**180**	**51.1%**

Note:

(1) EBIT: earnings before financial result and taxes.

Net sales

Net sales increased by €404 million, or 3.6%, to €11,761 million in Fiscal Year 2014 from €11,357 million in Fiscal Year 2013.

The following table provides a breakdown of the factors that affected the Covestro Group's net sales in Fiscal Year 2014, in absolute amounts and as a percentage of total net sales:

	Fiscal Year 2014	
	(Audited)	
	(EUR in millions)	*Change*
Volume	699	6.2%
Price	(165)	(1.5)%
Currency	(95)	(0.8)%
Portfolio	(35)	(0.3)%
Total	**404**	**3.6%**

The increase in net sales in Fiscal Year 2014 was attributable to higher sales volume, which resulted in a 6.2% increase in net sales. The positive effect from the increase in sales volume was partially offset by a slight decline in overall selling prices, unfavorable currency effects and negative portfolio effects, which decreased net sales by 1.5%, 0.8% and 0.3%, respectively.

The volume-driven increase in net sales was attributable to higher sales volumes in the Polyurethanes, Polycarbonates and Coatings, Adhesives and Specialties segments. The higher sales volume in the Polyurethanes segment was principally attributable to expanded capacity at the Group's Shanghai production facility in China and improved demand in nearly all main customer industries. The higher sales volume in the Polycarbonates segment was mainly driven by improved demand from customers in the automotive/transport, electrical/electronics and construction industries. The higher sales volume in Coatings, Adhesives and Specialties was primarily due to higher customer demand for the Group's products mainly in EMLA and APAC and a weak previous year influenced by additional capacity added by a competitor.

Total sales volume rose by 237 kt, or 2.3%, from 10,174 kt in Fiscal Year 2013 to 10,412 kt in Fiscal Year 2014. This increase was primarily driven by an increase in core sales volume, which rose by 200 kt, or 4.8%, from 4,135 in Fiscal Year 2013 to 4,335 kt in Fiscal Year 2014. The solid core sales volume growth in Fiscal Year 2014 was primarily driven by higher sales volumes of TDI and polycarbonates.

The decline in selling prices in Fiscal Year 2014 was driven by lower selling prices in the Group's Polyurethanes and Polycarbonates segments. The price decrease in the Polyurethanes segment was mainly due to declines in average raw material prices that had to be passed on to customers, and increased competition as a result of additional industry capacity, primarily in Asia. The price decrease in the Polycarbonates segment was principally driven by lower raw material costs being passed on to customers. In the Coatings, Adhesives and Specialties segment, overall selling prices decreased only marginally.

The unfavorable currency impact in Fiscal Year 2014 was primarily the result of the Euro strengthening against the Brazilian real, the Japanese yen and the Mexican peso.

The negative impact from portfolio changes was mainly due to the sale of the global powder polyester resins business and its U.S.-based liquid polyester business in June 2013 as well as the sale of the Desmolux resins business in September 2013.

On a currency- and portfolio-adjusted basis, the Covestro Group's net sales increased by €534 million, or 4.7%, to €11,891 million in Fiscal Year 2014 from €11,357 million in Fiscal Year 2013.

For a more detailed analysis of net sales in each of the Group's segments, see "—*13.8 Selected Segment Information*."

Net sales by region

The following table presents the Covestro Group's net sales by geographic region based on region for the periods indicated, in absolute amounts and as a percentage of the Covestro Group's total net sales, as well as the change in net sales by geographic region as a percentage of total net sales on an actual and an adjusted basis to reflect currency effects:

	Fiscal Year			Currency-Adjusted
	2014	2013	Change	Change
		(Audited)		
	(EUR in millions, except percentages)			
EMLA	5,485	5,464	0.4%	1.2%
% of net sales	*46.6%*	*48.1%*		
NAFTA	3,022	2,831	6.7%	7.3%
% of net sales	*25.7%*	*24.9%*		
APAC	3,254	3,062	6.3%	7.5%
% of net sales	*27.7%*	*27.0%*		
Total net sales	**11,761**	**11,357**	**3.6%**	**4.4%**

The increase in net sales in Fiscal Year 2014 in APAC and NAFTA were attributable to significant increases in sales volume driven by all strategic business entities of the Polyurethanes segment, the Polycarbonates segment as well as the Coatings, Adhesives and Specialties segment. Sales volume in Fiscal Year 2014 also increased in EMLA resulting from volume growth in all operative segments. The significant increase in sales volume in APAC was partially offset by lower selling prices in that region resulting from lower selling prices in all operative segments. Selling prices in EMLA were lower while selling prices in NAFTA were flat compared to the previous year.

The appreciation of the Euro against the Mexican peso, Brazilian real and Japanese yen had an unfavorable currency impact on net sales in APAC, EMLA and NAFTA, respectively. On a currency-adjusted basis, net sales increased by 7.5%, 1.2% and 7.3% in APAC, EMLA and NAFTA, respectively.

Cost of goods sold

Cost of goods sold increased by €219 million, or 2.3%, to €9,609 million in Fiscal Year 2014 from €9,390 million in Fiscal Year 2013. This increase was primarily driven by larger raw material and energy volumes necessary as a result of the 6.2% increase in sales volume partially offset by lower raw material prices. Compared to the increase in sales volume, the increase of cost of goods sold was less pronounced, resulting in a decline of cost of goods sold as a percentage of net sales from 82.7% in Fiscal Year 2013 to 81.7% in Fiscal Year 2014, which was primarily due to higher capacity utilization resulting in a higher fixed cost absorption in Fiscal Year 2014, decreases in the average prices of key raw materials in Fiscal Year 2014 and efficiency improvement initiatives.

Gross profit

As a result of the foregoing, gross profit increased by €185 million, or 9.4%, to €2,152 million in Fiscal Year 2014 from €1,967 million in Fiscal Year 2013.

Selling expenses

Selling expenses increased by €3 million, or 0.3%, to €1,097 million in Fiscal Year 2014 from €1,094 million in Fiscal Year 2013. The immaterial increase in selling expenses despite the 6.2% increase in sales volume, which generally drives the development of selling expenses through higher costs for freight and warehousing, reflected strict cost discipline and savings achieved by the Covestro Group as a result of efficiency improvement initiatives in relation to marketing costs.

Research and development expenses

Research and development expenses decreased by €31 million, or 12.8%, to €212 million in Fiscal Year 2014 from €243 million in Fiscal Year 2013. This decrease was primarily due to lower research costs driven by efficiency improvement initiatives in the Polyurethanes and Coatings, Adhesives and Specialties segments, including a focus on research and development activities regarding core areas and a streamlining of research and development processes leading to further efficiencies. Additionally, research and development expenses in Fiscal Year 2013 were impacted by restructuring expenses incurred in connection with the re-assessment of the research and development strategy leading to a focus of research and development on core areas while discontinuing non-strategic activities.

General and administrative expenses

General and administrative expenses increased by €21 million, or 6.5%, to €343 million in Fiscal Year 2014 from €322 million in Fiscal Year 2013. This increase was primarily due to the changed allocation of Bayer Group costs from other functional costs to general and administrative expenses.

Other operating income

Other operating income decreased by €64 million, or 39.8%, to €97 million in Fiscal Year 2014 from €161 million in Fiscal Year 2013.

The following table presents a breakdown of the Covestro Group's other operating income for the periods indicated:

	Fiscal Year	
	2014	**2013**
	(Audited) *(EUR in millions)*	
Gains on retirements of noncurrent assets	4	50
Reversals of impairment losses on receivables	2	6
Reversals of unutilized provisions	3	3
Gains from derivatives	26	43
Miscellaneous operating income	62	59
Total	**97**	**161**
of which special items	*3*	*42*

The decrease in other operating income was primarily attributable to higher gains related to the sale of businesses in Fiscal Year 2013, which contributed €50 million in Fiscal Year 2013, including a gain of €42 million from the sales of the global powder polyester resins business and its U.S.-based liquid polyester business in June 2013 as well as the sale of the Desmolux resins business in September 2013, compared to only €4 million in Fiscal Year 2014. The Covestro Group recorded the €42 million gain from these sales as a special items in Fiscal Year 2013. The decrease in gains from derivatives from €43 million in Fiscal Year 2013 to €26 million in Fiscal Year 2014 was mainly attributable to lower gains from hedging of forecast transactions in foreign currencies.

Other operating expenses

Other operating expenses remained largely flat with an increase by €2 million, or 2.6%, to €80 million in Fiscal Year 2014 from €78 million in Fiscal Year 2013.

The following table presents a breakdown of the Covestro Group's other operating expenses for the periods indicated:

	Fiscal Year	
	2014	2013
	(Audited) (EUR in millions)	
Losses on retirements of noncurrent assets	(5)	(8)
Impairment losses on receivables	(9)	(13)
Losses from derivatives	(14)	(25)
Miscellaneous operating expenses	(52)	(32)
Total	**(80)**	**(78)**
of which special items	*(11)*	*(2)*

EBIT

As a result of the foregoing, EBIT increased by €126 million, or 32.2%, to €517 million in Fiscal Year 2014 from €391 million in Fiscal Year 2013.

Equity-method loss

Equity method loss decreased by €1 million, or 6.3%, to €15 million in Fiscal Year 2014 from €16 million in Fiscal Year 2013.

Financial income

Financial income decreased by €10 million, or 25.0%, to €30 million in Fiscal Year 2014 from €40 million in Fiscal Year 2013. This decrease was largely due to a decrease in interest and similar income in Fiscal Year 2014 and no miscellaneous financial income in Fiscal Year 2014, compared to miscellaneous financial income of €2 million in Fiscal Year 2013, as well as positive currency translation effects in Fiscal Year 2013.

Financial expenses

Financial expenses decreased by €9 million, or 5.6%, to €151 million in Fiscal Year 2014 from €160 million in Fiscal Year 2013. This decrease was largely due to lower interest and similar expenses in Fiscal Year 2014, which was partially offset by exchange losses and expenses for interest accrued on pension and other provisions.

Financial result

As a result of the foregoing, the Covestro Group's financial result remained flat at €(136) million in Fiscal Years 2014 and 2013.

Income before income taxes

As a result of the foregoing, income before income taxes increased by €126 million, or 49.4%, to €381 million in Fiscal Year 2014 from €255 million in Fiscal Year 2013.

Income taxes

Income taxes increased by €28 million, or 36.8%, to €104 million in Fiscal Year 2014 from €76 million in Fiscal Year 2013. This increase was primarily attributable to higher income in Fiscal Year 2014. In Fiscal Year 2014, the Covestro Group used tax loss carry forwards, which decreased income taxes by €14 million, compared to a decrease of €1 million as a result of tax loss carry forwards in Fiscal Year 2013,

which partially offset the increase in income taxes as a result of higher income in Fiscal Year 2014. The effective tax rate in Fiscal Year 2014 was 27.3%, compared to 29.8% in Fiscal Year 2013.

Income after income taxes

As a result of the foregoing, income after income taxes increased by €98 million, or 54.7%, to €277 million in Fiscal Year 2014 from €179 million in Fiscal Year 2013.

13.7.3 Fiscal Year 2013 Compared with Fiscal Year 2012

The following table provides an overview of the Covestro Group's results of operations for the periods indicated.

	Fiscal Year		
	2013	**2012**	**Change**
	(Audited)		*(Unaudited, unless otherwise indicated)*
	(EUR in millions)		
Net sales (*audited*)	**11,357**	**11,610**	**(2.2)%**
Cost of goods sold	(9,390)	(9,306)	0.9%
Gross profit	**1,967**	**2,304**	**(14.6)%**
Selling expenses	(1,094)	(1,120)	(2.3)%
Research and development expenses	(243)	(255)	(4.7)%
General and administrative expenses	(322)	(351)	(8.3)%
Other operating income	161	110	46.4%
Other operating expenses	(78)	(146)	(46.6)%
EBIT(1)	**391**	**542**	**(27.9)%**
Equity-method loss	(16)	(17)	(5.9)%
Financial income	40	36	11.1%
Financial expenses	(160)	(204)	(21.6)%
Financial result	**(136)**	**(185)**	**26.5%**
Income before income taxes	**255**	**357**	**(28.6)%**
Income taxes	(76)	(93)	(18.3)%
Income after income taxes	**179**	**264**	**(32.2)%**
of which attributable to non-controlling interest	(1)	3	n.m.(2)
of which attributable to the Bayer Group	180	261	(31.0)%

Note:

(1) EBIT: earnings before financial result and taxes.

(2) The percentage change is not meaningful ("**n.m.**").

Net sales

Net sales decreased by €253 million, or 2.2%, to €11,357 million in Fiscal Year 2013 from €11.610 million in Fiscal Year 2012.

The following table provides a breakdown of the factors that affected the Covestro Group's net sales in Fiscal Year 2013, in absolute amounts and as a percentage of total net sales:

	Fiscal Year 2013	
	(Audited)	
	(EUR in millions)	*Change*
Volume	69	0.6%
Price	(24)	(0.2)%
Currency	(274)	(2.4)%
Portfolio	(24)	(0.2)%
Total	**(253)**	**(2.2)%**

The decrease in net sales in Fiscal Year 2013 was principally driven by unfavorable currency effects, a slight decrease in overall selling prices and negative portfolio effects, which decreased net sales by 2.4%, 0.2% and 0.2%, respectively. These negative effects were partially offset by a slight overall improvement in sales volume, which increased net sales by 0.6%.

The volume-driven increase in net sales in Fiscal Year 2013 was principally driven by a significant increase in sales volume in the Polyurethanes segment, which was mainly due to an increase in sales volume of TDI. This increase was primarily driven by TDA sales and additional TDI capacities at the Group's Shanghai production facility in China. This increase was partially offset by a decrease in sales volumes in the Polycarbonates segment, primarily as a result of lower demand and additional capacity added by a competitor, and the Coatings, Adhesives and Specialties segment, primarily as a result of additional capacity added by a competitor.

Total sales volume decreased by 205 kt, or 2.0%, from 10,379 kt in Fiscal Year 2012 to 10,174 kt in Fiscal Year 2013. This decrease was mainly attributable to a decrease in non-core sales volume, which decreased by 196 kt, or 3.1%, in Fiscal Year 2013 compared to Fiscal Year 2012. In Fiscal Year 2013, core sales volume was largely flat amounting to 4,135 kt, compared to 4,144 kt in Fiscal Year 2012. Negative core volume effects following several divestments by Coatings, Adhesives and Specialties in Fiscal Year 2013 (global powder polyester resins business, liquid polyester business and Desmolux resins business) were offset by sales volume growth in the Polyurethanes segment, especially driven by TDI.

The decline in overall selling prices was mainly driven by declines in selling prices in the Polycarbonates and Coatings, Adhesives and Specialties segments as a result of increased competition due to additional industry capacity. The impact of decreased selling prices in the Polycarbonates and Coatings, Adhesives and Specialties segments was partially offset by an increase in selling prices for MDI, which was mainly the result of raw material cost increases passed on to customers.

The unfavorable currency effects in Fiscal Year 2013 were primarily the result of the Euro strengthening against the U.S. dollar, Japanese yen, Brazilian real and Hong Kong dollar.

The negative impact from portfolio changes was mainly the result of the sale of the global polyester powder resins business and the U.S.-based liquid polyester business in June 2013 as well as the sale of the Desmolux resins business in September 2013.

On a currency- and portfolio-adjusted basis, the Covestro Group's net sales increased by €45 million, or 0.4%, to €11,655 million in Fiscal Year 2013 from €11,610 million in Fiscal Year 2012.

For a more detailed analysis of net sales in each of the Group's segments, see ''—*13.8 Selected Segment Information*.''

Net sales by region

The following table presents the Covestro Group's net sales by geographic region based on region for the periods indicated, in absolute amounts and as a percentage of the Covestro Group's total net sales, as well as the change in net sales by geographic region as a percentage of total net sales on an actual and an adjusted basis to reflect currency effects:

	Fiscal Year			Currency-Adjusted
	2013	**2012**	**Change**	**Change**
		(Audited)		
	(EUR in millions)			
EMLA	5,464	5,593	(2.3)%	(1.2)%
% of net sales	*48.1%*	*48.2%*		
NAFTA	2,831	2,851	(0.7)%	2.2%
% of net sales	*24.9%*	*24.6%*		
APAC	3,062	3,166	(3.3)%	0.8%
% of net sales	*27.0%*	*27.3%*		
Total net sales	**11,357**	**11,610**	**(2.2)%**	**0.2%**

Sales volume in EMLA decreased, primarily as a result of lower volumes for the Polycarbonates segment. Overall selling prices were flat compared to Fiscal Year 2012. The appreciation of the Euro against the Brazilian real had an unfavorable currency impact. On a currency-adjusted basis, net sales in EMLA decreased by 1.2%.

Sales volume and selling prices increased in NAFTA, primarily due to an increase in sales volume of the TDI strategic business entity, which was mainly driven by increased sales of TDA. The appreciation of the Euro against the U.S. dollar had an unfavorable currency impact. On a currency-adjusted basis, net sales in NAFTA increased by 2.2%.

Sales volume in APAC increased significantly, primarily due to an increase in sales volume of the TDI strategic business entity, which was mainly driven by increased sales of TDA and additional TDI capacity at the Group's Shanghai production facility in China. This increase was partially offset by lower selling prices, primarily as a result of increased competition due to additional industry capacity. Net sales in APAC were significantly impacted by unfavorable currency effects, primarily as a result of the appreciation of the Euro against the Japanese yen and the Hong Kong dollar. On a currency-adjusted basis, net sales in APAC increased by 0.8%.

Cost of goods sold

Cost of goods sold increased by €84 million, or 0.9%, to €9,390 million in Fiscal Year 2013 from €9,306 million in Fiscal Year 2012. This increase was mainly driven by increases in average raw material prices in the Polyurethanes and Polycarbonates segments, especially during the first half of Fiscal Year 2013. This increase was partially offset by significant favorable currency effects as a result of the strengthening Euro and positive effects from efficiency improvement initiatives. As a percentage of net sales, cost of goods sold increased from 80.2% in Fiscal Year 2012 to 82.7% in Fiscal Year 2013 as selling prices did not fully compensate the raw material price increases as a result of supply and demand dynamics.

Gross profit

As a result of the foregoing, gross profit decreased by €337 million, or 14.6%, to €1,967 million in Fiscal Year 2013 from €2,304 million in Fiscal Year 2012.

Selling expenses

Selling expenses decreased by €26 million, or 2.3%, to €1,094 million in Fiscal Year 2013 from €1,120 million in Fiscal Year 2012.

The decrease in selling expenses was largely due to favorable currency effects as a result of the strengthening of the Euro and efficiency improvement initiatives.

Research and development expenses

Research and development expenses decreased by €12 million, or 4.7%, to €243 million in Fiscal Year 2013 from €255 million in Fiscal Year 2012. This decrease was largely due to efficiency improvement initiatives compensating restructuring expenses in connection focusing research and development activities on core areas in Fiscal Year 2013.

General and administrative expenses

General and administrative expenses decreased by €29 million, or 8.3%, to €322 million in Fiscal Year 2013 from €351 million in Fiscal Year 2012. This decrease was largely due to efficiency improvement initiatives.

Other operating income

Other operating income increased by €51 million, or 46.4%, to €161 million in Fiscal Year 2013 from €110 million in Fiscal Year 2012.

The following table presents a breakdown of the Covestro Group's other operating income for the periods indicated:

	Fiscal Year	
	2013	**2012**
	(Audited) *(EUR in millions)*	
Gains on retirements of noncurrent assets	50	6
Reversals of impairment losses on receivables	6	4
Reversals of unutilized provisions	3	1
Gains from derivatives	43	33
Miscellaneous operating income	59	66
Total	**161**	**110**
of which special items	*42*	*13*

This increase was largely due to increased gains on retirements of noncurrent assets and increased gains from derivatives.

Gains on retirements of noncurrent assets, which primarily includes gains related to the sale of businesses, contributed €50 million in Fiscal Year 2013 compared to €6 million in Fiscal Year 2012. Gains on retirements of noncurrent assets in Fiscal Year 2013 included a gain of €42 million from the sale of the global powder polyester resins business and its U.S.-based liquid polyester business in June 2013, as well as the sale of the Desmolux resins business in September 2013, which the Covestro Group recorded as special items in Fiscal Year 2013.

Other operating expenses

Other operating expenses decreased by €68 million, or 46.6%, to €78 million in Fiscal Year 2013 from €146 million in Fiscal Year 2012.

The following table presents a breakdown of the Covestro Group's other operating expenses for the periods indicated:

	Fiscal Year	
	2013	**2012**
	(Audited) (EUR in millions)	
Losses on retirements of noncurrent assets	(8)	(6)
Impairment losses on receivables	(13)	(13)
Losses from derivatives	(25)	(73)
Miscellaneous operating expenses	(32)	(54)
Total	**(78)**	**(146)**
of which special items	*(2)*	*(16)*

This decrease was largely due to a significant decrease in losses from derivatives as a result of lower losses from hedging of anticipated exposure in foreign currencies and lower miscellaneous operating expenses.

EBIT

As a result of the foregoing, EBIT decreased by €151 million, or 27.9%, to €391 million in Fiscal Year 2013 from €542 million in Fiscal Year 2012.

Equity-method loss

Equity method loss decreased by €1 million, or 5.9%, to €16 million in Fiscal Year 2013 from €17 million in Fiscal Year 2012.

Financial income

Financial income increased by €4 million, or 11.1%, to €40 million in Fiscal Year 2013 from €36 million in Fiscal Year 2012. This increase was the result of exchange gains in Fiscal Year 2013, higher interest and similar income and higher miscellaneous financial income.

Financial expenses

Financial expenses decreased by €44 million, or 21.6%, to €160 million in Fiscal Year 2013 from €204 million in Fiscal Year 2012. This decrease was mainly the result of a significant decrease in interest and similar expense as a result of lower interest rates and lower interest rate expenses for interest accrued on pension and other provisions.

Financial result

As a result of the foregoing, the financial result increased by €49 million, or 26.5%, to €(136) million in Fiscal Year 2013 from €(185) million in Fiscal Year 2012.

Income before income taxes

As a result of the foregoing, income before income taxes decreased by €102 million, or 28.6%, to €255 million in Fiscal Year 2013 from €357 million in Fiscal Year 2012.

Income taxes

Income taxes decreased by €17 million, or 18.3%, to €76 million in Fiscal Year 2013 from €93 million in Fiscal Year 2012. This decrease was primarily attributable to lower income in Fiscal Year 2013. The effective tax rate in Fiscal Year 2013 was 29.8%, compared to 26.1% in Fiscal Year 2012.

Income after income taxes

As a result of the foregoing, income after income taxes decreased by €85 million, or 32.2%, to €179 million in Fiscal Year 2013 from €264 million in Fiscal Year 2012.

13.8 SELECTED SEGMENT INFORMATION

13.8.1 Polyurethanes

The following table presents external net sales, EBIT, adjusted depreciation, amortization and impairments, special items and Adjusted EBITDA for the Covestro Group's Polyurethanes segment for the periods indicated:

	Six months ended June 30,		Fiscal Year		
	2015	**2014**	**2014**	**2013**	**2012**
	(Unaudited)		*(Audited)*		
	(EUR in millions, except percentages)				
External net sales[1]	**3,191**	**3,037**	**6,282**	**6,052**	**5,993**
Change	*5.1%*	—	*3.8%*	*1.0%*	—
Currency-adjusted change	*(4.5)%*	—	*4.9%*	*3.8%*	—
EBIT[2]	**123**	**158**	**233**	**234**	**299**
Adjusted depreciation, amortization and impairments[3]	202	170	350	397	396
Special items	61	1	9	8	29
of which:					
Restructuring	*61*	*1*	*9*	*8*	*36*
Adjustments to post-employment benefit entitlements	—	—	—	—	*(7)*
Adjusted EBITDA[4]	**386**	**329**	**592**	**639**	**724**

Notes:

(1) In the period from Fiscal Year 2012 to Fiscal Year 2014, external net sales for the Group's Polyurethanes segment grew by a compound annual growth rate (''**CAGR**'') of 2.4%. In the same period, the CAGR for external core volumes, which only includes volumes of finished goods of MDI, TDI and polyether polyols without intermediates (such as styrene, TDA and aniline) and sales to co-producers, was 3.6%.

(2) EBIT: earnings before financial result and taxes.

(3) Adjusted depreciation, amortization and impairments: depreciation, amortization and impairments before special items, which comprise effects that the Group regards as non-recurring or that do not regularly recur or attain similar magnitudes.

(4) Adjusted EBITDA: EBITDA before special items, which comprise effects that the Group regards as non-recurring or that do not regularly recur or attain similar magnitudes. EBITDA: earnings before financial result and taxes (EBIT) plus depreciation and impairment losses on property, plant and equipment, plus amortization and impairment losses on intangible assets and minus impairment loss reversals on intangible assets and property, plant and equipment.

Six months ended June 30, 2015 compared with six months ended June 30, 2014

External net sales of the Covestro Group's Polyurethanes segment increased by €154 million, or 5.1%, from €3,037 million in the six months ended June 30, 2014 to €3,191 million in the six months ended June 30, 2015.

The following table provides a breakdown of the factors that affected external net sales of the Covestro Group's Polyurethanes segment in the six months ended June 30, 2015, in absolute amounts and as a percentage of total external net sales:

	Six months ended June 30, 2015	
	(Unaudited)	
	(EUR in millions)	*Change*
Volume	125	4.1%
Price	(262)	(8.6)%
Currency	291	9.6%
Portfolio	—	—%
Total	**154**	**5.1%**

The total increase in external net sales by 5.1% in the six months ended June 30, 2015 compared to the six months ended June 30, 2014 was attributable to favorable currency effects and higher sales volume, which increased net sales by 9.6% and 4.1%, respectively, which was partially offset by lower overall selling prices, which decreased net sales by 8.6%.

All regions contributed to higher sales volume, which was mainly attributable to solid core volume growth with the strongest increase in TDI due to the expanded production capacity in Dormagen in Germany. Selling prices overall were below the prior-year level, primarily as a result of a decrease in average raw material prices that were partially passed on to customers.

Sales volume of MDI decreased, driven by declines in sales volume in EMLA and NAFTA. Sales volume of TDI increased, driven mainly by growth in EMLA and APAC. Selling prices decreased in all regions, which overall led to a decrease in net sales for TDI. Sales volume of polyether polyols increased, principally due to strong growth in NAFTA and EMLA. Selling prices for polyether polyols were lower in all regions. Polyether polyols benefitted from solid core sale volume growth combined with positive margin development of the by-product styrene.

The favorable currency effects in the six months ended June 30, 2015 were primarily the result of the Euro depreciating against the U.S. dollar and the Chinese renminbi. On a currency-adjusted basis, net sales decreased by 4.5%.

EBIT decreased by €35 million, or 22.2%, to €123 million in the six months ended June 30, 2015 from €158 million in the six months ended June 30, 2014. The increase in depreciation, amortization and impairments by €55 million, or 32.4%, from €170 million in the six months ended June 30, 2014 to €225 million in the six months ended June 30, 2015 was mainly the result of impairments related to the closure of the Group's production site in Belford Roxo, Brazil, negative currency effects from the depreciation of the Euro against other currencies and the start of regular depreciation for the new TDI production facility in Dormagen, Germany. A total of €23 million in depreciation, amortization and impairments constituted special items in the six months ended June 30, 2015 (six months ended June 30, 2014: nil). In the six months ended June 30, 2015, the Covestro Group's Polyurethanes segment recorded restructuring costs of €61 million as special items, which related mainly to the closure of the of the Group's production site in Belford Roxo in Brazil.

Adjusted EBITDA increased by €57 million, or 17.3%, to €386 million in the six months ended June 30, 2015 from €329 million in the six months ended June 30, 2014, which was primarily driven by the depreciation of the Euro and a decline in selling prices, which was less pronounced than the reduction in raw material costs, as well as growth in sales volume. These improvements were partially offset by negative one-time effects, which were not recorded as special items.

Fiscal Year 2014 compared to Fiscal Year 2013

External net sales of the Covestro Group's Polyurethanes segment increased by €230 million, or 3.8%, from €6,052 million in Fiscal Year 2013 to €6,282 million in Fiscal Year 2014.

The following table provides a breakdown of the factors that affected external net sales of the Covestro Group's Polyurethanes segment in Fiscal Year 2014, in absolute amounts and as a percentage of total external net sales:

	Fiscal Year 2014	
	(Audited)	
	(EUR in millions)	*Change*
Volume	367	6.1%
Price	(71)	(1.2)%
Currency	(66)	(1.1)%
Portfolio	—	—%
Total	**230**	**3.8%**

The increase in external net sales in Fiscal Year 2014 was attributable to higher sales volume, which resulted in a 6.1% increase in external net sales. The positive impact from the increase in sales volume was partially offset by lower overall selling prices and unfavorable currency effects, which decreased external net sales by 1.2% and 1.1%, respectively.

All regions contributed to higher sales volume, which was mainly attributable to increased utilization of the expanded MDI capacities at the Group's Shanghai production facility in China and improved demand in nearly all main customer industries. Selling prices overall were below the prior-year level, primarily as a result of a decrease in average raw material prices that had to be passed on to customers and increased competition as a result of additional industry capacity, primarily in Asia.

Sales volume of MDI increased, driven by strong growth in NAFTA and APAC, while selling prices decreased in all regions, which overall led to an increase in external net sales from MDI. Sales volume of TDI increased, driven mainly by growth in APAC and NAFTA while EMLA volumes were nearly flat. Selling prices decreased in all regions, which overall led to a decrease in external net sales for TDI. Both sales volume and selling prices for polyether polyols increased, principally due to strong growth in NAFTA and higher selling prices in all regions.

The unfavorable currency effects in Fiscal Year 2014 were primarily the result of the Euro strengthening against the Brazilian real, the Japanese yen and the Mexican peso. On a currency-adjusted basis, external net sales increased by 4.9%.

EBIT decreased by €1 million, or 0.4%, to €233 million in Fiscal Year 2014 from €234 million in Fiscal Year 2013. The decrease in depreciation, amortization and impairments by €51 million, 12.7%, from €402 million in Fiscal Year 2013 to €351 million in Fiscal Year 2014 was mainly the result of fully depreciated assets attributable to the Group in connection with its Lyondell European Joint Venture. A total of €1 million in depreciation, amortization and impairments constituted special items in Fiscal Year 2014 (2013: €5 million). In Fiscal Year 2014, the Covestro Group's Polyurethanes segment recorded restructuring costs of €9 million as special items, which related mainly to severance payments in connection with an early retirement program in Germany. In Fiscal Year 2013, special items of €8 million related to the restructuring of a system house in Guangzhou, China and the closure of a polyether polyols production facility in Indonesia.

Adjusted EBITDA decreased by €47 million, or 7.4%, to €592 million in Fiscal Year 2014 from €639 million in Fiscal Year 2013. While sales volume increased and raw material costs decreased, the decline in selling prices, mainly due to increased competition as a result of additional industry capacity, was more pronounced than decrease of raw material costs. Other factors that decreased Adjusted EBITDA in Fiscal Year 2014 included higher fixed cost of goods sold, which was driven by the debottlenecking of the MDI production facility in Shanghai in China and the investment in the new TDI production facility in Dormagen in Germany.

Fiscal Year 2013 compared to Fiscal Year 2012

External net sales of the Covestro Group's Polyurethanes segment increased by €59 million, or 1.0%, to €6,052 million in Fiscal Year 2013 from €5,993 million in Fiscal Year 2012.

The following table provides a breakdown of the factors that affected external net sales of the Covestro Group's Polyurethanes segment in Fiscal Year 2013, in absolute amounts and as a percentage of total external net sales:

	Fiscal Year 2013	
	(Audited)	
	(EUR in millions)	*Change*
Volume	172	2.8%
Price	53	0.9%
Currency	(169)	(2.8)%
Portfolio	3	0.1%
Total	**59**	**1.0%**

The increase in external net sales in Fiscal Year 2013 was attributable to higher sales volume, which resulted in a 2.8% increase in external net sales, and an increase in overall selling prices, which increased external net sales by 0.9%. The positive effect from the increase in sales volume and overall selling prices was partially offset by unfavorable currency effects, which decreased external net sales by 2.8%.

The higher sales volume was primarily driven by a significant increase in sales volume of TDI, which was primarily driven by increased sales of TDA in Fiscal Year 2013 and additional TDI capacity at the Group's Shanghai production facility in China.

Prices for MDI increased in all regions, with volumes unchanged from the previous year. Prices for TDI decreased in all regions except NAFTA. Volumes for polyether polyols decreased slightly mainly driven by styrene, with selling prices at the level of the prior year.

The unfavorable currency effects in Fiscal Year 2013 were primarily the result of the Euro strengthening against the U.S. dollar, the Japanese yen and the Brazilian real. On a currency-adjusted basis, external net sales increased by 3.8%.

EBIT decreased by €65 million, or 21.7%, to €234 million in Fiscal Year 2013 from €299 million in Fiscal Year 2012. Depreciation, amortization and impairments increased by €1 million, or 0.2%, to €402 million in 2013 from €401 million in 2012. A total of €5 million of depreciation, amortization and impairments constituted special items in Fiscal Year 2013 (2012: €5 million). In Fiscal Year 2012, the Covestro Group's Polyurethanes segment recorded special items of €29 million, consisting of restructuring costs of €36 million partially offset by a gain of €7 million as a result of adjustments to post-employment benefit entitlements in the United States. The restructuring costs related primarily to severance payments due to a reduction in headcount in Germany, the closure of one of two production lines of the spray foam business in the United States, generally reduced headcount in Brazil, the closure of the Polyurethanes segment's organization in Canada and the closure of system houses in Greece and Italy.

Adjusted EBITDA decreased by €85 million, or 11.7%, to €639 million in Fiscal Year 2013 from €724 million in Fiscal Year 2012. This decrease was primarily driven by significant increases in raw material prices, especially during the first half of Fiscal Year 2013. Significant capacity expansions in the key geographic regions exceeded demand, impacting industry utilization and the Group's ability to fully pass on increases in raw material costs to customers. The increase in total costs for raw materials and energy was more pronounced than the increases in sales volume and selling prices, which negatively impacted margins. Other factors that decreased Adjusted EBITDA in Fiscal Year 2013 included higher fixed cost of goods sold mainly attributable to the TDI production facility in Shanghai in China. These decreases were only partially offset by increases in sales volume and savings achieved as a result of efficiency improvements.

13.8.2 Polycarbonates

The following table presents external net sales, EBIT, depreciation, amortization and impairments, special items and Adjusted EBITDA for the Covestro Group's Polycarbonates segment for the periods indicated:

	Six months ended June 30,		Fiscal Year		
	2015	**2014**	**2014**	**2013**	**2012**
	(Unaudited)		*(Audited)*		
	(EUR in millions, except percentages)				
External net sales	**1,594**	**1,355**	**2,822**	**2,645**	**2,822**
Change	*17.6%*	—	*6.7%*	*(6.3)%*	—
Currency-adjusted change	*4.7%*	—	*7.2%*	*(4.4)%*	—
EBIT[1]	**177**	**(5)**	**(32)**	**(85)**	**6**
Adjusted depreciation, amortization and impairments[2]	88	80	163	176	179
Special items	1	13	29	3	—
of which:					
Restructuring	*1*	*13*	*29*	*3*	*3*
Adjustments to post-employment benefit entitlements	—	—	—	—	*(3)*
Adjusted EBITDA[3]	**266**	**88**	**160**	**94**	**185**

Notes:

(1) EBIT: earnings before financial result and taxes.

(2) Adjusted depreciation, amortization and impairments: depreciation, amortization and impairments before special items, which comprise effects that the Group regards as non-recurring or that do not regularly recur or attain similar magnitudes.

(3) Adjusted EBITDA: EBITDA before special items, which comprise effects that the Group regards as non-recurring or that do not regularly recur or attain similar magnitudes. EBITDA: earnings before financial result and taxes (EBIT) plus depreciation and impairment losses on property, plant and equipment, plus amortization and impairment losses on intangible assets and minus impairment loss reversals on intangible assets and property, plant and equipment.

Six months ended June 30, 2015 compared with six months ended June 30, 2014

External net sales of the Covestro Group's Polycarbonates segment increased by €239 million, or 17.6%, from €1,355 million in the six months ended June 30, 2014 to €1,594 million in the six months ended June 30, 2015.

The following table provides a breakdown of the factors that affected external net sales of the Covestro Group's Polycarbonates segment in the six months ended June 30, 2015, in absolute amounts and as a percentage of total external net sales:

	Six months ended June 30, 2015	
	(Unaudited)	
	(EUR in millions)	*Change*
Volume	102	7.6%
Price	(39)	(2.9)%
Currency	176	12.9%
Portfolio	—	—%
Total	**239**	**17.6%**

The total increase in external net sales by 17.6% in the six months ended June 30, 2015 compared to the six months ended June 30, 2014 was attributable to favorable currency effects and higher sales volume, which increased net sales by 12.9% and 7.6%, respectively, which was partially offset by lower overall selling prices, which decreased net sales by 2.9%.

Sales volume increased in all major regions, primarily driven by temporarily short market supply and demand growth in the automotive/transport end market. Selling prices decreased compared to the previous year, which was mainly driven by a decrease in raw material costs that were partially passed on to customers.

The favorable currency effects in the six months ended June 30, 2015 were primarily the result of the Euro depreciating against the U.S. dollar, the Chinese Renminbi and the Hong Kong dollar. On a currency-adjusted basis, net sales increased by 4.7%.

EBIT increased by €182 million to €177 million in the six months ended June 30, 2015 from €(5) million in the six months ended June 30, 2014. The increase in depreciation, amortization and impairments by €7 million, or 8.6%, from €81 million in the six months ended June 30, 2014 to €88 million in the six months ended June 30, 2015 was mainly the result of the Euro depreciating. No depreciation, amortization and impairments constituted special items in the six months ended June 30, 2015 (six months ended June 30, 2014: €1 million). In the six months ended June 30, 2015, the Covestro Group's Polycarbonates segment recorded restructuring costs of €1 million as special items, compared to €13 million in the six months ended June 30, 2014. The restructuring costs in the six months ended June 30, 2014 mainly related to the restructuring of the polycarbonate sheets business in Germany.

Adjusted EBITDA increased by €178 million to €266 million in the six months ended June 30, 2015 from €88 million in the six months ended June 30, 2014. This improvement was primarily driven by decreases in raw material costs that were only partially passed on to customers given a favorable supply/demand balance. Other factors that contributed to the increase of Adjusted EBITDA were the depreciation of the Euro and volume growth.

Fiscal Year 2014 compared to Fiscal Year 2013

External net sales of the Covestro Group's Polycarbonates segment increased by €177 million, or 6.7%, to €2,822 million in Fiscal Year 2014 from €2,645 million in Fiscal Year 2013.

The following table provides a breakdown of the factors that affected external net sales of the Covestro Group's Polycarbonates segment in Fiscal Year 2014, in absolute amounts and as a percentage of total external net sales:

	Fiscal Year 2014	
	(Audited)	
	(EUR in millions)	*Change*
Volume	242	9.1%
Price	(51)	(1.9)%
Currency	(14)	(0.5)%
Portfolio	—	—%
Total	**177**	**6.7%**

The increase in external net sales in Fiscal Year 2014 was attributable to higher sales volume, which increased external net sales by 9.1%. The positive effect from the increase in sales volume was partially offset by a decline in overall selling prices and unfavorable currency effects, which decreased external net sales by 1.9% and 0.5%, respectively.

Sales volume increased in all major regions, primarily driven by demand growth in the automotive/ transport, electrical/electronics and construction industries. Selling prices decreased compared to the previous year, which was mainly driven by a decrease in raw material costs that were passed on to customers.

The unfavorable currency effects in Fiscal Year 2014 were primarily the result of the Euro strengthening against the Mexican peso, the Japanese yen and the Brazilian real. On a currency-adjusted basis, external net sales increased by 7.2%.

EBIT improved by €53 million, or 62.4%, from €(85) million in Fiscal Year 2013 to €(32) million in Fiscal Year 2014. Depreciation, amortization and impairments decreased by €10 million, or 5.7%, to €164 million in Fiscal Year 2014 from €174 million in Fiscal Year 2013. This decrease was mainly due to fully depreciated assets. A total of €1 million of depreciation, amortization and impairments constituted special items in Fiscal Year 2014 (2013: €(2) million). In Fiscal Year 2014, the Covestro Group's Polycarbonates segment recorded restructuring costs of €29 million as special items, which mainly related to the restructuring of the polycarbonate sheets business in Germany, the divestment and closure of the polycarbonate sheets business in Australia, and the restructuring of the polycarbonate sheets business in China.

Adjusted EBITDA increased by €66 million, or 70.2%, to €160 million in Fiscal Year 2014 from €94 million in Fiscal Year 2013. This improvement was mainly driven by an increase in sales volume resulting in an increased utilization of the Group's production facilities. Decreases in cost for raw materials and energy as a result of lower raw material prices were largely offset by a decline in selling prices as the Group passed on decreases in raw material prices to its customers.

Fiscal Year 2013 compared to Fiscal Year 2012

External net sales of the Covestro Group's Polycarbonates segment decreased by €177 million, or 6.3%, to €2,645 million in Fiscal Year 2013 from €2,822 million in Fiscal Year 2012.

The following table provides a breakdown of the factors that affected external net sales of the Covestro Group's Polycarbonates segment in Fiscal Year 2013, in absolute amounts and as a percentage of total external net sales:

	Fiscal Year 2013	
	(Audited)	
	(EUR in millions)	*Change*
Volume	(88)	(3.1)%
Price	(39)	(1.4)%
Currency	(52)	(1.9)%
Portfolio	2	0.1%
Total	**(177)**	**(6.3)%**

The decrease in external net sales in Fiscal Year 2013 was attributable to decreases in sales volume, unfavorable currency effects and declines in overall selling prices, which decreased external net sales by 3.1%, 1.9% and 1.4%, respectively.

The decrease in sales volume was mainly driven by lower demand, particularly in APAC and EMLA, and an increase in competition due to additional capacity added by a competitor, also leading to declining selling prices, especially in APAC.

The unfavorable currency effects in Fiscal Year 2013 were primarily the result of the Euro strengthening against the U.S. dollar, the Hong Kong dollar and the Japanese yen. On a currency-adjusted basis, external net sales decreased by 4.4%.

EBIT decreased by €91 million to €(85) million in Fiscal Year 2013 from €6 million in Fiscal Year 2012. Depreciation, amortization and impairments decreased by €4 million, or 2.2%, to €174 million in Fiscal Year 2013 from €178 million in Fiscal Year 2012. A total of €(2) million of depreciation, amortization and impairments constituted special items in Fiscal Year 2013 (Fiscal Year 2012: €(1) million). In Fiscal Year 2013, special items of €3 million related to restructuring costs in connection with severance payments in Germany. In Fiscal Year 2012, the Covestro Group recorded no special items as restructuring costs, as €3 million were offset by post-employment benefit entitlements of €3 million.

Adjusted EBITDA decreased by €91 million, or 49.2%, from €185 million in Fiscal Year 2012 to €94 million in Fiscal Year 2013. This decrease was mainly driven by a decline in both sales volume and selling prices as a result of overcapacities as well as increased raw material costs that the Group was not able to fully pass on to its customers as a result of overcapacities in the industry. These decreases were only partially offset by savings achieved as a result of efficiency improvements.

13.8.3 Coatings, Adhesives and Specialties

The following table presents external net sales, EBIT, depreciation, amortization and impairments, reversal of impairments, special items and Adjusted EBITDA for the Covestro Group's Coatings, Adhesives and Specialties segment for the periods indicated:

	Six months ended June 30,		Fiscal Year		
	2015	2014	2014	2013	2012
	(Unaudited)		*(Audited)*		
	(EUR in millions, except percentages)				
External net sales	**1,097**	**958**	**1,928**	**1,876**	**1,984**
Change	*14.5%*	—	*2.8%*	*(5.4)%*	—
Currency-adjusted change	*5.0%*	—	*3.5%*	*(3.2)%*	—
EBIT[1]	**224**	**178**	**354**	**300**	**274**
Adjusted depreciation, amortization and impairments[2]	42	39	78	84	81
Special items	4	5	5	(17)	9
of which:					
Restructurings	*4*	*5*	*5*	*25*	*11*
Adjustments to post-employment benefit entitlements	—	—	—	—	*(2)*
Divestitures	—	—	—	*(42)*	—
Adjusted EBITDA[3]	**270**	**222**	**437**	**367**	**364**

Notes:

(1) EBIT: earnings before financial result and taxes.

(2) Adjusted depreciation, amortization and impairments: depreciation, amortization and impairments before special items, which comprise effects that the Group regards as non-recurring or that do not regularly recur or attain similar magnitudes.

(3) Adjusted EBITDA: EBITDA before special items, which comprise effects that the Group regards as non-recurring or that do not regularly recur or attain similar magnitudes. EBITDA: earnings before financial result and taxes (EBIT) plus depreciation and impairment losses on property, plant and equipment, plus amortization and impairment losses on intangible assets and minus impairment loss reversals on intangible assets and property, plant and equipment.

Six months ended June 30, 2015 compared with six months ended June 30, 2014

External net sales of the Covestro Group's Coatings, Adhesives and Specialties segment increased by €139 million, or 14.5%, from €958 million in the six months ended June 30, 2014 to €1,097 million in the six months ended June 30, 2015.

The following table provides a breakdown of the factors that affected external net sales of the Covestro Group's Coatings, Adhesives and Specialties segment in the six months ended June 30, 2015, in absolute amounts and as a percentage of total external net sales:

	Six months ended June 30, 2015	
	(Unaudited)	
	(EUR in millions)	*Change*
Volume	54	5.6%
Price	(6)	(0.6)%
Currency	91	9.5%
Portfolio	—	—%
Total	**139**	**14.5%**

The total increase in external net sales by 14.5% in the six months ended June 30, 2015 compared to the six months ended June 30, 2014 was attributable to favorable currency effects and higher sales volume, which increased net sales by 9.5% and 5.6%, respectively, which was partially offset by lower overall selling prices, which decreased net sales by 0.6%.

Sales volumes increased in all major regions, primarily as a result of solid customer demand for the Group's products in all regions, especially NAFTA and APAC. Overall selling prices declined slightly driven by APAC while selling prices increased in NAFTA and remained stable in EMLA.

The favorable currency effects in the six months ended June 30, 2015 were primarily the result of the Euro depreciating against the U.S. dollar, the Chinese renminbi and the Hong Kong dollar. On a currency-adjusted basis, net sales increased by 5.0%.

EBIT increased by €46 million, or 25.8%, to €224 million in the six months ended June 30, 2015 from €178 million in the six months ended June 30, 2014. Depreciation, amortization and impairments remained flat at €42 million in the six months ended June 30, 2015. No depreciation, amortization and impairments constituted special items in the six months ended June 30, 2015 (six months ended June 30, 2014: €3 million). In the six months ended June 30, 2015, the Covestro Group's Coatings, Adhesives and Specialties segment recorded restructuring costs of €4 million as special items, which mainly related to the closure of the production facilities in Belford Roxo, Brazil. The restructuring costs of €5 million in the six months ended June 30, 2014 mainly related to the impairment of an intangible asset.

Adjusted EBITDA increased by €48 million to €270 million in the six months ended June 30, 2015 from €222 million in the six months ended June 30, 2014, primarily driven by volume growth, was well as lower raw material costs that were only partially passed on to customers. The depreciation of the Euro additionally contributed to the Adjusted EBITDA improvement. These increases were partially offset by higher manufacturing costs mainly reflecting the debottlenecking of the production facilities in Baytown (Texas, United States) and maintenance shutdowns in Leverkusen (Germany).

Fiscal Year 2014 compared to Fiscal Year 2013

External net sales of the Covestro Group's Coatings, Adhesives and Specialties segment increased by €52 million, or 2.8%, to €1,928 million in Fiscal Year 2014 from €1,876 million in Fiscal Year 2013.

The following table provides a breakdown of the factors that affected external net sales of the Covestro Group's Coatings, Adhesives and Specialties segment in Fiscal Year 2014, in absolute amounts and as a percentage of total external net sales:

	Fiscal Year 2014	
	(Audited)	
	(EUR in millions)	*Change*
Volume	107	5.8%
Price	(7)	(0.4)%
Currency	(13)	(0.7)%
Portfolio	(35)	(1.9)%
Total	**52**	**2.8%**

The increase in external net sales in Fiscal Year 2014 was attributable to an increase in sales volume, which increased external net sales by 5.8%. The positive effect from the increased sales volume was partially offset by changes in the Covestro Group's portfolio, unfavorable currency effects and a slight decline in overall selling prices, which decreased external net sales by 1.9%, 0.7% and 0.4%, respectively.

The increase in sales volume was mainly driven by higher customer demand for the Covestro Group's products mainly in EMLA and APAC and a weak prior year influenced by additional capacity added by a competitor. The effects of the changes in the Covestro Group's portfolio were primarily the result of the sale of the global powder polyester resins business and its U.S.-based liquid polyester business in June 2013 as well as the sale of the Desmolux resins business in September 2013. Selling prices were nearly level year on year.

The unfavorable currency effects were primarily the result of the Euro strengthening against the Japanese yen, the Brazilian real and the Mexican peso. On a currency-adjusted basis, external net sales increased by 3.5%. This increase was mainly driven by higher volumes in all regions.

EBIT increased by €54 million, or 18.0%, to €354 million in Fiscal Year 2014 from €300 million in Fiscal Year 2013. Depreciation, amortization and impairments decreased by €22 million, or 21.4%, to

€81 million in Fiscal Year 2014 from €103 million in Fiscal Year 2013. This decrease was primarily due to accelerated depreciation and write-down of intangible assets by the discontinuation of development businesses. A total of €3 million in depreciation, amortization and impairments constituted special items in Fiscal Year 2014 (2013: €19 million). In Fiscal Year 2014, the Covestro Group's Coatings, Adhesives and Specialties segment recorded special items of €5 million, relating to the impairment of an intangible asset. In Fiscal Year 2013, the Covestro Group's Coatings, Adhesives and Specialties segment recorded special items of €(17) million, which was the result of income of €42 million from the sale of the global powder polyester resins business and its U.S.-based liquid polyester business in June 2013, as well as the sale of its Desmolux resins business in September 2013 offset by restructuring charges of €25 million, mainly in relation to the divestment of its carbon nanotubes business and electroactive polymers business as well as the closure of a specialty films laboratory in Singapore.

Adjusted EBITDA increased by €70 million, or 19.1%, to €437 million in Fiscal Year 2014 from €367 million in Fiscal Year 2013. This increase was mainly driven by increased sales volume and lower raw material costs. These increases were partially offset by higher fixed manufacturing costs mainly reflecting investments in Leverkusen (Germany), Baytown (Texas, United States) and Shanghai (China).

Fiscal Year 2013 compared to Fiscal Year 2012

External net sales of the Covestro Group's Coatings, Adhesives and Specialties segment decreased by €108 million, or 5.4%, to €1,876 million in Fiscal Year 2013 from €1,984 million in Fiscal Year 2012.

The following table provides a breakdown of the factors that affected external net sales of the Covestro Group's Coatings, Specialties and Adhesives segment in Fiscal Year 2013, in absolute amounts and as a percentage of total external net sales:

	Fiscal Year 2013	
	(Audited)	
	(EUR in millions)	*Change*
Volume	(10)	(0.5)%
Price	(24)	(1.2)%
Currency	(45)	(2.2)%
Portfolio	(29)	(1.5)%
Total	**(108)**	**(5.4)%**

The decline in external net sales in Fiscal Year 2013 was attributable to unfavorable currency effects, changes in the Covestro Group's portfolio, a decline in overall selling prices and lower sales volumes, which decreased external net sales by 2.2%, 1.5%, 1.2% and 0.5%, respectively.

The unfavorable currency effects were primarily the result of the Euro strengthening against the Japanese yen, the U.S. dollar, and the Hong Kong dollar. On a currency-adjusted basis, external net sales decreased by 3.2%. The effects of the changes in the Covestro Group's portfolio were primarily the result of the sale of the global powder polyester resins business and its U.S.-based liquid polyester business in June 2013 as well as the sale of the Desmolux resins business in September 2013. The decline in overall selling prices and sales volume was mainly driven by additional capacity added by a competitor.

EBIT increased by €26 million, or 9.5%, to €300 million in Fiscal Year 2013 from €274 million in Fiscal Year 2012. Depreciation, amortization and impairments increased by €21 million, or 25.6%, to €103 million in Fiscal Year 2013 from €82 million in Fiscal Year 2012. A total of €19 million in depreciation, amortization and impairments constituted special items in Fiscal Year 2013 (2012: €1 million). In Fiscal Year 2013, the Covestro Group's Coatings, Adhesives and Specialties segment recorded special items of €(17) million, which was the result of income of €42 million from the sale of the global powder polyester resins business and its U.S.-based liquid polyester business in June 2013, as well as the sale of the Desmolux resins business in September 2013 offset by restructuring charges of €25 million, mainly in relation to the divestment of its carbon nanotubes business and electroactive polymers business as well as the closure of a specialty films laboratory in Singapore. In Fiscal Year 2012, the Covestro Group's Coatings, Adhesives and Specialties segment recorded special items of €9 million, which consisted of restructuring charges of €11 million mainly driven by an accrual for an expected repayment of a

government grant due to the announced closure in Singapore, which was partially offset by post-employment benefit entitlements of €2 million.

Adjusted EBITDA remained largely stable with an increase of €3 million, or 0.8%, to €367 million in Fiscal Year 2013 from €364 million in Fiscal Year 2012. Decreased sales prices and volumes were compensated by lower raw material cost, a gain from the sale of the Desmolux® resins business as well as savings from efficiency improvement measures.

13.8.4 All Other Segments

All other business activities by the Covestro Group that cannot be allocated to one of the three reporting segments are recorded under ''All other segments,'' which mainly includes external net sales of chlorine and certain by-products that are created during the production of chlorine and processing of chlorine during the isocyanate production, in particular caustic soda and hydrochloric acid. ''All other segments'' also includes the provision of certain services to third parties (such as facility management and technical services, rental of buildings, land and offices as well as the sale of energy produced by the Group) and the sale of non-chemical products (such as used assets). While the external net sales of chlorine and by-products are recorded under ''All other segments,'' the profits attributable to such activities are allocated to the reporting segments Polyurethanes, Polycarbonates and Coatings, Adhesives and Specialties mainly on the basis of the internal usage of chlorine. As the Covestro Group's Polyurethanes segment uses the largest proportion of internally produced chlorine, the largest proportion of the profits attributable to the external net sales of chlorine and by-products is allocated to the Polyurethanes segment. The profits attributable to the provision of certain services and the sale of non-chemical products are also allocated to the reporting segments Polyurethanes, Polycarbonates and Coatings, Adhesives and Specialties.

The following table presents external net sales for the Covestro Group's ''All other segments'' for the periods indicated:

	Six months ended June 30,		Fiscal Year		
	2015	**2014**	**2014**	**2013**	**2012**
	(Unaudited)		*(Audited)*		
	(EUR in millions, except percentages)				
External net sales	**382**	**369**	**729**	**784**	**811**
Change	*3.5%*	—	*(7.0)%*	*(3.3)%*	—
Currency-adjusted change	*(1.6)%*	—	*(6.6)%*	*(2.3)%*	—

Six months ended June 30, 2015 compared with six months ended June 30, 2014

External net sales of the Covestro Group's ''All other segments'' increased by €13 million, or 3.5%, from €369 million in the six months ended June 30, 2014 to €382 million in the six months ended June 30, 2015.

The following table provides a breakdown of the factors that affected external net sales of the Covestro Group's ''All other segments'' in the six months ended June 30, 2015, in absolute amounts and as a percentage of total external net sales:

	Six months ended June 30, 2015	
	(Unaudited)	
	(EUR in millions)	*Change*
Volume	(4)	(1.6)%
Price	—	—%
Currency	17	5.1%
Portfolio	—	—%
Total	**13**	**3.5%**

The increase in external net sales in the six months ended June 30, 2015 was attributable to favorable currency effects, which increased net sales by 5.1%. The positive impact from favorable currency effects was partially offset by lower sales volume, which decreased net sales by 1.6%.

The favorable currency effects in the six months ended June 30, 2015 were primarily the result of the weaker Euro. On a currency-adjusted basis, net sales decreased by 1.6%.

Sales volumes were lower primarily due to a reduced demand for hydrochloric acid in the United States. Instead, more hydrochloric acid was used for the Covestro Group's own chlorine production.

Fiscal Year 2014 compared to Fiscal Year 2013

External net sales decreased by €55 million, or 7.0%, to €729 million in Fiscal Year 2014 from €784 million in Fiscal Year 2013.

The following table provides a breakdown of the factors that affected external net sales of the Covestro Group's ''All other segments'' in Fiscal Year 2014, in absolute amounts and as a percentage of total external net sales:

	Fiscal Year 2014	
	(Audited)	
	(EUR in millions)	*Change*
Volume	(17)	(2.0)%
Price	(36)	(4.6)%
Currency	(2)	(0.4)%
Portfolio	—	—%
Total	**(55)**	**(7.0)%**

The decrease in external net sales was attributable to a decline in overall selling prices and lower sales volume, which reduced external net sales by 4.6% and 2.0%, respectively. This reduction was mainly driven by a decline in sales volume of caustic soda in EMEA as a result of the high production level of PVC producers and additional competitors raising caustic soda volume.

Fiscal Year 2013 compared to Fiscal Year 2012

External net sales decreased by €27 million, or 3.3%, to €784 million in Fiscal Year 2013 from €811 million in Fiscal Year 2012.

The following table provides a breakdown of the factors that affected external net sales of the Covestro Group's ''All other segments'' in Fiscal Year 2013, in absolute amounts and as a percentage of total external net sales:

	Fiscal Year 2013	
	(Audited)	
	(EUR in millions)	*Change*
Volume	(5)	(0.6)%
Price	(14)	(1.7)%
Currency	(8)	(1.0)%
Portfolio	—	—%
Total	**(27)**	**(3.3)%**

The decrease in external net sales was attributable to a decline in overall selling prices, unfavorable currency effects and lower sales volume, which reduced external net sales by 1.7%, 1.0% and 0.6%, respectively. The volume effects related to chlorine sales to Lanxess Aktiengesellschaft in EMEA. The unfavorable currency effects were primarily due to USD development.

13.9 INFORMATION ON COMBINED STATEMENTS OF FINANCIAL POSITIONS

The following table presents the Covestro Group's assets, equity and liabilities as of June 30, 2015 and as of December 31, 2014, 2013 and 2012.

	As of June 30, 2015	As of December 31,		
		2014	2013	2012
	(Unaudited)	*(Audited)*		
		(EUR in millions)		
Noncurrent assets				
Goodwill	259	243	239	243
Other intangible assets	138	133	164	226
Property, plant and equipment	5,061	4,893	4,442	4,577
Investments accounted for using the equity method	227	216	202	224
Other financial assets	57	39	1,021	1,028
Other receivables	70	74	76	71
Deferred taxes	405	413	160	141
Total noncurrent assets	**6,217**	**6,011**	**6,304**	**6,510**
Current assets				
Inventories	1,921	1,904	1,616	1,865
Trade accounts receivable	1,794	1,561	1,363	1,428
Other financial assets	539	431	546	344
Other receivables	206	277	259	252
Claims for income tax refunds	6	7	8	22
Cash and cash equivalents	106	201	37	44
Total current assets	**4,572**	**4,381**	**3,829**	**3,955**
Total assets	**10,789**	**10,392**	**10,133**	**10,465**
Equity				
Invested equity attributable to the Bayer Group	1,198	1,427	2,767	2,416
Other components of equity	519	343	2	149
Total invested equity attributable to the Bayer Group	**1,717**	**1,770**	**2,769**	**2,565**
Invested equity attributable to non-controlling interests	11	17	10	14
Total equity	**1,728**	**1,787**	**2,779**	**2,579**
Noncurrent liabilities				
Provisions for pensions and other post-employment benefits	1,409	1,395	622	798
Other provisions	217	187	167	189
Financial liabilities	521	779	827	827
Other liabilities	29	30	27	36
Deferred taxes	181	176	193	136
Total noncurrent liabilities	**2,357**	**2,567**	**1,836**	**1,986**
Current liabilities				
Other provisions	366	322	243	278
Financial liabilities	4,697	3,943	3,726	3,920
Trade accounts payable	1,456	1,522	1,329	1,378
Income tax liabilities	13	3	3	2
Other liabilities	172	248	217	322
Total current liabilities	**6,704**	**6,038**	**5,518**	**5,900**
Total equity and liabilities	**10,789**	**10,392**	**10,133**	**10,465**

13.9.1 June 30, 2015 Compared with December 31, 2014

Noncurrent assets

Noncurrent assets increased by €206 million, or 3.4%, to €6,217 million as of June 30, 2015, from €6,011 million as of December 31, 2014. This increase was mainly due to an increase in property, plant and equipment by €168 million, or 3.4%, as a result of capital expenditures.

Current assets

Current assets increased by €191 million, or 4.4%, to €4,572 million as of June 30, 2015, from €4,381 million as of December 31, 2014. This increase was mainly due to increases in trade accounts receivable, and other financial assets, which were partially offset by a decrease in cash and cash equivalents and other receivables. Trade accounts receivable rose by €233 million, or 14.9%, which was primarily attributable to higher sales in the second quarter of Fiscal Year 2015 compared to the fourth quarter of Fiscal Year 2014 as a result of seasonality. The increase of other financial assets by €108 million, or 25.1%, was primarily driven by investments in financial assets classified as available-for-sale. Cash and cash equivalents decreased by €95 million to €106 million. The decrease in other receivables by €71 million was mainly the result of a decrease in claims for miscellaneous tax refunds.

Noncurrent liabilities

Noncurrent liabilities decreased by €210 million, or 8.2%, to €2,357 million as of June 30, 2015, from €2,567 million as of December 31, 2014. This decrease was mainly due to a decrease in financial liabilities by €258 million, or 33.1%, mainly due to bank loans and loans from the Bayer Group that are now classified as short-term and reported as current financial liabilities.

Current liabilities

Current liabilities increased by €666 million, or 11.0%, to €6,704 million as of June 30, 2015, from €6,038 million as of December 31, 2014. This increase was mainly due to increases in financial liabilities and was partially offset by a decrease in other liabilities. The €754 million, or 19.1%, increase in financial liabilities was mainly due to bank loans and loans from the Bayer Group that were previously classified as long-term and are now reported as current financial liabilities and additional borrowings. The €76 million, or 30.6%, decrease in other liabilities was primarily driven by a decrease in income tax liabilities and liabilities for other taxes.

Equity

Equity decreased by €59 million, or 3.3%, to €1,728 million as of June 30, 2015, from €1,787 million as of December 31, 2014. This decrease was mainly due to distributions to the Bayer Group as part of the legal reorganization of the Group as well as the profit transfer under the profit and loss transfer agreement between Bayer AG and Covestro Deutschland AG and was partially offset by income after income taxes and positive exchange differences.

13.9.2 December 31, 2014 Compared with December 31, 2013

Noncurrent assets

Noncurrent assets decreased by €293 million, or 4.6%, to €6,011 million as of December 31, 2014 from €6,304 million as of December 31, 2013. This decrease was primarily due to a decrease in other financial assets by €982 million, or 96.2%, as a result of a significant decrease in loans to the Bayer Group, which corresponded to dividend payments by and a capital reduction at Covestro LLC in the United States. This decrease was partially offset by an increase in property, plant and equipment by €451 million, or 10.2%, as a result of capital expenditures, and an increase in deferred taxes by €253 million from €160 million as of December 31, 2013 to €413 million as of December 31, 2014, mainly as a result of an increase in pension provisions due to lower long-term capital market interest rates.

Current assets

Current assets increased by €552 million, or 14.4%, to €4,381 million as of December 31, 2014 from €3,829 million as of December 31, 2013. This development was mainly due to increases in inventories, trade accounts receivable and cash and cash equivalents, which were partially offset by a decrease in other financial assets. Inventories rose by €288 million, or 17.8%, mainly driven by increases in finished goods, inventories and raw material, which were primarily the result of currency effects and increased production in preparation for potential carbon monoxide curtailments in Fiscal Year 2015. Trade accounts receivable rose by €198 million, or 14.5%, which was primarily attributable to currency effects and an increase in sales in the fourth quarter of Fiscal Year 2014 as a result of higher demand. Cash and cash equivalents increased by €164 million to €201 million as of December 31, 2014 compared to €37 million

as of December 31, 2013. Other financial assets decreased by €115 million, or 21.1%, primarily due to a decline in loans to the Bayer Group as a result of dividend payments by and a capital reduction at Covestro LLC.

Noncurrent liabilities

Noncurrent liabilities increased by €731 million, or 39.8%, to €2,567 million as of December 31, 2014 from €1,836 million as of December 31, 2013. This development was mainly due to the increase in provisions for pensions and other post-employment benefits by €773 million to €1,395 million as of December 31, 2014 from €622 million as of December 31, 2013, primarily as a result of lower long-term capital market interest rates for high quality corporate bonds.

Current liabilities

Current liabilities increased by €520 million, or 9.4%, to €6,038 million as of December 31, 2014 from €5,518 million as of December 31, 2013. This increase was mainly due to increases in trade accounts payable and financial liabilities. The €193 million, or 14.5%, increase in trade accounts payable and the €217 million, or 5.8%, increase in financial liabilities were mainly driven by currency effects, higher purchase volumes corresponding to the inventory development and higher capital expenditure in the fourth quarter of Fiscal Year 2014.

Equity

Equity declined by €992 million, or 35.7%, to €1,787 million as of December 31, 2014 from €2,779 million as of December 31, 2013. This decline was primarily attributable to dividend payments by and a capital reduction at the MaterialScience business in the United States.

13.9.3 December 31, 2013 Compared with December 31, 2012

Noncurrent assets

Noncurrent assets declined by €206 million, or 3.2%, to €6,304 million as of December 31, 2013 from €6,510 million as of December 31, 2012. This decline was mainly due to decreases in property, plant and equipment and other intangible assets. The €135 million, or 2.9%, decrease in property, plant and equipment was primarily the result of planned depreciation. The €62 million, or 27.4%, decrease in other intangible assets mainly reflected the amortization related to the internally-generated software and other rights.

Current assets

Current assets declined by €126 million, or 3.2%, to €3,829 million as of December 31, 2013 from €3,955 million as of December 31, 2012. This decline was mainly due to decreases in inventories and trade accounts receivable, which were partially offset by an increase in other financial assets. The €249 million, or 13.4%, decrease in inventories was mainly the result of scheduled turnarounds in Fiscal Year 2013 and currency effects. The €65 million, or 4.6%, decrease in trade accounts receivable primarily reflected currency effects. The €202 million, or 58.7%, increase in other financial assets was principally attributable to higher intra-group cash pool receivables.

Noncurrent liabilities

Noncurrent liabilities declined by €150 million, or 7.6%, to €1,836 million as of December 31, 2013 from €1,986 million as of December 31, 2012. This decline was mainly due to a decrease in provisions for pensions and other post-employment benefits by €176 million, or 22.1%, which was mainly the result of increased long-term interest rates for high quality corporate bonds.

Current liabilities

Current liabilities declined by €382 million, or 6.5%, to €5,518 million as of December 31, 2013 from €5,900 million as of December 31, 2012. This decline was mainly due to decreases in financial liabilities, other liabilities and trade accounts payable. The €194 million, or 4.9%, decrease in financial liabilities was mainly the result of repayments of liabilities to banks and liabilities under finance leases. The €105 million, or 32.6%, decrease in other liabilities was principally attributable to a decrease in income tax liabilities

and liabilities for other taxes. The €49 million, or 3.6%, decrease in trade accounts payable was primarily the result of currency effects.

Equity

Equity increased by €200 million, or 7.8%, to €2,779 million as of December 31, 2013 from €2,579 million as of December 31, 2012. This increase was mainly due to income after income taxes as well as loss compensation under the profit and loss transfer agreement between Bayer AG and Covestro Deutschland AG.

13.10 LIQUIDITY AND CAPITAL RESOURCES

13.10.1 Financing Structure Prior to the Separation

Prior to the separation from the Bayer Group, the Group has been part of the financing of the Bayer Group and has addressed its funding requirements mainly through a combination of cash flow from operating activities and short-term inter-company financing from the Group's sole shareholder Bayer AG and/or any of its subsidiaries (excluding a member of the Group). For further details regarding the Group's financing prior to the separation from the Bayer Group, see ''*16. Certain Relationships and Related Party Transactions—Relationship with the Bayer Group—Financing.*''

13.10.2 Financing Structure Following the Separation

On September 4, 2015, the Group entered into a syndicated multicurrency term and revolving credit facilities agreement (the ''**Facilities Agreement**'') with Deutsche Bank, UniCredit Bank AG, Citigroup, and Bank of America Merrill Lynch International Limited, as mandated lead arrangers, each of whom is an Underwriter or affiliate of an Underwriter, consisting of a multicurrency revolving credit facility in an amount of €1.5 billion and a term loan facility in an amount of €1.2 billion. The revolving credit facility, which has not been drawn as of the date of the Prospectus, may be used for general corporate purposes, including working capital purposes, the refinancing of indebtedness (including indebtedness under shareholder loans) and acquisitions. Amounts borrowed under the term loan facility, which has not been drawn as of the date of the Prospectus, shall be applied towards the refinancing of indebtedness incurred prior to the date of the term loan facility under shareholder loans granted to the Company and/or members of the Group by Bayer AG and/or any of its subsidiaries (excluding a member of the Group). In addition, the Group's external local financing agreements remain in place, especially two syndicated loans in China.

As of the date of this Prospectus, four inter-group loans from Bayer Antwerpen NV, a member of the Bayer Group, in an aggregate amount of €5,150 million remain outstanding, which will be partially repaid in connection with the Offering. On September 29, 2015, the Group will repay a €715 million inter-group loan from Bayer Antwerpen NV with the proceeds of €715 million from the Capital Contribution. The Group will also use a substantial part of the net proceeds from the Offering to repay a €2,375 million inter-group loan from Bayer Antwerpen NV on October 6, 2015. A €1,250 million inter-group loan from Bayer Antwerpen NV due on March 30, 2016 and a €810 million inter-group loan from Bayer Antwerpen NV due on June 29, 2016 will remain in place. The Group currently plans to repay these two remaining inter-group loans from Bayer Antwerpen NV with the proceeds from future bond issuances or other financial instruments and operating cash generated by the Group.

In case the repayment of any amount outstanding under the two remaining inter-group loans from Bayer Antwerpen NV will not be made as currently planned with proceeds from future bond issuances or other financial instruments and operating cash generated by the Group, the Group plans to draw the term loan facility and to partially draw the revolving credit facility that both form part of the Facilities Agreement to the extent necessary and use the proceeds for the repayment of the two inter-group loans at their maturity.

Following the separation from the Bayer Group, the Group will also provide cash pooling and cash management arrangements, clearing and settlement of intra-group and external payables and receivables as well as financing and liquidity investment opportunities to participating Group companies.

For further details regarding the Group's financing structure following the Offering, see ''*16. Certain Relationships and Related Party Transactions—Relationship with the Bayer Group—Financing.*'' For further details regarding the revolving credit facility and the term loan facility, see ''*15. Business—Material Agreements—Financing Agreements.*''

13.10.3 Combined Statements of Cash Flows

The following table sets forth the Covestro Group's combined statements of cash flow for the periods indicated.

	Six months ended June 30,		Fiscal Year		
	2015	2014	2014	2013	2012
	(Unaudited)		(Audited)		
	(EUR in millions)				
Income after income taxes	272	178	277	179	264
Income taxes	115	80	104	76	93
Financial result	87	56	136	136	185
Income taxes paid or accrued	(94)	(48)	(84)	(85)	(135)
Depreciation, amortization and impairments	359	296	605	693	669
Change in pension provisions	6	(8)	(23)	(16)	(51)
(Gains) losses on retirements of noncurrent assets	(18)	—	1	(42)	(19)
Gross cash flow	**727**	**554**	**1,016**	**941**	**1,006**
Decrease (increase) in inventories	80	(192)	(164)	179	(317)
Decrease (increase) in trade accounts receivable	(163)	(245)	(110)	17	(20)
(Decrease) increase in trade accounts payable	(185)	31	117	(78)	189
Changes in other working capital, other non-cash items	86	6	66	(61)	(44)
Net cash provided by (used in) operating activities (net cash flow)	**545**	**154**	**925**	**998**	**814**
Cash outflows for additions to property, plant, equipment and intangible assets	(224)	(239)	(612)	(583)	(633)
Cash inflows from sales of property, plant, equipment and other assets	21	3	9	12	7
Cash inflows from divestitures	—	3	4	45	8
Cash inflows from (outflows for) noncurrent financial assets	(6)	11	12	(21)	(21)
Cash outflows for acquisitions less acquired cash	(14)	—	—	—	(56)
Interest and dividends received	1	1	2	5	4
Cash inflows from (outflows for) current financial assets	(96)	—	—	—	—
Net cash provided by (used in) investing activities	**(318)**	**(221)**	**(585)**	**(542)**	**(691)**
Financial transactions with Bayer	(366)	118	(2)	(132)	(145)
Dividend payments	(5)	—	(1)	(2)	(1)
Issuances of debt	222	36	175	43	219
Retirements of debt	(171)	(82)	(332)	(329)	(218)
Interest paid, including interest rate swaps	(20)	(13)	(32)	(41)	(51)
Net cash provided by (used in) financing activities	**(340)**	**59**	**(192)**	**(461)**	**(196)**
Changes in cash and cash equivalents due to business activities	**(113)**	**(8)**	**148**	**(5)**	**(73)**
Cash and cash equivalents at beginning of period/year	201	37	37	44	117
Change in cash and cash equivalents due to changes in scope of combination	—	—	—	—	—
Change in cash and cash equivalents due to exchange rate movements	18	1	16	(2)	—
Cash and cash equivalents at end of period/year	**106**	**30**	**201**	**37**	**44**

Comparison of cash flows for the six months ended June 30, 2015 and 2014

Operating activities

Net cash provided by (used in) operating activities (net cash flow) increased by €391 million to €545 million in the six months ended June 30, 2015 from €154 million in the six months ended June 30, 2014.

Gross cash flow increased by €173 million, or 31.2%, to €727 million in the six months ended June 30, 2015 from €554 million in the six months ended June 30, 2014. This increase was primarily driven by higher income after income taxes.

Net working capital increased by €182 million in the six months ended June 30, 2015, with a decrease in inventories of €80 million and a decrease of €86 million as a result of changes in other working capital, other non-cash items, being offset by an increase in trade accounts receivable of €163 million and a decrease in trade accounts payable of €185 million. The decrease in inventories was primarily driven by lower raw material costs and favorable currency effects. The increase in trade accounts receivable was mainly driven by an increase in sales. The decrease in trade accounts payable was mainly due to lower inventory levels and lower raw material costs.

Investing activities

Net cash used in investing activities increased by €97 million, or 43.9%, to an outflow of €318 million in the six months ended June 30, 2015 compared to an outflow of €221 million in the six months ended June 30, 2014. The increase was due to an investment in current financial assets in the six months ended June 30, 2015.

Financing activities

Net cash used in financing activities amounted to €340 million in the six months ended June 30, 2015 compared to net cash provided by financing activities of €59 million in the six months ended June 30, 2014. This was principally attributable to a cash outflow of €366 million from business activities with the Bayer Group in the six months ended June 30, 2015, compared to a cash inflow of €118 million in the six months ended June 30, 2014. Cash used for the retirement of debt increased from €82 million in the six months ended June 30, 2014 to €171 million in the six months ended June 30, 2015. In the six months ended June 30, 2014, issuances of debt resulted in a cash inflow of €36 million compared to €222 million in the six months ended June 30, 2015.

Comparison of cash flows for Fiscal Years 2014 and 2013

Operating activities

Net cash provided by operating activities (net cash flow) decreased by €73 million, or 7.3%, to €925 million in Fiscal Year 2014 compared to €998 million in Fiscal Year 2013.

Gross cash flow increased by €75 million, or 8.0%, to €1,016 million in Fiscal Year 2014 from €941 million in Fiscal Year 2013. This increase was primarily driven by higher income after income taxes.

The increase in gross cash flow was offset by changes in net working capital, which resulted in an overall decrease in net cash provided by operating activities (net cash flow) in Fiscal Year 2014 compared to Fiscal Year 2013.

Net working capital increased by €91 million in Fiscal Year 2014, with an increase in inventories of €164 million and an increase in trade accounts receivable of €110 million. These increases were only partially offset by an increase in trade accounts payable, which resulted in a positive cash effect of €117 million, and changes in other working capital, other non-cash items, which led to a positive effect of €66 million. The increase in inventories was primarily driven by an increase in inventories towards the end of Fiscal Year 2014 as a result of increased production in preparation for potential carbon monoxide curtailments in Fiscal Year 2015. The increase in trade accounts receivable was mainly driven by increases in sales in the fourth quarter of Fiscal Year 2014 as a result of higher demand. The increase in trade accounts payable was primarily a result of increasing inventories and production volume.

Days of inventory on hand was 71 days in Fiscal Year 2014, compared to 62 days in Fiscal Year 2013. Days sales outstanding was 48 days in Fiscal Year 2014, compared to 43 days in Fiscal Year 2013. Days payables outstanding was 57 days in Fiscal Year 2014, compared to 51 days in Fiscal Year 2013.

Investing activities

Net cash used in investing activities increased by €43 million, or 7.9%, to €585 million in Fiscal Year 2014 compared to €542 million in Fiscal Year 2013. This increase was principally attributable to lower cash inflows from divestitures, which amounted to €4 million in Fiscal Year 2014, compared to €45 million in Fiscal Year 2013, when the Group sold its polyester powder business and liquid polyester resin business

in the United States. In addition, cash outflows for additions in property, plant, equipment and intangible assets increased by €29 million to €612 million in Fiscal Year 2014 from €583 million in Fiscal Year 2013.

Financing activities

Net cash used in financing activities decreased by €269 million, or 58.4%, to €192 million in Fiscal Year 2014 compared to €461 million in Fiscal Year 2013. This decrease was principally attributable to a cash outflow of €2 million from business activities with the Bayer Group in Fiscal Year 2014, compared to a cash outflow of €132 million in Fiscal Year 2013. Cash used for the retirement of debt increased from €329 million in Fiscal Year 2013 to €332 million in Fiscal Year 2014. In addition, in Fiscal Year 2014, issuances of debt resulted in a cash inflow of €175 million compared to €43 million in Fiscal Year 2013. Interest paid, including interest rate swaps, decreased from €41 million in Fiscal Year 2013 to €32 million in Fiscal Year 2014.

Comparison of cash flows for Fiscal Years 2013 and 2012

Operating activities

Net cash provided (used in) by operating activities (net cash flow) increased by €184 million, or 22.6%, to €998 million in Fiscal Year 2013 compared to €814 million in Fiscal Year 2012.

Gross cash flow decreased by €65 million, or 6.5%, to €941 million in Fiscal Year 2013 from €1,006 million in Fiscal Year 2012. This decrease was primarily driven by lower income after income taxes in Fiscal Year 2013.

The decrease in gross cash flow was offset by reductions in net working capital, which resulted in an overall increase in net cash provided by (used in) operating activities (net cash flow) in Fiscal Year 2013 compared to Fiscal Year 2012.

Net working capital decreased by €57 million in Fiscal Year 2013 due to a decrease in inventories of €179 million in Fiscal Year 2013 and a decrease in trade accounts receivable of €17 million in Fiscal Year 2013. These decreases were only partially offset by a decrease in trade accounts payable, which resulted in a negative cash effect of €78 million in Fiscal Year 2013, and changes in other working capital, other non-cash items, which led to a negative effect of €61 million in Fiscal Year 2013. The decrease in inventories in Fiscal Year 2013 was mainly the result of production interruptions at the Group's polyurethanes production facilities in Baytown due to external curtailments of carbon monoxide supplies. The decline in trade accounts payable was mainly the result of decreasing inventories, which resulted in lower production volumes compared to Fiscal Year 2013.

Days of inventory on hand was 62 days in Fiscal Year 2013, compared to 72 days in Fiscal Year 2012. Days sales outstanding was 43 days in Fiscal Year 2013, compared to 44 days in Fiscal Year 2012. Days payables outstanding was 51 days in Fiscal Year 2013, compared to 53 days in Fiscal Year 2012.

Investing activities

Net cash used in investing activities decreased by €149 million, or 21.6%, to €542 million in Fiscal Year 2013 compared to €691 million in Fiscal Year 2012. This decline was principally attributable to cash outflows of €56 million in Fiscal Year 2012 for acquisitions compared to no cash used for acquisitions in Fiscal Year 2013, a decrease in cash outflows for additions in property, plant, equipment and intangible assets from €633 million in Fiscal Year 2012 to €583 million in Fiscal Year 2013 and a cash inflow of €45 million from divestitures in Fiscal Year 2013 compared to only €8 million of cash inflow from divestitures in Fiscal Year 2012.

Financing activities

Net cash used in financing activities increased by €265 million to €461 million in Fiscal Year 2013 compared to €196 million in Fiscal Year 2012. This increase was principally attributable to an increase in cash used for the retirement of debt and lower cash inflows from issuances of debt. Cash used for the retirement of debt increased from €218 million in Fiscal Year 2012 to €329 million in Fiscal Year 2013. In Fiscal Year 2013, issuances of debt resulted in a cash inflow of €43 million compared to €219 million in Fiscal Year 2012. Interest paid, including interest rate swaps, decreased from €51 million in Fiscal Year 2012 to €41 million in Fiscal Year 2013.

13.11 CAPITAL EXPENDITURES

Capital expenditures comprise additions to property, plant and equipment and intangible assets and mainly relate to the Group's investments in its production facilities.

13.11.1 Principal Capital Expenditures in Fiscal Years 2014, 2013 and 2012, in the Six Months Ended June 30, 2015 and in the Period from July 1, 2015 until the Date of the Prospectus

The following table presents the Covestro Group's capital expenditures for each of the periods indicated:

	Six months ended June 30,		Fiscal Year		
	2015	2014	2014	2013	2012
	(Unaudited) (EUR in millions)				
Total capital expenditures	**225**	**258**	**673**	**631**	**652**

In Fiscal Years 2014, 2013 and 2012, the six months ended June 30, 2015 and in the period from July 1, 2015 until the date of the Prospectus, the Covestro Group's principal capital expenditures related to the following projects:

- *New TDI plant in Dormagen*: the Group inaugurated a world-scale production complex for TDI based on gas-phase phosgenation technology in Dormagen (Germany) in December 2014, which will replace two smaller plants in Brunsbüttel and Dormagen.
- *Expansion of polycarbonates production capacity in Shanghai*: the Group is doubling its production capacity for polycarbonates at its Shanghai production facility in China.
- *Expansion of HDI production capacity in Shanghai*: the Group is doubling its production capacity for HDI at its Shanghai production facility in China.
- *Expansion of MDI production capacity in Shanghai*: the Group has expanded its production capacity for MDI at its Shanghai production facility in China.
- *Improvement of MDI production in Baytown*: the Group has improved the plant performance at its Baytown MDI production facility in Texas, United States.
- *Improvement of site infrastructure in Baytown*: the Group is modernizing the site infrastructure at its Baytown production facility in Texas, United States.
- *Conversion of mercury electrolysis in Uerdingen*: the Group has converted the mercury electrolysis at its Uerdingen production facility in Germany to membrane technology.
- *Expansion of HDI/IPDI production in Leverkusen*: the Group has expanded its production capacity for HDI/IPDI at its Leverkusen production facility in Germany.

Capital expenditures in Fiscal Year 2014 amounted to €673 million. In Fiscal Year 2014, the Group's capital expenditure mainly related to the expansion of the polycarbonates production capacity in Shanghai, the construction of the new TDI plant in Dormagen, the expansion of the HDI and MDI production capacity in Shanghai and the improvement of the site infrastructure in Baytown.

Capital expenditures in Fiscal Year 2013 amounted to €631 million. In Fiscal Year 2013, the Group's capital expenditure mainly related to the construction of the new TDI plant in Dormagen, HDI/IPDI production in Leverkusen, the expansion of the polycarbonates and the MDI production capacity in Shanghai and the improvement of the site infrastructure in Baytown.

Capital expenditures in Fiscal Year 2012 amounted to €652 million. In Fiscal Year 2012, the Group's capital expenditure mainly related to the construction of the new TDI plant in Dormagen, the expansion of the polycarbonates and MDI production capacity in Shanghai, the conversion of the electrolysis in Uerdingen and the improvement of the MDI production facility in Baytown.

Capital expenditures in the six months ended June 30, 2015 amounted to €225 million. This represented a decrease of 12.8% compared to the corresponding period in Fiscal Year 2014. The Group's capital expenditure in the six months ended June 30, 2015 mainly related to the expansion at the Shanghai production facility in China, turnarounds and midsize sustain projects.

In the period from July 1, 2015 until the date of the Prospectus, the Group made further capital expenditures in an amount between approximately €80 million and €100 million, mainly related to the capacity expansion at the production facility in Shanghai, China, turnarounds and midsize sustain projects. In the period from Fiscal Year 2005 to Fiscal Year 2014, the Group's capital expenditures amounted to approximately €670 million per year.

The Covestro Group's capital expenditures in Fiscal Years 2014, 2013 and 2012, the six months ended June 30, 2015 and in the period from July 1, 2015 until the date of the Prospectus were financed primarily through inter-group funding from the Bayer Group.

13.11.2 Principal Current Capital Expenditures

The Group's principal current capital expenditures, i.e. such projects that have been initiated but have not been finalized as of the date of the Prospectus, mainly relate to expansion of the polycarbonates and HDI production capacities at the Shanghai production facility in China. These projects are financed out of the Group's operating cash flows as well as through external financing.

13.11.3 Principal Future Capital Expenditures

As of the date of the Prospectus, the Management Board has made firm commitments in connection with a number of capital expenditures amounting to a total investment of approximately €185 million. These committed capital expenditures mainly relate to the above mentioned projects and larger sustain measures.

The Group plans to finance these projects out of its operating cash flows as well as through external financing.

13.12 FINANCIAL LIABILITIES, CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

13.12.1 Financial Liabilities

The following table sets forth the Covestro Group's financial liabilities as of June 30, 2015:

	Less than 1 year	2 - 5 years	More than 5 years	Total
		(Unaudited) *(EUR in millions)*		
Liabilities to banks	403	228	—	631
Liabilities under finance leases	30	123	160	313
Liabilities from derivatives	4	—	—	4
Other financial liabilities	4,260	—	10	4,270
Total	4,697	351	170	5,218

Other financial liabilities mainly include loans from the Bayer Group and funding pursuant to the cash pooling arrangement with the Bayer Group.

13.12.2 Contingent Liabilities

The following warranty contracts and other contingent liabilities existed at the end of the reporting periods:

	As of December 31,		
	2014	2013	2012
		(Audited) *(EUR in millions)*	
Warranties	1	—	1
Other contingent liabilities	18	188	6
Total	19	188	7

The potential claims for €172 million in back-payments related to the partial exemption from the surcharge levied under the German Renewable Energy Act, which were reflected in other contingent liabilities in 2013, no longer existed following the conclusion of the EU state-aid proceedings in 2014.

13.12.3 Other Financial Commitments

The other financial commitments were as follows:

	As of December 31,		
	2014	**2013**	**2012**
	(Audited)		
	(EUR in millions)		
Operating leases	155	158	195
Orders already placed under purchase agreements	156	202	264
Total	311	360	459

The non-discounted future minimum lease payments relating to operating leases totaled €155 million (2013: €158 million; 2012: €195 million). For further information on the maturities of the respective payment obligations, see note 30 to the audited combined financial statements.

13.13 OFF-BALANCE SHEET ARRANGEMENTS

There are no significant off-balance sheet arrangements that are likely to have a current or future effect on the Group's financial condition, results of operations, liquidity, capital expenditures or capital resources other than the contingent liabilities and other financial commitments disclosed above.

13.14 PENSION PLANS AND SIMILAR COMMITMENTS

The Group provides retirement benefits for most of its employees, either directly or by contributing to privately or publicly administered funds. The Group's most significant pension plan is Bayer-Pensionskasse VVaG, which constitutes a defined benefit pension plan and is therefore accounted for according to IAS 19R. Bayer-Pensionskasse was closed to new members effective January 1, 2005. Pension entitlements for employees who joined the Group in Germany on or after January 1, 2005 are provided by Rheinische Pensionskasse VVaG. Future pension payments from this plan are based on contributions and the return of plan assets, and a guaranteed interest rate applies. Another important pension provision vehicle is Bayer Pension Trust e.V., which covers further retirement provision arrangements, such as deferred compensation and components of other direct commitments. The defined benefit pension plans in the United States have been frozen for some years, and no significant new entitlements can be earned under these plans. The other post-employment benefit obligations outside Germany mainly comprise health care benefit payments for retirees in the United States.

As of December 31, 2014, the present value of the Covestro Group's pension obligations (defined benefit obligations) was €3,282 million and the fair value of the plan assets was €1,894 million resulting in net defined benefit liability of €1,388 million.

Provisions for pensions and other post-employment benefits (net liability) amounted to €1,395 million, €622 million and €798 million as of December 31, 2014, 2013 and 2012, respectively. The significant increase from 2013 to 2014 was primarily attributable to lower long-term capital market interest rates for high quality corporate bonds that led to an increase of the amount of future pension liabilities.

For further details regarding the Group's pension plans, see ''*16. Certain Relationships and Related Party Transactions—Relationship with the Bayer Group—Pension Schemes*'' and note 23 to the combined financial statements included in ''*25 Financial Information*.''

13.15 QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISKS

The Group is exposed to a number of financial risks, including, in particular, liquidity, credit, foreign currency and interest rate risks, other price risks (especially commodity price risks) as well as risks resulting from pension obligations.

The Group manages these financial risks by using established, documented processes. One component is financial planning, which serves as the basis for determining the liquidity risk and the future foreign currency and interest rate risks and covers all Group companies that are relevant from a cash flow perspective. Financial planning comprises a planning horizon of 12 months and is regularly updated. In the periods under review, the financing activities of the Group were managed by the Bayer Group.

The Group manages its exposure to foreign currency exchange rates and interest rates through normal operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. The fair market value of the derivative instruments is determined using valuation models whose inputs are derived using market observable inputs, including interest rate yield curves, as well as foreign exchange spot and forward rates, and reflects the asset or liability position as of the end of each reporting period. When the fair value of a derivative contract is positive, the counterparty owes the Group, thus creating a receivable risk for the Group. The Group is exposed to counterparty credit risk in the event of non-performance by counterparties under its derivative agreements. The Group minimizes counterparty credit (or repayment) risk by entering into transactions with major financial institutions of investment grade credit rating.

13.15.1 Liquidity Risk

Liquidity risk is defined as the risk of being unable to meet current or future payment obligations due to a lack of cash or cash equivalents. In the periods under review, the liquidity risk was determined and managed centrally by the finance department of Bayer AG as part of that company's same-day and medium-term liquidity planning.

With the exception of the syndicated loans in China, in the periods under review the Group was largely financed by the Bayer Group and invested excess liquidity with Bayer AG or its subsidiaries using the Bayer Group's cash pooling and cash management system. The Group holds liquid assets mainly in the form of overnight and term deposits. The amount of this liquidity reserve is regularly reviewed and adjusted as necessary according to circumstances.

13.15.2 Credit Risks

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

To manage credit risks arising in connection with trade receivables, the respective invoicing companies appoint credit managers who regularly analyze customers' creditworthiness. Some of these receivables are collateralized, and the collateral—mainly in the form of letters of credit—is used according to local conditions. Reservation of title is generally agreed with the customers. Credit limits are set for all customers. All credit limits for debtors where total exposure is €10 million or more are evaluated by the Group's credit management at the local level and submitted to the Group's Central Financial Risk Committee.

To minimize risks, financial transactions are only conducted within predefined exposure limits and with banks and other partners that preferably have investment-grade ratings. Adherence to the risk limits is continuously monitored.

In the periods under review, the Group's credit risks from financial transactions were managed centrally by the finance department of Bayer AG.

13.15.3 Foreign Currency Risks

Foreign currency risks for the Group result from changes in exchange rates and the related changes in the value of financial instruments (including receivables and payables) and of anticipated payment receipts and disbursements in non-functional currencies.

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

In the periods under review, anticipated exposure from planned payment receipts and disbursements in the future was hedged according to the rules agreed between the Bayer AG, the Management Board, the

finance department of Bayer AG and the operating units of the Group. Hedging took place through forward exchange contracts and currency options. Since the separation from the Bayer Group, the Group no longer engages in hedging transactions related to anticipated exposure.

Sensitivities were determined based on a hypothetical adverse scenario in which the Euro depreciated by 10% against all other currencies compared with the year-end exchange rates. Under this scenario, the estimated hypothetical loss of cash flows from derivative and non-derivative financial instruments would have reduced earnings and equity (other comprehensive income) as of December 31, 2014 by €3 million (2013: €11 million; 2012: €35 million). Of this amount, €0.5 million (2013: €10.3 million; 2012: €30.1 million) relates to the U.S. dollar, €1.7 million (2013: €1.5 million; 2012: €1.6 million) to the British pound and €1.2 million (2013: €1.0 million; 2012: €1.4 million) to the Australian dollar. Currency effects on anticipated exposure were not taken into account.

Derivatives used to hedge anticipated currency exposure that are designated for hedge accounting would have reduced other comprehensive income as of December 31, 2014 by €4.5 million (2013: €17 million; 2012: €41 million).

Foreign currency receivables and liabilities are hedged using foreign exchange derivatives. In the periods under review, fluctuations in future cash flows resulting from forecast foreign currency transactions were avoided partly through derivatives contracts, most of which were designated as cash flow hedges.

13.15.4 Interest Rate Risks

Interest rate risks for the Group arise from changes in interest rates in the capital market, which in turn may lead to changes in the fair value of fixed rate financial instruments and changes in interest payments in the case of floating rate instruments.

The Group was largely financed by the Bayer Group in Fiscal Years 2014, 2013 and 2012, with the exception of the syndicated loans in China, and interest rate risk was managed by Bayer AG. It was therefore not necessary for the Group to hedge against interest rate risk itself using derivatives.

A sensitivity analysis based on the net floating rate receivables and payables position of the Covestro Group, taking into account the interest rates relevant for these receivables and payables in all principal currencies, produced the following result: a hypothetical increase of 100 basis points, or 1 percentage point, in these interest rates (assuming constant currency exchange rates) as of January 1, 2014 would have raised the interest expense in Fiscal Year 2014 by €5 million (Fiscal Year 2013: €5 million; Fiscal Year 2012: €7 million).

13.15.5 Other Price Risks (Especially Commodity Price Risks)

The Group requires significant quantities of petrochemical feedstock and energy for its various production processes. The prices of these inputs may fluctuate considerably depending on market conditions. As in the past, there may be times when it is not possible to pass increased raw material costs along to customers through price adjustments. The Group has addressed this risk by concluding long-term contracts with multiple suppliers. The procurement department is responsible for managing commodity price risks on the basis of centrally set requirements and limits. The operation of production facilities requires large amounts of energy, mainly in the form of electricity and steam. To minimize exposure to energy price fluctuations, the Group aims for a balanced diversification of fuels for steam production and a mix of external procurement and captive production for power generation.

13.15.6 Risk to Pension Obligations from Capital Market Developments

The Group has obligations to active and former employees related to pensions and other post-employment benefits. Changes in relevant valuation parameters such as interest rates, mortality and rates of increases in compensation may raise the present value of pension obligations. This may lead to increased costs for pension plans or diminish equity due to actuarial losses being recognized outside combined profit or loss in the combined statements of comprehensive income. The pension and other post-employment benefit obligations are partially covered by plan assets, which include fixed-income securities, shares, real estate and other investments. Declining or even negative returns on these investments may adversely affect the future fair value of plan assets. Both these effects may negatively impact the development of equity and/or earnings and/or may necessitate additional payments by the Group. Further details are provided in note 23 to the audited combined financial statements included in "*25 Financial Information*."

13.16 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Covestro Group's combined financial statements required management to apply accounting methods and policies that are based on judgments, estimates based on past experience and assumptions determined to be reasonable and realistic based on the related circumstances. The application of these estimates and assumptions affected the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date as well as the reported amounts of net sales and expenses during the reporting period. However, the combined financial statements included herein may not necessarily reflect what the Group's results of operations, financial position and cash flows would have been, had the Group been operating in the current structure on a stand-alone basis during the periods presented.

For information regarding critical accounting policies, see the note 5 to the audited combined financial statements included in ''*25. Financial Information—Combined Financial Statements of the Covestro Group (prepared in accordance with IFRS) as of and for the fiscal years ended December 31, 2014, 2013 and 2012 (audited).*''

13.17 INFORMATION FROM THE OPENING STATEMENT OF FINANCIAL POSITION OF COVESTRO AG (PREPARED IN ACCORDANCE WITH IFRS) AS OF AUGUST 21, 2015

Covestro AG was established as a stock corporation on August 20, 2015 and did not conduct any business prior to the establishment. The total equity and liabilities amounted to €140 million consisting of equity in the amount of €140 million and no provisions. The total assets amounted to €140 million consisting of cash in banks of €140 million. For further information on the opening statement of the Company (prepared in accordance with IFRS), see ''*25. Financial Information—Opening Statement of Financial Position of Covestro AG-i.G., Leverkusen, according to IFRS*.''

13.18 INFORMATION FROM THE OPENING STATEMENT OF FINANCIAL POSITION OF COVESTRO AG (PREPARED IN ACCORDANCE WITH GERMAN COMMERCIAL CODE (HGB)) AS OF AUGUST 21, 2015

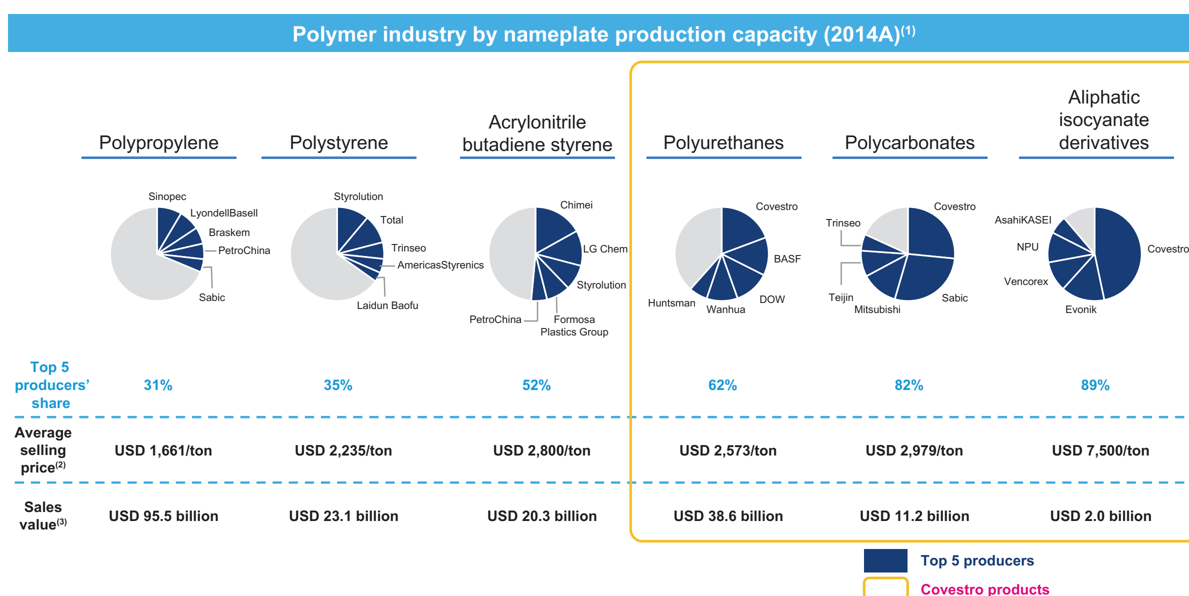
Covestro AG was established as a stock corporation on August 20, 2015 and did not conduct any business prior to the establishment. The total equity and liabilities amounted to €140 million consisting of equity in the amount of €140 million and no liabilities. The total assets amounted to €140 million consisting of €140 million of cash and cash equivalents. For further information on the opening statement of the Company (prepared in accordance with HGB (German GAAP), see ''*25. Financial Information—Opening Statement of Financial Position of Covestro AG-i.G. Leverkusen, according to the German Commercial Code (HGB)*.''

14. INDUSTRY AND COMPETITIVE OVERVIEW

Generally, the information on the industry and competitive environment presented below in this section is, unless indicated otherwise, taken or derived from the Industry Report that was prepared as of July 2015. This report focuses on sub-industries, certain geographic regions and certain end markets within the polymer industry. Certain statements below are based on the Group's own proprietary information, insights, opinions or estimates, and not on any third-party or independent source; these statements contain words such as "the Group estimates," and as such do not purport to cite or summarize any third party or independent source and should not be so read. In this section only, references to "EMEA" mean Europe, the Middle East and Africa, references to "APAC" mean Asia and the Pacific region, references to "NAFTA" mean the United States, Canada and Mexico, references to "LATAM" mean Latin America, excluding Mexico, references to "CASE" mean coatings, adhesives, sealants and elastomers, and references to "CASe" mean coatings, adhesives and sealants. The forward-looking statements in this section are subject to risks and uncertainties, as they relate to future events, and are based on estimates and assessments that may be inaccurate.

14.1 OVERVIEW

The polyurethanes, polycarbonates and aliphatic isocyanate derivatives segments of the global polymer industry are relatively consolidated compared to other segments of the polymer industry. The segments in which the Group operates have stable structures, largely unchanged over the last five years and comprise products that range from standard types to high-tech materials. The below chart shows the polymer industry by nameplate production capacity in 2014:[(1)]



Source: Industry Report.

(1) Aliphatic isocyanate derivatives share is shown by volumes sold; proxy for the Coatings, Adhesives and Specialties business unit; based on aliphatic isocyanate derivatives (derived from HDI, IPDI and H_{12}MDI monomers).

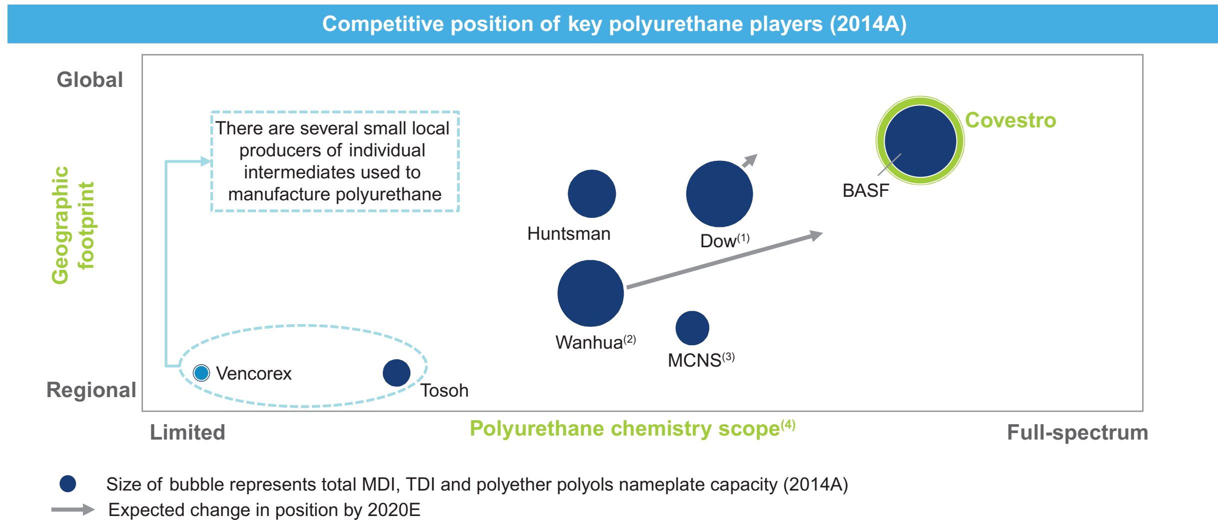
(2) Average selling price is based on 2014 published prices by the Independent Chemical Information Service in Europe; polyurethane average selling price calculated by weighting prices for MDI, TDI and polyether polyols with the respective global demand

(3) Sales value is defined as global demand in tons multiplied by the average selling price (USD/ton).

14.2 POLYURETHANES

14.2.1 Overview

Global polyurethane demand is expected to grow by 5.3% CAGR from 15.0 million tons in 2014 to 20.5 million tons in 2020. The Group is the industry leader in the production of polyurethanes based on combined MDI, TDI and polyether polyols nameplate production capacities. The polyurethanes industry segment consists of both regional and global players who compete across various segments of the polyurethane chemistry spectrum. The chart below illustrates the competitive position of the key players in the polyurethanes industry segment by geographic footprint and breadth of polyurethane chemistry in regard to MDI, TDI and polyether polyols, except for coatings, adhesives and sealants in 2014:



Source: Industry Report; company published nameplate production capacities.

(1) Dow's position following the start-up of its Sadara joint venture from 2016E.

(2) Change in Wanhua's position as result of announced new nameplate production capacity.

(3) "MCNS" refers to the joint venture between Mitsui Chemicals & SKC Polyurethanes, Inc.

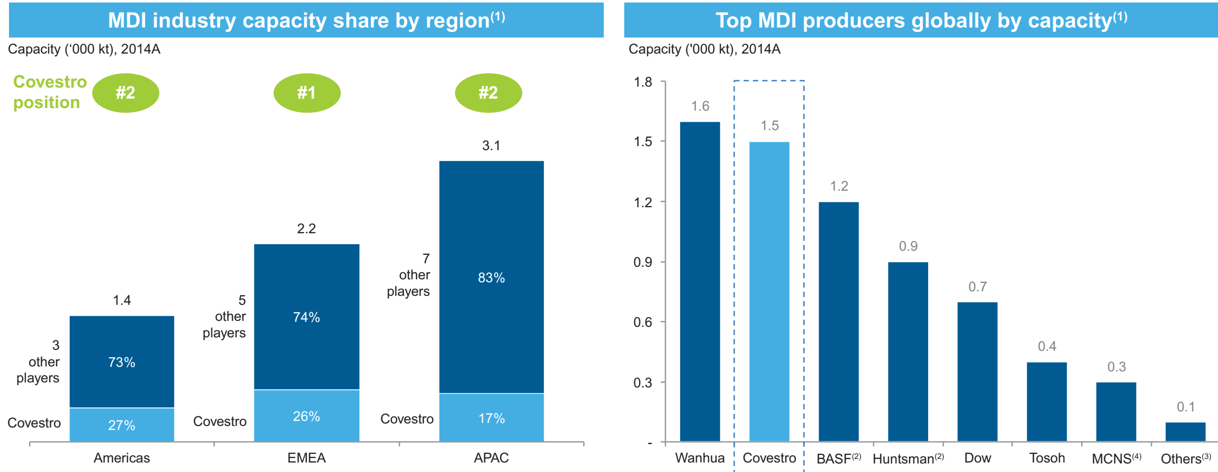
(4) Excluding coatings, adhesives, sealants and elastomers.

The Group and BASF are the only two broad polyurethanes suppliers, with MDI, TDI and polyether polyols production facilities in all key regions. Polyether polyol capabilities are the key drivers of innovation and access to specific polyurethanes applications. While Wanhua and Dow (through Sadara) are expected to complement their regional product footprints over the coming years, they are expected to continue to lack global and multi-regional scale and scope compared to the Group and BASF.

14.2.2 MDI

Competitive landscape and barriers to entry

The global MDI industry sub-segment has been and is expected to remain consolidated. The top five producers accounted for 93% and 88% of global nameplate production capacity in 2005 and 2014, respectively, and this structure is expected to remain more or less unchanged until 2020. The Group was the second largest producer of MDI globally, with a nameplate production capacity of nearly 1.5 million tons in 2014.[6] Regionally, the competitive landscape in APAC is marginally more fragmented than in EMEA and NAFTA. The following charts show MDI industry capacity share by region and the top MDI producers globally based on nameplate production capacity:



Source: Industry Report.

(1) Based on nameplate production capacity.

(2) Capacity attributed to the Shanghai Lianheng Isocyanate joint venture has been allocated to BASF (35%), Huntsman (35%), Shanghai Chlor-Alkali (15%), Shanghai Hua Yi (8%) and Sinopec (7%).

(3) Others include Karoon (20 kt) and the remaining 30% of the Shanghai Lianheng Isocyanate joint venture attributed to Chinese joint venture participants.

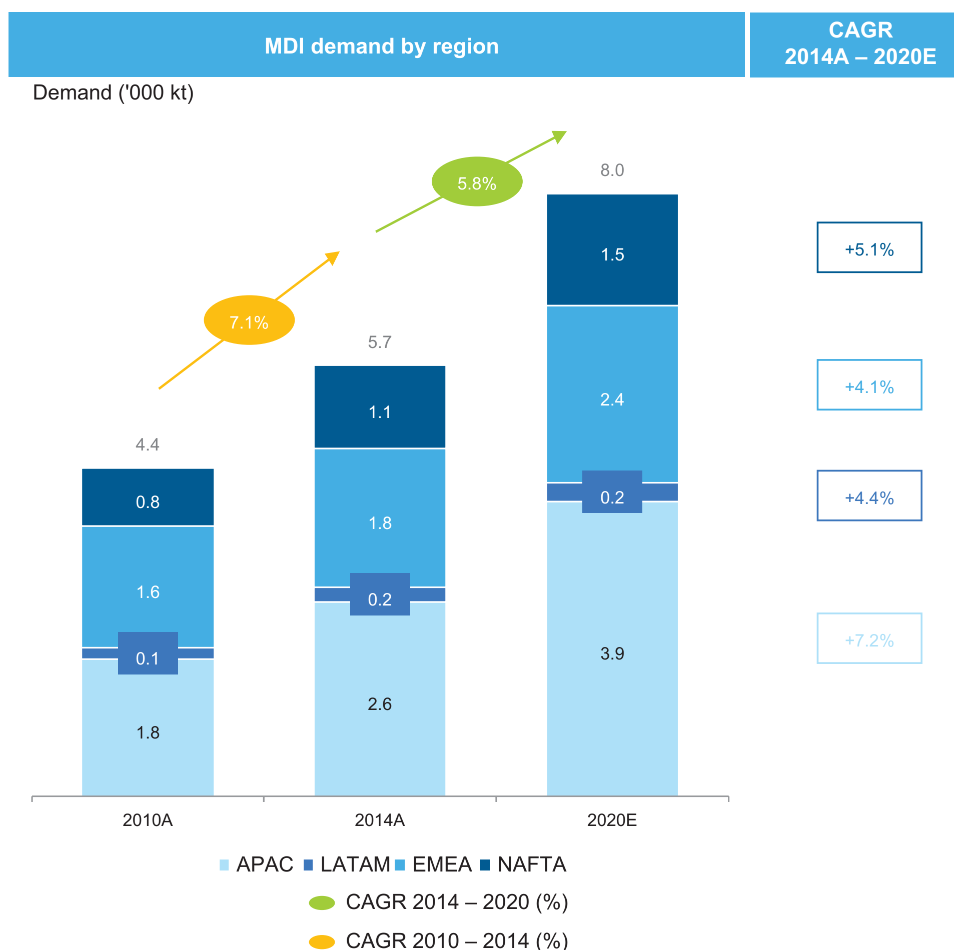
(4) "MCNS" refers to the joint venture between Mitsui Chemicals & SKC Polyurethanes, Inc.

The MDI industry sub-segment is consolidated largely due to high investment costs and the need for competitive process technology along the value chain. A global asset base is important to enable customer proximity. In addition, feedstock integration, technical capabilities and expertise are critical entry requirements. There is also persistent demand for product and process innovation. Commercial production of MDI also employs feedstock, such as phosgene, the handling and production of which require significant know-how and regulatory permits.

6 Based on nameplate production capacity including the Belford Roxo, Brazil, production facilitiy (55,000 tons MDI capacity) that was closed in the second half of 2015; 100% of capacity owing to the Sumika Bayer Urethane joint venture included.

Demand outlook

Global MDI demand reached 5.7 million tons in 2014, and is expected to grow by 5.8% (2014 - 2020 CAGR). The following chart shows historical and projected demand for MDI by region:



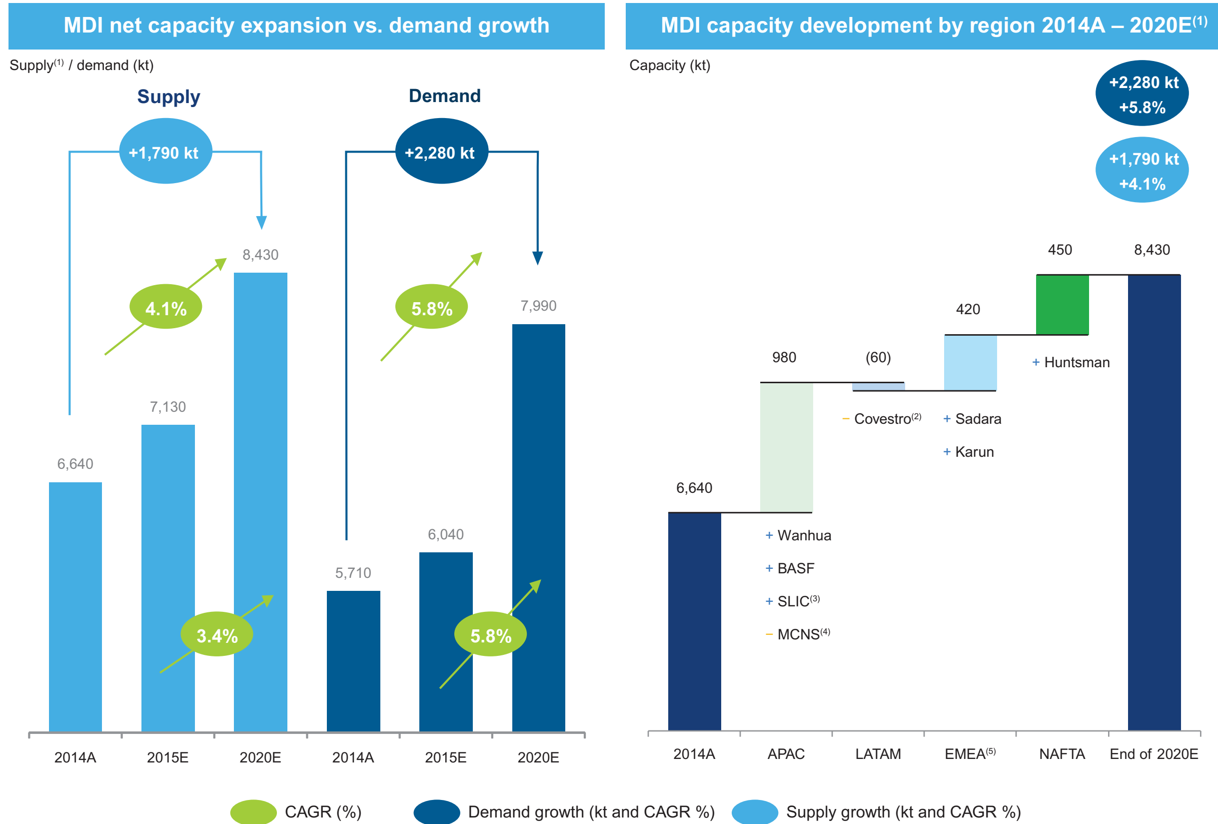
Source: Industry Report.

In 2014, MDI demand was largely concentrated in APAC, which at 2.6 million tons, accounted for nearly half of global demand, and is expected to grow by 7.2% (2014 - 2020 CAGR). Demand in EMEA accounted for 32% of global demand at 1.8 million tons, and is expected to grow by 4.1% (2014 - 2020 CAGR). In NAFTA, demand for MDI reached 1.1 million tons, or 19% of global demand, and is expected to grow by 5.1% (2014 - 2020 CAGR). Demand for MDI in LATAM reached 0.2 million tons in 2014 (3.3% of global demand), and is expected to grow by 4.4% (2014 - 2020 CAGR).

Growth in several end markets supports the growth in demand for MDI. In the construction end market, global MDI demand is expected to grow by 6.7% (2014 - 2020 CAGR). Demand in this end market is driven by the broader macro upturn and global construction growth, particularly in emerging economies, including building retrofits, rising insulation penetration to improve building efficiency and complying with government regulations, as well as substitution trends between alternative insulation materials. In the appliances end market, global MDI demand is expected to grow by 6.7% (2014 - 2020 CAGR), driven by higher consumption of appliances (e.g., refrigerators) in developing regions. The main application for MDI is in insulation material for refrigeration, which increasingly has to comply with regional energy efficiency directives. In addition, MDI benefits from favorable substitution trends in coatings, adhesives, sealants and elastomers (“**CASE**”) applications. Other applications for MDI include textile, footwear and various other applications, where global MDI demand is expected to grow by 4.7% (2014 - 2020 CAGR), driven by GDP growth.

Supply outlook

Global MDI nameplate production capacity reached approximately 6.6 million tons in 2014 and is expected to grow by 4.1% (2014 - 2020 CAGR), outpaced by growth in demand of 5.8% (2014 - 2020 CAGR). There is a high degree of visibility over new capacity entering the MDI industry sub-segment only over approximately the next four years. The following charts show MDI net capacity expansions versus demand growth, as well as capacity development by region.



Source: Industry Report.

(1) Based on historical global nameplate production capacity for 2014A and announced future nameplate production capacity additions as of July 2015 based on the Industry Report.

(2) Closure of the Belford Roxo, Brazil, production facility, with a nameplate production capacity of 55 kt.

(3) ''SLIC'' refers to the Shanghai Lianheng Isocyanate joint venture. Capacity attributed to the SLIC joint venture has been allocated 35% BASF, 35% Huntsman, 15% Shanghai Chlor-Alkali, 8% Shanghai Hua Yi and 7% Sinopec.

(4) ''MCNS'' refers to joint venture between Mitsui Chemicals & SKC Polyurethanes, Inc.

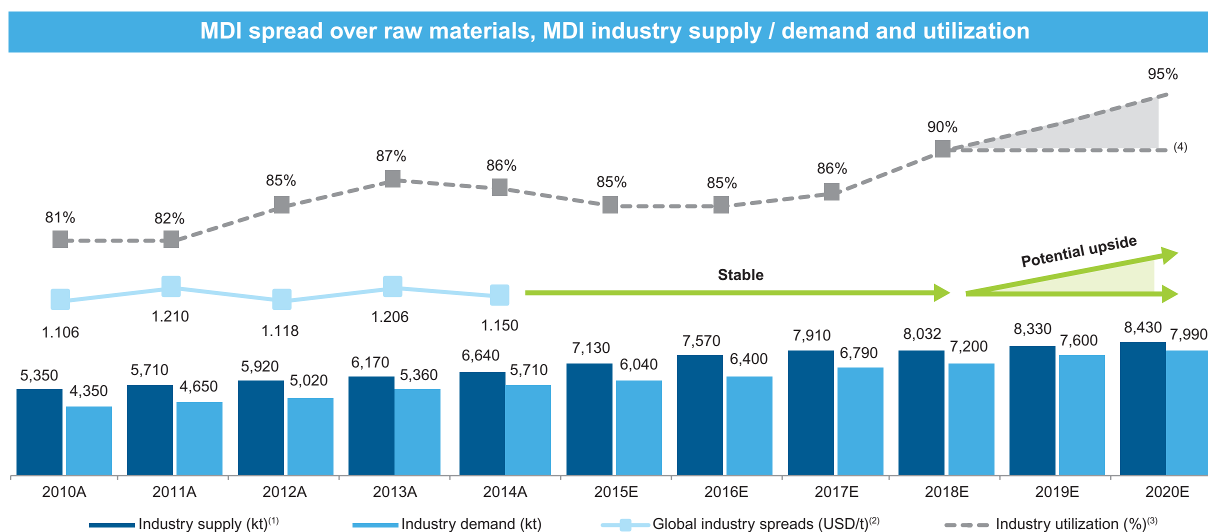
(5) Including Covestro EMLA restructuring.

Utilization and margins

Global utilization rates averaged 84% between 2010 and 2014, and are expected to increase slightly to between 86% and 87% on average between 2015 and 2018 due to rising demand. MDI margins are expected to remain fairly stable over raw materials until 2018, given benign supply/demand dynamics. After 2018, there is expected to be potential upside in margins in the event that industry utilization rates materially exceed 90%, as producers would then have a greater ability to pass on price increases to customers. However, the Group takes a more conservative view than the Industry Report in estimating that additional capacity may come online between 2019 and 2020, if prevailing industry dynamics make it economically rational. For example, smaller debottlenecking projects may be implemented with less than four years of planning time. In addition, a world-scale asset which is not yet announced could come on-stream in 2020. In this more conservative scenario, the industry utilization rates are expected to remain at approximately 90% in 2019 and 2020.

The following chart shows historical and projected MDI industry utilization rates and MDI industry spreads over raw materials:

MDI spread over raw materials, MDI industry supply / demand and utilization



Source: Industry Report.

(1) Based on historical and announced future nameplate production capacity as of July 2015 based on the Industry Report.

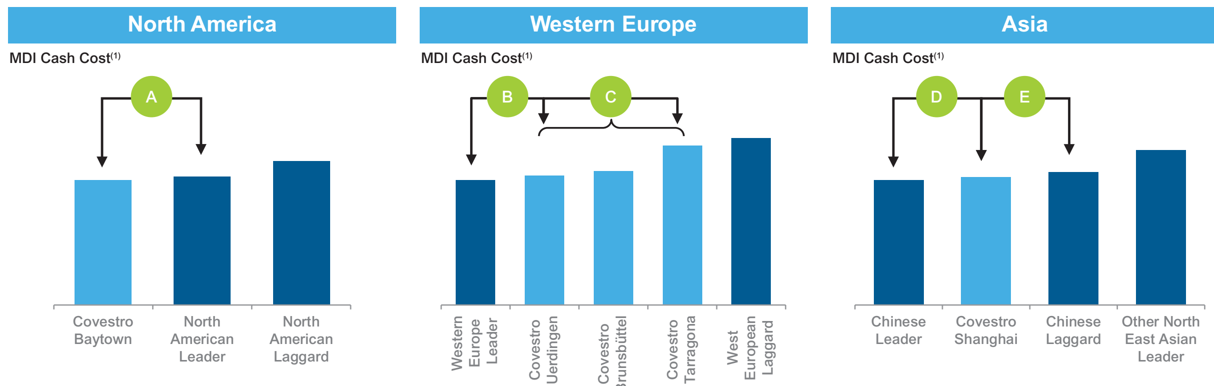
(2) Global average margin calculated based on margin over raw materials in Europe, the United States and China and weighting this average against respective demand in those regions. Qualitative statements are based on the Industry Report.

(3) Industry demand divided by industry nameplate production capacities as announced and not adjusted for actual/physical availability, based on Industry Report estimates.

(4) The Group estimates additional capacity (not captured in the Industry Report) may come online post-2018E if prevailing industry dynamics make it economically rational. These capacity estimates have been included in this analysis and represent the lower end of the range post-2018E.

Production cost position

The Group occupies a competitive cost position in MDI production, with leading positions in the United States and China, and efficiency potential in Europe, driven by its continuous efficiency improvements, competitive process technologies, integrated production model and scale of assets. The charts below show MDI regional industry cost positions:



- A: Covestro cost leadership through backward-integration
- B: Western European leader with larger MDI and precursor capacity
- C: Uerdingen more cost efficient relative to other Covestro facilities in Europe due to level of backward-integration and economies of scale
- D: Chinese leader with larger backward-integration and different energy source
- E: Shanghai ahead due to larger MDI train capacity and energy efficiency

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Source: Industry Report.

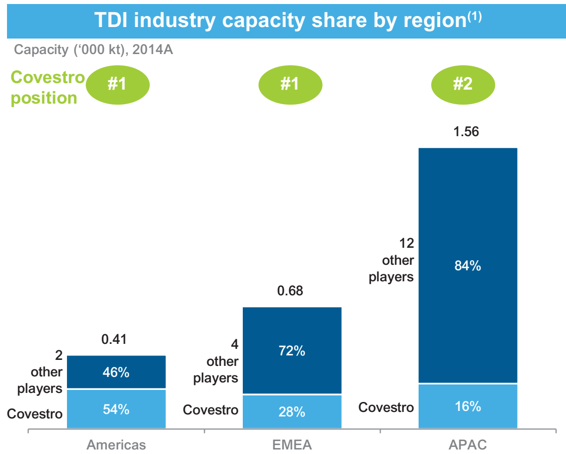
(1) Cost of production based on total raw material costs less co-product credits, utility costs, direct fixed costs and allocated fixed costs at specific level of utilization based on Industry Report estimates.

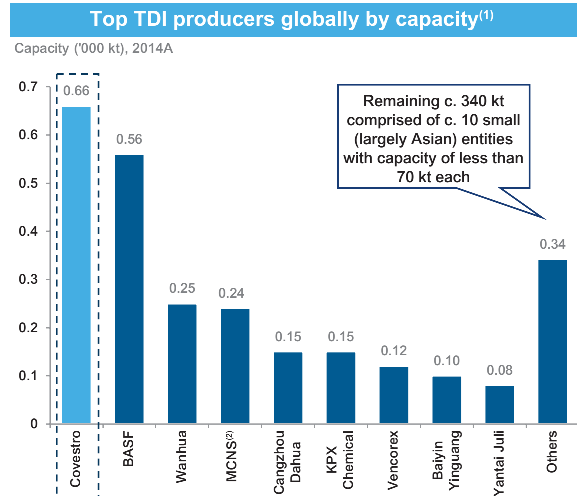
14.2.3 TDI

Competitive landscape and barriers to entry

The top five producers accounted for 68% of worldwide TDI nameplate production capacity in each of 2005 and 2014, yet their share is expected to increase to 73% by 2020. The Group was the largest producer of TDI and accounted for 25% of industry nameplate production capacity in 2014. The remaining capacity is fragmented and held primarily by smaller producers in APAC. Production capacity in both NAFTA and EMEA is concentrated, and the Group accounts for a significant share of TDI capacity in these regions. In NAFTA, the Group and BASF are the sole producers of TDI. In APAC, the TDI industry sub-segment is more fragmented than in EMEA and NAFTA, with the presence of smaller-scale producers. The Group holds a 16% share of nameplate production capacity in APAC.

The following charts show shares of regional nameplate production capacity in the TDI industry sub-segment and the top TDI producers globally based on nameplate production capacity in 2014:





Source: Industry Report.

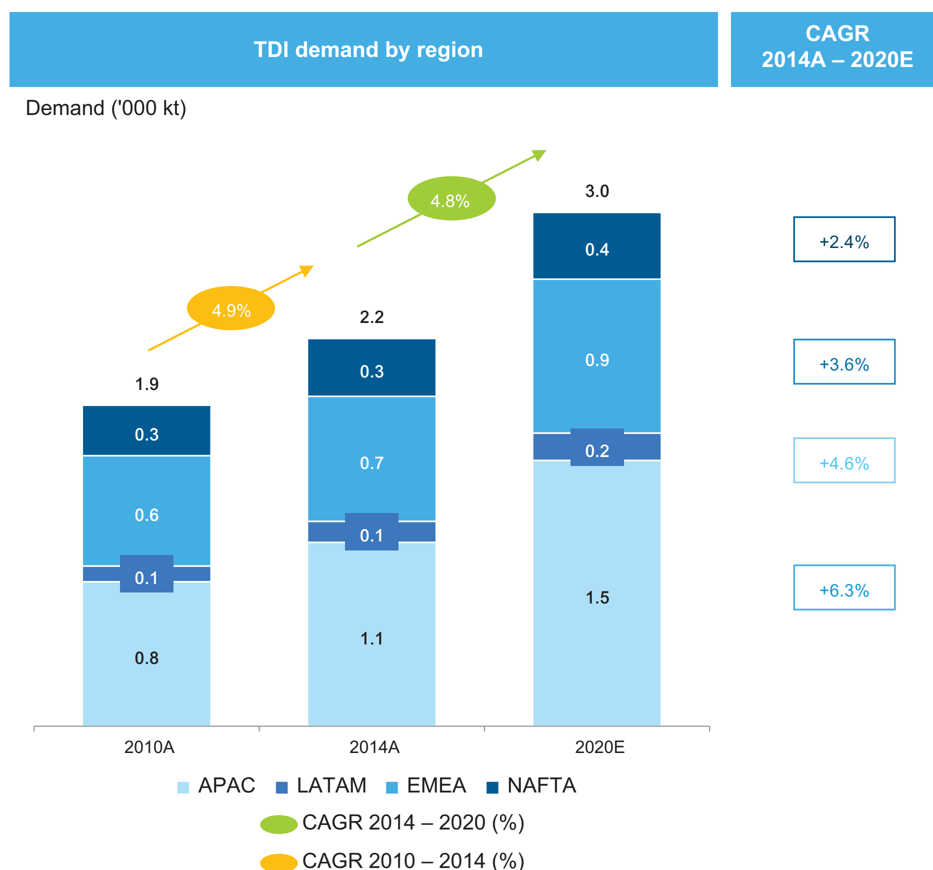
(1) Based on nameplate production capacity.

(2) "MCNS" refers to the joint venture between Mitsui Chemicals & SKC Polyurethanes, Inc.

Globally, the TDI industry sub-segment is consolidated due to barriers to entry similar to those in the MDI industry sub-segment, such as high investment costs, feedstock integration, technical expertise as well as the need for a global asset base to enable proximity to customers. Feedstock integration also provides a significant advantage to established players. Despite technical expertise being a barrier to entry, there exist opportunities to license production technology for selected steps in the process value chain. In addition, similar to MDI, commercial production of TDI employs feedstock, such as phosgene, the handling and production of which require significant know-how and regulatory permits.

Demand outlook

Global TDI consumption reached 2.2 million tons in 2014, and demand is expected to grow by 4.8% (2014 - 2020 CAGR). The following chart shows historical and projected TDI demand by region:



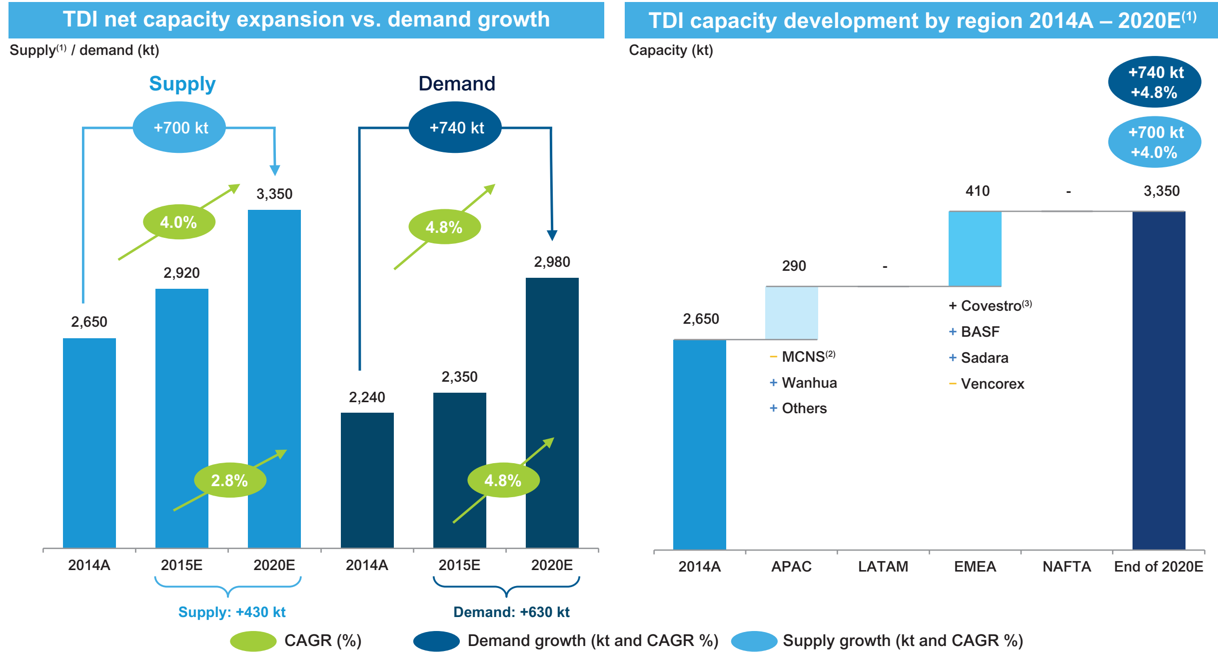
Source: Industry Report.

As with MDI, demand for TDI in 2014 was largely concentrated in APAC, which is also where demand is expected to grow fastest. TDI demand in APAC reached 1.1 million tons, accounting for 48% of global demand, and is expected to grow by 6.3% (2014 - 2020 CAGR). In EMEA, TDI demand reached 0.7 million tons in 2014, or 32% of global demand, and is expected to grow by 3.6% (2014 - 2020 CAGR). Demand in NAFTA accounted for 15% of global demand at 0.3 million tons in 2014, and is expected to grow by 2.4% (2014 - 2020 CAGR). In LATAM, TDI demand reached 0.1 million tons in 2014, accounting for 5% of global demand, and is expected to grow by 4.6% (2014 - 2020 CAGR).

Growth in several end markets supports the growth in demand for TDI. In the bedding and furniture end markets, global TDI demand is expected to grow by 4.9% and 4.7%, respectively (2014 - 2020 CAGR). Demand in the furniture and bedding end markets is driven mainly by higher sales of mattresses and furniture to the growing middle class in emerging regions. Construction activity and the development of the hospitality industry are also important drivers of demand for bedding. In the automotive end market, global TDI demand is expected to grow by 4.6% (2014 - 2020 CAGR), driven by the ongoing recovery of the global automotive end market, with rising car production and increased demand for new cars, particularly in Asia, due to strong economic growth. Global TDI demand for CASE applications, used in a wide range of end markets, is expected to grow by 4.8% (2014 - 2020 CAGR), supported by favorable substitution trends owing to the relative advantages of TDI over competing materials.

Supply outlook

Global TDI nameplate production capacity reached over 2.6 million tons in 2014. It is estimated that 0.7 million tons of new capacity will be added globally between 2014 and 2020, primarily in EMEA and APAC. There is a high degree of visibility over new capacity entering the TDI industry sub-segment only over approximately the next four years. The following charts show expected TDI net capacity expansion versus demand growth and TDI capacity development by region as per the Industry Report:



Source: Industry Report.

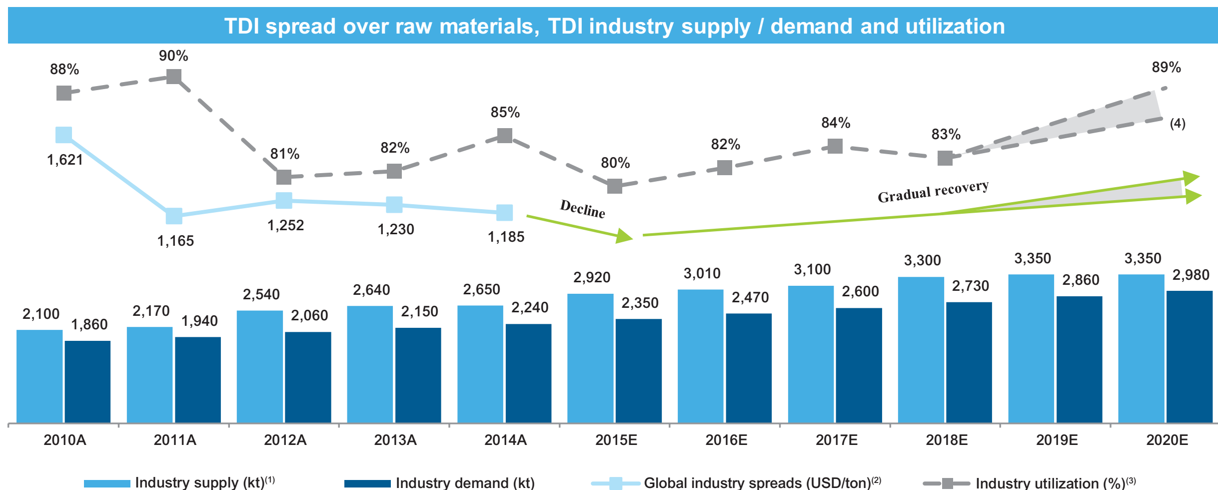
(1) Based on historical global nameplate production capacity for 2014A and announced future nameplate production capacity additions as of July 2015 based on the Industry Report.

(2) ''MCNS'' refers to the joint venture between Mitsui Chemicals & SKC Polyurethanes, Inc.

(3) New Dormagen facility (inaugurated in December 2014) with capacity of 300kt assuming full ramp-up offset by reduction in capacity owing to (i) shutdown of old Dormagen facility in 2014A and (ii) shutdown of Brunsbüttel facility in 2015E.

Utilization and margins

Following the introduction of new capacity, global TDI utilization rates are expected to fall to trough levels in 2015, with utilization rates of approximately 80%. Utilization rates are expected to gradually recover from 2016 onwards, supported by announced exits, reaching 84% in 2017. The following chart shows historical and projected TDI industry utilization rates and TDI industry spreads over raw materials:



Source: Industry Report.

(1) Based on historical global nameplate production capacity for 2014A and announced future nameplate production capacity additions as of July 2015 based on the Industry Report.

(2) Global average margin calculated based on margin over raw materials in Europe, the United States and China and weighting this average against respective demand in those regions. Qualitative statements based on the Industry Report.

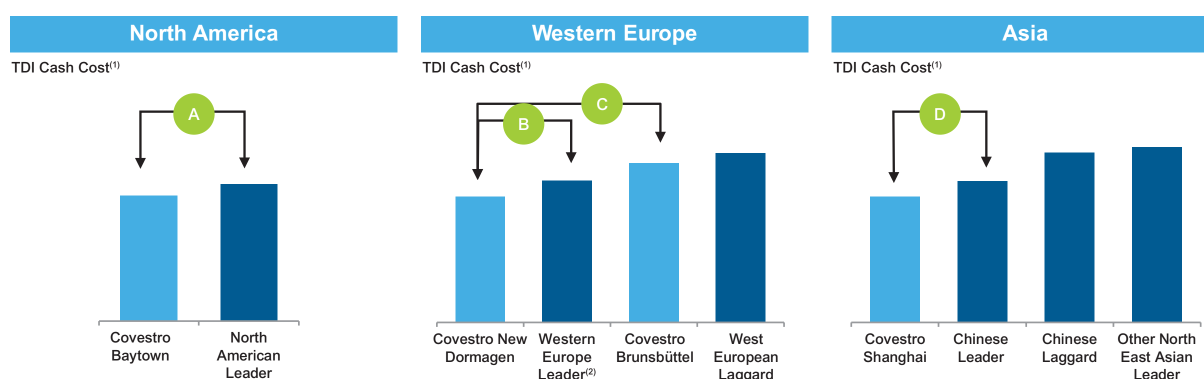
(3) Industry demand divided by industry nameplate production capacities as announced and not adjusted for actual/physical availability, based on Industry Report estimates.

(4) The Group estimates additional capacity (not captured in the Industry Report) may come online post-2018E if prevailing industry dynamics make it economically rational. These capacity estimates have been included in this analysis and represent the lower end of the range post-2018E.

After reaching trough levels in 2015 due to new capacity additions and industry rivalry in APAC, TDI margins over raw materials are expected to improve from 2016 onwards, as limited new capacity additions are expected to contribute to long-term gradual margin recovery. Margin recovery may be volatile based on levels of industry rivalry and plant availabilities. There is also possible upside from potential capacity exits or delays as near-term pressure weighs on higher-cost producers. However, the Group takes a more conservative view than the Industry Report and anticipates additional speculative capacity by 2020. In this more conservative scenario, industry utilization rates are not expected to exceed 86% in 2019 and 2020.

Production cost position

The Group's combination of scale, integration and technology provides the basis for its global cost leadership. The charts below show TDI regional industry cost positions:



A Chlorine and nitric acid integration supporting Covestro cost leadership

B Covestro cost advantage through superior process technology in terms of energy consumption and raw material yield

C Economies of scale and gas-phase technology in new Dormagen facility

D Raw material integration and advantages from gas-phase technology driving superior cost position for Covestro

Source: Industry Report.

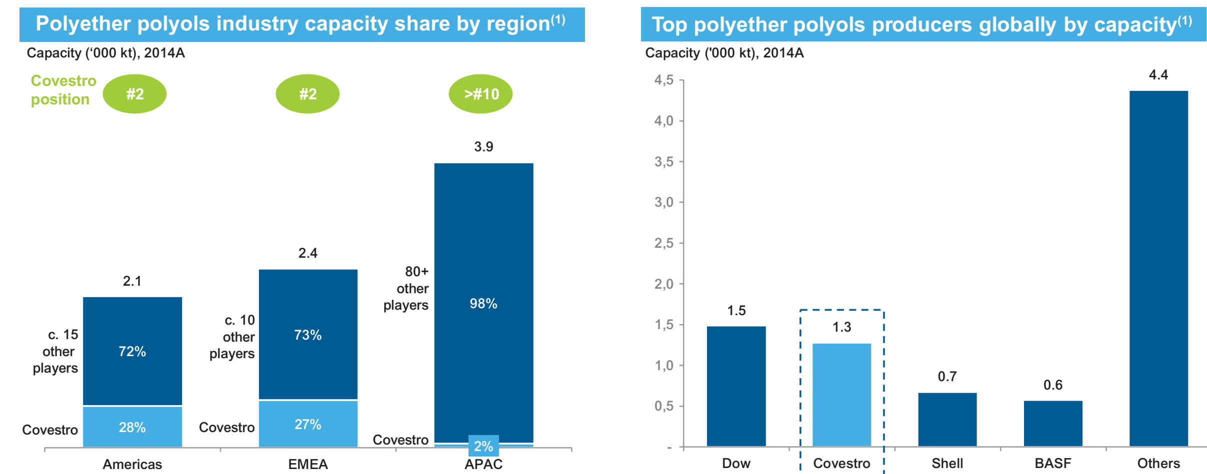
(1) Cost of production based on total raw material costs less co-product credits, utility costs, direct fixed costs and allocated fixed costs at specific level of utilization based on the Industry Report.

(2) Facility expected to start operations in late 2015E as per assumption in the Industry Report.

14.2.4 Polyether Polyols

Competitive landscape and barriers to entry

The global polyether polyols competitive landscape is characterized by a limited number of large, global players as well as a high number of smaller producers. In 2014, the top five producers of polyether polyols accounted for 51% of worldwide nameplate production capacity and consolidation, particularly in China, is anticipated. The Group is the second largest producer of polyether polyols globally, with a nameplate production capacity of 1.3 million tons, or approximately 15% of worldwide nameplate production capacity in 2014. In NAFTA and EMEA, the polyether polyol industry sub-segment is consolidated, with Dow and the Group being the largest two producers, while APAC is much more fragmented, with more than 50 small producers accounting for approximately 15% of capacity. Excluding China, nearly all announced capacity projects involve the top five players. With the exception of China, the common business model is based on an integrated propylene oxide/polyether polyols value chain. The following charts show the share of regional nameplate production capacity in the polyether polyols industry sub-segment and the top polyether polyol producers globally based on nameplate production capacity in 2014:



Source: Industry Report.

(1) Based on nameplate production capacity; Covestro excludes 25 kt of capacity in Indonesia following facility closure in 2014A.

Polyether polyols provide a key source of differentiation and are a critical enabler in terms of providing access and driving polypropylene product innovation. In the polyether polyols industry sub-segment, the availability of competitively-priced feedstock presents the largest entry barrier, especially if the producer is not backward integrated. Only in APAC is there a large merchant market for propylene oxide. Polyol producing companies with a business model of backward integration into propylene oxide generally benefit from higher margins. In addition, the benefits of backward integration generally present a key barrier to entry for companies without such an integrated business model. Other key entry barriers include high investment costs for a backward integrated site and the requirements of having world-scale operations to achieve a low cost position, application-related know-how, competitive process technology, as well as research and development and technical infrastructure. In addition, having a joint product offering of polyether polyols and isocyanates is an entry hurdle in some end markets, such as automotive seating in NAFTA and Europe, or even an entry condition, such as for polyurethane systems. The Group has a strong polyether polyol position in regions with the highest ratio of joint sales of isocyanates and polyether polyols (EMEA and NAFTA).

Demand outlook

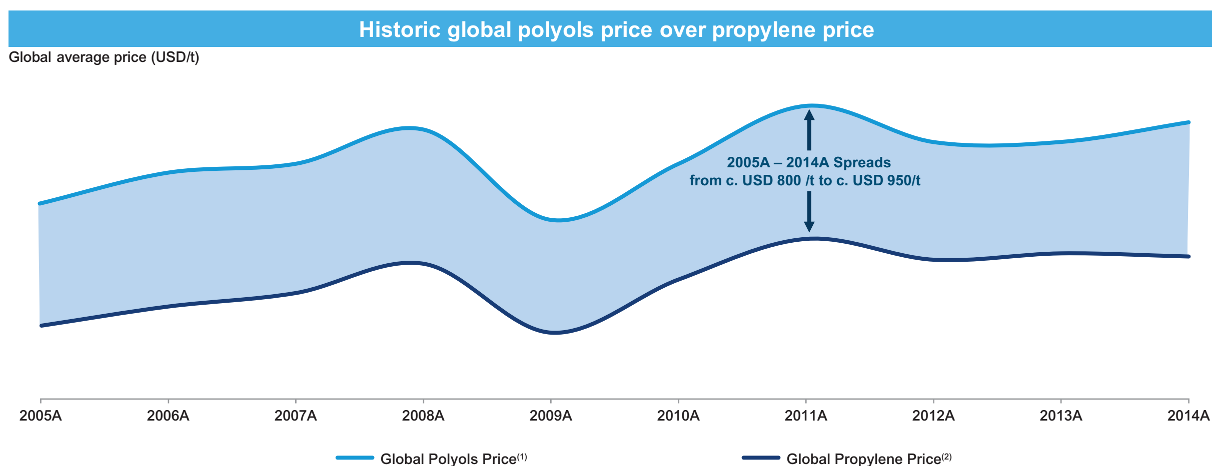
Global polyether polyols consumption reached 7.0 million tons in 2014, and demand is expected to grow by 5.1% (2014 - 2020 CAGR). In APAC, polyether polyols consumption reached 3.2 million tons in 2014, representing 45% of the total global polyether polyols demand, and is expected to grow by 6.6% (2014 - 2020 CAGR). Polyether polyols consumption in EMEA reached 2.3 million tons in 2014, or 33% of global demand, and is expected to grow by 3.8% (2014 - 2020 CAGR). In NAFTA, polyether polyols consumption reached 1.2 million tons, or 17% of global demand in 2014, and demand is expected to grow by 3.7% (2014 - 2020 CAGR). In LATAM, polyether polyols consumption reached 0.3 million tons in 2014, accounting for 5% of global demand, and is expected to grow by 4.5% (2014 - 2020 CAGR).

The demand for polyether polyols mirrors MDI and TDI demand, and the drivers are similar. Demand in both the construction and appliances end markets is expected to grow by 6.7%, while demand for polyether polyols in the bedding and furniture end markets is expected to grow by 4.9% and 4.7%, respectively (2014 - 2020 CAGR). Higher automobile demand in Asia and other developing regions is expected to also increase demand for polyether polyols in coatings and other components of the automobile that require polyurethanes. Demand in the automotive end market is expected to grow by 4.7%, while demand in CASE and other applications is expected to grow by 4.6% and 4.7%, respectively (2014 - 2020 CAGR).

Utilization and margins

Polyether polyol margins have proven to be generally resilient against varying industry utilization rates in the past, as also demonstrated during the financial crisis. The following chart shows historic global polyols prices over propylene prices as an indication of gross petrochemical margins according to the Industry Report:

Historic global polyols price over propylene price



Source: Industry Report.

(1) The global average polyols price has been calculated based on the polyols spot prices in Europe, the United States and China and weighting this average against the respective demand in those regions.

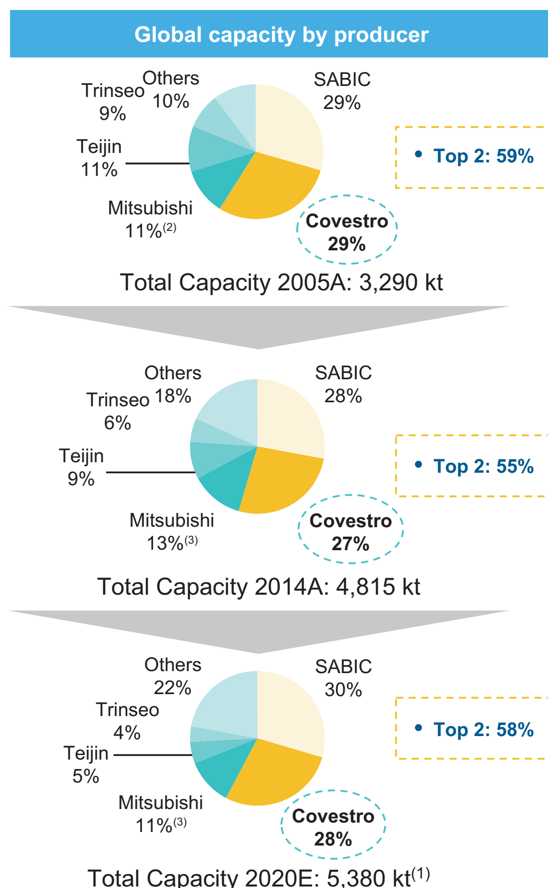
(2) The global average propylene price has been calculated based on the propylene spot prices in Europe, the United States and China and weighting this average against the respective demand in those regions.

14.3 POLYCARBONATES

14.3.1 Competitive Landscape and Barriers to Entry

The polycarbonates industry segment has been consolidated historically, and is expected to remain as such for the foreseeable future, with the Group and SABIC being and expected to remain the two global leaders in terms of nameplate production capacity. Together the Group and SABIC accounted for 59% and 55% of global nameplate production capacity in 2005 and 2014, respectively, and they are expected to account for 58% of global nameplate production capacity by 2020.

The chart below shows historical and expected share of global nameplate production capacity by producer:



Source: Industry Report, Company information.

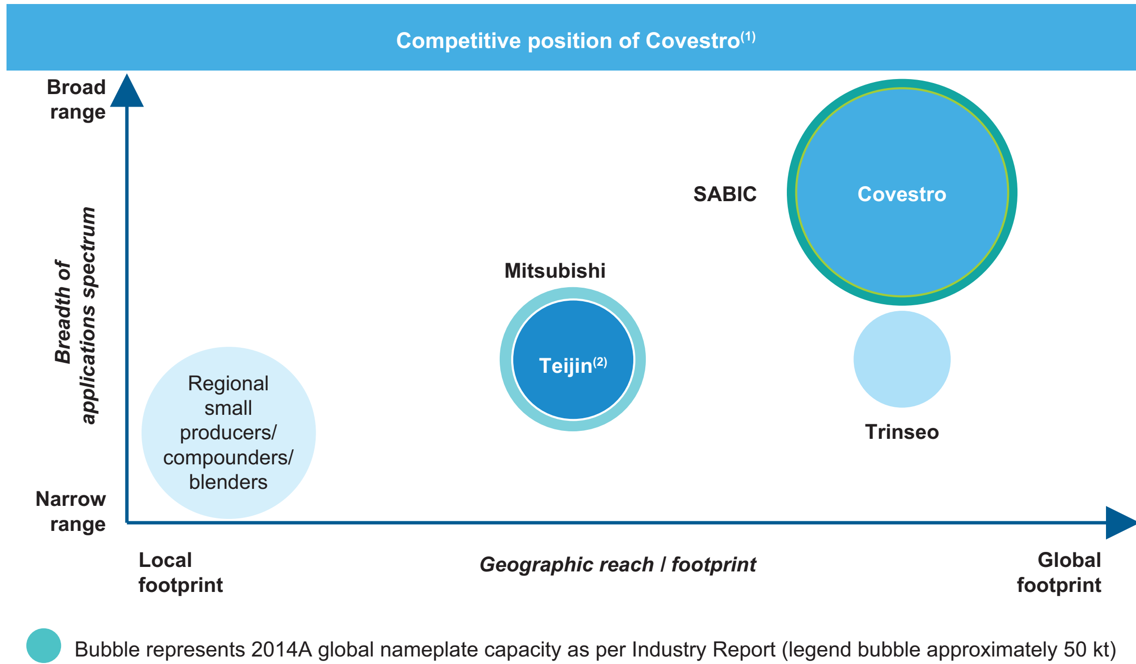
(1) Capacity forecasts include all publicly announced capacity additions as of July 2015 based on the Industry Report.

(2) Includes capacities as per the Industry Report from Mitsubishi Gas Chemicals ("**MGC**"), Mitsubishi Chemical Company ("**MCC**"), Thai Polycarbonate (joint venture) and Samyang Kasei (joint venture).

(3) Includes capacities from MCC, MGC (including Shanghai), Thai Polycarbonate (joint venture), Samyang Kasei (joint venture) and Sinopec Mitsubishi Chemical Polycarbonate.

The Group is currently the second largest player in APAC, accounting for 22% of nameplate production capacity in 2014, with the remaining capacity held by nine other players, and is expected to become the leader in APAC in 2016/2017. The Group accounted for 43% of the nameplate production capacity in China and 14% of nameplate production capacity in APAC excluding China in 2014. SABIC supplies APAC from its production facilities in NAFTA and EMEA, while the Group has a footprint in APAC. Apart from the Group, most polycarbonate capacity in Asia is held by local producers. In EMEA, the Group and SABIC accounted for a significant share of regional nameplate production capacity in 2014, with 36% and 51%, respectively. In NAFTA, the Group and SABIC also account for the majority of nameplate production capacity with 27% and 65%, respectively. In LATAM, there is no polycarbonate capacity.

The chart below shows the competitive position of the Group in the polycarbonates industry segment:



Source: Industry Report, company information.

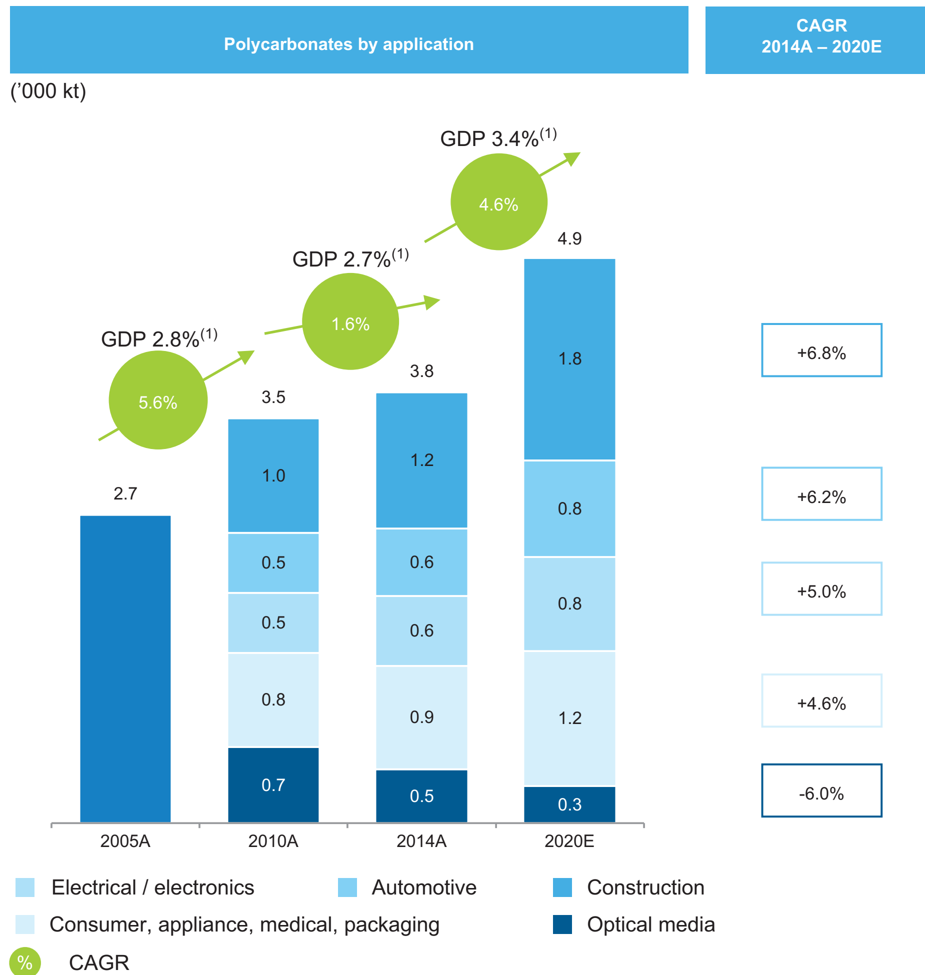
(1) Positioning based on Group estimates; bubble size based on the Industry Report.

(2) Teijin is exiting its Singapore plant with 20 kt of capacity reduction in 2013A, 40 kt in 2014, and a further reduction of 150 kt expected for 2016E.

Barriers to entry in the polycarbonates industry segment are significant. Suppliers are required to make significant investments in world-scale plants and serve customers with global operations as a ''one stop shop.'' Innovation and new product development to meet the evolving needs of customers are also important. Advanced process technology, for which there are few licensing options, is critical to maintain low costs. The feedstock required to produce polycarbonates are toxic and require great competency in production and handling, as well as strict compliance with safety and environmental regulations.

14.3.2 Demand Outlook

Global polycarbonate demand is expected to grow by 4.6% (2014 - 2020 CAGR) from 3.8 million tons in 2014 to 4.9 million tons in 2020. The automotive, electrical and electronics, and construction end markets are the main drivers of global demand growth. Global polycarbonate demand slowed between 2010 and 2014 (1.6% CAGR), despite having grown by 5.6% CAGR from 2005 to 2010. The slower growth from 2010 to 2014 was due to weaker economic growth and the steep decline of the optical media (CDs/DVDs)end market. Excluding optical media, demand for polycarbonates grew by 3.5% from 2010 to 2014, exceeding real GDP growth of 2.7% and growth in supply of 3.1%. The chart below shows historical and projected demand for polycarbonates by end market, with anticipated demand growth rates (2014 - 2020 CAGR) in each of the respective end markets:



Source: Industry Report.

(1) Global real GDP growth.

The electrical and electronics end market accounted for 31.6% of demand for polycarbonates in 2014 and polycarbonate demand in this end market is expected to grow by 6.8% (2014 - 2020 CAGR). Important underlying drivers of demand for polycarbonates in this end market are the trends toward continuous upgrade, substitution and new application development. Examples include the upgrade to ''smart'' electronics and new device classes, revolutionary technologies such as wearable computing and sensors, and penetration of light-emitting diode (''**LED**'') luminaires. The construction end market accounted for 16.2% of demand for polycarbonates in 2014 and polycarbonate demand in this end market is expected to grow by 5.0% (2014 - 2020 CAGR). The main application for polycarbonates in the construction end market is for architectural glazing. Demand is driven by GDP growth, which stimulates construction activity and high construction growth in emerging economies. The automotive end market accounted for 15.7% of demand for polycarbonates in 2014. Demand for polycarbonates in this end market is expected to grow by 6.2% (2014 - 2020 CAGR), driven by automotive interior and exterior upgrades. Continued trends toward lighter-weight vehicles to improve fuel efficiency are also expected to

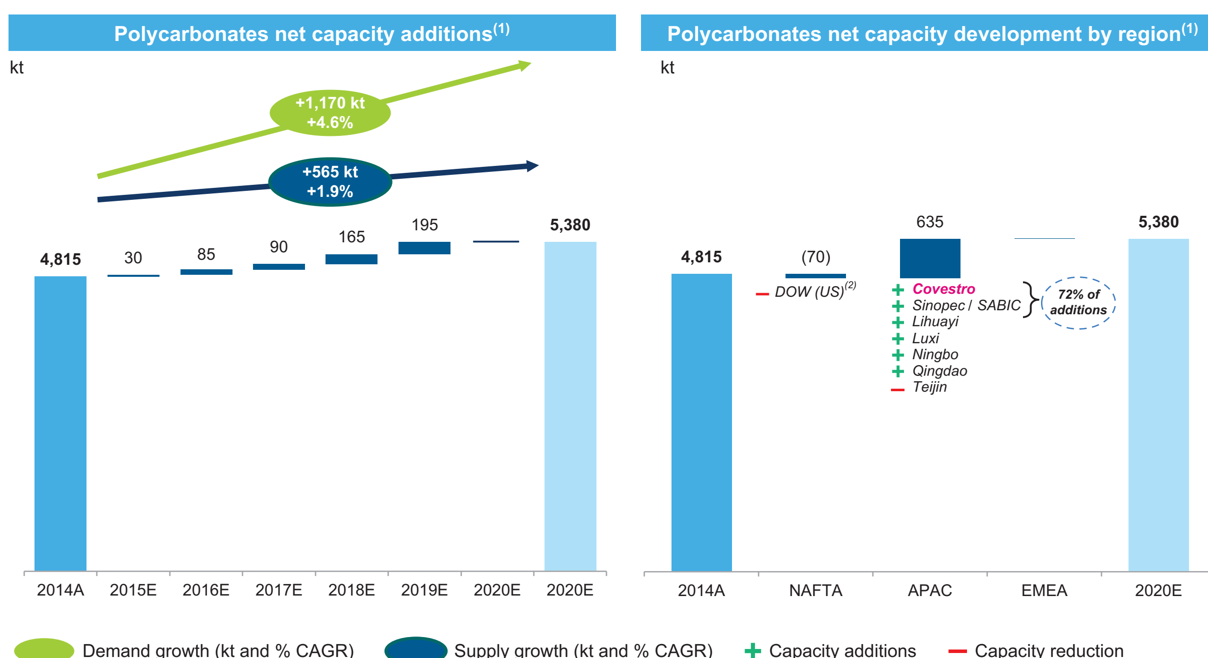
result in greater demand for polycarbonates. The optical media end market accounted for 12.6% of demand for polycarbonates. Demand for polycarbonates in this end market is expected to decline by 6.0% largely as a result of consumers switching to new methods of media storage and content delivery, such as cloud and streaming-based services. Other end markets, including appliances, medical and packaging end markets, accounted for the remaining 23% of demand for polycarbonates. Demand for polycarbonates in this end market is expected to grow by 4.6% (2014 - 2020 CAGR).

APAC was the largest source of consumption of polycarbonates, accounting for 62% of global demand in 2014, and is expected to be the fastest growing region in the period from 2014 to 2020. Demand in APAC is expected to grow by 5.4% (2014 - 2020 CAGR), driven by the shift of manufacturing hubs to Asia, increasing consumer incomes and the population growth in Asian countries. EMEA accounted for 21% of demand for polycarbonates, which is expected to grow by 3.2% (2014 - 2020 CAGR), supported by moderate growth in car production and the electrical and electronics end market in the Middle East. NAFTA accounted for 15% of demand for polycarbonates, where demand is expected to grow by 3.0% (2014 - 2020 CAGR), in-line with the region's GDP, and is expected to be impacted by the decline in the optical media end market and modest growth in other polycarbonate end markets. Demand for polycarbonates in LATAM accounted for 2% of global demand and is expected to grow by 3.5% (2014 - 2015 CAGR).

14.3.3 Supply Outlook

Global polycarbonate nameplate production capacity is expected to increase from 4.8 million tons in 2014 to 5.4 million tons in 2020, with most additions coming online between 2018 and 2019. Almost all firm capacity additions globally from 2014 to 2020 are expected to occur in APAC, where capacity is expected to increase from 2.4 million tons in 2014 to 3.1 million tons by 2020. The Group's capacity expansion in Shanghai is expected to be sufficient to support growth without a new world-scale plant until 2020. Although Wanhua is expected to bring a domestic facility in China on-stream, there is no clear indication of timing. Of the approximately 0.6 million tons of capacity additions expected in APAC, 72% is expected to come from the Group and SABIC, while the rest is expected to come from four small Chinese producers. In EMEA, no capacity additions are anticipated between 2014 and 2020, while in NAFTA capacity is expected to decrease from 0.9 million tons in 2014 to 0.8 million tons in 2020. In LATAM, the sole polycarbonate producer ceased production in 2013 and no capacity additions in the region are expected by 2020.

The following charts show polycarbonates net capacity additions and development by region:



Source: Industry Report.

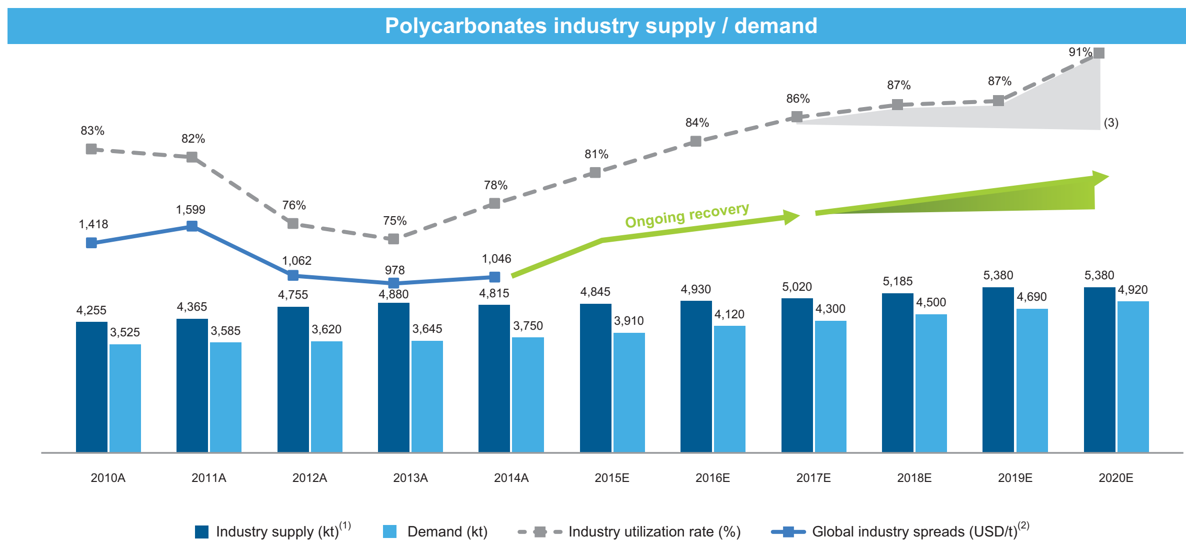
(1) Capacity forecasts include all publicly announced capacity additions as of July 2015 based on the Industry Report.

(2) Exited end of 2014.

14.3.4 Utilization and Margins

Increasing utilization rates are expected to drive positive margin development in the polycarbonates industry segment. Global polycarbonate utilization rates are expected to improve over the next five years as demand grows faster than capacity. Based on historical supply and demand balance trends, a utilization rate of more than 82% for polycarbonates would suggest improved industry spreads. Global utilization rates averaged 79% between 2010 and 2014, reaching trough levels in 2013. This was largely due to the decline in demand for optical media and significant capacity additions, especially in 2012, coming mainly from Saudi Kayan and players in APAC. Global utilization rates are projected to increase to an average of 85% between 2014 and 2020, mainly due to increased demand in APAC, particularly in China, higher GDP growth due to the European economy recovering, lower dependence on optical media as an end market and capacity additions lower than demand growth. Historically there has been some correlation between utilization rates and margins, and therefore margins over raw materials are expected to gradually recover from current trough levels over the medium term.

The following chart shows historical and projected polycarbonates spread over raw materials, polycarbonates industry supply/demand and utilization:



Source: Industry Report.

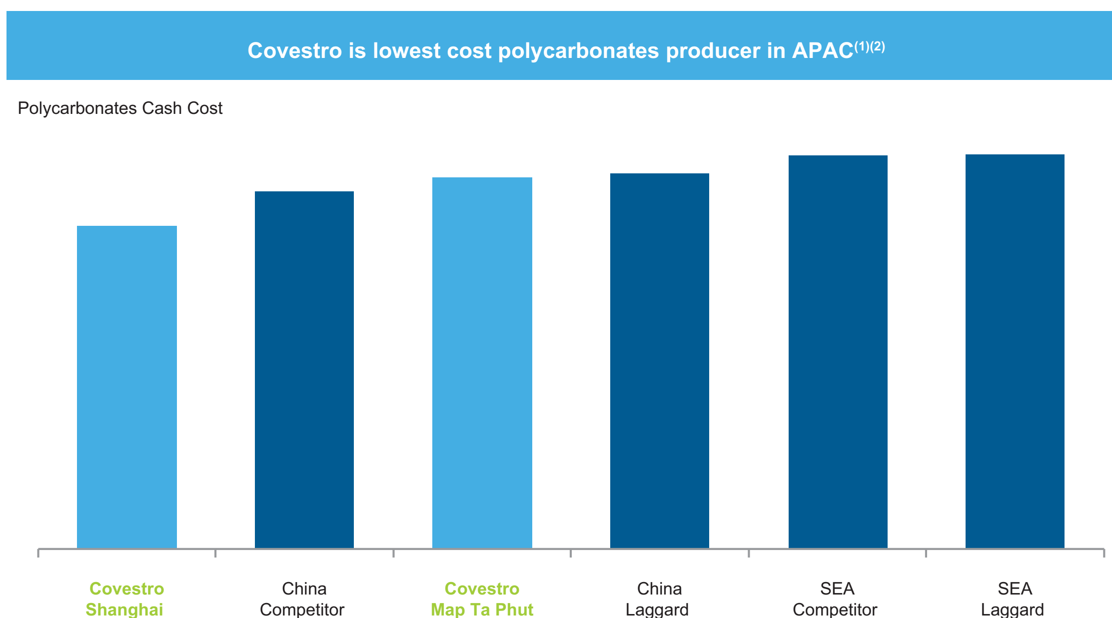
(1) Capacity forecasts include all publicly announced capacity additions as of July 2015 based on the Industry Report; Wanhua capacity addition not included given uncertainties around timing.

(2) Global industry spreads calculated as the margin of polycarbonates over raw material costs in Europe, the United States and China weighted by the respective polycarbonate demand in Europe, the United States and China.

(3) The Group estimates additional capacity (not captured in the Industry Report) may come online post-2017 if prevailing industry dynamics make it economically rational; Wanhua capacity addition reflected in the Group's estimates.

14.3.5 Cost Position

The Group occupies a competitive cost position in all key regions and is the lowest cost polycarbonates producer in APAC. The below chart shows the Group's cost position in APAC:



Source: Industry Report.

(1) Excluding potential transportation and delivery costs as per the Industry Report.

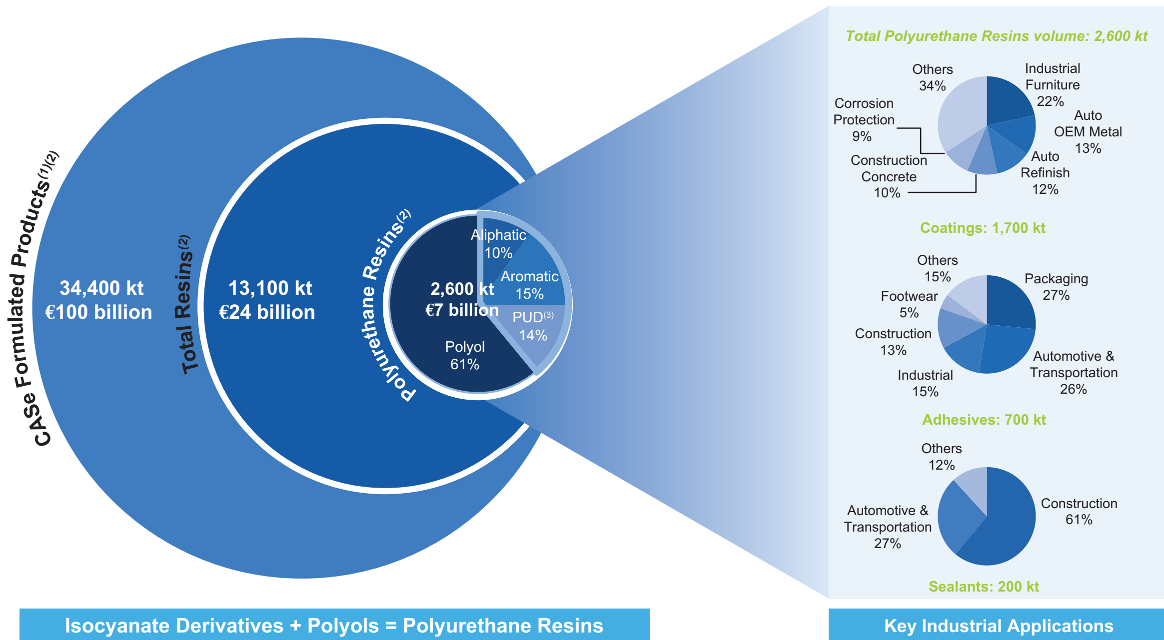
(2) As per the Industry Report, the cost of production is indexed and benchmarked to the leader plant in APAC; the competitor and laggard plants are representative of the cost position of a producer with the most (or least) favorable production characteristics compared to Covestro. Although the competitor and laggard plants are not intended to represent specific plants, they represent characteristics of the producers in the region.

14.4 COATINGS, ADHESIVES AND SEALANTS

14.4.1 CASe Overview

The coatings, adhesives and sealants ("**CASe**") formulated products industry segment comprises decorative coatings, industrial coatings, adhesives and sealants, with the latter three being the Group's primary focus. Excluding decorative coatings, the volume and value of these sub-segments amounted to 34.4 million tons and €100 billion in 2014, respectively. The volume and value of the resins sub-segments in CASe applications amounted to approximately 13.1 million tons and approximately €24 billion in 2014, respectively. Polyurethane resins are an important part of this industry sub-segment, representing 20% of the total volume and 29% of the total value of resins used.

The charts below illustrate the CASe formulated products industry sub-segment, with polyurethane resins broken down by application and end markets, by volume in kt and value in Euro (billions):



Source: Industry Report.

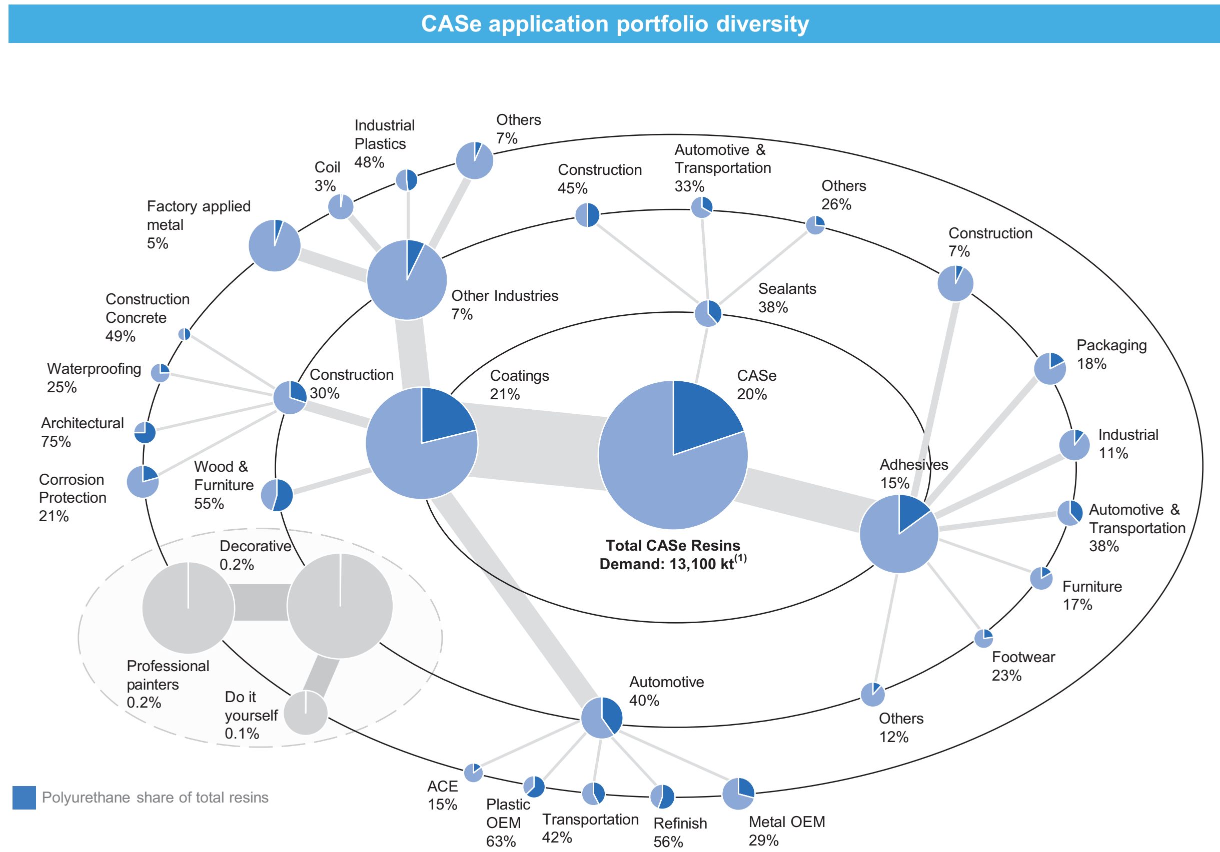
(1) Excluding decorative coatings.

(2) Volumes rounded to the nearest 100 kt.

(3) Polyurethane dispersions.

Coatings, adhesives and sealants are the key applications for polyurethane resins. Coatings represented the largest application, accounting for 65% of volume in 2014, while adhesive and sealant applications accounted for 27% and 8% of volume, respectively. These coatings, adhesives and sealants are used in diverse end markets. The below chart illustrates the CASe application portfolio diversity for resins:

CASe application portfolio diversity



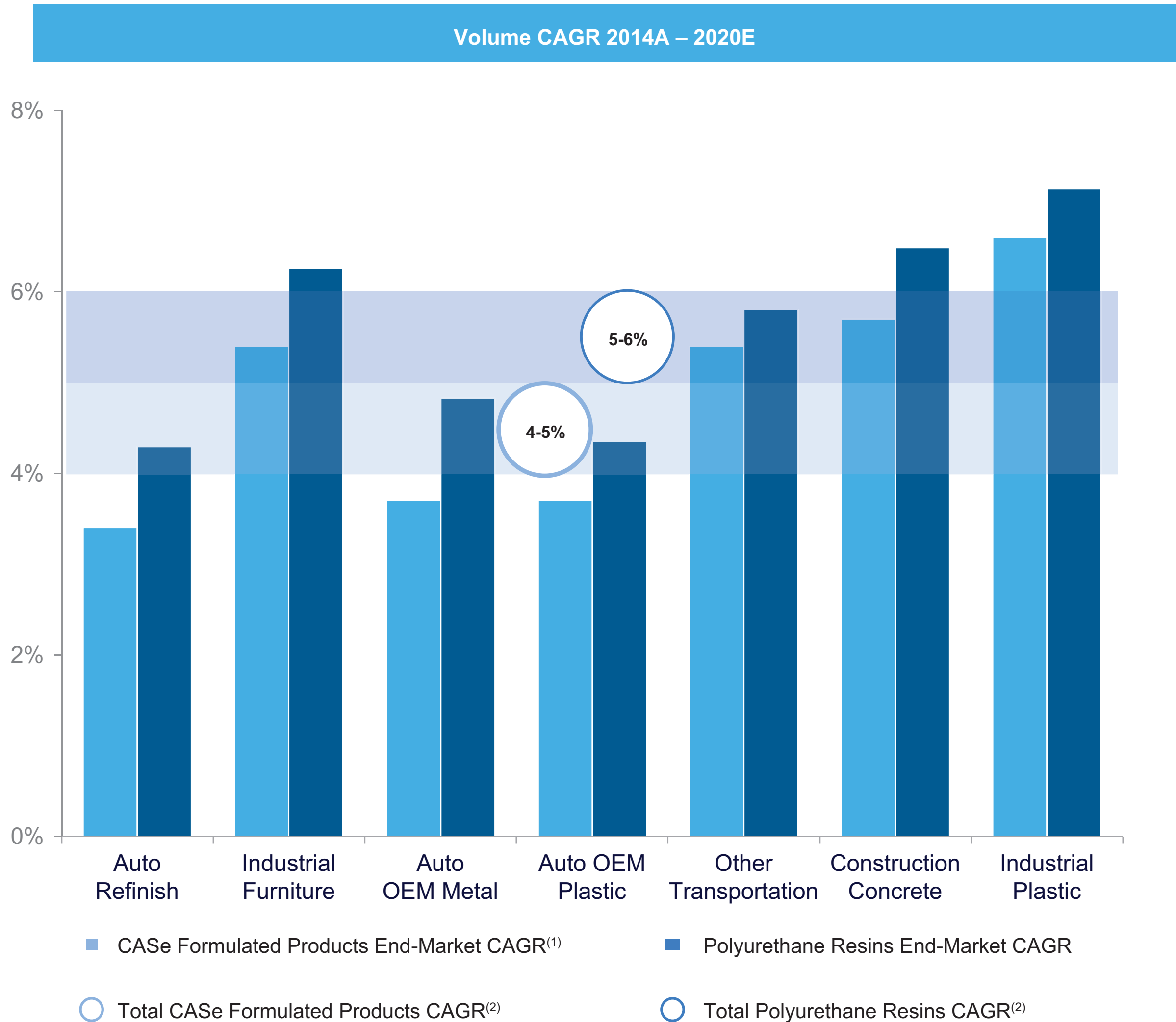
Source: Industry Report.

(1) Including polyols; excluding decorative coatings.

Polyurethane-based resin products consist of four product groups: aliphatic isocyanates, aromatic isocyanates, polyurethane dispersions (‘‘**PUD**’’) and polyols, which represented 10%, 15%, 14% and 61% of global volumes sold of polyurethane resins, respectively, in 2014. The Group produces aliphatic isocyanate monomers and derivatives as well as aromatic isocyanate derivatives. Coatings, adhesives and sealants formulators use aliphatic and aromatic isocyanate derivatives, in combination with polyols, to produce polyurethane systems. The Group also produces PUDs, which are used by formulators to manufacture water-based polyurethane systems.

14.4.2 Demand Outlook

As polyurethane-based coatings, adhesives and sealants are expected to outgrow the industry due to their unique characteristics, polyurethane resins are expected to grow by 5.3% (2014 - 2020 CAGR). Their highly versatile chemistry allows highly customized applications in formulations and solvents. Unique characteristics include abrasion resistance, outdoor weathering, high flexibility, low-temperature curing, corrosion and chemical resistance, durability, gloss retention and hydrolytic stability. In addition, water-based and other low volatile organic compound ("**VOC**") products offer solutions to environmental challenges. The chart below shows the expected growth in demand across selected key end markets for polyurethane resins compared to the overall growth rate for the CASe formulated products sub-segment:



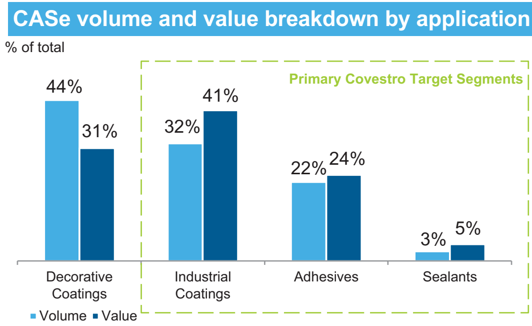
Source: Industry Report.

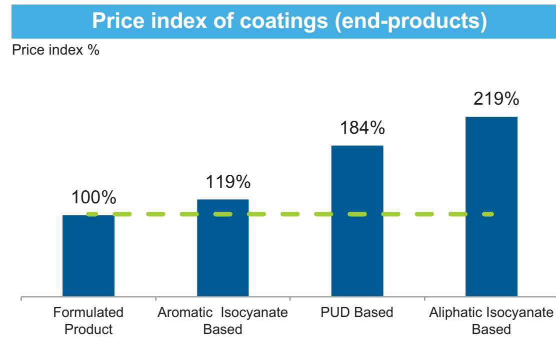
(1) Formulated products include only industrial coatings.

(2) Across all end markets as per the Industry Report.

The performance of polyurethane-based products typically supports premium pricing, as such products are critical to the qualities of the end product, but represent only a small portion of the final product price. For example, coatings, adhesives and specialties products often represent just minor fractions of the final

product price for automobiles, sport shoes, flexible packaging applications and laptop casings. The charts below show the volume and value breakdown by application and the price index for various coatings:

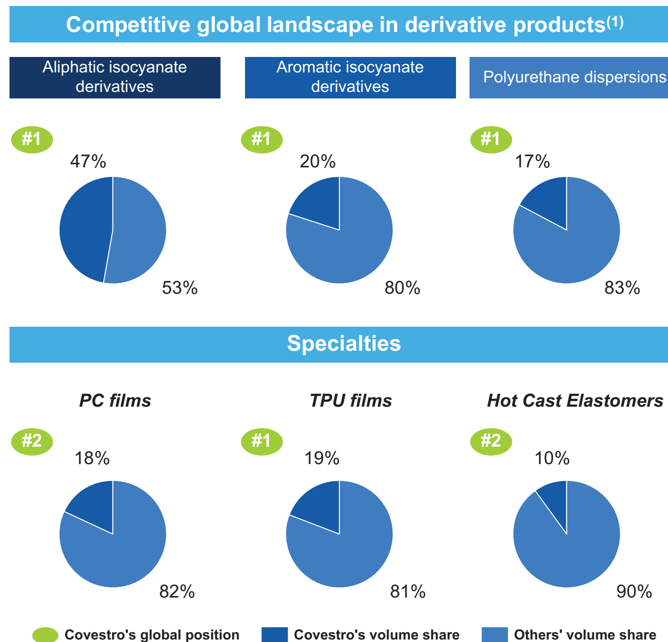




Source: Industry Report.

14.4.3 Competitive Landscape and Barriers to Entry

Derivatives. The Group holds global leadership positions across the entire portfolio of derivative products. The charts below show the competitive global landscape in derivative products in 2014:



Source: Industry Report. Hot cast elastomers global position as per company estimates and volumes sold as per the Industry Report.

(1) The share is shown by total volumes sold.

The top five producers of aliphatic isocyanate derivatives accounted for 89% of global volumes sold in 2014, and this structure is expected to remain stable until 2020. The Group was the global leader in aliphatic isocyanate derivatives, with 47% of global volumes sold in 2014, and was also the leader in EMEA, NAFTA and APAC. NAFTA and EMEA are relatively consolidated with only three competitors in each region, while APAC is relatively fragmented with only five key players with shares higher than 5% by volumes sold in 2014. The aromatic isocyanate derivatives industry segment is more fragmented. Overall, the Group is the leader in the aromatic isocyanate derivatives industry sub-segment with a 20% share of global volumes sold. The Group and other global players compete in more specialized segments while regional players compete in the lower value segments. The competitive landscape for PUD is highly fragmented. The Group is the leader for PUDs in 2014 with a 17% share of global volumes sold. The other top five global producers accounted for a 22% share of global volumes sold in 2014. The remaining industry is fragmented with smaller regional players that compete in low-cost, commodity-type products in which the Group is not active. The industry structure is expected to remain stable until 2020.

The industry for other specialties is also fragmented. The Group is one of the two leaders in polycarbonate films based on global volumes sold in 2014. TPU films can be viewed as a series of regional markets, rather than one global market. Eight other major players in elastomers account for approximately 60% of the share of global volumes sold.

Barriers to entry in the derivatives industry segment include needing the capacity to serve a diversity of end markets with a range of products. In addition, formulation know-how and technical expertise are required to address customers' needs with specific formulations. Long-term customer relationships also play an important role as well as research and development in order to continuously address customers' needs. Furthermore, a global network is generally required to supply customers on a reliable basis.

Monomers. The Group is also the global leader in aliphatic monomer capacities. The below charts show the competitive global landscape in monomer products:

Source: Industry Report.

(1) Based on 2016 capacity announced by the Group and competitors.

The Group accounted for 57% of global capacity for HDI, IPDI and $H_{12}MDI$ in 2014 based on available production capacity. The Group is also expected to be the global leader in PDI capacity, with up to 90% of globally available PDI production capacity based on announcements by the Group and its competitors.

Barriers to entry in monomers include high investment and know-how requirements to build a world-scale isocyanate monomers plant. A global manufacturing footprint is required to achieve cost efficiency. In addition, the production of aliphatic isocyanates employs feedstock, such as phosgene, the handling and production of which require significant know-how and regulatory permits. Significant technology know-how and capabilities to produce isocyanates are also important factors.

15. BUSINESS

15.1 OVERVIEW

The Group is one of the world's leading providers of high-tech material solutions according to the Industry Report. Its activities comprise the production and supply of raw materials for polyurethanes, polycarbonate resins and sheets, and raw materials for coatings, adhesives and sealants, as well as selected chemical intermediates. The Group's product portfolio also includes niche products such as TPU, polycarbonate- and TPU-based films, hot cast elastomers and other products tailored to textile, cosmetic and medical applications. The Group has a strong track record of process and product innovation as well as close customer relationships that underpin its tradition of developing market-driven solutions. The products manufactured by the Group are processed by customers to create products used in various end markets, including, in particular, automotive/transport, construction, wood/furniture, electrical/electronics, sports/leisure, cosmetics, health and chemicals.

The Group benefits from a well-invested asset base with what it believes is leading process technology and a total nameplate production capacity of 4,700 kt of core products in its Polyurethanes and Polycarbonates business units, including eight world-scale production sites across Europe, the United States and Asia. The Group's selectively backward integrated production process is aimed at sourcing critical raw materials such as chlorine, propylene oxide and other feedstock internally or through joint ventures, thereby reducing its dependency on external sourcing.

The Group's business combines the benefits of standardized products and customized high-value solutions, which aim to meet the needs of customers as they confront fundamental macro trends such as climate change, increasing mobility, population growth and increasing urbanization. The Group believes that it is well-positioned to capture industry growth driven by such trends due to its competitive advantages. According to the Industry Report, the industry is expected to grow due to favorable demand trends over the next five years.

For the six months ended June 30, 2015, the Covestro Group generated net sales of €6.3 billion, an EBIT of €473 million, an Adjusted EBITDA of €914 million (Adjusted EBITDA margin of 14.6%) and free operating cash flow of €321 million. In Fiscal Year 2014, the Covestro Group generated net sales of €11.8 billion, an EBIT of €517 million, an Adjusted EBITDA of €1.2 billion (Adjusted EBITDA margin of 9.9%) and free operating cash flow of €313 million.

The Group's business is divided into three business units, which are also the Group's three reportable segments:

- The Group's Polyurethanes business unit produces a variety of grades of MDI, TDI and polyether polyols mainly for rigid and flexible foams. Rigid foams are primarily used for building insulation, cold-chain insulation and for automotive parts, while flexible foams are primarily used for furniture, mattresses and car seats. The business unit also produces other products such as TPU, styrene and TDA. For the six months ended June 30, 2015, the business unit's external net sales amounted to €3.2 billion (or 50.9% of total net sales), EBIT amounted to €123 million (26.0% of total EBIT) and Adjusted EBITDA amounted to €386 million (42.2% of total Adjusted EBITDA with an Adjusted EBITDA margin of 12.1%). In Fiscal Year 2014, the business unit's external net sales amounted to €6.3 billion (or 53.4% of total net sales), EBIT amounted to €233 million (45.1% of total EBIT) and Adjusted EBITDA amounted to €592 million (51.0% of total Adjusted EBITDA with an Adjusted EBITDA margin of 9.4%). The Polyurethanes business unit encompasses the strategic business entities, MDI, TDI and polyether polyols accounting for approximately 40%, 20% and 40% of external net sales of the Polyurethanes business unit, respectively, in Fiscal Year 2014.
- The Group's Polycarbonates business unit produces polycarbonate resins, compounded resins and polycarbonate sheets. Polycarbonates have unique properties that facilitate their use in a wide range of applications in the electrical/electronics, automotive, construction, consumer appliance, medical, packaging and optical media end markets. For the six months ended June 30, 2015, the business unit's external net sales amounted to €1.6 billion (or 25.4% of total net sales), EBIT amounted to €177 million (37.4% of total EBIT) and Adjusted EBITDA amounted to €266 million (29.1% of total Adjusted EBITDA with an Adjusted EBITDA margin of 16.7%). In Fiscal Year 2014, the business unit's external net sales amounted to €2.8 billion (or 24.0% of total net sales), EBIT amounted to €(32) million and Adjusted EBITDA amounted to €160 million (13.8% of total Adjusted EBITDA with an Adjusted EBITDA margin of 5.7%).

- The Coatings, Adhesives and Specialties business unit produces mainly aliphatic isocyanates and their derivatives, aromatic isocyanate derivatives, polyurethane dispersions and other specialties. The business unit produces approximately 2,300 products for more than 4,300 customers in more than ten end markets, including automotive, construction, wood/furniture, footwear, packaging/ textiles/clothing and electronics. For the six months ended June 30, 2015, the business unit's external net sales amounted to €1.1 billion (or 17.5% of total net sales), EBIT amounted to €224 million (47.4% of total EBIT) and Adjusted EBITDA amounted to €270 million (29.5% of total Adjusted EBITDA with an Adjusted EBITDA margin of 24.6%). In Fiscal Year 2014, the business unit's external net sales amounted to €1.9 billion (or 16.4% of total net sales), EBIT amounted to €354 million (68.5% of total EBIT) and Adjusted EBITDA amounted to €437 million (37.6% of total Adjusted EBITDA with an Adjusted EBITDA margin of 22.7%).

All other business activities by the Group that cannot be allocated to one of the three reportable segments are recorded under ''All other segments,'' which mainly include external net sales of chlorine and certain by-products that are created during the production of chlorine and processing of chlorine during the isocyanate production, in particular caustic soda and hydrochloric acid. ''All other segments'' also includes the provision of certain services to third parties (such as facility management and technical services, rental of buildings, land and offices as well as sale of energy produced by the Group) and the sale of non-chemical products (such as used assets). For the six months ended June 30, 2015 and Fiscal Year 2014, the external net sales of ''All other segments'' amounted to €382 million (or 6.1% of total net sales) and €729 million (or 6.2% of total net sales), respectively.

The Group is engaged in continuous programs of research and development of new products and production processes, improvement and refinement of existing products and processes, and development of new applications for existing products. In Fiscal Year 2014, the Covestro Group spent €212 million on research and development activities, often conducted in close collaboration with customers.

The Group has a regional sales and marketing structure with supply chain centers and local operations supported by an e-commerce platform and regional or local distributors. The Group's sales for each business unit are organized in three regions—EMLA, APAC and NAFTA. In each of these regions, the Group's customers include global, regional and local operating businesses, many of whom are long-term customers of the Group. In Fiscal Year 2014, net sales in EMLA, APAC and NAFTA accounted for 46.6%, 27.7% and 25.7% of Covestro Group's net sales, respectively.

The MaterialScience business was and is a part of the Bayer Group, independently managing its business operations in line with the preset objectives of Bayer AG. In 2014, Bayer AG announced its plans to dispose of a majority shareholding in the Group. Post-separation from Bayer AG, the Group will receive the benefit of certain services from the Bayer Group. The Group is headquartered in Leverkusen, Germany, and had an average of 14,397 full-time equivalent employees worldwide for Fiscal Year 2014.

15.2 COMPETITIVE STRENGTHS

The Company believes that there are competitive strengths driving its success which will continue to set it apart from competitors in the future:

Leading and defendable global industry positions based on focused product portfolio and global scale

According to the Industry Report, the Group is a global leader in the polymer industry across its product portfolio of higher value engineering polymers and niche downstream chemicals. It operates a state-of-the-art asset base with differentiated process technologies and total nameplate production capacity of 4.7 million tons as of June 30, 2015. Its global production platform with world-scale assets on three continents serves global customers and, supported by its regional processing and sales units, also local customers.

The Polyurethanes business unit is the leading global producer of polyurethane raw materials, according to the Industry Report. It is the second largest global producer of MDI, the largest global producer of TDI and the second largest global producer of polyether polyols, with approximately 22%, 25% and 15% of global nameplate production capacity, respectively, in 2014 according to the Industry Report. The Polycarbonates business unit is one of the two leading global suppliers of polycarbonates accounting for approximately 27% of global nameplate production capacity in 2014 according to the Industry Report and

offers products and solutions for a wide range of applications. The Coatings, Adhesives and Specialties business unit is the leading worldwide producer of aliphatic isocyanate derivatives, aromatic isocyanate derivatives, polyurethane dispersions and TPU films, accounting for approximately 47%, 20%, 17% and 19% of global volumes sold, respectively, as well as the second leading worldwide producer of polycarbonate films, accounting for 18% of global volumes sold, each in 2014 according to the Industry Report, and offers high-performance materials to the coatings, adhesives, sealants and other specialties industry segments.

The Group believes that its worldwide industry leading positions are defendable because it operates in an industry and technologies with substantial regulatory, capital, technological, know-how and customer relationship barriers to entry. The state-of-the-art platform with global reach has been expanded and strengthened with substantial investments over the past years. The polyurethanes and polycarbonates industry segments are characterized by persistent pressure to advance process technologies, while in the coatings, adhesives, sealants and other specialties industry segments having the necessary formulation and application know-how is key. This calls for the Group's deep and excellent process and product knowledge resulting from what it believes is its long history as a leader in the industry. Its differentiating process and product know-how together with its customer proximity due to its global presence positions the Group at the forefront in responding to the demand for innovative polyurethanes and polycarbonates products. It has also been the basis for its close and long standing customer relationships in the coatings, adhesives, sealants and other specialties industry segments, highlighted by numerous research and development collaborations.

Favorable industry dynamics with robust above GDP growth prospects in a diverse range of end markets

The Group sells its products into diverse industrial end markets which are expected to benefit from global macro trends, such as climate change, mobility, population growth and increasing urbanization, all of which pose significant challenges and hence require effective solutions. Climate change, for example, calls for lower emission concepts and low energy buildings. Energy efficient mobility requires lightweight transportation solutions for passengers and goods. A growing population demands, among other things, products for food preservation and low cost durable goods. The associated increasing urbanization necessitates affordable housing and a stronger public infrastructure. These macro trends and associated changes in demand are expected to drive growth in a broad range of end markets such as automotive, construction, wood/furniture, sports/leisure/cosmetics, health, electrical/electronics, chemicals and others. Growth in these end markets drives demand in the polyurethanes, polycarbonates and coatings, adhesives, sealants and other specialties industry segments. According to the Industry Report, these industry segments are expected to grow at a CAGR from 2014 to 2020 of 5.3%, 4.6% and 5.3%, respectively, thereby significantly outpacing the estimated global GDP CAGR 2014-2020 of 3.4%. In addition, the Group believes it will benefit from favorable industry dynamics from ongoing substitution of standard materials with the Group's higher-value engineering polymers with their excellent performance and processability at lower cost.

It is estimated that demand will outpace additional supply in MDI, TDI and polycarbonates leading to higher asset utilization rates, which historically allowed the Group to achieve higher margins for its products. According to the Industry Report, the industry utilization and profitability of MDI is expected to be stable through 2017 with a potential upturn in the period from 2018 to 2020 in which industry utilization rates are anticipated to rise above 90% based on projected supply and demand balance. The recovery of the TDI industry sub-segment is expected to start in 2016 supported by announced production asset closures and market exits, according to the Industry Report. In the polycarbonates industry segment, the ongoing recovery is expected to continue and remain in the ''tight'' range of utilization levels in excess of 80% between 2015 and 2020, according to the Industry Report.

Positioned to deliver volume growth through well-invested, large-scale asset base and competitive cost position

In the period from 2005 until 2014, the Group invested approximately €7 billion, of which approximately €4 billion, or 57%, related to growth capital expenditure. The Group's historically high total capital expenditure as a percentage of net sales has decreased from 8.5% in 2007 to 5.7% in 2014. As a result of its significant investments, the Group expects its annual total capital expenditure, in particular growth capital expenditure, going forward to be at lower levels than it has been in the last ten years and to mainly comprise maintenance capital expenditure. A significant portion of the Group's growth capital expenditure was spent for the construction of its world-scale production facility in Shanghai, China, to strengthen its foothold in APAC.

Against this background, the Group believes it is well positioned to benefit from the expected favorable industry dynamics with only a limited need for additional growth capital expenditure until 2020. According to the Industry Report, the Group operates some of the most cost effective production facilities relative to its competitors. Its competitive cost position is further enhanced by what it believes are leading process technologies across its production platform. The Group benefits from economies of scale provided by its production facilities, proprietary production technologies and backward integration into key raw materials such as to a large extent propylene oxide (via joint ventures with LyondellBasell) and partially chlorine. In addition, the Group's integrated production model, in which infrastructure and utilities such as pipelines, railways, energy and steam are shared and which delivers cross-product synergies, such as cross-use of chemical products and by-products in various different production streams, results in cost advantages.

The Group has a long track record of developing proprietary production technologies that reduce raw materials and energy consumption and waste. According to the Industry Report, the Group benefits from lower production costs relative to conventional production technologies at many of its primary production facilities, primarily due to savings attributable to lower raw material and energy requirements. Examples include (i) the production of polycarbonates at some of the Group's sites using its state-of-the-art melt polycarbonate production process which reduces conversion costs by up to 20%, (ii) the production of TDI and HDI using its advanced and proprietary gas phase phosgenation technology which reduces phosgene hold-up by up to 40% and energy by up to 60% compared to the liquid phase production process, as well as (iii) the production of chlorine using innovative and proprietary oxygen-depolarized cathode technology at some of its production sites, which consumes up to 30% less electricity, each relative to conventional technology processes. Furthermore, the Group has been exploring ecofriendly and cost advantageous technologies that permit the use of carbon dioxide as a raw material for polyether polyol production, which has passed a two year test phase and is expected to be commercialized by 2016.

Portfolio including high-value raw materials for coatings, adhesives, sealants and other specialties products with an attractive and historically resilient margin profile

The Group's Coatings, Adhesives and Specialties business unit produces more than 2,300 high performance materials for more than 4,300 customers operating in more than ten different end markets, including automotive/transport, construction, wood/furniture, electrical/electronic and others, from six monomers. Its niche-customized products add high value to end products while only representing a small portion of the price at which an end-customer purchases the end product. The business unit's products are critical to the performance of the end product, for example in increasing the abrasion resistance, weathering and gloss retention of coatings and adhesives. Accordingly, the business unit is able to price its products based on performance, which implies that customers are relatively price insensitive as long as product performance fulfills their requirements. Close collaboration with customers in the research and development process allows for early responses to new end market requirements and for the optimization of the business unit's own products in line with customer requirements. This strengthens long standing customer relationships and ultimately imposes on customers a significant effort when switching suppliers, which, together with performance-based as opposed to cost-based competition, creates distinct barriers to entry.

The Group believes that the factors described above enable the Coatings, Adhesives and Specialties business unit to defend its high Adjusted EBITDA margin, which amounted 24.6% for the six-month period ended June 30, 2015. Historically, the business unit's Adjusted EBITDA margin has been relatively resilient to market cyclicality including the period of recent financial crisis.

Attractive cash flow growth outlook underpinned by disciplined cost management

The Covestro Group increased its net sales and Adjusted EBITDA in 2014 by 3.6% and 9.9%, respectively, compared to the previous year. In the six-month period ended June 30, 2015, the Covestro Group increased its net sales and Adjusted EBITDA by 9.5% and 46.2%, respectively, compared to the six-month period ended June 30, 2014. The Group believes that the key building blocks to drive profitability and free cash flow generation are in place: Favorable industry dynamics are expected to increase utilization rates of its production facilities. The Group's current below-mid cycle Adjusted EBITDA margin due to low industry utilization rates provides margin growth potential. Its structured profitability program consisting of an asset optimization program and cost improvement measures has been launched and supports the Group's ongoing disciplined cost management. In addition, there is limited need for capital expenditures to facilitate growth until 2020.

The Group has a strong track record of positive free operating cash flows across the cycle with further upside potential. From 2005 to 2014, the Group had a total of €3.4 billion in free operating cash flow and a positive free operating cash flow in each of those years, including during the years of the financial and economic crisis in 2008 and 2009, which the Group believes demonstrates its ability to quickly adapt to earnings volatility through short-term measures. The potential for growth in free cash generation is also driven by volume growth, higher asset utilization, focus on cost discipline and the Group's limited need for additional growth capital expenditures until 2020.

Experienced management with a full commitment to value creation

The Group has a performance culture led by clear performance indicators throughout its organization. Its management consists of a diverse group of highly experienced professionals with approximately 100 years of combined business experience as well as extensive knowledge of doing business in emerging economies such as China. It has a proven track record of value creation. The Group believes that there is considerable strength and depth supporting the management that the Company will continue to reinforce by development and promotion of internal talent and strategic hiring.

The Group further believes that its management orientation is deeply rooted in its corporate culture. The Group has adopted several incentive schemes for its managers that are designed to closely align its strategic goals with managers' targets.

15.3 STRATEGY

The Group's strategy for achieving profitable growth in the future is based on the following key elements:

Capture industry growth over the next five years with existing world-scale assets

The Group aims to leverage its industry leadership to capture industry growth and benefit from expected higher utilization rates in the polyurethanes and polycarbonates industry segments as a result of favorable demand and supply dynamics. The Group has completed the majority of its strategic capital expenditure program, which significantly enhanced its global production capacity across its key products. As a result, the Group believes that a large part of the necessary infrastructure is in place to enable it to grow on the basis of its existing production capacity at largely flat fixed costs. Accordingly, the Group expects to grow into its expanded MDI capacity and ramp-up additional polycarbonate and HDI capacity at its production facility in Shanghai, China, by 2016/2017 and 2016, respectively. The Group is restructuring its TDI operations, and exploring how some of its existing MDI operations could be restructured, to better capture industry growth and achieve higher utilization rates. In respect of future capacity additions, the group plans to collaborate closely with customers on a global basis in a broad variety of end markets to deliver products that add higher value and to leverage its global presence. The Group believes that its strong customer relationships across end markets will ensure that the Group remains at the cutting edge of market driven product innovation, and will help support its production capacity utilization going forward.

Optimize asset footprint through site consolidation, restructuring and efficiency projects

The Group is implementing a structured profitability program, consisting of an asset optimization plan and cost improvements, aimed at further enhancing profitability by 2019 through targeted total gross savings of approximately €420 million by 2019 that are expected to allow for significant net savings above inflation by 2019. As part of the structured profitability program, the Group intends to implement an asset optimization plan with targeted gross cost savings of approximately €270 million by 2019. The asset optimization plan provides for the reduction of facility management costs, certain asset restructuring (including site consolidation) and efficiency projects, and continuous improvements of production processes. In particular, the Group plans to consolidate certain production operations to focus on the Group's core geographic regions and to further optimize the utilization of its eight world-scale production sites. In 2015, the Group closed its MDI and polyether polyol production facilities in Belford Roxo, Brazil, and has announced the closure of its TDI production facility in Brunsbüttel, Germany, by the end of 2015. The Group also intends to continue the consolidation of its polycarbonate sheets production operations, which was launched in 2014. The consolidation and restructuring of its production operations will also enable the Group to better leverage the benefits of backward integration and scale offered by its world-scale production facilities.

Improve cost position and align overall costs with best-in-class chemical industry benchmarks

As part of its structured profitability program and its total targeted gross savings, the Group also plans to implement cost improvement measures which the Group believes have the potential to enhance the Group's profitability through the achievement of targeted gross savings of approximately €150 million by 2019. The principal general cost improvement measures are targeted to achieve costs in line with best-in-class chemical industry benchmarks and focus on corporate overhead cost savings, business-unit level specific cost savings and continuous cost improvement in the non-manufacturing area. The Group plans to achieve corporate overhead cost savings through the optimization of corporate functions, the streamlining of its IT infrastructure and business model, and designing more tailor-made service functions to replace the transitional service agreements currently in place with the Bayer Group. Business unit level-specific cost savings are planned to result from the streamlining of its sales forces and back office functions, its focus on core end markets and customers, its consolidation within regional functions, product management, marketing and sales, and the maximization of the use of existing trade and distribution channels.

Protect and build profitable competitive positions through focused research and development

The Group's research and development activities focus on improving its production processes, the performance of its products in the Group's core end markets, expanding the applications of its products into adjacent end markets and developing new products for existing applications that it believes offer strong growth opportunities. The Group collaborates closely with many of its customers and end market participants to manufacture products that address their specific technical requirements in connection with new applications. For example, the Polyurethanes business unit is currently developing lightweight polyurethane composites through an infusion process that can be used in the interior of wind turbine rotor blades. The Polycarbonates business unit is working on improving polycarbonate resins to better channel, scatter and reflect LED light while increasing the life of the diode and having high transparency, which allows for design flexibility and higher heat resistance. The Coatings, Adhesives and Specialties business unit has introduced INSQIN® Waterborne Polyurethanes, an apparel and footwear design and manufacturing innovation with a new level of material sustainability. In addition, the Group will continue to focus on developing new products to maintain what it believes is its technology leadership position. Products that the Group plans to commercialize in the near future include pentamethylene diisocyanate (''**PDI**'') made from renewable feedstock derived from non-petrochemical-based biomass; an innovative form of polyether polyol made using carbon dioxide as raw material; and polycarbonate-based composite sheets that contain carbon fiber, glass fiber and polymer fibers within polycarbonate matrices for increased stiffness and mechanical toughness. Apart from product-related research and development, the Group, supported by its insourced technology competence, focuses on further driving process innovation, which is critical for maintaining what it believes is its cost leadership position. The Group will also continue to explore bolt-on acquisitions to boost its innovation portfolio and business development.

Embed sustainability in every element of the strategy to further drive profitability

The Company believes that the global macro trends identified as driving growth in a broad range of its end markets also provide opportunities for sustainability to be realized along the Group's value-chain. In particular, the Group recognizes that the safety and well-being of people is at the heart of its success and that conserving finite resources of the planet is inseparable from people. The Group also recognizes that profits are essential, and therefore focuses its research and development activities for the benefit of people and planet on activities it believes to be profitable. The Group recognizes that exploring alternatives to the petrochemical derivatives it uses will diversify its raw material base, has the potential to introduce new characteristics to the Group's products and enables the Group to supply customers who seek products made from non-petrochemical-based biomass. The Group is also reviewing recycling potential in its production activities on an ongoing basis. The Company is committed to high standards in relation to safety and the impact it has on the environment and communities in which it operates. It aims to continuously reduce its carbon dioxide emissions and its energy consumption. From 2005 to 2014, per ton of product, the Group reduced its carbon dioxide emissions by 39% and its energy consumption by 30%. In addition, the Group aims to run its production operations safely, and has a best-in-class safety record as a result, which is expected to continue to support it in maintaining and attracting client

relationships. The Group believes that its strategy of promoting sustainability will continue to help the Group develop better products and solutions to address customer and end market requirements.

15.4 HISTORY

Prior to its separation, the Covestro Group was part of the Bayer Group as a subgroup. The Bayer Group dates back to 1863 when Friedrich Bayer and Johann Friedrich Weskott founded the company ''Friedr. Bayer et comp.'' in Barmen, Germany, to manufacture and sell synthetic dyestuffs. This company was transformed in 1881 into a joint stock company called ''Farbenfabriken vorm. Friedr. Bayer & Co.,'' which was the financial foundation of the international chemicals and polymers company that would develop during the following years.

In 1925, ''Farbenfabriken vorm. Friedr. Bayer & Co.'' was merged with several other companies in order to remain competitive and gain access to new markets. It would be known for the next 26 years as the Lower Rhine Operating Division of I.G. Farbenindustrie Aktiengesellschaft. However, the Bayer name remained in existence and became the overall trademark for I.G. Farbenindustrie Aktiengesellschaft's pharmaceuticals products. During this period, modern polymer chemistry was a major focus of I.G. Farben's research, and it became an early inventor in the field of coating raw materials. Research at I.G. Farben also led to the invention of polyurethanes in 1937.

After World War II, production was soon allowed to resume, as the chemical industry's products were essential to drive reconstruction. Soon thereafter the company was newly established as Farbenfabriken Bayer AG.

The reconstruction of the Bayer Group was closely linked to the ''economic miracle'' in West Germany. Research and development played a crucial role from the beginning. The further development of polyurethane chemistry, as well as the invention of polycarbonates in 1953, contributed to its expansion. A whole range of products was introduced for diverse applications, beginning in the late 1950s. For example, in 1958, the Bayer Group began commercializing the polycarbonate Makrolon®, which has been used in products ranging from automobile headlamps to optical storage media. Then in 1962, polyurethane rigid foam was launched as an insulation material for cooling devices. During this period, the Bayer Group reestablished its sales activities in the United States and Latin America, expanded its production facility in Dormagen, Germany, and launched its production facility in Antwerp, Belgium. In 1973, the Bayer Group began construction at its production facility in Brunsbüttel, Germany, which was steadily expanded in the years that followed.

Awareness of environmental protection increased in the 1970s, and Bayer also intensified its environmental protection efforts. In 1971, what it believes was Europe's largest industrial wastewater treatment plant was brought on stream in Dormagen by Bayer and Erdölchemie GmbH. In 1980, Bayer Tower Biology was introduced in Leverkusen for biological wastewater treatment. The fruits of Bayer's environmental protection activities were also reflected in sharply declining emissions. It reduced its pollutant emissions to the atmosphere by 80% between 1977 and 1987. A major structural shift in sales also took place during this period, with Bayer's plastics and coating raw materials sales expanding considerably in the 1970s.

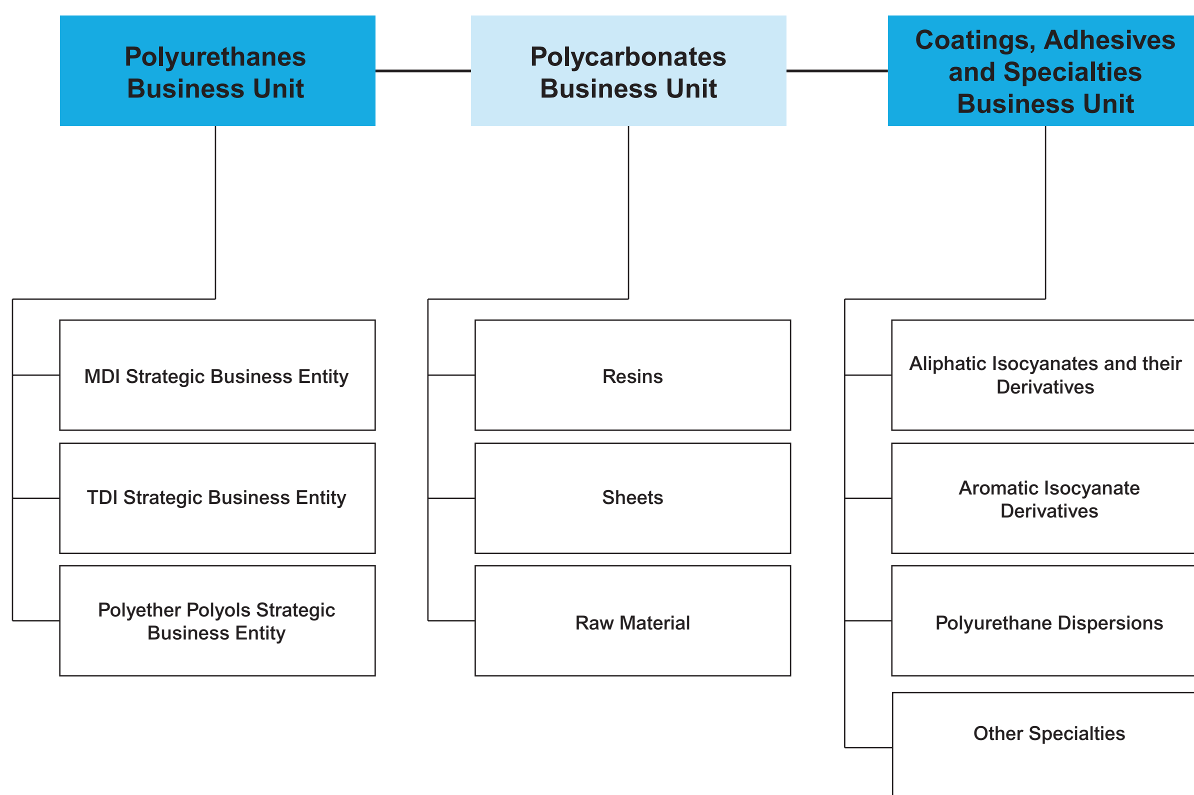
Bayer acquired the North American self-medication business of Sterling Winthrop in 1994—a milestone in the company's history, as the acquisition also allowed the company to regain the rights to the ''Bayer'' company name in the United States. For the first time in 75 years, Bayer was able to operate in the United States under its own name with the Bayer Cross as its corporate logo. In 1995 U.S.-based Miles Inc. was renamed Bayer Corporation. The 1990s saw another major structural transformation, with Bayer, like other companies, facing the challenge of globalization. The importance of North America to the Bayer Group continued to increase. Bayer became what it believed to be the world's largest producer of raw materials for polyurethanes with the acquisition of Lyondell Chemical Company's polyols business in 2000. In December 2001, management announced plans to establish independent operating subsidiaries under the umbrella of a strategic management holding company. Bayer MaterialScience Aktiengesellschaft, now Covestro Deutschland AG, became a subgroup of Bayer AG following a spin-off of parts of Bayer AG's portfolio into an independent company under the name of Lanxess Aktiengesellschaft in 2005.

As a subgroup of Bayer AG, the Covestro Group continued to expand internationally. In 2006, it began operating a polycarbonate production facility in Shanghai, China, where it established the what it believed to be the world's largest MDI production facility in 2008. In addition, the Covestro Group moved the global

and regional APAC headquarters of the Polycarbonates business unit to Shanghai, China, in 2011. Also in 2011, the Covestro Group began exploring an innovative polyether polyol production technology in which a portion of the petrochemical raw materials used in the production of polyether polyols can be replaced with carbon dioxide. The Covestro Group expects to commercialize the production technology by 2016. The Covestro Group also began operation of TDI production facilities in Dormagen, Germany, as well as Shanghai, China, which use gas phase phosgenation technology, setting the industry standard in efficiency and sustainability. The Covestro Group has also pioneered the melt process in polycarbonate production, which has a conversion cost advantage of up to 20% relative to conventional technologies. In addition, the Covestro Group expanded its innovation hub for APAC in 2013.

15.5 BUSINESS UNITS AND CENTRALIZED PRODUCT SALES

The Group conducts its operations through its three business units: Polyurethanes, Polycarbonates, and Coatings, Adhesives and Specialties. The following diagram provides a simplified overview of the Group's operations.



In addition, the Group centrally coordinates the sale of certain by-products created by the Group's operations as raw materials to customers. Such third-party sales primarily consist of sales of chemical intermediates such as chlorine, caustic soda and hydrochloric acid.

15.5.1 Polyurethanes Business Unit

Overview

The Polyurethanes business unit focuses on the development, production and marketing of polyurethane raw materials, either on a stand-alone basis or as a formulation of an isocyanate and a polyether polyol, i.e. a system. The raw materials and systems ultimately enable customers to produce rigid and flexible polyurethanes. The business unit also develops, produces and markets other products such as TPU, which is a high-performance thermoplastic elastomer resin. In Fiscal Year 2014, the Polyurethanes business unit had external net sales of €6.3 billion, an Adjusted EBITDA margin of 9.4% and accounted for 53.4% of total Group net sales. The Polyurethanes business unit is organized into three strategic business entities MDI, TDI and polyether polyols, accounting for approximately 40%, 20% and 40% of external net sales of the Polyurethanes business unit in Fiscal Year 2014, respectively.

The business unit is the leading global producer of polyurethane raw materials, according to the Industry Report. It is the second largest global producer of MDI, the largest global producer of TDI and the second

largest global producer of polyether polyols, with approximately 22%, 25% and 15% of global nameplate production capacity, respectively, in 2014 according to the Industry Report. The business unit's product portfolio includes various grades of MDI, TDI and polyether polyols, which are the key raw materials for the production of polyurethanes. The polyurethanes based on the business unit's raw materials are widely used in a broad range of end markets, including furniture, construction, automotive, appliances, chemicals and others such as footwear for a wide range of applications within those end markets. The business unit's operations are supported by state-of-the-art isocyanate and polyol production technologies, the scale of several of its plants, and its selected backward integration into various key raw materials needed for production. The Group believes it has leading positions in key regions with respect to its TPU products.

The business unit operates a global production platform comprising 21 production facilities across Europe, the United States and Asia, with a total nameplate production capacity of approximately 3,400 million tons of isocyanates and polyether polyols in 2014. In Fiscal Year 2015, the production facilities in Belford Roxo, Brazil, were closed with respect to MDI and polyether polyol production; Brunsbüttel, Germany, will be closed with respect to TDI. The business unit uses a global network of four innovation centers to support customers and drive the development of new products and employed approximately 4,800 full-time equivalent employees as of Fiscal Year 2014.

Business unit strategy

The Polyurethanes business unit's strategy is based on three key pillars: capturing industry growth, optimizing its asset footprint and further improving its cost position. According to the Industry Report, global demand for MDI, TDI and polyether polyols is expected to grow above GDP over the period from 2014 to 2020. The business unit aims to capitalize on this opportunity through higher utilization of its recently expanded asset base in MDI and TDI as well as continued leverage of its broad and globally optimized portfolio position and innovation capabilities.

The business unit intends to accelerate its growth in core end markets and with strategic customers. The business unit expects its MDI utilization levels to exceed industry levels by Fiscal Year 2016 due to no material net capacity expansions entering operation, it having completed its switch to longer turnaround cycles for its MDI production facilities and it securing additional sources of raw materials. In addition, the business unit expects its polyether polyol production technology in which a portion of the petrochemical raw materials used in the production of polyether polyols can be replaced with carbon dioxide, to have the potential to drive the Group's polyether polyol growth in the mid-term following its successful commercialization in 2016. The business unit will continue to explore partnership opportunities with other companies in the polyurethanes industry segment when efficient to do so, and if supportive of growth.

In addition, the business unit will continue to optimize its asset footprint. With the closure of the TDI production facility in Brunsbüttel, Germany, the consolidation of its TDI production assets will be completed. As a result of the consolidation it will have three large- to world-scale TDI production facilities with a total nameplate production capacity of 770 kt. The business unit continuously evaluates new footprint-optimization initiatives, such as potential restructuring of its MDI production operations in EMLA and further consolidation of its polyether polyol production operations. The business unit will focus its capital expenditures on sustaining its asset base, and expects a limited need for capital expenditures to support growth in the mid-term.

Finally, a focus on further improving the business unit's cost position will form an integral part of the strategy. As the business unit operates primarily in a largely commoditized segment of the industry, it will continue its disciplined and comprehensive cost management programs to further enhance the cost efficiency of its lean operating model. Furthermore, it will concentrate its footprint across core end markets, and improve effectiveness and efficiency in its innovation.

Products and applications

The Polyurethanes business unit sells various grades of MDI, TDI and polyether polyols, which are the key raw materials for the production of polyurethanes. According to the Industry Report, the Group is one of two industry leaders with a significantly broad product portfolio. Polyurethanes are a class of polymer materials that are highly versatile rigid and flexible foams, elastomers or even solids. These items offer a specifically designed combination of properties such as a broad range of density, hardness and elasticity, high durability, low thermal conductivity, strong adhesion and highly flexible processability, which make them suitable for a wide range of applications across multiple end markets.

The Polyurethanes business unit's various grades of polyether polyols are a key source of differentiation and innovation and play a key role in determining the properties of polyurethanes-based end products. Access to such a broad portfolio of polyether polyols enables the business unit to offer customized solutions that cannot easily be replicated. For example, the development of trademarked products such as Baytherm® Microcell and flexible foams such as viscoelastic foam is possible primarily due to the business unit's strong systems and application expertise coupled with its broad polyether polyol capabilities. Products sold as systems are specialized solutions that further enable the business unit to differentiate its product portfolio beyond standardized products and access a broader range of polyurethanes applications. Most of its products are sold individually to customers.

The business unit also sells a broad portfolio of TPU and other products such as styrene and TDA.

The business unit has the following significant products across its three strategic business entities.

MDI strategic business entity.

MDI

MDI is a versatile isocyanate that is used primarily to make rigid foams. It is available in a variety of grades.

The business unit's customers use MDI in combination with a suitable polyol grade to produce a rigid foam, which can be used across a variety of applications. Rigid foam insulation represents a key application of MDI, such as in refrigerators and thermal insulation for buildings. As insulation, it is one of the most efficient, high-performance materials and enables very effective energy savings with minimal occupation of space. MDI is also used in automotive applications like flexible molded foam for seats and headrests, engineered foam for headliners, instrument panels, soft-touch steering wheels, and rigid integral skin foam for car body parts and the aftermarket. Furthermore, MDI is used for the production of elastomers for shoe soles, technical applications, polyurethane resins for coated textiles and TPU.

TPU

TPU is a high-performance thermoplastic elastomer that is typically derived from monomeric MDI, polyester or polyether polyols and butanediol, which accounted for approximately 10% of the MDI strategic business entity's external net sales in Fiscal Year 2014. The business unit develops, produces and markets over 400 grades of TPU. It is supplied in granular form to customers who use it in a wide variety of applications such as garments, breathable films, hotmelt adhesives, wearable electronics, cell phone cases, soles for athletic shoes and other sports equipment, animal ear tags, automotive interiors and chassis, toothed belts for industrial applications and fire hoses. TPU offers a combination of properties found in soft elastomers, rubber and hard thermoplastics such as high elasticity, high mechanical resistance, comfortable haptics and low temperature flexibility otherwise only known from rubber products.

The business unit estimates that global demand for TPU is approximately 450 kt.

TDI strategic business entity.

TDI

TDI is an isocyanate used primarily in the manufacturing of flexible foams. It is available in several grades.

The business unit's customers use TDI in combination with a suitable polyol grade to mainly produce flexible foam for inclusion in end market products such as upholstered furniture, mattresses, cushions for automotive seating and foams for various technical applications and consumer goods. Flexible foams are particularly well-suited for the automotive end market due to their ease of production and lightweight properties, combined with durability even in complex shapes, for example seats and headrests.

TDA

TDA is a precursor that is used primarily in the production of TDI.

Polyether polyols strategic business entity.

Polyether polyols

Polyether polyols are combined with isocyanates to make many polyurethanes products. They are available in a wide variety of grades, ranging from standard to customized grades, and represent a key source of differentiation for the business unit, providing it with customer access and driving product innovation in polyurethanes. For further information on innovation activities, see "—*Innovation*."

Polyether polyols are key components in the formulation of systems and thereby enable the business unit to create specialized solutions targeted at meeting specific customer needs. With its strong application know-how, the business unit is able to serve its customers with a broad range of products and technologies.

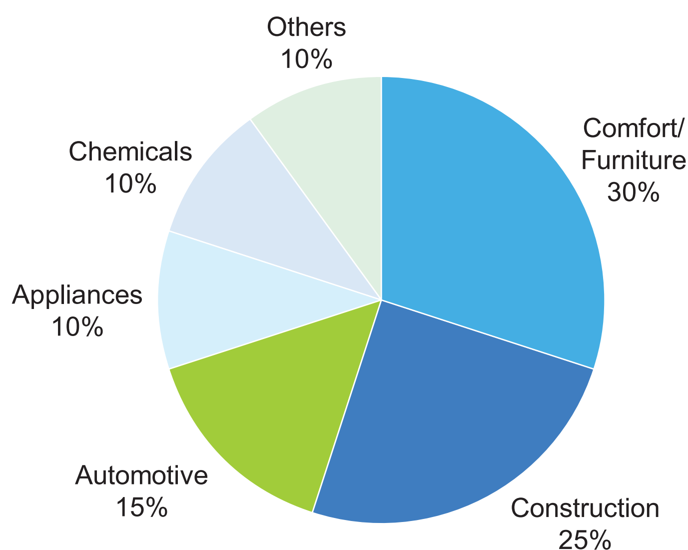
The business unit produces most of its polyether polyols from the propylene oxide it receives from the Group's Lyondell US Joint Venture and Lyondell European Joint Venture. The business unit's ability to produce additional volumes of polyether polyols is limited due to contractual restrictions in relation to its sourcing of propylene oxide from LyondellBasell.

Styrene

Styrene is a chemical and by-product of propylene oxide production. It is used extensively in the production of other key chemicals such as polystyrene and specialty rubbers. In connection with the Lyondell European Joint Venture, the Group is required to take significant volumes of styrene.

End markets and customers

The following diagram shows the Polyurethanes business unit's external net sales by end markets.(1)



Note:

(1) Based on the external net sales attributed to the Bayer AG's MaterialScience business as reflected in the consolidated financial statements of the Bayer Group for fiscal year 2014.

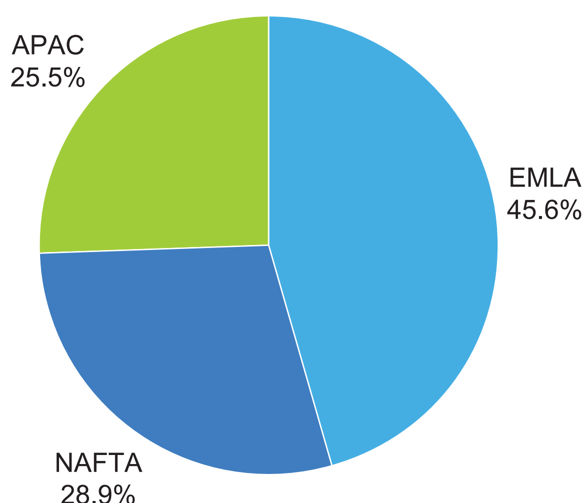
The polyurethanes based on the business unit's raw materials are widely used in a broad range of end markets, including comfort/furniture, construction, automotive, appliances and chemicals, and for a wide range of applications within these end markets. According to the Industry Report, construction, consumer goods such as furniture, appliances and shoes and automotive applications are important drivers for growth in the polyurethanes industry segment. In addition, the business unit's TPU customers operate in a diverse range of end markets such as textiles, information technology and electronics, sport and leisure, agriculture, automotive and industrial. The business unit's customers are generally processors, manufacturers and original equipment manufacturers.

According to the Industry Report, the polyurethanes industry segment is expected to grow with a CAGR of 5.3% from 15,000 kt in 2014 to 20,480 kt in 2020 and is expected to grow above GDP levels. The Group believes that industry growth will be supported by fundamental macro trends such as population growth,

increasing urbanization, increasing wealth and climate change. The products sold by the business unit provide solutions to the challenges posed by these trends because they are suitable for efficient cold-chain insulations to preserve food, insulation to improve the energy efficiency of buildings and comfort applications that are adapted to higher standards of living. In addition, the business unit's products can contribute to closing the carbon cycle by, for example, using carbon dioxide as a raw material.

According to the Industry Report, the Group is currently one of two producers of polyurethane raw materials that have access to products suited to a broad application range and a variety of end markets. The business unit's portfolio includes a broad range of standardized products to complex solutions. Prices for standardized products are primarily linked to commodity supply and demand dynamics, and depend on the current supply and demand dynamics. The business unit's complex solutions offer comprises, among other things, customized blends and production processes support from the start-up phase to ongoing technical support. Prices for complex solutions are primarily performance-based, which implies that customers are less price sensitive as long as the solution fulfills their performance requirements. This limits to a certain extent the business unit's exposure to industry volatility, and helps differentiate it from its competitors. Its long-standing expertise in respect to complex solutions, such as customized blends, has supported the business unit in establishing close long-term relationships with its customers.

The following diagram shows the Polyurethanes business unit's external net sales in Fiscal Year 2014 by geographic regions.



In Fiscal Year 2014, external net sales in EMLA accounted for 45.6% of the Polyurethanes business unit's sales, whereas external net sales in NAFTA and APAC accounted for 28.9% and 25.5%, respectively. The business unit focuses its polyether polyol sales on EMLA and NAFTA, which are also the regions with the highest ratio of joint sales by the Group of isocyanates and polyols. Only a small proportion of the business unit's joint sales of isocyanates and polyols are made in APAC.

Production and supply

According to the Industry Report, the business unit is able to achieve a competitive cost position for its MDI, TDI and polyether polyols production through scale of its plants, efficiency improvements, process technology and backward integration into key raw materials needed for production. Currently, the Polyurethanes business unit has a global production platform with production facilities across EMLA, NAFTA and APAC, which has been strengthened by over €1 billion in capital expenditures from Fiscal Year 2012 to Fiscal Year 2014. According to the Industry Report, the Group is the cost leader with respect to MDI production in NAFTA and has an advantageous cost position in Asia.

The following table presents the locations of the business unit's key production facilities and their respective capacities as of August 31, 2015:

Production Location	Nameplate Production Capacity (kt)
MDI[1]	
Shanghai, China[2]	460
Baytown, Texas, United States	320
Brunsbüttel, Germany	200
Uerdingen, Germany	200
Tarragona, Spain	170
Niihama, Japan[3]	70
Total (MDI)	**1,420**
TDI	
Dormagen, Germany[4]	250
Shanghai, China	250
Baytown, Texas, United States	220
Brunsbüttel, Germany[5]	125
Total (TDI)	**845**
Polyether polyols[6]	
Channelview, Texas, United States	340
Antwerp, Belgium	270
Dormagen, Germany	250
South Charleston, West Virginia, United States	180
Fos Sur Mer, France	130
New Martinsville, West Virginia, United States	50
Lin Yuan, Taiwan	40
Niihama, Japan[3]	20
Santa Clara, Mexico	30
Pasadena, Texas, United States[7]	20
Total (Polyether polyols)	**1,330**

Notes:

(1) Excludes the production facility located in Belford Roxo, Brazil, with a nameplate production capacity of 55kt that was closed during the later half of 2015.

(2) Excluding potential additional nameplate production capacity of 40kt once fully ramped up and subject to potentially necessary investments needed to reach the additional capacity.

(3) Part of a joint venture with Sumika Bayer Urethane Co., Ltd. in which the Group owns 60%.

(4) During the ramp-up phase in 2015 and 2016 a maximum production capacity of 250 kt is expected. An additional investment in the low double-digit millions of Euros range may be needed to reach the expected nameplate production capacity of 300 kt sustainably.

(5) TDI production in Brunsbüttel facility is to be discontinued in the second half of 2015.

(6) Excludes the production facility located in Belford Roxo, Brazil, with a nameplate production capacity of 10 kt that was closed in July 2015.

(7) Capacity via third party contracts.

Twelve systems houses complement the business unit's global production network by delivering customized products to customers with lower volume requirements. For further information on production facilities see ''—*15.8 Real Property and Production Facilities—15.8.2 Production Facilities*.''

In line with its proven track record of cost discipline and its strategy of further optimizing its cost position, the business unit focuses on continuous efficiency improvements, including its production cost efficiency. Such improvements are a key focus of the business unit's past and with regard to ongoing restructuring of its production operations, which include: optimizing infrastructure related costs in Niihama, Japan, in 2014, the closure of the production facilities in Belford Roxo, Brazil, in 2015, the restructuring of the European TDI production assets; and exploring the restructuring potential of MDI in EMLA. For further information on efficiency improvements, see ''—*Investments*.''

The Polyurethanes business unit benefits from state-of-the-art isocyanate and polyether polyols production technologies, which rely on key feedstock such as benzene, toluene and propylene oxide to produce various MDI, TDI and polyether polyol grades. The business unit produces MDI using liquid-phase phosgenation technology. For the production of TDI, the business unit uses its advanced and proprietary gas-phase phosgenation technology at its facilities in Dormagen, Germany, and Shanghai, China, which represents a competitive advantage for the business unit; and, in conjunction with its scale and selected backward integration, gives the business unit a favorable cost position in TDI production relative to its competitors, according to the Industry Report. Gas-phase phosgenation technology requires less energy consumption than the industry standard liquid-phase phosgenation technology and shortens the reaction time needed to complete process relative to conventional technologies with significantly higher throughput. In regions with high energy costs (EMLA and APAC), the business unit has adapted its TDI facilities to use gas-phase phosgenation technology. Although the facility in Baytown, Texas, United States, uses liquid-phase phosgenation technology combined with its scale, level of backward integration, low energy costs and other factors enable it to produce TDI cost efficiently. The business unit produces polyether polyols using its proprietary IMPACT technology that enables continuous production as well as the industry-standard alkali-based technology.

The key feedstock and raw materials used in the Polyurethanes business unit are benzene, toluene, propylene, propylene oxide, ammonia, salt, chlorine, carbon monoxide and nitric acid. The business unit transfers chlorine, carbon monoxide and nitric acid from other Group operations and pursuant to long-term agreements, each in part or in their entirety. The Group is also a partner with LyondellBasell with respect to worldwide production assets for the production of propylene oxide, which is the essential precursor for the business unit's polyether polyol production. This degree of backward integration provides the Group with advantages relative to competitors who lack a similar level of backward integration. Other key raw materials are purchased from external sources. The business unit also purchases and internally produces certain additives, catalysts and stabilizers that it uses in connection with its systems.

In addition, pursuant to the Lyondell European Joint Venture, the Group is required to take a significant portion of styrene monomers, which are a by-product of propylene oxide production.

Investments

The Polyurethanes business unit intends to continue asset consolidations and restructurings in order to increase cost efficiency and the utilization rates at its production facilities.

The business unit recently completed a key milestone by restructuring its European TDI production assets with the completion of a €400 million investment made together with other site users (which also covered costs related to infrastructure) in a state-of-the-art world-scale TDI production facility in Dormagen, Germany, that entered operation in December 2014. It is the most modern gas-phase TDI production facility in the world. During the ramp-up phase in 2015 and 2016 the facility is expected to have a maximum production capacity of 250 kt. An additional investment in the low double-digit millions of Euros range may be needed to reach the expected nameplate production capacity of 300 kt sustainably. The new capacity added by the facility to the business unit's total nameplate production capacity is partially offset by the closure of older generation TDI production facilities between 2014 and 2015 in Dormagen, Germany, and Brunsbüttel, Germany. The restructuring is expected to lead to cash cost savings in the mid double-digit millions of Euros range for the Group attributable to a consolidated production platform, lower steam consumption and chlorine integration benefits.

The Group is also considering the MDI restructuring potential in EMLA with the possible re-usage of idle infrastructure and precursors in Brunsbüttel, Germany, which would enable an increase in MDI nameplate production capacity by 200 kt following additional investments. Such a restructuring is likely to be implemented without a material net MDI capacity increase of the business unit's production capacity.

Innovation

The Group considers innovation to be an important element to ensure the long-term success of the Polyurethanes business unit. It believes it has superior expertise and know-how capabilities that facilitate its application development activities and customer relationships. The business unit's four innovation centers are located in Leverkusen, Germany; Pittsburgh, Pennsylvania, United States; Amagasaki, Japan, and Shanghai, China. The business unit's innovation activities are focused on manufacturing processes and product development, including developing solutions for customers.

The Polyurethanes business unit's product innovation activities involve developing or improving products for targeted customer applications. The systems produced by the business unit are the key mechanisms by which it develops innovative products, which is essential to its ability to meet evolving customer needs and maintain its leading industry position. Working closely with customers in developing new applications and systems solutions, especially by cooperating with customers in the early development phases of new applications, has been a significant factor for the long-term success of the business unit. The properties of polyurethane foams are primarily determined by base polyol, and polyol formulations. Polyol product and formulation know-how plays a key role for the business unit's product innovation activities, both for supporting and growing the existing MDI-and TDI-based applications, and for creating additional applications for polyurethanes in adjacent end markets.

The business unit's product innovation currently includes projects on new technologies such as nano-cellular foams, improved fire resistance and lightweight composites. Through nano-cellular foams, the business unit aims to capture growth in the industry, such as in construction and cold-chain insulation, by enhancing thermal performance relative to foam volume. The business unit is also developing raw materials and systems for rigid foams with improved fire resistance, designed to address end market needs such as evolving building code regulations in connection with construction insulation. In addition, the business unit is currently developing lightweight composites through an infusion process that can replace epoxy resins as the interior of wind turbine rotor blades. The Group believes using its lightweight composites will increase the performance of the wind turbine due to improved mechanical properties and has the potential to enable faster manufacturing of the blades. Generally, the business unit continuously explores opportunities for polyurethanes to replace other materials in new and existing applications.

The business unit's process innovation is currently developing a polyether polyol production technology in which a portion of the petrochemical raw materials used in the production of polyether polyol can be replaced with carbon dioxide. This production technology is intended to reduce the business unit's carbon footprint by replacing petrochemical feedstock. The business unit has begun transitioning the technology to small scale commercial dimensions. The target is to begin marketing an innovative form of polyether polyol made using carbon dioxide as a raw material by 2016.

15.5.2 Polycarbonates Business Unit

Overview

The Polycarbonates business unit's focus is on the development, production and marketing of polycarbonates, which are an engineering thermoplastic and are easily worked, molded and thermoformed. The business unit's polycarbonate resins and compounded resins are suitable for standard and high value applications where the Group's ability to provide comprehensive technical service is key. The business unit also produces and sells bisphenol-A, a key raw material to produce polycarbonates. In addition, the business unit is forward integrated into producing polycarbonate-based extruded sheets, which are produced from its resins. The business unit is also active in application technology development with customers in connection with polycarbonates processing. In Fiscal Year 2014, the business unit had external net sales of €2.8 billion, an Adjusted EBITDA margin of 5.7% and accounted for 24.0% of total Group net sales.

The Group's Polycarbonates business unit is one of the two leading global suppliers of polycarbonates accounting for approximately 27% of global nameplate production capacity in 2014 according to the Industry Report. Because of their unique properties, polycarbonates are used in a wide range of applications, including those in end markets such as automotive, consumer, appliance, medical packaging, construction, electronics, and optical media.

The Polycarbonates business unit is headquartered in Shanghai, China, and operates a well-invested global network of five world-scale production facilities that together have a total nameplate production capacity of approximately 1.3 million tons of polycarbonate resins, thus benefiting from economies of scale and scope. The business unit also operates five production facilities that manufacture polycarbonate sheets from the business unit's resins and seven compounding centers, where it produces compounded resins. It also uses a global network of technology centers to develop bespoke polycarbonate formulations for customers. The business unit employed approximately 3,600 full-time equivalent employees as of Fiscal Year 2014.

Business unit strategy

The Polycarbonates business unit's strategy is built on three key strategic pillars: capturing growth in the polycarbonates industry segment, strengthening what it believes is its technology leadership, and further improving its cost position by continuing its disciplined cost optimization programs.

According to the Industry Report, global demand for polycarbonates is expected to grow above GDP over the period from 2014 to 2020, driven by the automotive/transportation, electrical/electronics and construction end markets. The business unit believes it is well-placed to capture such growth. Key elements of its strategy of capturing growth are leveraging both its broad customer application know-how and access to different geographic regions. In addition, the business unit aims to strengthen its collaborative relationships with global leaders in its key end markets through strategic account management. Furthermore, the business unit will continue to improve customer supply through product swap agreements and similar arrangements with other producers.

The business unit plans to strengthen what it believes is its technology leadership through building application and product development capabilities to grow in products with higher technical specifications. In line with its history of commercializing innovative products and applications, it intends to establish polycarbonates composites in the information technology and automotive end markets as an affordable metal substitute. For that purpose, the business unit believes that its recent acquisition of Thermoplast Composite GmbH gives it, amongst others, a critical technological advantage to build a leading position in the industry. Currently, the business unit is collaborating with leading companies in selected end markets in connection with product and application launches and will consider what additional investments it must undertake to increase its production of composites. At the same time, the business unit aims to further develop its process technology to maintain its production cost leadership.

To further improve its cost position, the business unit aims to complete its investment into its production facility in Shanghai, China, and improve the efficiency of its sales and innovation activities. In addition, it aims to streamline its sheet production site network. The business unit expects only a limited need for capital expenditures to support growth in the mid-term.

Products and applications

The Polycarbonates business unit serves the full spectrum of applications, ranging from standard (such as packaging) to high value (e.g. automotive, electrical/electronics) applications, which often allow premium pricing. The business unit offers innovative polycarbonates grades such as those for transparent and translucent ambient lighting as well as new designs for a range of colors, surface decoration and that are soft to the touch. The produced material is primarily sold in granular form as resins; to a lesser extent, those resins are internally processed into extruded sheets to capture additional value.

Polycarbonates are engineering thermoplastics that offer a unique combination of properties, such as break resistance, lightweight, transparency, high-dimensional stability, heat resistance, high-impact strength, and electrical insulation. These properties can be further strengthened and customized by the addition of specially selected additives that can add color to the material, render it highly fire resistant, or adjust surface appearances.

Resins

The business unit sells polycarbonates and polycarbonates compounded resins in granular form. The properties of the resins can be customized to a customer's application requirements by using additives, typically, but not only, including a combination of different levels of temperature resistance, break resistance, dimensional toughness, weight and optical properties. In compounded resins, for example, additives may comprise a mixture of acrylonitrile butadiene styrene and flame retardant which, when combined, strengthen the materials to meet more demanding physical, chemical, and fire-safety requirements. Compounded resins may also include glass fiber-reinforced grades, specialty transparent grades as well as those that comply with food-contact regulations of the business unit's core end markets.

The business unit offers resins worldwide in ranges designed to address applications with a broad range of technical requirements. Applications with lower technical requirements generally include packaging, beverage containers, and optical media, whereas applications with higher technical requirements generally include mobile devices, information technology, light emitting diodes and automotive interiors.

Sheets

The Polycarbonates business unit sells extruded solid and multiwall sheets, which are manufactured out of its polycarbonate resins. The sheets are highly impact-resistant, have good weatherability, and heat insulation properties, and, due to their light weight, require less structural support than heavier materials such as glass. The sheets are mainly used in architectural glazing applications, roofing systems such as for sports stadiums, fenestration and facades, in machine housing, signage, and luggage.

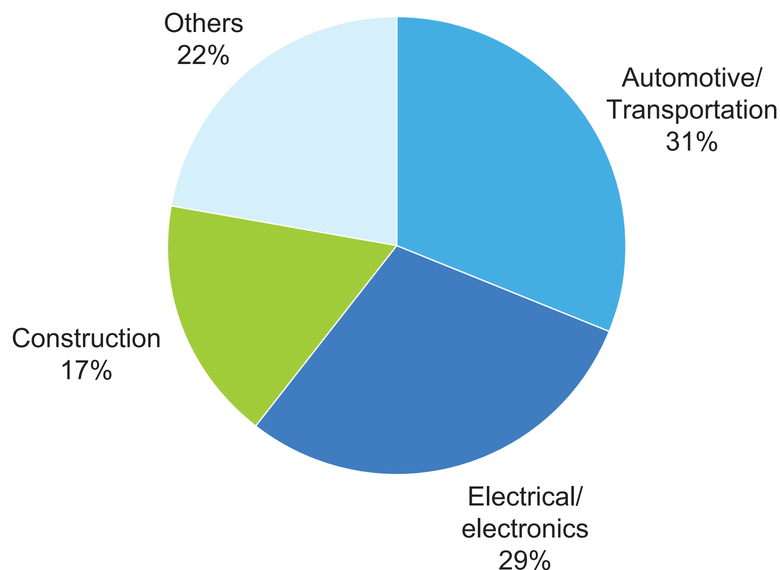
It also manufactures composite sheets that contain carbon fiber, glass and polymer fibers within polycarbonate matrices. Composite sheets are particularly thin and lightweight materials that are one-fifth the weight of stainless steel. Compared to similar composites with other plastics, they may show improved performance where specific surface qualities are required, such as for subsequent coating process steps.

Raw material

The Polycarbonates business unit opportunistically sells bisphenol-A, if that material is in excess to its use in its own resin production. It is a chemical intermediate used primarily to make polycarbonates epoxy resins and polycarbonate resins.

End markets and customers

The following diagram shows the Polycarbonates business unit's external net sales in Fiscal Year 2014 by end markets.(1)



Note:

(1) Based on the external net sales attributed to the Bayer AG's MaterialScience business as reflected in the consolidated financial statements of the Bayer Group for fiscal year 2014.

The business unit's customers are primarily in the automotive, consumer/appliance/medical/packaging, construction, electrical/electronics, and optical media end markets. According to the Industry Report, automotive/transport, electrical/electronics and construction applications are important growth drivers for the polycarbonates industry segment. The business unit places special emphasis on the development of products for the automotive and electronics end markets, including the information technology sector. The focus here is on reducing weight, improving energy efficiency and safety, and enabling a greater freedom in part design.

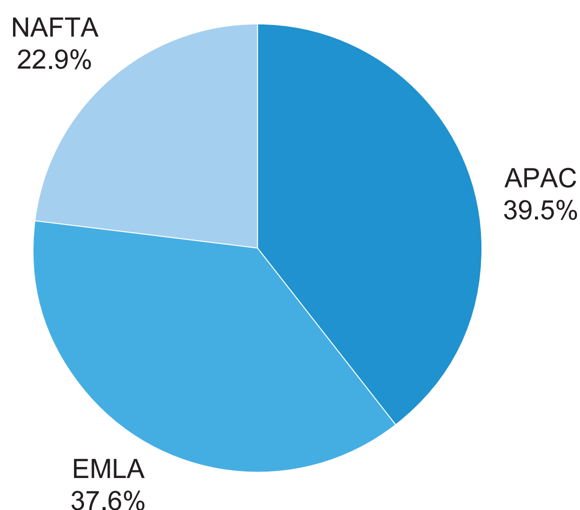
The business unit's global footprint and the use of its polycarbonates in a broad spectrum of high-value applications in its customers' products provide a degree of risk diversification, and support its capacity utilization. The business unit's comprehensive product portfolio provides access to many diverse end markets with expected above GDP rate growth until 2020, according to the Industry Report. The use of the business unit's products in high value applications provides several advantages including premium pricing when customers have high technical requirements and demand comprehensive technical

support. According to the Industry Report, the Group has a strong reputation for fulfilling these requirements. The business unit believes that its collaborative relationships with its customers often strengthen customer loyalty.

The business unit's customers place varying demands on the product, depending on the technical requirement underlying their intended applications. The customers who demand resins and sheets for applications with higher technical requirements expect high levels of technical support, and close collaboration in developing new products, combined, amongst others, with reliable supply at consistent quality levels. Customers seeking resins and sheets for applications with lower technical requirements also expect, amongst others, reliable supply at consistent quality levels but do not require, amongst others, the technical capabilities of the business unit.

The business unit believes that it is well-placed to capture anticipated industry growth supported by key macro trends such as increasing mobility, increasing prosperity and population growth, resource scarcity and the need for safety and security. The Group's polycarbonates are able to address challenges posed by increasing levels of mobility such as size reduction, dimensional stability, mechanical performance, and ignition resistance in electronic devices. In addition, new concepts related to end products that are designed to improve living conditions, urban architecture, mobility and aspects of the food supply chain may be implemented using the Group's polycarbonates, in particular as sheets, electrical devices, food packaging, and in consumer appliances. The trend towards greater awareness of the need to conserve resources and fuel efficiency is expected to foster demand for the Group's polycarbonates. These are in particular suitable for automotive applications given that they reduce the overall weight of the vehicle and for electrical/electronics applications and LED lighting applications. The Group's polycarbonates also have certain safety characteristics such as light weight, contact safety, transparency and strength, which make them suitable for electronic, medical devices and protective gear.

The following diagram shows the Polycarbonates business unit's external net sales in Fiscal Year 2014 by geographic regions.



In Fiscal Year 2014, external net sales in APAC accounted for 39.5% of the Polycarbonates business unit's external net sales, whereas external net sales in EMLA and NAFTA accounted for 37.6% and 22.9%, respectively. China was the largest single destination for polycarbonates in Fiscal Year 2014 by consumption and net sales generation. According to the Industry Report, the Group is the largest producer of polycarbonates in China in terms of nameplate production capacity in 2014.

Production and supply

The business unit operates an integrated production process along the value chain that aims to optimize cost efficiency. The Polycarbonates business unit operates a well-invested global asset base with five world-scale production facilities across all key regions with limited need for additional expenditure to increase production capacity. It is well-positioned to capture growth in particular in China, following significant investments in capacity in the region. For further information on such investments, see ''—*Investments*.'' According to the Industry Report, the business unit has a lower cost position in APAC than most of its competitors as a result of its advantages in production processes, scale, utility and selective backward integration into key raw materials. For further information on production facilities see *''—15.8 Real Property and Production Facilities—15.8.2 Production Facilities.''* It is headquartered in Shanghai, China, and has a total nameplate production capacity of approximately 1.3 million tons of polycarbonate resins.

The following table presents the locations of the business unit's key production facilities and their respective capacities as of December 31, 2014:

Production Location	**Nameplate Production Capacity (kt)**
Map Ta Phut, Thailand	310
Uerdingen, Germany	300
Antwerp, Belgium	240
Baytown, Texas, United States	230
Shanghai, China[(1)]	200
Total	**1,280**

Note:

(1) Excluding additional capacity of 200 kt expected to be available in 2016-2017.

The business unit also operates seven compounding centers located in: Uerdingen, Germany; Map Ta Phut, Thailand; Filago, Italy; Greater Noida, India; Guangzhou and Shanghai, China; and Newark, Ohio, United States, at which it produces compounded resins. The compounding centers provide solutions to customers that range from color matching and small-scale production, to the broad range of technical services to support injection-molding and compounding processes. The business unit also operates five production facilities that manufacture polycarbonate sheets from the business unit's resins, which are located in Busan, South Korea, Guangzhou, China, Nera Montoro, Italy, Tielt, Belgium, and Sheffield, Massachusetts, United States.

The Polycarbonates business unit benefits from both state-of-the-art and optimized production technologies designed to process feedstock such as acetone and phenol, chlorine and carbon monoxide to produce the key raw materials for polycarbonates: bisphenol-A, diphenylcarbonate and phosgene. The business unit is selectively backward integrated into these raw materials at all global primary production facilities. For example, its production facility in Shanghai, China, is fully integrated into bisphenol-A and partially into chlorine; the business unit believes it is the only world-scale polycarbonates production facility with single production lines in excess of 100 kt in China. At its production facilities in Shanghai, China, and partially in Antwerp, Belgium, the business unit produces polycarbonates using the state-of-the-art melt polycarbonate production process, which has lower production costs relative to the interfacial technology due to lower raw material, steam and electricity input. In addition, the melt production process enables the business to produce products that are solvent free and suitable for niche applications. At its other production facilities, the business unit produces polycarbonates using the interfacial polycarbonates production process.

The principal feedstock and raw materials used in the business unit are acetone, phenol, carbon monoxide, chlorine and caustic soda. The business unit transfers carbon monoxide, chlorine and caustic soda from other Group operations in part, or in their entirety. The business unit's polycarbonate resins are in part used by the Group to produce polycarbonate films.

Investments

To address anticipated demand over the next five years, the Polycarbonates business unit is investing in the production facility at Shanghai, China, to expand its existing polycarbonates resin production capacity and related raw material nameplate production capacity of currently 200 kt by an additional 200 kt by 2016/2017. Its investment is intended to secure its leading position in APAC, the region with the largest expected growth globally. The majority of the anticipated capital expenditures necessary to complete the project will be spent by the end of 2015. These capacity expansions are also intended to support and maintain its leading position in APAC in the future.

Innovation

The business unit's global innovation network and development capabilities across EMLA, APAC and NAFTA that include specialized labs for testing and technical centers enable it to develop cutting edge materials and processes offering customers significant value in all key regions. The business unit's global innovation centers support its global innovation activities and are located in Germany, the United States, and China. Its network and capabilities are designed to meet customer specifications in a timely and reliable manner at consistent levels of quality while working closely with customers in innovation, and technical after sales support. The Group believes it is the development partner of choice for polycarbonates products due to its proactive market-driven approach to innovation. The global network enables the business unit to quickly and effectively follow customer relocations, and to provide products relevant to a wide variety of applications, globally.

The business unit's product innovation activities generally focus on the needs of the end markets it serves including needs related to a customer's cost efficient end product production processes. The business unit typically develops products together with its customers in a structured approach, starting in the initial stage by addressing and identifying the particular requirements of the customer's application. Such innovation is typically related to the adaption of existing or the creation of new products in order to satisfy a customer's or an end market's specific or perceived property requirements. In the development, or design and engineering stage, the business unit creates a product or application design that addresses, and sometimes further optimizes, the technical demands defined by the customer. Once the customer's application requirements have been satisfied, the product or application design enters the commercialization stage where the business unit applies its technical and commercial expertise to assist the client in optimizing the end product production processes, controlling end product quality, and scaling up production. The business unit also develops downstream processing technologies to help customers tailor their end product production processes.

With respect to products for the automotive end market, the business unit's development focus is on innovative interior and exterior applications. A key area for further development with respect to automotive exterior applications is complex glazing products like sun-roofs and rear windows including the corresponding nontransparent external body parts, which are intended to support the industry efforts to produce lightweight automobiles with better fuel-efficiency. Key areas in interior automotive applications are specialized, functional surface textures, and colored polycarbonates. DirectSkinning® and DirectCoating® technologies are key examples of the combined development of product, application and processing expertise. These technologies allow customers to integrate molding and coating into one processing step, eliminating the need for a separate surface treatment and intermediate storage of semi-finished interior parts, and reducing energy costs and handling efforts. On the exterior, a major development area with respect to automotive lighting is the shift away from xenon or halogen lamps towards LED lighting technologies, raising new challenges like heat distribution and heat transportation.

Through the acquisition of Thermoplast Composite GmbH ("**TCG**"), the business unit expanded its position in the future-oriented industry segment for composite materials. TCG is a strong technology supplier in the field of fiber composite materials that offers customized prototyping solutions to major original equipment manufacturers. This is a new class of particularly thin and lightweight materials that are one-fifth the weight of stainless steel. The materials have properties that could offer superior performance in existing end market products such as high end IT products and automotive body parts. The business unit plans to leverage its efficient know-how and production processes to develop the technology to a commercial scale in collaboration with leading companies.

The business unit's process innovation activities generally focus on increased process efficiency, improved production technologies, reduction of raw material consumption and increased energy efficiency.

15.5.3 Coatings, Adhesives and Specialties Business Unit

Overview

The Coatings, Adhesives and Specialties business unit is a global leading supplier of high performance materials to the industrial coatings, adhesives, sealants and other specialties industry segments, according to the Industry Report. As a niche specialty material provider, the business unit has strong focus on technology and innovation, which is as a key element to produce highly-value-added products that provide superior performance relative to other, more standard, chemistries. The business unit believes it is the technology leader with respect to the production of isocyanate derivatives for coatings, adhesives and sealants. The business unit produces approximately 2,300 products that are primarily based on six monomers, for more than 4,300 customers across more than 10 high-end end markets. This excludes the business unit's recently developed PDI and xylylene diisocyanate (''**XDI**'') monomers. The business unit's product portfolio includes aliphatic isocyanates and their derivatives, aromatic isocyanate derivatives, and polyurethane dispersions. In addition, the business unit's product portfolio includes a wide range of TPU- and polycarbonate-based specialty films, hot cast elastomers, products tailored to specialty textile, cosmetic and medical applications, and other products. In Fiscal Year 2014, the business unit had external net sales of €1.9 billion, an Adjusted EBITDA margin of 22.7% and accounted for 16.4% of total Group net sales.

According to the Industry Report, the business unit is the leading worldwide producer of aliphatic isocyanate derivatives, aromatic isocyanate derivatives, polyurethane dispersions and TPU films, accounting for approximately 47%, 20%, 17% and 19% of global volumes sold, respectively as well as the second leading worldwide producer of polycarbonate films, accounting for 18% of global volumes sold, each in 2014. The business unit's customers are primarily formulators in the industrial coatings, adhesives and sealants industry segment who use the business unit's isocyanate derivatives to cater to the automotive, construction, wood/furniture, footwear, packaging/textiles/clothing and electrical/ electronic end markets. The products of the business unit are critical to the performance of the end products in which they are used, yet form a small proportion of the overall price of the end product.

The Coatings, Adhesives and Specialties business unit operates a global asset base with three world-scale monomer production facilities that are complemented by regional isocyanate derivative production facilities, and additional production facilities for resins, elastomers and specialty films across EMLA, APAC and NAFTA. The production facilities are capable of providing reliable supply to customers in all regions while fulfilling required quality standards. The production facilities are complemented by nine technical centers. The technical centers offer technical support and are an important element in facilitating close, long-term relationships with customers.

Business unit strategy

The Coatings, Adhesives and Specialties business unit's strategy is based on three key pillars: securing high returns in growing core end markets, accelerating growth in specialties and securing its industry position by selective investments.

The Coatings, Adhesives and Specialties business unit aims to grow with its core end markets by offering a portfolio of high-value-added products based on market-driven innovation capabilities and customer proximity. According to the Industry Report, global demand for the business unit's products is expected to grow above GDP over the period from 2014 to 2020. The business unit believes it is well-placed to capture the expected increase in demand. The business unit intends to maintain its differentiated core products by fine-tuning its existing isocyanate derivatives and derivatives of novel isocyanate building blocks such as PDI and XDI while preserving its differentiated core business.

The business unit believes that key to accelerating growth in specialties is leveraging its core technical expertise and formulation know-how to address customer needs in existing adjacencies and new applications. It will also evaluate partnership opportunities along the value chain that are aimed at supporting its growth. The business unit also plans to drive growth with respect to other specialties such as specialty films and elastomers, which traditionally have been higher value industry sub-segments.

The business unit aims to secure its industry position by executing selective investments such as expanding its HDI production capacity at its production facility in Shanghai, China, by 2016 as well as expanding its existing polyurethane dispersion production capacity, and capacities with respect to specialty films, and other specialties. The business unit will also consider adapting its existing production assets to scale-up its production capabilities of novel isocyanates. Despite the business unit's intention to

expand its derivative and specialties production capacity, the business unit expects its capital expenditures to revert to normalized historical levels in Fiscal Year 2016.

Products and applications

The Coatings, Adhesives and Specialties business unit sells isocyanates and their derivatives and specialties to customers in the coatings, adhesives and sealants industry segments to protect, seal, decorate and functionalize surfaces, and bond substrates. The business unit's products are used by customers in their end product formulations depending on key determinants, such as the type of surface upon which the end product is to be applied, the environment to which the end product is exposed, the end market in which the end product will be used, and the method by which the end product will be applied and cured. Using the business unit's product portfolio, as a basis for coatings, adhesives and sealants, gives the coatings, adhesives and sealants produced by its customers a combination of properties, such as abrasion resistance, outdoor weathering resistance, a high degree of flexibility to formulate coatings that range from very hard to highly elastic, low temperature curing, corrosion and chemical resistance, durability, gloss retention, and hydrolytic stability. The business unit's products are high-end solutions, often unique to a customer's needs, which are used in intrinsically complex applications. The business unit's products for high-value applications such as automotive applications have historically commanded a price premium due to their superior combination of performance and price relative to non-polyurethanes based products for similar applications. Demand across selected key end markets historically enabled the polyurethane-based coatings, adhesives and sealants industry segments to grow above GDP.

The business unit also sells TPU- and polycarbonate-based specialty films, cast elastomers including casting equipment and other specialty derivatives tailored to textile, cosmetic and medical applications in addition to other products.

Aliphatic isocyanates and their derivatives

Aliphatic isocyanate derivatives are based on hexamethylene diisocyanate (''**HDI**''), isophorone diisocyanate (''**IPDI**'') and methylene dicyclohexyl diisocyanate (''**$H_{12}MDI$**''). Aliphatic isocyanate derivatives are primarily a raw material in coatings formulations.

For example, in automobiles, the business unit's aliphatic isocyanate derivatives are components in coatings that provide high gloss and non-yellowing, while offering improved scratch and weathering resistance. For corrosion protection of infrastructure assets such as bridges, the business unit's solution permits the use of less coating layers while maintaining the same high level of performance.

The monomers produced by the business unit are primarily HDI, IPDI and $H_{12}MDI$. The monomers are used in the manufacture of aliphatic isocyanate derivatives.

Aromatic isocyanate derivatives

Aromatic isocyanate derivatives are primarily based on MDI and TDI. MDI based derivatives are primarily a raw material in adhesives and sealants while TDI based raw materials are primarily a raw material in wood coating formulations, and in the flexible packaging applications.

For example, in the construction end market, adhesives containing the business unit's aromatic derivatives are used for structural wood applications, while in the packaging end market such adhesives are used in flexible packaging.

Polyurethane dispersions

Polyurethane dispersions are aliphatic polyurethane resins that are primarily used for coating and adhesive applications. The dispersions are stabilized in water to maintain low viscosity and once evaporation occurs, a continuous film forms rapidly. Waterborne dispersion allows ease of formulation, application and clean-up as well as environmental advantages, such as the elimination of odor and release of volatile organic compounds (''**VOC**''). Polyurethane dispersions are used as adhesives for shoes and car interiors to substitute solvent-based systems. Within wood, concrete, or metal coatings these raw materials provide the same level of coating durability as solvent-based systems while having the ability to comply with potentially stricter VOC requirements.

Specialties

The business unit offers a wide range of TPU- and polycarbonate-based specialty films, hot cast elastomers and other products tailored to specialty textile, medical and cosmetic applications.

Specialty films

The business unit manufactures tailor-made polycarbonate and polycarbonate-blended films, and TPU films. The business unit's specialty films exhibit various properties, such as substantial heat resistance, toughness and elasticity over a wide temperature range, stiffness, electrical insulation properties, as well as abrasion, weathering and chemical resistance. They are formulated to address a variety of applications across the automotive, medical, identification card/security, including passport applications, and display end markets. The business unit also provides a new class of photopolymer films for holographic optical elements, formulated for display, lighting and optical applications.

Elastomers

The business unit manufactures specialized cast elastomers, cast polyurethane raw materials and prepolymer systems based mainly on MDI, TDI and naphthalene diisocanate- ("**NDI**") based formulations. These products are broadly used in industries, such as the mining, renewable energy generation, paper, oil and gas, automotive and construction industries, which require high performance in terms of abrasion, tear and chemical resistance. In addition, the business unit manufactures low-pressure dispensing equipment for processing MDI, TDI and NDI-based formulations. The business unit sells its cast elastomer systems, customer-tailored machines designed for hot casting, and a wide variety of reactive systems under the Baulé brand name.

Specialty textile, medical and cosmetic

The business unit's specialty products are designed for niche textile, cosmetic and medical applications.

With respect to textile applications, certain of the business unit's waterborne polyurethane dispersions are specifically formulated to coat textiles that are used in consumer applications ranging from footwear and apparel to automotive seating, and also in various types of industrial uses. The textile coatings produced by customers based on the business unit's products are formulated to improve various qualities of a customer's fabric such as water resistance and color retention while also eliminating the use of certain harmful solvents that are typically used in textile manufacturing processes and consuming less water and energy than typical application methods.

With respect to medical applications, the business unit offers waterborne dispersions for differentiated film and dipping applications, as well as specifically formulated raw materials for foams and adhesives in advanced wound care applications. These tailor made polyurethanes materials offer high absorption and breathability for an improved moisture management of wounds, which are important factors for improved wound healing.

With respect to cosmetic applications, the business unit's waterborne polyurethane dispersions are specifically formulated to add various functional and sensory properties to a customer's cosmetic end products such as hair care, protective skin care, and color cosmetic end products.

Other

To complement its product offering for coatings and adhesives applications, the business unit also produces chlorinated rubber resins and offers a portfolio of solid polychloroprene resins and polychloroprene dispersions as well as solid polyurethane resins for contact adhesives in footwear, furniture and automotive applications. In addition, the business unit produces polyurethane resins for solvent borne coatings and adhesives applications.

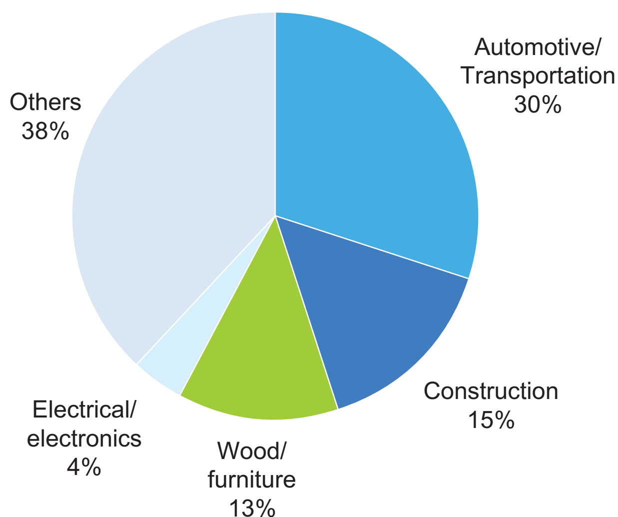
The business unit sells a comprehensive portfolio of customized polyester resins for solvent-borne and solvent-free two component polyurethane systems. These products are used in a variety of applications from plastic and transportation coatings to flexible foams whenever light stability, in combination with high flexibility, is required.

The business unit also produces a full range of polycarbonate diols, which are primarily used as building blocks for polyurethane polymers whenever durability and light stability are key requirements.

In addition, the business unit manufactures a specialty product line of amine-functional resins for fast curing high solids systems in corrosion protection and construction applications.

End markets and customers

The following diagram shows the Coatings, Adhesives and Specialties business unit's external net sales by end markets.[(1)]



Note:

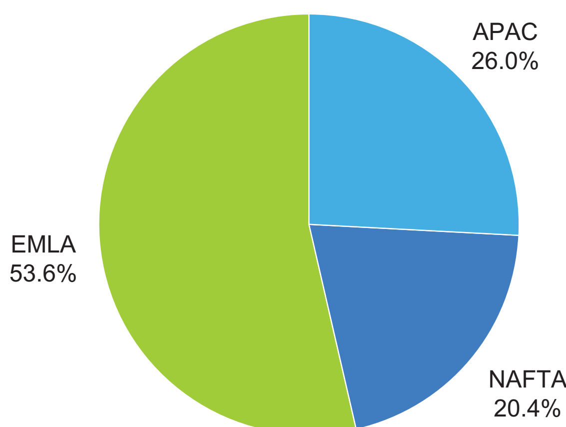
(1) Based on the external net sales attributed to the Bayer AG's MaterialScience business as reflected in the consolidated financial statements of the Bayer Group for fiscal year 2014.

The business unit produces approximately 2,300 products for more than 4,300 customers that are primarily formulators in the automotive/transportation, construction, wood/furniture, electrical/electronics, packaging, footwear, medical, textile, cosmetics and security end markets. The business unit believes that its global production footprint enables it to better serve the fragmented end markets across key regions. The business unit's niche product portfolio and broad exposure to a diverse range of end markets has historically served as a natural hedge against cyclicality in individual end markets.

The business unit's customers are, in part, development partners with whom the business unit jointly develops innovative products and applications and who are active locally or regionally. Some of the business unit's other customers are global key accounts, who operate a global asset base and generally require global marketing and technical service. In several of the business unit's end markets, the key differentiating factor is the overall performance delivered by the business unit's product i.e. lowering the total cost of applying a coating rather than price per kilogram. The business unit also considers distributors to be important customers who are additional channels to the business unit's end markets.

In Fiscal Year 2014, approximately 25% of the external net sales of the business unit were attributable to the top three customers. A significant proportion of such sales was attributable to long-term sales agreements with remaining terms of three years or more.

The following diagram shows the Coatings, Adhesives and Specialties business unit's external net sales in Fiscal Year 2014 by geographic regions.



In Fiscal Year 2014, external net sales in EMLA accounted for 53.6% of the Coatings, Adhesives and Specialties business unit's external net sales, whereas external net sales in APAC and NAFTA accounted for 26.0% and 20.4%, respectively.

Production and supply

The Coatings, Adhesives and Specialties business unit's production processes are backward integrated into all six key monomers upon which the business unit's isocyanate derivatives are primarily based.

The business unit operates a global asset base with three world-scale monomer production facilities across NAFTA, EMLA and APAC in Baytown, Texas, United States, Leverkusen, Germany, and Shanghai, China, complemented by regional isocyanate derivative production facilities. The business unit also has production facilities for specialty films, elastomers and other specialties across EMLA, APAC and NAFTA.

The production facilities are capable of providing reliable supply to customers in all regions at equivalent quality levels. The production facilities are complemented by nine technical centers across the key geographic regions. The technical centers offer technical support and facilitate proximity to customers. In connection with the Baulé brand, the business unit operates production facilities in key locations for the production of cast elastomer systems and machines designed for hot casting and a wide variety of reactive systems. For further information on production facilities, see ''*—15.8 Real Property and Production Facilities—15.8.2 Production Facilities*.''

The business unit produces the isocyanate derivatives primarily from six monomers and also from the two recently launched monomers PDI and XDI, which together form the building blocks of the business unit's products. The business unit produces the monomers by combining certain amines with its internally produced phosgene. The business unit benefits from the Group's proprietary gas-phase phosgenation technology, which together with its backward integration enables the business unit to produce such building blocks at a cost advantage relative to its competitors. The business unit produces its polycarbonate films and some of its TPU films using the polycarbonate resins and TPU, respectively, produced by the Group.

The principal feedstock and raw materials used in the Coatings, Adhesives and Specialties business unit are HDA, NDA, H_{12}MDA, IPDA, chlorine, and carbon monoxide. The business unit transfers chlorine, carbon monoxide and other raw materials such as MDI, TDI and polycarbonate resins from other Group operations in part or in their entirety. Other key raw materials are purchased from external sources.

Investments

To address anticipated demand over the next five years, the Coatings, Adhesives and Specialties business unit has been investing to expand its existing HDI production capacity at its production facility in Shanghai, China, by approximately 2016. The business unit also plans to expand its specialty films production capacity at its production facility in Dormagen, Germany; its existing polyurethane dispersion production capacity at its production facilities in Dormagen, Germany, and Shanghai, China; and certain minor investments in connection with additional derivative and other specialties capacities.

Innovation

The Group considers innovation to be a key element in ensuring the long-term success of the business unit because it produces products for niche applications for which expertise and innovation are necessary to continuously address customer needs. In Fiscal Year 2014, approximately 90% of the business unit's innovation expenditure was related to product innovation with the remainder related to process innovation. The business unit's major innovation centers are located in Germany, the United States and China.

Since the late 1950s, the business unit has had a strong track record of continuously establishing new technology platforms, such as Desmodur N Biuret® (1958), polyurethane dispersions (1972), Desmodur® N Trimer (1978), Polyaspartics® (1989), Allophanate® (1994), Bayhydrol® UV (1995), Desmodur® N Asymmetric Trimer (1996), three generations of Bayhydur® by 2000, Acclaim polyol based Desmoseal® S Prepolymers (2002) and Desmodur® eco N and BLULOGIQ® (2015). Respective technology platforms include a variety of products which are continuously improved to be fit for current as well as adjacent applications such as Baycusan® (2008), Baymedix® (2010) and INSQIN® (2014). With respect to process innovation, the business unit has a strong track record of developing pioneering technologies such as the gas-phase phosgenation technology for manufacturing the monomer isocyantes HDI and IPDI and the acetone process for polyurethane dispersions.

Approximately 50% of the business unit's annual innovation expenditure is dedicated to improving and sustaining its core products. In addition, the business unit dedicates approximately 40% of its annual innovation expenditure to developing new market driven applications for its core products to create adjacent growth opportunities in new markets, such as ophthalmic lenses and digital printing. The business unit conducts such innovation activities on the basis of its market driven innovation strategy and in close collaboration with key stakeholders across the entire value chain. The remaining product innovation expenditure is dedicated to developing new market driven technologies, such as bio based raw materials. For all growth opportunities and new applications, the business unit's innovation strategy involves collaborating with partners along the value chain and developing customized solutions tailored to specific needs.

The business unit has a strong pipeline of innovative products. In Fiscal Year 2014, approximately 20% of the business unit's external net sales were attributable to products launched in the past five years. The business unit recently developed Desmodur® eco-PDI (a bio-based polyurethanes cross-linker) that is produced using the Group's proprietary pentamethylene diisocyanate (''**PDI**''). As calculated according to the ASTM-D6866 standard, PDI contains approximately 70% renewable carbon derived from non-petrochemical-based biomass, which is not in direct competition with food production. It can be produced at the Group's existing production facilities that use the gas-phase phosgenation technology. In addition, the business unit recently launched BLULOGIQ®, a thermolatent hardener for automobile coatings. The hardener is intended to enable a reduction in the temperature needed for certain coatings processes from 140°C to below 100°C, thereby enabling automotive end market customers to reduce their energy consumption and carbon dioxide emissions in connection with their application production processes by up to 15% and 10%, respectively. The business unit is currently in the commercialization phase of these two innovations.

For applications in connection with polyurethanes synthetics and other polyurethanes-coated textiles, the business unit has developed INSQIN®, a waterborne polyurethanes technology that eliminates workers exposure to hazardous chemicals and environmental pollution risks associated with conventional technologies. The production process enabled by the technology consumes up to 50% less energy and up to 95% less water. The business unit is collaborating directly with apparel and footwear brand owners as well as manufacturers and other stakeholders across the value-chain to help them expedite the introduction of materials based on the new technology to their end markets.

Besides creating growth opportunities by improving product performance and expanding potential markets for its products, the Coatings, Adhesives and Specialties business unit's process innovation activities involve optimizing capital efficiency in production, reducing operating costs and limiting its impact on the environment.

15.5.4 Centrally Organized Sales

To the extent they are not consumed internally, the Group centrally coordinates the sale of by-products created by the Group's operations as raw materials to customers. Such third-party sales primarily consist of sales of chemical intermediates such as hydrochloric acid, caustic soda and chlorine, which amounted to external net sales of €729 million or 6.2% of total net sales of the Group in 2014, which are reported under ''All other segments.'' According to the Industry Report, the Group was the fifth largest global producer of chlorine in 2014. Customers typically purchase the Group's chemical intermediates as precursors to their higher-value chemicals, such as plastics, polyurethanes, textile fibers, resins, paints, surfactants, colorants, coatings, pharmaceuticals and agricultural products.

The Group looks forward and backward along its production value chains to find potential efficiencies by examining every input and output of the Group's production operations. The Group uses by-products to a maximum extent as raw materials for other internal processes. In Fiscal Year 2014, the majority of by-products created by the Group's operations were consumed internally. According to the Industry Report, the Group is one of the most cost-effective producers of hydrochloric acid, caustic soda and chlorine, due to its use of oxygen-depolarized cathode and membrane electrolysis technologies.

The Group is also responsible for licensing and selling oxygen-depolarized cathodes, licensing certain technologies such as the IMPACT technology and leasing certain real estate holdings to third parties.

The following are the Group's key by-products sold to third parties.

Chlorine

Chlorine is an essential raw material for the chemical industry e.g. for making plastics and organic chemicals for building materials, electronics, fiber optics, pharmaceuticals and medical plastics. In Fiscal Year 2014, the Group started producing chlorine using the innovative oxygen-depolarized cathode technology, which reduced the amount of energy consumed during production relative to standard technologies used in the industry.

Caustic soda

Caustic soda is an essential intermediate used in a variety of chemical and other industrial processes. The Group sells a 50% solution of liquid caustic soda in membrane-grade quality. It is produced as the by-product of chlorine production based on the electrolysis of an aqueous sodium chloride solution. For every ton of chlorine approximately 1.1 tons of caustic soda are also produced, and hence the Group's production of caustic soda depends on its chlorine production based on electrolysis of aqueous sodium chloride solution. Caustic soda constitutes an essential reactant in the production of many useful organic chemicals, such as in pulp, paints, glass and ceramics, and is used in fuel cell production, and cosmetics industries.

Hydrochloric acid

Hydrochloric acid is an essential inorganic acid used widely in industrial processes. The business unit sells hydrochloric acid at several grades, including 36% and 32% food and commercial grades, respectively. It is produced as a by-product of isocyanate production and is used as a raw material for the manufacture of other chemicals used in industrial, electronic, pharmaceutical, and consumer applications, such as steel, organic and inorganic compound production, leather processing, pulp production, household cleaning, construction, and oil production. The food industry uses hydrochloric acid for controlling the pH of process water streams.

15.6 SALES AND MARKETING

The Group has a regional sales and marketing structure in which each business unit independently manages its sales and marketing activities in a similar fashion with respect to the products it manufactures. Each business unit sells its products through its own sales force as well as through distributors. The sale and marketing of certain chemical intermediates is managed centrally by the Group, while others are managed by the relevant business unit.

Each business unit sells its products mostly through regional and local sales channels. The regional supply chain centers in Leverkusen, Germany, Hong Kong, China, and Pittsburgh, Pennsylvania, United States, are specialized in order management and logistics, including credit and collection management,

and serve as the central hubs in the worldwide distribution supply chain. Larger customers of the Group are managed using key account managers in each business unit. The Group also uses third-party distributors across the regions in which it operates. From time to time, the Group also enters product swap agreements and similar arrangements with other producers to guarantee that the Group's customers can be supplied at all times and in all locations. In addition, the Polyurethanes business unit also operates systems houses, which are essential in its ability to build and strengthen relationships with customers with lower volume requirements who require technically sophisticated products that are formulated to their individual needs.

The Group also operates an e-commerce platform called Order@Covestro, which enables customers to place online orders and access other online services, such as reports of order status, delivery dates, as well as downloads of documents, including material safety data sheets, product data sheets and certificates of analysis for any of the products offered by the business units in the particular region. Through the web portal, the Group's customers are able to check the status of orders at any time. This structure channels all information streams from order acceptance to dispatch planning, delivery and complaint acceptance in EMLA, APAC and NAFTA.

Allocating the sales and marketing activities to each business unit facilitates a high level of customer proximity and allows for sophisticated marketing strategies. The Group regularly reviews and tailors its marketing activities on the basis of customer satisfaction surveys and spontaneous customer feedback. In order to facilitate its customers' operations and use of the Group's products, the Group also provides technical application support and technical service laboratories.

The Group regularly evaluates the complaints received from customers. Through dialogue with internal and external stakeholders, corrective and preventive measures are taken by the Group where necessary to further increase quality and customer satisfaction, while lowering production error rates and ultimately the incidence of complaints.

15.7 PROCUREMENT AND TRADING

The Group relies on the procurement of a wide range of raw materials, technical goods, energy and services in order to produce its products. Procurement and management of operative road transportation and finished goods warehousing services, including transportation network optimization, are handled by the Group's Supply Chain Centers (''**SCCs**''). The SCCs are responsible for the regional outbound supply chain operations of the business units. They are located in Leverkusen, Germany, covering EMEA plus Latin America through a local hub in Sao Paulo, Brazil, in Hong Kong, China, as well as hubs in several major countries across Asia with responsibility for operations in APAC, and in Pittsburgh, Pennsylvania, United States, for NAFTA with a local hub in Mexico City, Mexico.

The Group looks forward and backward along its production value chain to find potential efficiencies by examining every input and output of the Group's production processes. The Group uses by-products of chemical reactions, which might otherwise have to be sold or disposed of, to the maximum extent as raw materials for other production operations. Certain production facilities of the respective business unit are linked, by pipeline, rail or by waterway, to the production facilities of other business units to enable the by-product of one production process to act as a reactant in another production process.

The Group centrally manages and bundles worldwide procurement processes in order to leverage synergies within the Group and to ensure the selection of appropriate suppliers on a global basis, while individual procurement decisions are formed at a local level. The Group's procurement teams act as intermediaries between suppliers and the business units. To support natural currency hedging and to realize logistical advantages, the Group pursues a balanced local and regional sourcing strategy and maximizes regional or worldwide demand where appropriate to generate economies of scale.

The Group has a key supply relationship with Currenta GmbH & Co. OHG (''**Currenta**'') that operates the chemical parks in Leverkusen, Dormagen, and Uerdingen in Germany in which the Group has production facilities and other business operations. Currenta provides various services to the Group's operations located at the chemical parks, including utilities such as electricity, water, heat, and waste water removal. For further information on the Group's relationship with Currenta, see ''*16. Certain Relationships and Related Party Transactions—16.1 Relationship with the Bayer Group—16.1.11 Real Estate Purchase Agreement between Companies of the Group and Companies of the Bayer Group*.''

15.7.1 Raw Materials and Energy

The raw materials needed in the Group's operations are acquired from a range of suppliers pursuant to supply agreements. Supply agreements are typically entered into for a fixed period of one to three years, with an automatic extension in case they are not terminated within a certain period prior to their expiration. Supply agreements are often indexed and include price adjustment clauses relating to raw material prices and, in certain cases, include delivery obligations for the suppliers or purchase commitments for certain volumes by the Group. With regard to global suppliers, the Group typically enters regional supply agreements that contain the standard industry terms applicable to the respective region.

In order to avoid dependency on individual suppliers, the Group aims to have several suppliers for its raw materials and other purchased goods, and has established a comprehensive sourcing policy to limit supply shortages or interruptions and their associated costs. The principal suppliers of petrochemical derivatives to the Group in Fiscal Year 2014 were LyondellBasell, Ineos, Royal Dutch Shell, Lanxess, Mitsui, International Petroleum, Exxon Mobil, Sumitomo, Styrolution, Linde, China National Petroleum, BASF, Solvay and Dow Chemical.

The operation of the production facilities of the Group requires large amounts of energy, mostly in the form of electricity or steam. In steam and electricity generation, the Group aims for a balanced diversification of fuels and a mix of long-term contracts with on-site suppliers and to a lesser extent captive production to minimize the price fluctuation risk.

15.8 REAL PROPERTY AND PRODUCTION FACILITIES

The Group operates production facilities worldwide and uses land with office buildings, warehouses, research and development facilities, and other facilities in a large number of countries as either owner or lessee.

15.8.1 Real Property

The Group currently leases and uses real property located at the chemical parks in Germany pursuant to lease agreements with Bayer Real Estate GmbH. As of the date of the Prospectus, the Group owns approximately 14,000,000 m^2 and after transfer of real estate pursuant to the real estate purchase agreement (*Grundstückskaufvertrag*) will own 26,300,000 m^2. Pursuant to a notarized real estate purchase agreement (*Grundstückskaufvertrag*), dated August 31, 2015, certain members of the Group, have purchased (i) land parcels at the production site in Brunsbüttel, Germany, and at the chemical park sites in Leverkusen, Dormagen and Uerdingen, Germany, on which the Group currently operates its business, (ii) certain supplementary real estate property which the Group may use in the future and (iii) significant additional real property outside the scope of the Group's current and foreseeable future use. The notarized real estate purchase agreement relates to an area totaling approximately 12,300,00 m^2. Certain real property outside Germany was transferred to the Group prior to the date of the Prospectus. For further information on the real estate purchase agreement, see *''16. Certain Relationships and Related Party Transactions—16.1 Relationship with the Bayer Group—16.1.11 Real Estate Purchase Agreement between Companies of the Group and Companies of the Bayer Group.''*

15.8.2 Production Facilities

The headquarters of the Group and the headquarters of the Polyurethanes and Coatings, Adhesives and Specialties business units are located in Leverkusen, Germany, and the headquarters of the Polycarbonates business unit is located in Shanghai, China. The regional headquarters of the Group and business units are located, respectively, in Pittsburgh, Pennsylvania, United States, for North America, Leverkusen, Germany, for Europe and Hong Kong and Shanghai, China, for Asia.

The Group operates world-scale plants in key locations to ensure efficient and reliable production, and operates smaller-scale plants in other locations that are dedicated to one business unit or shared between two business units. A local presence allows customized support and tailor-made solutions for local customers. The main production facilities of the Group are located in: Leverkusen, Uerdingen, Brunsbüttel and Dormagen, Germany; Antwerp, Belgium; Baytown, Texas, United States; Map Ta Phut, Thailand; Tarragona, Spain; and Shanghai, China. These are the production facilities which support the business units.

The following table provides an overview of the Group's most important facilities as of the date of the Prospectus as well as after the transfer of ownership pursuant to the real estate purchase agreement (*Grundstückskaufvertrag*), dated August 31, 2015:

	As of the date of the Prospectus		Status after transfer of ownership pursuant to the real estate purchase agreement		
Facility	**Area in m²***	**Owned/ Leased**	**Area in m²***	**Owned/ Leased**	**Key Site Uses**
Germany					
Leverkusen . . . . (Chemical park)	175,700	Leased	1,418,000 122,000	Owned Leased	• Group headquarters • Supply Chain Centre EMLA • Polyurethanes Business Unit and Coatings, Adhesives and Specialties Business Unit headquarters; • Regional headquarters for Polycarbonates Business Unit • Technical labs and chlorine facility • Innovation Hub • Chlorine facility
Brunsbüttel . . . . (Chemical park)	4,459,000	Leased	4,459,000	Owned	• Polyurethanes Business Unit
Dormagen . . . . . (Chemical park)	280,400	Leased	2,758,000 317,000	Owned Leased	• Polyurethanes Business Unit • Coatings, Adhesives and Specialties Business Unit • Chlorine and nitric acid facility
Uerdingen . . . . . (Chemical park)	181,000	Leased	3,340,000	Owned	• Polycarbonates Business Unit • Polyurethanes Business Unit • Chlorine and coke facility
Outside Germany					
Ankleshwar, India .	17,600	Leased	17,600	Leased	• Coatings, Adhesives and Specialties Business Unit
Antwerp, Belgium .	1,400,000	Owned	1,400,000	Owned	• Polyurethanes Business Unit • Polycarbonates Business Unit
Baytown, Texas, United States . .	4,131,800	Owned(1)	4,131,800	Owned(1)	• Production of all business Units
Channelview, Texas, United States	18,000	Leased	18,000	Leased	• Polyurethanes Business Unit
Filago, Italy	631,500 45,700	Owned(2) Leased	631,500 45,700	Owned(2) Leased	• Polycarbonates Business Unit
Fos-sur-Mer, France	119,000	Leased	119,000	Leased	• Polyurethanes Business Unit
Fribourg, Switzerland	3,000	Leased	3,000	Leased	• Administration
Hong Kong, China .	2,600	Leased	2,600	Leased	• Regional headquarters for Polyurethanes Business Unit • Supply Chain Center APAC
Map Ta Phut, Thailand	35,100 181,500	Owned Leased	35,100 181,500	Owned Leased	• Polycarbonates Business Unit • Coatings, Adhesives and Specialties Business Unit
New Martinsville, West Virginia, USA	550,000	Owned(3)	550,000	Owned(3)	• Polyurethanes Business Unit
Niihama, Japan . . .	104,600	Leased	104,600	Leased	• Polyurethanes Business Unit

Facility	As of the date of the Prospectus		Status after transfer of ownership pursuant to the real estate purchase agreement		Key Site Uses
	Area in m²*	Owned/ Leased	Area in m²*	Owned/ Leased	
Pittsburgh, Pennsylvania, United States . .	38,000	Leased from the Bayer Group	38,000	Leased	• Regional headquarters for North America and regional headquarters for all business units • Supply Chain Center NAFTA • Innovation Center
Santa Clara, Mexico	166,000	Owned(4)	166,000	Owned(4)	• Polyurethanes Business Unit • Coatings, Adhesives and Specialties Business Unit
Shanghai, China . (Shanghai Chemical Industry Park and vicinity)	1,530,000	Leased	1,530,000	Leased	• Production all Business Units • Chlorine facility • Shanghai Polymer Research & Development Center (Innovation Center) • Group country headquarters China, • Polycarbonates Business Unit global headquarters
Tarragona, Spain . (Tarragona Industrial Park)	1,160,000	Owned	1,160,000	Owned	• Polyurethanes Business Unit, Systems house
Zona Franca, Spain	200,000	Leased	200,000	Leased	• Coatings, Adhesives and Specialties Business Unit

Notes:

* The areas shown reflect the approximate areas.

(1) Additional 2,893,500 m² are part of the green belt that is owned around the site.

(2) Thereof approximately 66,100 m² are leased to the Bayer Group.

(3) Additional 3,500,000 m² are part of the green belt that is owned around the site.

(4) Thereof approximately 31,000 m² are leased to the Bayer Group.

Many of the Group's sites have an extensive history of industrial operations, storage and related activities and some of the Group's buildings have in the past contained and may still contain asbestos or other harmful substances. As is typical for such businesses, soil and ground water contamination have occurred in the past at some sites such as those in Leverkusen, Dormagen and Uerdingen and may occur or be discovered at the Group's sites in the future. The Group also owns a large number of industrial sites containing, in some cases, pre-existing contamination requiring securing or remediation. The Group has been and is likely in the future to be liable for the costs of investigating and cleaning up or stabilizing environmental contamination on or from its properties or at off-site locations where it transported, disposed of or arranged for the disposal or treatment of hazardous materials and waste or from disposal activities that predated its purchase of its businesses. At December 31, 2014, the Covestro Group had other provisions of €41 million for probable environmental remediation and restoration costs.

For information on environmental issues associated with the Group's properties, see "*3. Risk Factors—3.2 Risk Related to Legal, Regulatory and Tax Matters—3.2.5 The Group may be subject to losses due to liabilities or lawsuits related to contaminated land that it owns or operates or arising out of environmental damage or personal injuries associated with exposure to chemicals, the release of chemicals or other hazardous substances.*"

15.9 INVESTMENTS

The Group bases its investment decisions on the long-term attractiveness and sustainability of the investment. The Group benefits from extensive investments made in its asset base, which totaled approximately €7 billion since 2005, of which approximately €4 billion related to growth. In line with the Group's strategic targets, it intends to comprehensively complete its switch to longer turnaround cycles. With a significant majority of such investments now concluded, the Group expects there to be only a limited need for investments to support additional production capacity in the period up to 2020. The Group expects that in the period from Fiscal Year 2015 to 2017, approximately 60% of its investment requirements will be dedicated to maintenance, approximately 30% to growth and approximately 10% to efficiency. In that period, the Group aims to focus approximately 60% of its growth investments in APAC and approximately 36% in EMLA, with the remainder in NAFTA. The Group plans to focus investments on a few key projects such as the further expansion of its pilot polyol production facility in Dormagen, Germany, that uses carbon dioxide as a raw material. For more information on key planned investments see ''*—15.5 Business Units and Centralized Product Sales—15.5.1 Polyurethanes Business Unit—Business unit strategy,*'' ''*—15.5 Business Units and Centralized Product Sales—15.5.2 Polycarbonates Business Unit—Business unit strategy*'' and ''*—15.5 Business Units and Centralized Product Sales—15.5.3 Coatings, Adhesives and Specialties Business Unit—Business unit strategy.*''

The Group continually explores how it can further improve the efficiency of its operations and enhance its profitability. The Group's current structured profitability program consists of an asset optimization plan and cost improvements, aimed at further enhancing profitability by 2019.

15.9.1 Asset Optimization Plan

The key measures within the Group's asset optimization plan include fixed asset management cost improvements such as the reduction of facility management costs, which support project execution and further drive optimization, asset restructuring and efficiency projects and continuous improvements in the manufacturing area. In particular, the Group plans to consolidate certain production operations to focus on the Group's core geographic regions and to further optimize the utilization of its eight world-scale production sites. As part of its plan, the Group decided to close its production facility in Belford Roxo, Brazil, in 2015. It also initiated the restructuring of its European TDI production assets, which involves the discontinuation of its older generation TDI production facilities in Dormagen and Brunsbüttel, Germany, and the launch of a new TDI production facility in Dormagen, Germany. In addition, the Group is evaluating the potential re-usage of the TDI infrastructure and precursors in Brunsbüttel, Germany, to enable economic doubling of its MDI capacity by 200 kt per annum.

15.9.2 Cost Improvement Measures

The principal general cost improvement measures are targeted to achieve costs in line with best-in-class chemical industry benchmarks and focus on corporate overhead cost savings, business-unit level specific cost savings and continuous cost improvement in the non-manufacturing area. The Group plans to achieve corporate overhead cost savings through the optimization of corporate functions, the streamlining of its IT infrastructure and business model, and designing more tailor-made service functions to replace the transitional service agreements currently in place with the Bayer Group. Business unit level-specific cost savings are planned to result from the streamlining of its sales forces and back office functions, its focus on core end markets and customers, consolidation within regional functions, product management, marketing and sales, and the maximization of the use of existing trade and distribution channels.

15.10 RESEARCH AND DEVELOPMENT

The Group's research and development activities are intended to maintain and strengthen the position of the Group within the industry and focus on product- and process-related innovation development. The Group's research and development activities are driven by underlying demand for higher quality applications, increased functionality, design flexibility, lower cost production processes and sustainability. In addition, the use of renewable raw materials is also a key objective. The Group believes that new technologies and the use of alternative raw materials can significantly increase the Group's production efficiency and decrease the environmental impact of industrial operations, which will ultimately strengthen the position of the Group. However, the implementation of these innovations may require a substantial change in the Group's asset setup or, occasionally, investment in new production assets. In

addition, the Group's research and development objectives aim to secure future leadership with new product variants in life cycles of new and existing applications that build on the Group's expertise in its core technologies.

The Group gives priority to innovation projects delivering benefits to society, the environment and profit. The Group's perspective covers the whole product life cycle, from raw materials sourcing to production, and product use to end of life.

The Group has a track record in continuously developing improved fire resistant products, insulation properties to reduce energy consumption, high flow and lightweight solutions or alternative feedstock, leading to greater resource efficiency and environmental sustainability for customers. In the past years, amongst many other Group innovations, the Group has successfully advanced microcell insulation, pultrusion technology, new Bayblend grades suitable for information technology applications, high flow APEC, Makrolon, and Bayblend grades for optimized surfaces and complex parts, waterborne coatings for textiles and specialty films for identification cards.

The following table sets forth the research and development expenses of the Covestro Group in Fiscal Years 2014, 2013 and 2012:

	Fiscal Year		
	2014	**2013**	**2012**
	(EUR in millions, except percentages)		
Research and development expenses (*audited*)	212	243	255
Research and development expenses as percentage of net sales (*unaudited*)	1.8%	2.1%	2.2%

15.10.1 Organizational Structure

Research and development teams are allocated to the individual business units. Such an organizational structure aims to ensure that development activities are oriented around the business units' requirements, including those of their customers and end markets. In addition, cross-business-unit innovation areas are established for potentially disruptive technologies that may be used by all business units. Current common product innovation topics include flame retardancy, composites and bio-based materials, while common process innovation topics include C-1 chemistry, gas-phase phosgenation, flexible production, energy efficiency, and electrochemistry.

The Group focuses research and development in one major innovation hub in each region in order to strike a balance between closeness to customers and maintaining a critical mass of personnel and knowledge. These major innovation hubs are located in Leverkusen, Germany, Pittsburgh, Pennsylvania, United States, and Shanghai, China. In addition, the Group operates small, flexible units close to its customers which primarily provide support to those customers' processes and applications. All of the Group's research and development facilities serve each of the business units, allowing the Group to structure its research and development infrastructure efficiently.

Cooperation with third parties

The Group collaborates with external scientific and academic institutions. These collaborations are mainly based in Europe, the United States, China, and Japan. Fundamental research is normally pursued in cooperation with globally recognized universities or research institutes, such as the Catalytic Centre at the RWTH Aachen to insource catalysis and carbon dioxide chemistry knowledge, or the Federal Agency for Material Research (*Bundesanstalt für Materialforschung*) on fire resistance. In China, the Group maintains a close alliance with Tongji University in particular, while in the United States, the Group supports research activities at various renowned universities. The Group takes either a leading or an advisory role in numerous publicly funded projects in various scientific fields. The Group also participates in industry associations and other organizations such as the German Chemical Society (*Gesellschaft Deutscher Chemiker e.V.*), the Dechema Society for Chemical Engineering and Biotechnology (*Dechema Gesellschaft für Chemische Technik und Biotechnologie e.V.*) and the American Chemistry Council. The Group's innovation capability is also supported by collaborations with customers or other industry sectors, for example via the ''future_bizz'' corporate network. The Group cultivates relationships with a network of industry associations, NGOs and other stakeholders to address general industry needs such as standards or safety concerns, e.g. research on fire resistance. Most of the Group's innovation is

driven in cooperation with customers, to gain better insight into market needs and build on customers' processing and testing knowledge.

15.11 EMPLOYEES

15.11.1 Employees

For Fiscal Years 2014, 2013 and 2012, the Group employed an average of 14,397, 14,570 and 14,695 full-time equivalent employees. As of the date of the Prospectus, the number of full-time equivalent employees amounts to approximately 16,500 due to, among other reasons, the carve-out. Approximately 2,000 full-time equivalents employees of Bayer Group service companies who were dedicated to providing services to the Group have been transferred to the Group. The Group also expects to hire approximately 200 additional full-time equivalent employees for corporate and global functions (mainly human resources, controlling, accounting, finance, IT, procurement) and to build up country organizations.

The following table provides an overview of the average number of full-time equivalent employees of the Group by corporate function as at the dates indicated.

	As of December 31,		
	2014	**2013**	**2012**
Production	9,328	9,560	9,733
Marketing and distribution	3,512	3,355	3,277
Research and development	987	989	959
General administration	570	666	726
Total	**14,397**	**14,570**	**14,695**

15.11.2 Trade Unions and Collective Bargaining

Many of the employees of the Group in Germany and elsewhere in Europe are organized in country-specific union organizations. Parts of the Group's employees in NAFTA, APAC and elsewhere are also organized in country-specific organizations.

In Germany, many of the employees of the Group are organized in the German Union for Mining, Chemicals and Energy (*IG Bergbau, Chemie, Energie, IG BCE*). Several companies of the Group are members of the Association of Chemical Employers Rhine Area (*Arbeitgeberverband Chemie Rheinland e.V.*) and / or members of the North Germany Association of Employers in the Chemical Industry (*Arbeitgeberverband für die Chemische Industrie in Norddeutschland e. V.—ChemieNord*). As a member of these organizations, several companies of the Group are bound by collective bargaining agreements in connection with its employees in Germany.

Employees are represented in most of the companies of the Group in Germany by works councils (*Betriebsrat*). Works councils have numerous rights relating to notification and co-determination in personnel, social and economic matters. Under the German Works Constitution Act (*Betriebsverfassungsgesetz—BetrVG*), works councils are required to be notified in advance of any proposed employee termination and must confirm hiring, relocations and similar matters. They also have a right to co-determine social matters, such as work schedules and rules of conduct.

Furthermore, the Group in Germany is party to certain collective bargaining agreements. Covestro AG will become a party to the collective bargaining agreements. Several companies of the Group and the Bayer Group have concluded with the German Union IG BCE a collective agreement pursuant to Section 3 German Works Constitution Act (section 3 *BetrVG*). As a result of this collective agreement, only one works council per respective site has been elected and represents all employees of the companies, which have concluded the collective agreement and are located at the respective site *(Standortbetriebsräte*). It has been agreed with the works council that several companies of the Group and the German Union IG BCE will agree on an own collective bargaining agreement pursuant to Section 3 German Works Constitution Act to be followed by new elections.

In addition, several companies of the Group, with respect to its employees in Germany, have concluded an agreement with the general works council (*Gesamtbetriebsrat*) for the period to end 2020 (*Gesamtbetriebsvereinbarung Beschäftigungssicherung bei Bayer 2015 bis 2020*). The agreement generally protects employees against termination for operational reasons (*aus betriebsbedingten*

Gründen) and promises to continue operations at the current production locations in Germany. Furthermore, it promises that the headquarters of the Group, as well as the headquarters of the Polyurethanes and Coatings, Adhesives and Specialties business units, will remain in Leverkusen. Additionally, the agreement specifies that the scope of certain investments at the production facilities in Germany will not be changed. For further information on the Group's planned investments see ''*—15.5 Business Units and Centralized Product Sales—15.5.1 Polyurethanes Business Unit—Business unit strategy*,'' ''*—15.5 Business Units and Centralized Product Sales—15.5.2 Polycarbonates Business Unit—Business unit strategy*'' and ''*—15.5 Business Units and Centralized Product Sales—15.5.3 Coatings, Adhesives and Specialties Business Unit—Business unit strategy*.'' The Group's compensation and benefit system is to remain generally unchanged for a period of three years after the Offering.

In the past three years, there were no warning strikes during the wage negotiation periods or for other reasons. Good relationships with its employees are especially important to the Group, and the Group believes that it has good relationships with its full-time equivalent employees and its trade unions.

In Germany, various collective agreements for occupational pension schemes for employees are in place. Globally, applicable pension schemes for the Group's current and former employees, and their dependents, are based on various pension plans. The obligations of the Group under these plans vary depending on legal, tax and economic circumstances in the various countries in which the Group or Covestro AG operate, and in most of the countries they generally depend on the length of service and remuneration of the employee concerned. For further information on pensions, see ''*16. Certain Relationships and Related Party Transactions—16.1 Relationship with the Bayer Group—16.1.17 Pension Schemes''* and note 23 to the Group's annual combined financial statements included in ''*25 Financial Information*.''

15.11.3 Management Compensation

The Group believes that systematic personnel development is important for the future success of the new company. Group-wide talent management is therefore a key element of the Group's human resources policy. The policy's basic principle is that every employee has his or her own individual strengths and talents that deserve recognition and development. In this context, the Group carries out a talent and successor management process to identify suitable candidates and to help reinforce their relationship with the Group. This process combines a strong focus on performance and development with a high degree of social responsibility.

In this context, it is an important principle of the Group's human resources policy to enable employees to share in the Group's success. Based on a global compensation philosophy, the compensation structure for all managerial employees up to and including the Management Board is in principle the same. However, base salary structures as well as target percentages for variable components may vary between managerial levels and countries. At the managerial level, individual salaries are supplemented by company performance-related compensation components and certain Group benefits. Managerial employees and senior executives participate in the success of the Group on a performance-based, short-term incentive scheme with a potential yearly payment. The Group also offers senior and middle managers an incentive via a uniform stock-related compensation program. This long-term incentive scheme for the managerial staff and senior managers is based on the increase in the value of the shares of Bayer AG with regard to Fiscal Year 2015 and Covestro AG commencing with Fiscal Year 2016, as well as the relative performance of Bayer shares compared to the EuroStoxx with regard to Fiscal Year 2015 and shares of Covestro AG compared to the Dow Jones Stoxx Europe 600 Chemicals commencing with Fiscal Year 2016. For further information on compensation of members of the Management Board, see ''*21. Description of Governing Bodies—21.2.2 Compensation of Management Board Members.*''

The structure of the compensation schemes for members of the Management Board—following the same principles as for the other managerial employees—aims to ensure performance-oriented corporate governance and a long-term increase in the Group's value. The core elements of the system include fixed compensation, which takes into account the tasks and duties of this leading position, and an incentivized component, which depends on the attainment of the annual corporate performance targets.

15.12 FINANCIAL MANAGEMENT

The Group's integrated financial management is headed by the chief financial officer, which ensures centralized preparation and analysis of the financial information required to operate and provide the business with the required capital structure. The Group's financial management operates under

transparent international accounting rules, including Group-wide liquidity management and financial risk management.

The Group is responsible for daily bookkeeping and provides internal and external reports (e.g. Annual Report, Stockholders' Newsletter, financial planning, working capital and cash flow data). The Group uses different SAP systems for the collection and processing of the financial data, supplemented with specific information technology tools customized for the Group.

The Group is responsible for securing the required level of liquidity for the implementation of the Group's strategy and covering all due payment obligations of the Group at any given point in time. The instruments used to make financial resources available include debt and equity instruments. Furthermore, it uses hedging instruments to reduce the financial exposure caused by market price fluctuation risks, mitigates counterparty risks and manages the financial position of funded pension schemes.

The Group also provides quantitative and qualitative data and information to create transparency regarding the financial performance of the Group, its business units and other business operations. Furthermore, business analyses are conducted and discussed with business managers to support business steering. The Group also coordinates and steers the annual budget process and forecasts.

15.13 PATENTS, TRADEMARKS, LICENSES

The Group's global intellectual property strategy aims to protect and enhance the Group's competitive position in the various geographic regions in which it operates. This is achieved by effective management of the Group's intellectual property rights, including patents, trademarks and know-how. A high priority is placed on protecting innovation and the actual and future business value that the Group can derive therefrom. Intellectual property rights are centrally managed and coordinated by the intellectual property team based in Germany, with support and assistance from in-house intellectual property professionals in key countries such as the United States and China.

Patents and know-how

The patent rights which have been transferred to the Group from Bayer Group prior to the listing on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) cover all of the patents necessary for the Group's business activities. In total, these entail approximately 2,000 patent families worldwide, with approximately 18,000 national patents or patent applications in various countries in the world, including the most significant countries. The patent portfolio is wide-ranging and covers the Group's various business units. The Group acquires patent rights by exercising its rights to employee inventions and submitting them for registration, by licensing third-party patents or otherwise acquiring third-party intellectual property rights. In addition to patents, the Group possesses confidential know-how. Certain patents are of particular importance to individual business units as further described below.

Polyurethanes business unit

In the Polyurethanes business unit, certain patents and patent applications are of particular importance with regard to, *inter alia*, diisocyanate, which in turn are especially relevant to gas-phase technology for the production of TDI. Moreover, certain patents and patent applications are important for the production of polyether polyol using the Group's proprietary technology. The Polyurethanes business unit's patent portfolio includes, among other things, intellectual property rights for the production of polyurethane foam-based insulation materials used in insulating appliances, for the production of construction materials and polyurethane foam-based materials used for furniture and mattresses. Finally, the patent portfolio includes patents and patent applications with respect to polyurethanes-based materials used in automotive and transportation applications, and with respect to thermoplastic polyurethanes used for athletic shoes or ski boots, automotive interior applications, materials in construction, agriculture or other industries.

Polycarbonates business unit

In the Polycarbonates business unit, patents and patent applications cover several aspects of the technology chain, with a focus on essential raw materials and efficient production processes for polycarbonate resins. A further emphasis is on intellectual property protection of high-performance polycarbonates and polycarbonate blends, and the use thereof, as well as the coverage of advanced injection molding processing of resins (such as direct coating/skinning technology). The Polycarbonates

business unit's patent portfolio includes, among other things, industrial property rights related to applications in major industry segments where polycarbonate-based resins are used.

Coatings, Adhesives and Specialties business unit

In the Coatings, Adhesives and Specialties business unit, patents and patent applications are of particular importance with regard to, *inter alia*, diisocyanate, where they are of particular relevance to gas-phase technology for the production of aliphatic diisocyanates. Moreover, patents and patent applications are of particular relevance to the production of aliphatic isocyanate derivatives. The Coatings, Adhesives and Specialties business unit's patent portfolio includes, among other things, industrial property rights for the production of polyurethanes-based coatings, adhesives, elastomers and sealants. The patent portfolio includes patents and patent applications with respect to polyurethane dispersions. Finally, the patent portfolio includes patents and patent applications regarding polyurethane-based materials used in ophthalmic applications, cosmetic formulations and medical wound dressings. The portfolio also includes patents and patent applications relating to films made from polycarbonates and thermoplastic polyurethanes with, for example, additional surface technologies, as holographic films or in optical, light guiding or security applications.

Other

Other patents and patent applications play a significant role in protecting the Group's core technology in the field of industrial operations and the production of basic chemicals. One such patent applies to the oxygen-depolarized cathode (''**ODC**'') membrane electrolysis technology, which was developed jointly with industry partners.

15.13.1 Trademarks

The trademark rights which have been transferred to the Group prior to the listing on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) cover approximately 380 active trademark families and a total of approximately 5,000 trademark registrations/applications. The Group's trademark portfolio is currently being reviewed to determine which trademarks are essential for the Group's business activities. In the future, the Group intends, in general, to register new trademarks in all countries in which significant sales of the relevant product are expected. The business name ''Covestro,'' the Covestro logo and numerous product markings are trademark protected. Trademarks used by the business of the Group that have BAY as a prefix or suffix are included in the trademark rights which have been transferred.

The following trademarks are of particular importance to individual business units:

Polyurethanes business unit

For the Polyurethanes business unit, the trademarks Acclaim®, Arcol®, Baydur®, Bayfill®, Bayflex®, Bayfit®, Baygal®, Baymidur®, Baymer®, Baynat®, Baypreg®, Bayseal®, Baytherm®, Desmopan®, Desmophen®, Desmodur®, Mondur®, Multranol®, Multitec®, Sumidur®, Sumiphen®, Texin®, Ultracel® and Utechllan® are particularly noteworthy.

Polycarbonates business unit

For the Polycarbonates business unit, the trademarks Makrolon®, APEC®, Bayblend® and Makroblend® are particularly noteworthy.

Coatings, Adhesives and Specialties business unit

For the Coatings, Adhesive and Specialties business unit, the trademarks Baybond®, Baycoll®, Bayhydrol®, Bayfol®, Bayhydur®, Bayhytherm®, Baypren®, Crelan®, Desmocoll®, Desmocap®, Desmodur®, Desmolac®, Desmophen®, Desmoseal®, Dispercoll®, Impranil®, Pergut®, Baymedix®, Baycusan®, Makrofol® and Vulkollan® are particularly noteworthy.

15.13.2 Licenses

The Group has approximately 340 active licensing agreements with third parties under which it obtains or grants licenses. Licensing agreements may be concluded to provide for freedom of operations, to enhance acceptance of a new technology in the industry, make sustainability solutions available, enable cooperative ventures, or provide for net sales.

The Group has entered into cross-license agreements or non-assertion agreements with some key competitors which cover selected patents and patent applications. Pursuant to these agreements, the contractual parties are allowed to use patents of the counterparty in the fields covered by the respective cross-license agreement. Usually, these agreements do not provide for payment of royalties as they are reciprocal by nature. However, where there are imbalances with respect to the quantity or quality of the patent portfolios concerned, or when warranted by other factors, cross-license agreements may also provide for a compensation payment by a party.

In addition to cross-license agreements, the Group has granted to and has been granted from competitors or other third parties one-way licenses in certain fields for which the Group receives or pays license fees.

15.13.3 Domains

The Group holds a large number of internet domains, with the following being the most important:

- www.covestro.com (Global Corporate Website)
- www.covestro.de (Germany)
- www.covestro.us (North America)
- www.covestro.cn (Greater China)
- www.covestro.ru (Russia and CIS)
- www.covestro.dk (Northern Europe and Baltics)
- www.products.covestro.com (Product Center)
- www.productsafetyfirst.covestro.com (Product Stewardship)
- www.order.covestro.com (Global eBusiness)

In addition, the following domain names are available for the Group's use for a period of approximately one year following the Group's separation from the Bayer Group:

- www.materialscience.bayer.com (Global Corporate Website)
- www.materialscience.bayer.de (Germany)
- www.materialscience.bayer.com.cn (Greater China)
- www.materialscience.bayer.us (North America)
- www.materialscience.bayer.dk (Northern Europe and Baltics)
- www.materialscience.bayer.ru (Russia and CIS)
- www.materialscience.bayer.jp (Japan)
- www.materialscience.bayer.com.au (Australia/New Zealand)
- www.productsafetyfirst.bayer.com (Product Stewardship)
- www.materialscience-products.bayer.com (Global Product Centre)
- www.polyurethanes.bayer.com (Product Centre Polyurethanes)
- www.plastics.bayer.com (Product Centre Plastics)
- www.films.bayer.com (Product Centre Films)
- www.tpu.bayer.com (Product Centre Thermoplastic Polyurethanes)
- www.bayercoatings.com (Coatings, Adhesives, Specialties)
- www.sheets.bayer.com (Sheets Network)
- www.bayerone.com (Global eBusiness)

Apart from the intellectual property rights mentioned above, and not taking into consideration the Company's information technology systems, the Group does not hold any significant intellectual property rights and does not depend on patents or licensed materials in order to conduct its business.

15.14 LITIGATION

The Group is, and may become involved, in legal proceedings during the ordinary course of its business activities, both as a plaintiff and as a defendant. These proceedings are routine matters of civil and other laws, and do not have a significant impact on the Group's business.

The Company and its subsidiaries are not, and have not been in the previous 12 months, subject to any governmental, legal or arbitration proceedings, including any such proceedings which are pending or threatened of which the Company or the Group is aware, which may have, or have had in the recent past significant effects on the Company and/or the Group's financial position or profitability, except for the following:

15.14.1 UK Rubber-Related Litigation

In February 2008, Cooper Tire & Rubber Company Europe Ltd. and others (mainly tire producers) brought a legal action for damages before the High Court of Justice in the United Kingdom against various companies of the Bayer Group, including Covestro Deutschland AG, and other producers of butadiene rubber and emulsion styrene butadiene rubber alleging certain anti-competitive behavior. The Bayer Group companies settled the matter, based on an agreement dated March 26, 2012, against payment to the plaintiffs of a certain amount. In October 2012, the remaining defendants, companies of the Dow Group (''**Dow**''), agreed on a standstill agreement with the Bayer Group companies with respect to potential contribution claims by Dow against the Bayer Group companies. In May 2014, Dow settled the litigation with the tire manufacturers. Management understands that the settlement includes Eni group companies (''**Eni**'') against which Dow had a stayed contribution claim. This settlement terminated the litigation in its entirety. Moreover, on March 12, 2015, the former defendants Bayer Group companies, Dow, Shell group companies and Eni entered into an agreement waiving any potential contribution claims in relation to those proceedings which any one or more of them may have against each other.

15.14.2 German Pipeline Planning Administrative Litigation

The Higher Administrative Court Münster (*Oberverwaltungsgericht*) issued two preliminary decisions (*Beschlüsse im vorläufigen Rechtsschutz*) on December 17, 2007, according to which the prior decision of the Administrative Court Düsseldorf (*Verwaltungsgericht*) was partly overruled and the suspensive effect of the law-suits against the planning approval (*Planfeststellungsbeschluss*) was reestablished as far as the operation of the carbon monoxide (''**CO**'')-pipeline was concerned. The carbon monoxide pipeline is intended to connect the chemical production sites at Dormagen and Uerdingen and complement the network already existing between Dormagen and Leverkusen. The aim is to ensure a safe and reliable supply of carbon monoxide to and across all sites. In two other proceedings before the Higher Administrative Court Münster which related to orders of granting possession (*Besitzeinweisungen*), the Higher Administrative Court Münster decided in accordance with the above-mentioned ruling—meaning that the suspensive effect of the law-suits against the granting possession orders was also reestablished as far as the operation of the CO-pipeline was concerned. On May 26, 2009, the Administrative Court Düsseldorf dismissed an injunction of Covestro Deutschland AG applying for reinstatement of the immediate operation permit of the pipeline. Covestro Deutschland AG continues to request the approval for the operation of the pipeline.

In a judgment on May 25, 2011, the Administrative Court Düsseldorf confirmed the material parts of the planning approval, in particular the safety of all materials, the choice of the pipeline's route, the compliance of the expropriation law set forth in the North Rhine-Westphalian Pipeline Act (''**Rohrleitungsgesetz Nordrhein-Westfalen**'') with the German Federal Constitution (*Grundgesetz*) and—in principle—also earthquake safety. The Administrative Court Düsseldorf, however, identified certain areas which require further activity by the planning authority, including (i) analysis of soil liquefaction potential for a few areas, (ii) analysis of earthquake safety of those parts of the pipeline which are not built into the ground (e.g. pipe rack), and (iii) a regulation to assess a certain area for subterranean cavities, which were identified as relevant at a later stage of the proceedings. These issues were resolved by the planning authority in a further amendment of the planning approval on August 27, 2012. On April 19, 2012, Covestro Deutschland AG filed an application for a further amendment of the planning approval to cover further minor deviations from the original approval. The public hearing with regard to this amendment proceeding took place in November 2013 and the decision of the regional government has not yet been issued.

The plaintiffs and the planning authority appealed against the judgment of the Administrative Court Düsseldorf. The appeal is pending before the Higher Administrative Court Münster. On August 28, 2014, a public hearing took place before the Higher Administrative Court Münster. In the court hearing, the parties discussed the legality of the pipeline with respect to its safety, route and constitutional conformity. With regard to safety and route, the court had no concerns regarding the basic design and configuration of the pipeline. However, the Higher Administrative Court Münster expressed its view that it considered the underlying law to be unconstitutional. The court criticized the vagueness of the legal wording regarding the reasons for expropriation in section 2 North Rhine-Westphalian Pipeline Act. With respect to the ''common good'' (*Allgemeinwohl*), it stated that the legal requirements of the North Rhine-Westphalian Pipeline Act aimed at binding private entities to further the ''common good'' were not sufficient. As the Higher Administrative Court Münster had no other concerns that would have justified the cancellation of the planning approval, constitutional conformity was the only relevant issue for deciding the case. Consequently, the Higher Administrative Court Münster referred the case to the Federal Constitutional Court. The Federal Constitutional Court accepted to hear the case and Covestro Deutschland AG is preparing further submissions. On March 23, 2015, Covestro Deutschland AG filed a third-party response brief, requesting the Federal Constitutional Court to uphold the constitutionality of the North Rhine-Westphalian Pipeline Act. It is not clear when the hearing will take place. This proceeding may result in the Group having to deconstruct the pipeline at its cost and its inability to source carbon monoxide cost-effectively at certain production facilities.

15.14.3 German Litigation Relating to Carbon Monoxide Pipeline Leverkusen—Dormagen

On January 13, 2015, the Administrative Court Cologne (*Verwaltungsgericht Köln*) issued a third-party summons (*Beiladung*) addressed to Covestro Deutschland AG, making it a party to a lawsuit initiated by an individual as plaintiff against the regional district council Cologne (*Bezirksregierung Köln*) as defendant. The plaintiff requests that the regional district council Cologne revoke its order dated March 26, 2014 dismissing the plaintiff's previous complaint against the operation permit for a CO-pipeline operated by the Group between Dormagen and Leverkusen and the regional district council's original approval for this operation. The original approval had been granted by the president of the regional district council Cologne (*Regierungspräsident Köln*) in 1966 following an administrative proceeding. The pipeline provides the chemical park in Leverkusen, Germany, with carbon monoxide which is of particular relevance for the production facilities of the Coatings, Adhesives and Specialties business unit. Without this supply, the Group would have to build up a new supply source for carbon monoxide, which would generate additional costs. Furthermore, there is a threat of a loss of production. The plaintiff claims that the pipeline constitutes a danger for the health and safety of the neighborhood, which requires the withdrawal of the approval. The current proceeding is at an early stage. On March 25, 2015, Covestro Deutschland AG filed a third-party response brief, requesting the court to dismiss the plaintiff's claim. The first hearing has not yet been scheduled.

15.14.4 US Polytherm Litigation

On October 26, 2010, Factory Mutual Insurance Group, the University of California's (''**UC**'') property insurer, notified Covestro Deutschland AG's subsidiary, Covestro LLC, of a potential claim for damages arising out of the allegedly improper installation and resulting failure of an underground ''Polytherm'' piping utilities system at the University of California at San Francisco, Mission Bay campus (the ''**Project**''). The claim arose out of the failure of the ''Polytherm'' system in March 2009. The letter stated that repair efforts required the removal and replacement of certain piping systems and requested Covestro LLC to preserve any evidence relevant to the Project. Polytherm is a product manufactured by Perma-Pipe Inc. (''**Perma-Pipe**''), which was a Covestro LLC customer during the time frame encompassed by the Project. In February 2012, The Regents of the University of California (''**RUC**'') filed a civil complaint in California state court alleging professional negligence against RMF Engineering (''**RMF**''), as general contractor for the Project, Perma-Pipe and other interested parties, claiming damages in excess of $35 million. On April 12, 2012, RMF served Covestro LLC with a third-party complaint, seeking indemnity and contribution from Covestro LLC for any amount that RMF would be legally obligated to pay RUC. Counsel for RMF indicated subsequently that Covestro LLC was joined as a third-party defendant based on allegedly privileged comments made by another party's expert during a prior mediation session that implicated Covestro LLC. Covestro LLC was not an original defendant to the action, but rather was named a third-party defendant by RMF, which was seeking a contribution claim. On August 1, 2012, Covestro LLC answered the third-party complaint and discovery efforts commenced. On December 19, 2012, the parties' counsel and experts conducted an initial site inspection and in January

2013 Covestro LLC obtained eight samples of failed piping sections. Preliminary elemental tests completed on these samples (field joint as well as pre-poured pipes) demonstrated that the insulation material contained at least one compound (tin) which is not used by Covestro LLC. As discovery proceeded, Perma-Pipe stated in its written discovery responses that it has no documents regarding the purchase of Covestro LLC products in the relevant time frame. Based on the lack of evidence implicating Covestro LLC, Covestro LLC requested that RMF voluntarily dismiss it from the litigation. After this request was initially rejected, Covestro LLC granted RMF access to its expert, shared its test results from the extracted site samples, and produced an executed declaration stating that it has no records or information establishing that Covestro LLC material was supplied for use in the Project. Upon receipt of this information, RMF agreed to dismiss Covestro LLC from the case, without prejudice. On January 29, 2014, the court granted the requested dismissal. The order means that Covestro LLC is no longer a third-party defendant in the matter, thereby extinguishing RMF's third-party complaint for contribution. Under Californian procedural law, if new evidence is discovered in the underlying action implicating Covestro LLC, RMF may be able to re-join Covestro LLC. The Management continues to monitor the matter's docket activity to determine the status of the case. Discovery in the matter is ongoing.

15.14.5 Dutch Arbitration Relating to CO_2 Certificates

In June 2014, Utility Centre Maasvlakte Leftbank B.V. ("**UCML**"), a Belgium affiliate of the German energy supplier E.ON, initiated arbitration proceedings before the Netherlands Arbitration Institute against the Lyondell European Joint Venture, its two general partners, Covestro Polyurethanes B.V. (formerly Bayer Polyurethanes B.V.) and Lyondell PO-11 C.V., and Lyondell Chemie (POSM) B.V., the general partner of Lyondell PO-11 C.V., for the reimbursement of costs incurred for the purchase of CO_2-certificates acquired under the European Trading Scheme during NAP I (2005 - 2007) and NAP II (2008 - 2012) to fulfill a supply contract with the Lyondell European Joint Venture. The amount claimed comprises €30.7 million plus the statutory interest for commercial transactions in the Netherlands since the alleged payment due date (February 5, 2013) and Covestro Polyurethanes B.V. (formerly Bayer Polyurethanes B.V.), a subsidiary of Covestro Deutschland AG, as joint venture partner would, if the Netherlands Arbitration Institute ruled in favor of UCML, be obligated to bear 50% of this claim (not taking into account potential costs for the legal proceedings and attorney fees). The Lyondell European Joint Venture denies the grounds and the amount of UCML's alleged claims. The Lyondell European Joint Venture takes the view that (i) there is no provision contained in the underlying supply agreement and its amendments upon which such a claim may be based, (ii) UCML failed to closely involve the Lyondell European Joint Venture in the solution-finding process in a situation which was unforeseeable at the date of the signing of the supply agreement, and (iii) UCML made severe mistakes in the application process which ultimately caused the current situation, i.e. the lack of sufficient CO_2-certificates.

UCML, before initiating the above arbitration proceedings, obtained an expert opinion of a Dutch energy consultancy company which allegedly confirmed the correctness of UCML's application and allocation procedure for CO_2-certificates. the Lyondell European Joint Venture asked a Dutch consultancy firm to provide an expert opinion on the CO_2 emissions allocation by UCML for the relevant periods. On the basis of the Dutch consultancy firm's final report, and after obtaining advice of external legal counsel, the Lyondell European Joint Venture rejected UCML's claims for CO_2 emission allowances in a letter dated May 2, 2013. In the second quarter of 2014, UCML indicated its willingness to settle. After Lyondell PO-11 C.V. (as the general partner who operates the Lyondell European Joint Venture) informed UCML that the Lyondell European Joint Venture would not be willing to settle at the offered amount, UCML initiated the above arbitration. The parties selected arbitrators and agreed on rules of procedure. UCML presented a new proposal for a settlement, comprising various factors, and Covestro Polyurethanes B.V. and Lyondell PO-11 C.V. are currently evaluating this proposal. The first hearing is scheduled for the first week of December 2015.

15.14.6 Danish Tax Dispute

In April 2015, the Danish Customs and Tax Administration ("**SKAT**") proposed to increase the taxable joint taxation income for the tax year 2009 of Bayer MaterialScience A/S ("**BMS DK**") by approximately DKK 270 million (approximately €36 million) resulting in additional taxes, interest and surcharges of approximately DKK 95 million (approximately €12.7 million). SKAT argued that the transfer of the goodwill associated with BMS DK as well as some intellectual property developed by BMS DK to Covestro International SA, Switzerland, in the year 2009 was not completed at arm's length. If SKAT issues a tax assessment based on the aforementioned position, it is currently intended that an appeal against such tax assessment will be filed. Any taxes, interest and surcharges resulting from this case would have to be borne by the Group under the respective local agreement under which BMS DK has been transferred to Covestro Deutschland AG.

15.15 INSURANCE

The Group believes that Covestro AG and its subsidiaries have reasonable insurance protection, to the extent customary in the industry. The Group and its subsidiaries have been insured under global policies held by Bayer AG, which included local policies according to local regulations and/or local best practices and standards. The Company will purchase insurance for the Group and its future direct and indirect subsidiaries, which is intended to become effective, at the latest, when the Group or a member of the Group is no longer covered under the global policies held by Bayer AG. For further information on risks related to the Group's insurance coverage, see ''*3. Risk Factors—3.1 Risks Related to the Group's Business and Industry—3.1.34 The Group's business is subject to many operational risks for which it may not be adequately insured*.''

15.16 COMPLIANCE AND RISK MANAGEMENT

The Group controls its business and operations with state-of-the-art compliance and risk management systems. The Group's risk management system operates group-wide and is an integral part of its corporate governance system. The Group continuously seeks to reduce the likelihood and/or potential impact of the various risks to which it is exposed. The aim of the Group's compliance and risk management system is to enable the Group to observe all applicable legal regulations on an ongoing and sustainable basis. Therefore, the Group has implemented a compliance system which includes, but is not limited to, anti-corruption and anti-trust regulations in order to prevent, detect and respond to potential violations.

15.16.1 Compliance

As part of the Bayer Group, the Group was integrated into the Bayer compliance system. In this context, and to lift compliance risk prevention to the next level, the Group is implementing an integrated compliance management system, the key features of which are based on the system developed by Bayer AG. The compliance management system is divided into an operative and a legal function.

This compliance management system is designed to prevent, detect, and respond to potential violations of applicable anti-corruption and antitrust provisions with the help of internal guidelines, management processes (supported by various IT tools) and corresponding training and other implementation measures, with the aim of integrating compliance risk-mitigation features into the usual operational processes and procedures of the Group. The Group is currently in the process of implementing this compliance risk-management system for the additional risk areas of Conflict of Interest and Foreign Trade Law Compliance. Further relevant risk areas are planned to be shifted from the current compliance system to the integrated compliance management system thereafter, such as data privacy, insider trading, and fair and respectful working conditions.

All compliance regulations and processes are continuously evaluated with regard to their relevance and appropriateness and are adjusted or further developed as required. To ensure the implementation of the compliance management system, multiple face-to-face and web-based training has been conducted with employees who have risk exposure, including at the management level. The Company keeps all of its employees informed about compliance measures and new developments through training, intranet and various forms of communication adapted to target groups and content. The current compliance case statistics are consolidated on a monthly basis and reported to the Management Board of the Company, as well as to the management committees of the business units and other business operations. Compliance procedures provide an approval process in various contexts, e.g. meetings with competitors. The Group also has a process containing checks of high-risk payments to third parties. An external anonymous whistle-blower hotline also exists. Furthermore, all employees have the ability to report violations to the Company's compliance organization. The Company follows up on any indication of a violation, and an internal compliance investigation is launched if justified by concrete evidence. Cases are tracked and followed up with the help of an electronic database. Upon completion of an investigation, remedies for identified deficits are defined and their implementation is followed up. Detected misconduct is sanctioned with disciplinary sanctions in accordance with applicable employment laws.

15.16.2 Risk Management

The Group's strategy, planning, quality management, integrated compliance management and internal control systems are designed to protect business resources against potential loss and to identify new opportunities while fulfilling legal and governance requirements. Risk management comprises a set of processes and systems through which Management identifies, assesses and responds appropriately to risks that might adversely affect the realization of the organization's business objectives. The Group attempts to avoid or mitigate risks by taking appropriate countermeasures, or to transfer them to third parties (such as insurers) to the extent possible and economically acceptable.

However, in some cases Management consciously accepts and bears manageable and controllable risks that are in reasonable proportion to the anticipated opportunities. Risk management is linked with the strategy and planning processes of the Group, from which relevant external and internal opportunities and risks are derived and considered in strategic and operational steering activities. Identified opportunities and risks serve as the basis for corridor planning. Risk management includes the assignment of accountability and procedures for managing identified risks and opportunities. Results of the risk management process are discussed by the Management Board.

A specific process has been established to enable the early identification of any adverse developments that are material and/or could endanger the Company's continued existence, thus satisfying the legal requirements regarding an early warning system for corporate risks pursuant to section 91 paragraph 2 of the German Stock Corporation Act. Various assessment criteria are used to allow a systematic and standardized evaluation of the likelihood of a risk and its potential impact on the business or on the reputation of the Company. Risk owners and risk coordinators are identified in the business units and other business operations, and are tasked with identifying and evaluating the risks in their areas from a specific materiality threshold, documenting them in a database, including the respective risk treatment. The risk management function has identified potential strategic, operational, financial, legal and compliance risks that are clustered into major topics.

An internal control system to minimize the risks of error and fraud in the Group's financial reporting is managed by a dedicated team and covers all of the critical business and IT processes of the Group's major companies and service providers. An assessment of the key control mechanisms is performed yearly by the management functions and as part of the Group's internal and external audits, and the results are documented and supported by an SAP GRC application.

A risk report outlining the Group's significant risks is generated regularly for distribution to the audit committee and the Supervisory Board of the Company.

15.17 SUSTAINABILITY AND SAFETY

15.17.1 Sustainability

Sustainability is an integral part of the Group's business strategy. In addition to focusing on end markets and products that contribute to its sustainability agenda, the Group is also conscious about balancing commercial successes with ecological and social responsibilities. By acting responsibly in collaboration with suppliers, the Group aims to minimize risks and create stable, long-term business relationships with its customers. It is also an important strategic lever for the Group in safeguarding both its global competitiveness and the supply of materials and services. For this reason, the Group applies not just economic standards, but also environmental, social and corporate governance standards in choosing new suppliers or continuing its relationships with existing ones. These standards are defined in the Group's Supplier Code of Conduct, which generally forms the basis for the Group's collaboration with suppliers. The Group emphasizes responsible business practices with all of its stakeholders, including customers, partners and employees.

The Group aims to have its suppliers, throughout the entire chain, act responsibly and in line with environmental and social standards based on stable and sustainable relationships. The Group selects its suppliers on the basis of a number of criteria not only including price, quality, availability and reliability, but also environmental and social responsibility. The Group also monitors and regularly evaluates the performance of its key suppliers, conducts certain audits and, where necessary, proposes improvement measures. In order to effectively address the wide-ranging challenges of a sustainable supply chain and to leverage synergies, the Group co-founded in 2011 (as a subgroup of the Bayer Group) the industry

initiative ‘‘Together for Sustainability.’’ The initiative is an integral element of the Groups commitment to sustainability in the supply chain.

The initiative aims at developing and implementing a global supplier engagement program that assesses and improves sustainability sourcing practices, including ecological and social aspects. It is based on certain identified best practices and builds on established principles—such as the United Nations Global Compact, the Responsible Care Global Charter as well as further standards.

Part of the initiative involves the exchange of sustainability assessments and audit results of suppliers through an IT platform. Sharing information with multiple customers reduces the number of double assessments and audits. It also significantly reduces time spent, resources used and overall costs. This enables both sourcing and supplying organizations to allocate resources more efficiently and to mutually improve sustainability standards in the global supply chains of the respective industries.

The initiative focuses not only on conducting audits or assessments, but also on capability building for suppliers for example through training courses and events. This supports suppliers in operating consistently with industry expectations on sustainability.

15.17.2 Safety

The health and safety of the Group’s full-time equivalent employees in the workplace is a key priority for the Group. The Group applies detailed regulations and precise controls, notably with respect to the protection of employees, suppliers, service providers, production processes, plants, research, product development, workflow and transportation. There is an equal focus on the protection of the environment and the well-being of all who have contact with the Group’s products.

The Group’s quality objective is a completely error-free operation. The Group’s production and delivery processes are certified to DIN ISO EN 9001 and are regularly audited both internally and externally. The Group believes that its focus on production quality is a significant driver of customer satisfaction.

The Group records and analyzes every occupational incident in an effort to eliminate possible hazard sources. Standardized and systematic procedures, as well as compliance with global regulations, help to enhance safety. The Group’s plants and processes are subject to continuous review and are kept up to date with state-of-the-art technology. All of the Group’s facilities aim to satisfy government requirements for operators of industrial plants in the jurisdictions in which they operate. Because many raw materials, services, technical goods and other supplies have to be sourced from third parties, the Group works together with all parties concerned to ensure that deliveries comply with required specifications, standards and regulations.

With regard to transportation of products, in particular hazardous goods, the Group monitors the entire logistics chain, from the choice of logistics partners to the unloading of the goods at the customer, in order to ensure that all applicable safety procedures are followed. The transportation of hazardous substances and dangerous goods is governed by European and national agreements and is also regulated by a variety of industrial associations. Where local standards diverge greatly from international standards, the Group proposes and implements solutions to mitigate recognized deficiencies or improve overall safety, such as measures to improve how goods are secured during transportation. The Group holds the safety of humans, animals and the environment in connection with all its transportation activities as a high priority. Compliance with legal regulations and industrial guidelines form an integral part of the stringent requirement profile that the Group requires from its employees and third-party distributors. In addition, nearly all products produced by the Group are subject to extensive legal requirements concerning the provision of information, and the Group provides additional information and training in support of the International Council of Chemical Associations’ Global Product Strategy.

The Group has implemented an integrated management system, defining global minimum standards and requirements according to internationally recognized standards such as ISO 9001 (quality management), ISO 14001 (environmental management), ISO 50001 (energy management) and OHSAS 18001 (occupational health and safety management).

15.18 INFORMATION TECHNOLOGY

Information technology is an important part of the Group's operations, in particular with a view to productivity increases and process optimization (engineering and production). The Group predominantly uses SAP and Microsoft products as its common business application platforms running on standardized infrastructure components from ORACLE and HP. Enterprise resource planning (''**ERP**'') is consolidated on one global ERP platform that takes advantage of SAP's next generation HANA technology. This allows the Group to further reduce the complexity and expansion of its global information technology infrastructure while taking advantage of modern technology that offers substantial operational benefits.

The Group also uses various specialized solutions in connection with some of its key commercial activities. For example, to enhance the quality and speed of pricing decisions, an advanced, automated pricing process was implemented. The Group is responsible for the entire infrastructure and application management of all local and global IT systems. The established information technology infrastructure of the Group will be initially operated by Bayer Business Services GmbH located in three main data centers in Europe, North America and Asia.

Bayer AG and Covestro Deutschland AG have entered into transitional services agreements with regard to certain information technology services to be provided by Bayer Group. For further information on the these information technology services, see ''*16. Certain Relationships and Related Party Transactions—16.1 Relationship with the Bayer Group—16.1.3 Master Agreement between Covestro Deutschland AG and Bayer AG—IT resources and data.*''

15.19 MATERIAL AGREEMENTS

The following section provides a summary of material agreements to which any member of the Group is a party. Furthermore, agreements which are of specific importance in the context of the Offering are described under ''*16. Certain Relationships and Related Party Transactions*.''

15.19.1 Financing Agreements

Covestro AG entered into the Facilities Agreement dated September 4, 2015, that provides for credit facilities in a total principal amount of €2.7 billion with a syndicate of lending banks and with Deutsche Bank, UniCredit Bank AG, Citigroup, and Bank of America Merrill Lynch International Limited as mandated lead arrangers and Deutsche Bank Luxembourg S.A. as facilities agent. Subsidiaries in which the Company holds directly or indirectly more than 50% of the voting capital may become additional borrowers by means of accession to the contract (*Vertragsbeitritt*) provided that, in the case of any subsidiary other than Covestro Deutschland AG, all lenders have consented to such accession; the Company guarantees for obligations of the additional borrowers. The base currency under the Facilities Agreement is Euro and for the revolving credit facility optional currencies are US dollar or a currency previously approved for these purposes by the lenders and readily available.

The Facilities Agreement provides for a multicurrency revolving credit facility in an amount of €1.5 billion and a term loan facility in an amount of €1.2 billion. The Facilities Agreement contains customary representations, general covenants (including a negative pledge undertaking and restrictions on disposals and mergers, each subject to baskets and/or exceptions) and events of default (including cross-default-payment and cross-acceleration provisions). No financial covenants are included. The facilities are not secured by any security *in rem*. The facilities have not been drawn and are available for utilization only upon admission of the shares of the Company to trading on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*). The credit facilities shall secure the financial independence of the Group after separation from the Bayer Group and may be used, *inter alia*, for the refinancing of shareholder loans granted to the Group by the Bayer Group, including Bayer Antwerpen NV.

The revolving credit facility in the amount of €1.5 billion has a maturity of five years, that can be extended after one or two years in one or two steps, for one or two years in aggregate (with the consent of each respective lender). The revolving credit facility may be used for general corporate purposes, including working capital purposes, the refinancing of indebtedness and acquisitions. Up to €500 million of the revolving credit commitments may be used as ancillary facilities on a bilateral basis with revolving lenders or their affiliates in the form of overdraft facilities, guarantees, bonding, documentary or stand-by letters of credit facilities, short term loan facilities, derivatives facilities, foreign exchange facilities or any other

facility or accommodation required in connection with the business of the Group and which is agreed by the Company with an ancillary lender.

The term loan facility in the amount of €1.2 billion has a maturity of three years; the term loan shall be repaid in full at final maturity. Amounts borrowed under the term loan facility shall be applied towards the refinancing of indebtedness incurred under shareholder loans granted to the Group by the Bayer Group after the separation.

The rate of interest on each loan for each term is the percentage rate per annum equal to the aggregate of (i) the applicable margin and (ii) the Euro Interbank Offered Rate (EURIBOR), or in relation to any loan not in Euro, the London Interbank Offered Rate (LIBOR) (in each case subject to a zero floor). The initial margin of the revolving credit facility is 0.375% per annum and of the term loan facility is 0.6% per annum. The margins on both facilities are subject to adjustments if a long-term credit rating for the Company's unsecured debt is published or changes. The maximum margin for the revolving credit facility is 0.5% per annum and for the term loan facility is 0.75% per annum. Except where it is provided to the contrary, each borrower must pay accrued interest on each loan made to it on the last day of the interest period, but at least every six months from the start of such period. Voluntary prepayments by the borrower are permitted subject to certain customary requirements. A lender may cancel its commitments and demand prepayment of all its participations in any loans outstanding under the Facilities Agreement in case of illegality or a change of control (in each case as described in the Facilities Agreement).

15.19.2 Joint Venture Agreements

The Group has entered into a large number of joint venture agreements with partners to support its business in various areas. The most important joint ventures are described below:

Lyondell European Joint Venture

Bayer AG's affiliate Covestro Polyurethanes B.V. (formerly Bayer Polyurethanes B.V.), a Dutch private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*), and LyondellBasell's affiliate Lyondell PO-11 C.V., a Dutch limited partnership (*commanditaire vennootschap*), established in December 2000 a long-term manufacturing joint venture called Lyondell Bayer Manufacturing Maasvlakte VOF (''**Lyondell European Joint Venture**'') in the legal form of a Dutch general partnership (*vennootschap onder firma*) with its seat in Rotterdam, the Netherlands. Lyondell PO-11 C.V. and Covestro Polyurethanes B.V. are the only partners of the Lyondell European Joint Venture (each a ''**Partner**'' and jointly the ''**Partners**''). The Lyondell European Joint Venture owns a grassroots propylene oxide and styrene monomer plant near Rotterdam, the Netherlands, employing proprietary technology of one of LyondellBasell's affiliates which is licensed to the Partners. Its business comprises the production of propylene oxide and a styrene monomer for the account of the Partners. Each Partner holds a 50% interest in the Lyondell European Joint Venture and corresponding percentage of voting rights, participates in 50% of its profits and losses and is entitled to offtake 50% of the propylene oxide and styrene monomer produced.

Lyondell PO-11 C.V. is the managing Partner of the Lyondell European Joint Venture. Pursuant to an operating agreement between LyondellBasell's affiliate Lyondell Chemie Nederland B.V. and the Lyondell European Joint Venture, Lyondell Chemie Nederland B.V. is the operator of the plant facilities of the Lyondell European Joint Venture. Pursuant to the general partnership agreement, any decision that specifically requires the approval of both Partners is generally taken by partnership representatives jointly, with each Partner appointing one partnership representative. As an exception thereto, the general partnership agreement makes certain major decisions subject to the prior approval of the Partners at a management committee meeting, which consists of six members. Each Partner is entitled to appoint three members of the management committee. Decisions of the management committee are taken by a majority vote with at least two members nominated by Lyondell PO-11 C.V. and two members nominated by Covestro Polyurethanes B.V. voting in favor.

The general partnership agreement generally prohibits Covestro Polyurethanes B.V. from transferring its interest in the Lyondell European Joint Venture without the consent of Lyondell PO-11 C.V., subject to certain exceptions. In this context, Bayer AG and LyondellBasell's affiliate Lyondell Chemical Company entered into an agreement which governs the relationship of the parent companies of the Partners with

regard to the Lyondell European Joint Venture and which contains certain transfer restrictions regarding the direct or indirect transfer of interests in the Partners.

Pursuant to a consent and release agreement dated August 28, 2015, between Bayer AG, Covestro Deutschland AG, Lyondell Chemical Company as well as certain affiliates of Bayer AG and Lyondell Chemical Company (the ''**Consent Agreement**''), Lyondell Chemical Company and certain of its respective affiliates consented to certain transactions in connection with the Offering and certain transactions subsequent to the Offering. On August 31, 2015, the Company acceded to the Consent Agreement. For further information on the Consent Agreement, see ''*—Lyondell US Joint Venture and Lyondell Technology Joint Venture*.''

Lyondell US Joint Venture and Lyondell Technology Joint Venture

Bayer AG's affiliate, BAYPO Limited Partnership, a Delaware limited partnership, and LyondellBasell's affiliate, PO Offtake LP, a Delaware limited partnership, established in March, 2000 PO JV, LP, a Delaware limited partnership (the ''**Lyondell US Joint Venture**''), as a long-term joint venture for the production and offtake of propylene oxide with manufacturing facilities located in Texas, United States. The Company's indirect interest of approximately 39.4% in the Lyondell US Joint Venture represents ownership of an in kind portion of the propylene oxide production of the Lyondell US Joint Venture. LyondellBassell indirectly holds the remaining interest of approximately 60.6% in the Lyondell US Joint Venture.

Simultaneously with the establishment of the Lyondell US Joint Venture, Bayer AG's affiliate, BIPPO Corporation, a Delaware corporation, and LyondellBasell's affiliates, Lyondell POTechGP, Inc. and Lyondell POTechLP, Inc., both Delaware corporations, established in March 2000 Technology JV, LP, a Delaware limited partnership (the ''**Lyondell Technology Joint Venture**''), as a long-term joint venture for the joint development and licensing of technology relating to the production process of propylene oxide under the Lyondell US Joint Venture. The Company holds an indirect 50% interest with LyondellBasell indirectly holding the remaining 50% interest of the Lyondell Technology Joint Venture.

Under both the Lyondell US Joint Venture and the Lyondell Technology Joint Venture, LyondellBasell's affiliates are the general partners and possess exclusive authority to manage the general business affairs and operations of the joint ventures. The Company and its affiliates have no control over the management of either joint venture, nor have the power to transact the general business of the joint ventures. Covestro PO LLC (formerly Bayer PO LLC) is the current Company's partner for both the Lyondell US Joint Venture and the Lyondell Technology Joint Venture after an internal reorganization in 2013.

Covestro PO LLC is generally prohibited from transferring its ownership interests in the Lyondell US Joint Venture and the Lyondell Technology Joint Venture or withdrawing from either joint venture without the consent of LyondellBasell's affiliate for the respective joint venture except under certain circumstances. In the context of the establishment of the Lyondell US Joint Venture and the Lyondell Technology Joint Venture, Bayer AG, Bayer Corporation and LyondellBasell's affiliate Lyondell Chemical Company agreed transfer restrictions regarding the direct and indirect transfer of interests in the entities party to the Lyondell US Joint Venture and the Lyondell Technology Joint Venture.

Pursuant to the Consent Agreement, Lyondell Chemical Company and certain of its affiliates consented to certain transfers of interests and assignments of agreements related to the Lyondell European Joint Venture, the Lyondell US Joint Venture and the Lyondell Technology Joint Venture. In particular, Lyondell Chemical Company consented to the transfer of interests in Covestro Polyurethanes B.V. and Covestro PO LLC in connection with reorganization measures, the Offering and subsequent sales or disposals of shares in the Company by the Bayer Group and the Company. Additional consent is needed in the event of a sale or disposal of shares in the Company subsequent to the Offering by the Bayer Group or the Company in certain limited circumstances. Pursuant to the Consent Agreement, the LyondellBasell affiliates may request certain changes to the payment terms of the agreements concluded in connection with the Lyondell European Joint Venture, the Lyondell US Joint Venture and the Lyondell Technology Joint Venture in case of a significant change in the rating of the Company and if certain other requirements are fulfilled. By acceding to the Consent Agreement, the Company has assumed the existing guarantees for performance of certain affiliates under certain agreements connected with the Lyondell European Joint Venture, the Lyondell US Joint Venture and the Lyondell Technology Joint Venture.

Sumika Bayer Urethane Co., Ltd, JV in Japan

Sumika Bayer Urethane Co., Ltd. (''**SBU**'') is a stock company under the laws of Japan (*kabushiki kaisha*) and was established as a 50%/50% joint venture between Bayer AG and Sumitomo Chemical Co., Ltd. (''**Sumitomo**''). Shares in SBU were originally held by Bayer AG and Sumitomo, but the shares held by Bayer AG were transferred from Bayer AG to Bayer Ltd. in 1999. The shareholding ratio has been changed to 60%/40% in December 2000, of which Bayer Ltd. holds 60%. After a reorganization, Bayer MaterialScience Ltd. has become a shareholder.

The basic agreement (joint venture agreement) was entered into between Bayer AG and Sumitomo on September 2, 1969, and subsequently amended by the second generation basic agreement between the same parties dated December 15/28, 2000 (as amended). The current parties to this agreement are Covestro Deutschland AG and Sumitomo. The shares, management, budget or other corporate matters of SBU are regulated by this agreement, as well as its articles of incorporation and the Companies Act of Japan.

SBU's business purpose is (i) to manufacture and sell polyurethanes products and (ii) to sell (as agent) pigment, dye and chemical industry products. SBU has constructed and operated its plant facilities within the premise of Sumitomo's Ehime works in Niihama, Japan, for the production of those products, and Bayer AG has licensed to SBU special processes for the production of such products based on the license agreement as of September 2, 1969, which was replaced by the technical cooperation and license agreement between Bayer AG and SBU as of April 1, 1993 (as amended). It is indicated in the second generation basic agreement that, while most licenses have been granted by Bayer AG, SBU has also been granted licenses partly by Sumitomo under the license agreement dated January 26, 1970 between Bayer AG, Sumitomo and SBU. Also, Sumitomo has provided SBU with raw materials, utilities and various services required for the operation of the plants under the service and supply agreement between Sumitomo and SBU as of October 15, 1970, which was amended by the service and supply agreement between Sumitomo and SBU as of June 21, 1996 and again amended by the new service and supply agreement between Sumitomo and SBU as of December 15, 2000 (as amended).

The board of directors consists of six directors, four of which are nominated by Bayer and two of which are nominated by Sumitomo. Unless otherwise required by law, a quorum for the board meeting is a majority of the total number of directors. A resolution generally can be approved by an affirmative vote of a majority of the directors present, but certain important matters (i.e. dissolution, merger, business transfer, capital reduction, change to the articles of incorporation, acquisition of the whole business from any other company, and dismissal of directors or auditors) additionally require an affirmative vote of all directors nominated by Sumitomo present at the board meeting.

The second generation basic agreement does not contain any specific termination clause.

Bayer Polymer Ltd JV in Japan

DIC Bayer Polymer Ltd. (''**DBP**'') is a stock company under the laws of Japan and was established as a 50/50% joint venture between Bayer Ltd. and Dainippon Ink and Chemicals, Inc. (''**DIC**''). After a reorganization Covestro (Hong Kong) Limited (formerly Bayer MaterialScience Ltd.) has become a shareholder and holds 50% of the shares.

The joint venture agreement was entered into between Bayer AG, Bayer Ltd., DIC and Bayer Kasei Kabushiki Kaisha on April 25, 2000 (the ''**DIC Joint Venture Agreement**''). The current parties to the DIC Joint Venture Agreement are Covestro Deutschland AG, Covestro (Hong Kong) Limited (formerly Bayer MaterialScience Ltd.), DIC and DBP. The shares, management or other corporate matters of DBP are regulated by this agreement, as well as its articles of incorporation and the Companies Act of Japan.

DBP's business purpose is manufacturing and selling of TPU resins and processed products thereof. Bayer AG has granted DBP a patent and technology license and a right to use certain trademarks of Bayer AG for molding TPU manufactured and sold by DBP under the Patent and Technology License Agreement between Bayer AG and DBP as of May 11, 2000 and the trademark license agreement between Bayer AG and DBP as of May 11, 2000. DIC has granted DBP a right to use certain trademarks of DIC for molding TPU under the trademark license agreement between DIC and DBP entered in 2000.

Unless otherwise required by law, a shareholders' meeting of DBP requires a quorum of the shareholders whose total shares exceed half of the then-outstanding shares, and a resolution must be adopted by an

affirmative vote of more than half of the shares represented in such meeting. The board of directors comprises six directors, and each party can appoint three directors. A quorum for the board of director's meeting requires the presence of at least more than half of the total number of directors, and each matter requires the approval of a majority of the total number of directors. In the case of a deadlock, if no mutually acceptable resolution can be found within 90 days, each party has a right to terminate the DIC Joint Venture Agreement by giving 60 days' notice to the other party. In this case, both parties have a right to acquire shares owned by the other party. If both parties offer, the party who offered the higher price is to purchase the shares at such price. If neither party offered to purchase shares within 30 days of the termination of the DIC Joint Venture Agreement, DBP will be resolved upon request of either party.

The DIC Joint Venture Agreement will terminate automatically if either Bayer MaterialScience Ltd., which is now Covestro Deutschland AG, or DIC ceases to be a shareholder of DBP. Either party has a right to immediately terminate the DIC Joint Venture Agreement if the other party commits any material breach of the DIC Joint Venture Agreement that cannot be cured within 45 days or goes into liquidation or any similar process. In such case, the party who exercised the termination right has an option to cause the breaching party to purchase all shares at book value or to acquire all shares held by the breaching party at book value. If no share transfer is made within 60 days of the termination of the DIC Joint Venture Agreement, DBP will be wound up upon the request of the non-breaching party.

15.19.3 Agreements with the Bayer Group

As a previously wholly owned subsidiary of Bayer AG, Covestro Deutschland AG has and in the past had various relationships with the Bayer Group and its direct and indirect subsidiaries and will continue to have—modified and reduced—relationships with Bayer Group in the future. In particular, the Group received certain services relating to human resources, real estate, IT, intellectual property, legal, compliance, procurement, trade and customs compliance, treasury and other areas and was part of the cash management system and global insurance cover from the Bayer Group; a limited number of services in some areas will to some extent continue for a transitional period after the Offering becomes effective, although the Group has already built up its own resources for other areas. For further information on the Group's relationship with the Bayer Group, see "*16. Certain Relationships and Related Party Transactions—16.1 Relationship with the Bayer Group*."

16. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In accordance with IAS 24, transactions with persons or companies which are, *inter alia*, members of the same group as the Group or which are in control of, or controlled by, Covestro AG and managed by the management of Covestro AG must be disclosed, unless they are already consolidated in the Covestro Group's combined financial statements. Control exists if a shareholder owns more than one half of the voting rights in the respective company or, by virtue of an agreement, has the power to govern the financial and operating policies of the company so as to obtain benefits from its activities. The disclosure requirements under IAS 24 also extend to transactions with associated companies (including joint ventures) as well as transactions with persons who have significant influence on Covestro Deutschland AG's (formerly Bayer MaterialScience Aktiengesellschaft's) financial and operating policies, including close family members and intermediate entities. Set forth below is a summary of transactions with related parties for Fiscal Years 2014, 2013 and 2012 as well as for the first six months of Fiscal Year 2015 and until the date of the Prospectus. Further information, including quantitative amounts of related party transactions, is contained in the note 35 to the combined financial statements as of and for Fiscal Years ended December 31, 2014, 2013 and 2012 included in ''*25. Financial Information*.''

16.1 RELATIONSHIP WITH THE BAYER GROUP

16.1.1 Overview

Covestro AG was founded on August 20, 2015 for the purposes of being the holding company for the Group prior to the Offering. Prior to the contribution of all shares in Covestro Deutschland AG into the unrestricted capital reserves (*ungebundene Kapitalrücklage*) of Covestro AG, which became effective on September 1, 2015, Covestro Deutschland AG was a wholly owned direct subsidiary of Bayer AG. As Covestro AG has not conducted any significant own business or operations prior to the contribution of all shares in Covestro Deutschland AG, the following discussion primarily focuses on Covestro Deutschland AG and its subsidiaries. For further information on the Group's shareholder structure see ''*18. Shareholder Structure*.''

As a wholly owned subsidiary of Bayer AG, Covestro Deutschland AG had various business relationships with Bayer AG and its subsidiaries in the past and will continue to have a—modified and reduced—relationship with the Bayer Group in the future. In particular:

- Covestro Deutschland AG was a party to a domination and profit transfer agreement (*Beherrschungs- und Gewinnabführungsvertrag*), dated March 11, 2003 until and including August 31, 2015, that has been terminated by mutual agreement with expiry of August 31, 2015;
- Bayer AG and Covestro Deutschland AG entered into a Master Agreement, dated August 24, 2015, pursuant to which both parties, among other things, conclusively determine the apportionment of liability between the Group and the Bayer Group, in particular in the areas of environmental contamination, product liability, violations of law, taxes, allocation of rights and obligations from sale and purchase agreements and employment, and establish certain mutually applicable rules of conduct and duties of cooperation following the separation. The Master Agreement also provides for procedures for indemnification and insurance benefits and it also contains provisions in respect of subsidies, IT resources and data as well as intellectual property rights and treatment of confidential information and personal data;
- Covestro Deutschland AG received certain services relating to human resources, real estate, IT, intellectual property, legal, tax, compliance, procurement, export control and customs, treasury, finance services and other areas, and was part of the cash pooling and cash management system and global insurance cover of the Bayer Group; in certain areas (excluding for example legal and tax compliance, procurement, export control and customs, treasury), if necessary, these services will continue for a transition period while the Group has already built up its own resources for other areas;
- certain subsidiaries and other assets that were part of the MaterialScience business within the Bayer Group but were directly or indirectly owned by Bayer AG or its group companies rather than by Covestro Deutschland AG were transferred to the Group in preparation of its separation from Bayer;
- the Group has conducted and expects to continue to conduct certain business with the Bayer Group in particular within a transitional period of time;
- in connection with the Offering, the Existing Shareholder will also make a Capital Contribution of €715 million in cash into the unrestricted capital reserves of the Company (*ungebundene*

Kapitalrücklage), section 272 paragraph 2 number 4 German Commercial Code (*Handelsgesetzbuch (HGB)*), by no later than September 29, 2015 to increase the Company's equity before completion of the Offering;

- as part of the carve-out and reorganization, companies of the Group acquired in a large number of individual agreements business and service activities of the MaterialScience business which were historically held and operated by Bayer AG or companies of the Bayer Group. For further information on the carve-out and reorganization, see ''*5. Carve-out and Reorganization*'';
- the inter-group loan in an amount of €715 million due on September 29, 2015 shall be repaid with the proceeds from the Capital Contribution of €715 million (i.e. Inter-Group Debt Repayment I); and
- the inter-group loan in an amount of €2,375 million due on October 6, 2015, shall be repaid with a substantial part of the net proceeds of approximately €2,468 million from the placement of the New Shares (i.e. Inter-Group Debt Repayment II).

16.1.2 Domination and Profit Transfer Agreement

Covestro Deutschland AG as controlled company and Bayer AG as controlling company were parties to a domination and profit transfer agreement (*Beherrschungs- und Gewinnabführungsvertrag*) signed on March 11, 2003 and effective as of October 1, 2003. Pursuant to that agreement, Covestro Deutschland AG had to carry out its business at the direction of Bayer AG and was obligated to transfer its entire annual net income (*Jahresüberschuss*) (subject to the allocation of amounts to retained earnings or the dissolution of reserves (*Rücklagen*) reduced by loss carry forward (*Verlustvortrag*) of the previous year and by the amount which has to be used for statutory reserves (*gesetzliche Rücklagen*)) to Bayer AG, and Bayer AG was obligated to assume Bayer MaterialScience Aktiengesellschaft's losses (*Verlust*) in each fiscal year. Under that agreement, generated expenses from transfer of profits relating to Bayer AG was €155 million in Fiscal Year 2014, and income from transfer of losses was €20 million in Fiscal Year 2013 and €179 million in Fiscal Year 2012. For further information, see ''*10. Dividend Policy—10.1 General Provisions Relating to Dividend Rights and Dividend Payments.*''

16.1.3 Master Agreement between Covestro Deutschland AG and Bayer AG

Bayer AG and Covestro Deutschland AG entered into the Master Agreement, dated August 24, 2015. Pursuant to this Master Agreement, both parties intend, among other things, to conclusively determine the apportionment of liability as between Covestro Deutschland AG and the Bayer Group, in particular in the areas of environmental contamination, product liability, violations of the law and employment, and establish certain reciprocal rules of conduct and duties of cooperation for the period following the separation. The Master Agreement also contains provisions with regard to release of securities, IT resources and data as well as subsidies, and treatment of confidential information and personal data.

Scope of application

The geographical scope of the Master Agreement extends to all worldwide business activities of the Group and Covestro Deutschland AG and Bayer AG have agreed to enforce the contents of the Master Agreement within their respective groups. The combination of activities of all domestic and foreign business activities currently relating to the high-tech chemical and polymer business of the Bayer Group into the Group was largely carried out by means of the following measures: The domestic and foreign activities of the Group not previously owned or held by the Group or by a direct or indirect subsidiary of Covestro Deutschland AG or a company which is a direct or indirect subsidiary of Covestro Deutschland AG after August, 31 2015 (the ''**Separation Date**'') were transferred by way of purchase and acquisition agreements, carve-outs or other corporate legal or asset transfer measures from Bayer AG or any direct or indirect subsidiary of Bayer AG which was not a company of the Group after the Separation Date to Covestro Deutschland AG or a company of the Group (the transfers and other measures hereinafter the ''**Activities Transfers**''). Bayer AG and Covestro Deutschland AG agreed to indemnify each other and all respective Group companies against liabilities for obligations of the Bayer Group or the Group, respectively, imputed to the Group or the Bayer Group, respectively, by statute or by application of common law existing on the Separation Date, which were not assigned to the respective other group companies by the Activities Transfers.

Environmental contamination

With respect to liability for all kinds of environmental contamination, which means any known or unknown presence of hazardous material in the environment (''**Environmental Contamination**''), the parties agreed as between themselves that the following provisions conclusively govern, as between the parties and without legal effect towards any environmental authority or third party, which of the parties is responsible for Environmental Contamination which was caused or arose prior to the Separation Date. Further claims in this respect, including claims pursuant to section 24 paragraph 2 of the Federal Soil Protection Law (*BBodSchG*) and section 9 paragraph 2 of the German Environmental Damage Act (*USchadG*) or similar laws between the parties were excluded. The parties agreed to ensure that such claims are also not asserted by their respective affiliated companies or, in case a property is sold to a third party after the Separation Date, by such third party. To the extent a party is liable for any Environmental Contamination, that party shall, subject to certain procedural requirements, fully indemnify the other party and any companies affiliated with it regarding any liability under public law or under civil law towards authorities or third parties, excluding lost profits, consequential damage and business interruption costs.

In general, Covestro Deutschland AG is liable for Environmental Contamination relating to properties which were owned by the Group on the Separation Date; and properties which have been or will be directly or indirectly, acquired by acquiring companies of the Group from transferring companies of the Bayer Group in the context of the Activities Transfers, unless and to the extent Covestro Deutschland AG proves that the Environmental Contamination was caused by the Bayer Group or contaminants carried in the groundwater coming from a property of the Bayer Group, in each case after the Separation Date.

Bayer AG is liable for Environmental Contamination relating to properties which were owned by Bayer AG or a company of the Bayer Group on the Separation Date; and properties which have been or will be, directly or indirectly, acquired by Bayer AG or a company of the Bayer Group in the context of the Activities Transfers unless Bayer AG proves that the Environmental Contamination was caused by Covestro Deutschland AG or a company of the Group or contaminants carried in the groundwater coming from a property of the Group, in each case after the Separation Date. Covestro Deutschland AG is liable for any Environmental Contamination relating to the former production facilities of the Group in Belford Roxo, Brazil, and partly liable for any Environmental Contamination with regard to the landfill and the groundwater protection at the Belford Roxo site unless and to the extent Covestro Deutschland AG proves that the Environmental Contamination was caused by the Bayer Group or contaminants carried in the groundwater coming from a property of the Bayer Group, in each case after the Separation Date.

With regard to Environmental Contamination relating to certain properties at the production facilities in Leverkusen, Dormagen and Uerdingen, Germany, conclusively specified in an appendix to the Master Agreement which (i) have been or will be directly or indirectly, acquired by companies of the Group in Germany in the context of the Activities Transfers and (ii) are not required for the continuing activities of the Group, Bayer AG is liable for 80% and Covestro Deutschland AG for 20%, unless (i) Covestro Deutschland AG has agreed towards Bayer AG in connection with a past return of the relevant property to Bayer AG to a further-going liability, (ii) in cases of properties subject to marketing by Currenta, Covestro has decided in line with the marketing regime to use the respective property for its or its affiliates' own operational purposes, or (iii) to the extent the relevant party proves that the Environmental Contamination was caused by the other party or contaminants carried in the groundwater coming from a property of the other party in each case after the Separation Date.

The Bayer Group or the Group, respectively, is liable for Environmental Contamination relating to certain properties conclusively specified in an appendix to the Master Agreement which were (i) owned by respective other party, on the Separation Date or acquired by the respective other party in the context of the Activities Transfers and (ii) leased to it in this context on or after the Separation Date. Bayer AG or Covestro Deutschland AG, respectively are liable unless and to the extent the relevant party proves that the Environmental Contamination was caused by the other party or contaminants carried in the groundwater coming from the property of the other party in each case after the Separation Date. Special provisions apply to (x) jointly used areas (landfills, groundwater protection systems) at sites jointly used by Bayer AG and Covestro Deutschland AG or companies affiliated with Bayer AG or Covestro Deutschland AG, respectively, on or before the Separation Date and (y) Environmental Contamination relating to third-party properties.

With regard to Environmental Contamination not specifically addressed in the Master Agreement, the allocation of liabilities will be determined by Bayer AG in its equitable discretion (*billiges Ermessen*) taking into account the contribution to the Environmental Contamination by the Group and the joint ventures or business run in relation to the Covestro product portfolio in 2004 on the one hand and the Bayer Group on the other hand as well as certain allocation criteria specified in an appendix to the Master Agreement.

In general, a duty to indemnify under the Master Agreement for Environmental Contamination only exists to the extent that costs are incurred for certain defined measures under certain procedural requirements.

Claims for Environmental Contamination become time-barred 30 years after the relevant claim arose.

Product liability

With respect to liability for duties and obligations arising out of or in connection with defective products (within the meaning of the German Product Liability Act, German tort law and German warranty law or the laws applicable in each case) asserted by third parties (''**Warranty and Product Liability Claims**''), the parties agree in relation to each other that to the extent a party is liable, it will indemnify the other party and any companies affiliated with it against these Warranty and Product Liability Claims.

Covestro Deutschland AG and Bayer AG, respectively, are liable for all Warranty and Product Liability Claims arising out of or in connection with defective products which were put on the market as determined in accordance with the provisions of the relevant applicable product liability law and by the Group or the Bayer Group, respectively, prior to the Separation Date. Warranty and Product Liability Claims arising out of or in connection with defective products which have been or will be put on the market from the Separation Date are or will be governed by the relevant applicable laws.

Warranty and Product Liability Claims asserted by Bayer AG against the Group and by Covestro Deutschland AG against the Bayer Group are excluded and each party is responsible for ensuring that companies affiliated with it do not assert Warranty and Product Liability Claims against the other party or companies affiliated with it. Claims for the delivery of defective primary products asserted by either party or a company affiliated with either party against the other party or a company affiliated with the other party pursuant to the relevant delivery agreements shall remain unaffected.

Violations of the law

The parties agreed in the Master Agreement in relation to each other to the apportionment of liability for duties and obligations relating to the payment of fines, pecuniary and other (additional) penalties, relating to damage claims of third parties, including payment of criminal sanctions, third-party claims for the transfer of surplus proceeds or advantages arising out of the violation of antitrust, embargo, foreign trade, anti-corruption or similar laws (the ''**Penalty Claims**''). Covestro Deutschland AG and Bayer AG, respectively, are liable for Penalty Claims arising out of violations committed by the Group or the Bayer Group, respectively, and reimburse the Bayer Group or the Group, respectively, for any necessary expenses incurred to fulfill these Penalty Claims. A party only has a duty to reimburse for expenses incurred in fulfilling the Penalty Claims arising out of (i) incontestable (final and binding/unappealable) decisions of authorities or courts, or (ii) irrevocable and final court or out-of-court settlements which were issued or concluded on or after the Separation Date. A duty to indemnify and reimburse does not exist if the reimbursement in the specific case would be illegal or even a criminal offence under the relevant applicable laws.

Taxes

The parties agreed to fully cooperate, and to cause the companies of the Bayer Group and the Group companies to fully cooperate, with each other in connection with all tax matters (which are broadly defined) relating to the period ending on or before the Separation Date, in each case if and to the extent legally permissible. Cooperation between the parties includes (but is not limited to) providing and making available all books, records and information, and the assistance of all officers and employees to the extent reasonably necessary in connection with such tax matters (including, but not limited to providing Bayer AG with all required information for the preparation of its tax return in accordance with past practice) if and to the extent legally permissible. The parties agreed to use their and to procure that the Bayer Group and the Group use their best reasonable endeavors to mitigate, reduce or eliminate the amount of taxes to be paid in connection with Activities Transfers by the completion of procedural formalities, by the preparation of documents or the request of documents or information from third parties and/or the making of available elections and to comply with legal requirements regarding the access to and retention of data.

Local share and asset transfer agreements (the ''**Local Agreements**'') have been concluded in the course of the Activities Transfers. The parties will discuss and agree on the handling of certain sample cases and scenarios and their common understanding of the envisaged economic result and the interpretation of the respective tax provisions in the Local Agreements and agree on an interpretation manual.

Some of the Local Agreements contain a purchase price adjustment clause and the Master Agreement provides for certain reimbursements by Bayer AG if certain payments are made under an adjustment clause of a Local Agreement by a company of the Group. On the other hand, certain reimbursements by Covestro Deutschland AG are made if due to a decrease of the purchase price companies of the Group have received certain payments under an adjustment clause of a Local Agreement. Such reimbursements under the Master Agreement shall economically compensate payments made under the Local Agreements and ensure that only certain tax benefits are compensated to the Bayer Group or Covestro Deutschland AG and its subsidiaries, as the case may be.

Covestro Deutschland AG agreed in the Master Agreement not to take or omit to take, or permit any company of the Group to take or to omit to take, any action (including, but not limited to any change in the accounting or taxation principles or practices) after the Separation Date that could give rise to a non-acceptance of the fiscal unity for German corporate income tax and trade tax purposes that has been in force between Bayer AG and Covestro Deutschland AG and certain companies of the Group and ended on the Separation Date. As from the Separation Date, Covestro Deutschland AG agreed not to amend its or Group companies' financial statements for any period ending on or prior to the Separation Date unless such amendment is mandatory under statutory law or if and to the extent that such amendment is required for the acceptance of the fiscal unity or explicitly requested by Bayer AG.

Employment

To the extent a party of the Master Agreement is liable, that party will, subject to any further obligations, fully indemnify the other party and any companies affiliated with it for any liability arising out or in connection with any employment liability claim, which means liability for duties and obligations arising out of or in connection with any employment relationship, including, without limitation, pension arrangements and other employee benefit plans applicable to the Group and the Bayer Group (the risks of which are managed centrally by Bayer AG) unless otherwise provided in the individual agreements concluded for the Activities Transfers. In general, Covestro Deutschland AG is liable for employment liability claims relating to (i) current employees employed by the Group on or prior to the Separation Date or transferred or to be transferred to the Group in the context of Activities Transfers, and (ii) retired employees attributable to an operation of the Group who have ceased to be employed after the Separation Date. The allocation of employment liability claims to Covestro Deutschland AG includes claims of current employees employed by Covestro Deutschland AG or a company of the Group on or prior to the Separation Date under the existing short-term and long-term incentive programs of the Bayer Group irrespective of any deviation of the actual payment claims from the accrued expenses assumed by Covestro Deutschland AG in the context of the Activities Transfers. Bayer AG is liable for employment liability claims relating to retired employees attributable to an operation of the Group who (i) were employed by Bayer AG or the Bayer Group on or prior to the Separation Date and (ii) have ceased to be employed on or prior to the Separation Date.

Sale and Purchase Agreements

Covestro Deutschland AG (i) is liable for all payment obligations of Bayer AG and/or companies affiliated with it vis-à-vis any third party under or in relation to any agreement in respect of acquisitions or divestments of all kinds of equity interests, assets or combinations thereof relating to the businesses run in relation to the Covestro product portfolio in 2004, and (ii) indemnifies and holds harmless Bayer AG and any companies affiliated with it accordingly. Upon request of Covestro Deutschland AG and to the extent possible, Bayer AG or the respective company affiliated with it shall assign to Covestro Deutschland AG any claim against a third party arising from such agreements.

Bayer AG (i) is liable for all payment obligations of Covestro Deutschland AG and/or companies affiliated with it vis-à-vis any third party under or in relation to any agreement in respect of acquisitions or divestments of all kinds of equity interests, assets or combinations thereof relating to the businesses remaining with Bayer Group, and (ii) indemnifies and holds harmless Covestro Deutschland AG and any companies affiliated with it accordingly. Upon request of Bayer AG and to the extent possible, Covestro

Deutschland AG or the respective company affiliated with it shall assign to Bayer AG any claim against a third party arising from such agreements.

Transfer of Interest in Currenta

If Bayer AG wishes to transfer its partnership interest in Currenta, it has to notify Covestro Deutschland AG of this intention at a time which, in the reasonable judgement of Bayer AG, allows Covestro Deutschland AG to make an offer to Bayer AG to purchase the interest. If Covestro Deutschland AG wishes to purchase the interest it has to send a written notice to Bayer AG containing an offer to purchase the interest and specifying the relevant terms and conditions of such offer. Bayer AG will determine in its equitable discretion whether to enter into negotiations with Covestro Deutschland AG regarding the sale and purchase of the interest based on the offer submitted by Covestro Deutschland AG but has no obligation to accept the offer.

Release of securities

Covestro Deutschland AG and Bayer AG, respectively, have used or will use reasonable endeavors to procure the release of the Bayer Group or the Group, respectively, from any securities, guarantees and indemnities given by or binding upon as set forth in the Master Agreement in relation to any liability of the Group or the Bayer Group, respectively, by the Separation Date or, to the extent not done by the Separation Date, as soon as reasonably practicable thereafter. Pending such release, Covestro Deutschland AG or Bayer AG, respectively, indemnifies the Bayer Group or the Group, respectively, against any payment obligations they may incur under such securities in relation to any liability of the Group or the Bayer Group, respectively. It was further agreed that certain guarantees given by companies of the Bayer Group in relation to a certain syndicated term loan facilities agreement between Bayer MaterialScience (China) Company Limited (formerly Bayer Polyurethanes (Shanghai) Company Limited) as borrower and certain financial institutions and banks will not be released by the Separation Date. Covestro Deutschland AG shall indemnify and hold harmless Bayer AG and the respective company affiliated with it from and against all payments or performance obligations or liabilities arising under such guarantees.

Subsidies

Covestro Deutschland AG and Bayer AG agreed to reimburse each other in an amount equal to the repayment amount (including any interest thereon) if after the Separation Date a company of the Bayer Group or the Group, respectively, is required to return a public subsidy granted before the Separation Date, and such requirement to return the public subsidy was caused by an act or omission of the other party or a company affiliated with the other party as a result of a final and binding decision issued by an authority or court. The parties agreed to use best efforts to avoid the risk of public subsidies granted before the Separation Date having to be returned and provide each other with the information reasonably required to comply with this obligation.

IT resources and data

Bayer AG and Covestro Deutschland AG have entered into transitional services agreements pursuant to which Bayer AG and/or the Bayer Group shall temporarily provide IT services to Covestro Deutschland AG and the Group, as the case may be, for a maximum period of 36 months. In addition to the transitional services agreements, other IT-related service agreements will be entered between the Group and the Bayer Group.

IP Transfer

In connection with the separation of the activities of the Group and the Bayer Group, certain intellectual property rights relating to the Group have been transferred to the Group, effective as of August 31, 2015. The transfer of such intellectual property rights has been conducted through a series of different legal transactions of the Bayer Group and the Group as outlined in further detail in an intellectual property transfer framework agreement.

Dispute regulation

The parties agreed to attempt to resolve all disputes relating to the Master Agreement in a constructive and amicable way and in case certain mediating settlement measures in accordance with an agreed

escalation procedure and all disputes arising in connection with the Master Agreement or concerning its validity shall be finally settled by arbitration pursuant to the arbitration rules of the Deutsche Institution für Schiedsgerichtsbarkeit e.V. (DIS) without recourse to the ordinary courts of law. The arbitral tribunal may also finally decide on the validity of this agreement to arbitrate. The place of arbitration shall be Leverkusen. The arbitral tribunal shall consist of three arbitrators.

16.1.4 Purchase Agreement regarding pension liabilities between Bayer AG and the Company

In the context of the restructuring of Bayer AG's activities in 2003 into the three subgroups Bayer HealthCare, Bayer CropScience and Bayer MaterialScience, Bayer AG and Bayer Polymers Aktiengesellschaft (renamed to Bayer MaterialScience Aktiengesellschaft and as of September 1, 2015 Covestro Deutschland AG) entered on March 11, 2003 into a hive-down and transfer agreement (*Ausgliederungs- und Übernahmevertrag*). According to this hive-down and transfer agreement, pension liabilities of certain employees attributable to the Polymers activities were transferred to Covestro Deutschland AG. Pension liabilities with respect to employees whose employment contracts terminated prior to July 1, 2002 were not transferred to Covestro Deutschland AG and remained with Bayer AG, but Covestro Deutschland AG assumed the obligation to reimburse payments to be made in this context by Bayer AG (''**Reimbursement Claims**'').

On August 28, 2015, Bayer AG and Covestro Deutschland AG entered into a purchase agreement pursuant to which Covestro Deutschland AG purchased the Reimbursement Claims from Bayer AG. The purchase price to be paid by Covestro Deutschland AG on October 10, 2015 at the latest, will amount to € 216,646,281.

If and to the extent that Covestro Deutschland AG should realize certain tax benefits due to the fact that the competent tax authorities deviate from the joint understanding of Bayer AG and Covestro Deutschland AG with respect to the tax treatment of the purchase of the Reimbursement Claims, Covestro Deutschland AG shall pay on an after tax basis the net present value of such tax benefits to Bayer AG. In such case, the parties have agreed on principles regarding the calculation of the net present value of such tax benefits and on a payment mechanism in installments.

16.1.5 Cash Contribution, Indemnity and Post Formation Agreement between Bayer AG and the Company

On September 17, 2015, Bayer AG and the Company entered into a cash contribution, indemnity and post formation agreement (''**Contribution Agreement**'') under which Bayer AG is obliged to contribute into the Company an amount of €715 million as additional paid in capital (*Zuzahlung in die Kapitalrücklage*) in order to strengthen the equity of the Company. For information on post formation proceedings related to the Contribution Agreement see ''*19. General Information on the Group—19.3 Post Formation Proceedings*.'' In connection with the cash contribution, Bayer AG and the Company agreed on certain provisions which shall facilitate the separation of the MaterialScience business. In addition to the aforementioned cash contribution, the Contribution Agreement in particular provides for the following:

Taxes

Under the Contribution Agreement, Bayer AG granted a tax indemnity with respect to taxes of Covestro Deutschland AG and its subsidiaries (which have not been transferred under a Local Agreement to the Group) which relate to periods ending on or before (i) August 31, 2015 as regards Covestro Deutschland AG and (ii) December 31, 2014 as regards the aforementioned subsidiaries. Such tax indemnity, however, is subject to certain limitations, exclusions and exceptions, with respect to in particular, but not limited to (additional) taxes relating to (i) transfer pricing adjustments and (ii) the unintended maintenance of permanent establishments, each (i) and (ii) in connection with activities of the MaterialScience business, (iii) measures which lead to the violation of holding or retention periods as well as (iv) the breach of (cooperation and/or information) obligations or the non-compliance with instruction rights provided for by the Contribution Agreement and/or the Master Agreement. Thus, in particular, but not limited to (additional) taxes relating to (i) through (iv) are, in principle, not indemnified by Bayer AG, but Bayer AG agreed to indemnify the Company against (additional) taxes owed or to be borne by a Group company which are in principle not covered under an indemnity of the Contribution Agreement to an amount of €17.2 million.

On the other hand, the Company—in principle and subject to certain limitations, exceptions and exclusions—also granted an indemnity to Bayer AG for taxes relating to periods after August 31, 2015 as regards Covestro Deutschland AG and relating to periods after December 31, 2014 with respect to certain Group companies, for which Bayer AG may be held liable or owes the respective tax. The Company is also required to indemnify Bayer AG against certain taxes (i) relating to (A) transfer pricing adjustments and (B) the unintended maintenance of permanent establishments, each (A) and (B) in connection with activities of the MaterialScience business, even if such taxes relate to the period ending on or before August 31, 2015, (ii) triggered by measures initiated after August 31, 2015 by a company of the Group (e.g. taxes caused by the violation of certain holding or retention periods due to such measures) or (iii) caused by a non-compliance of Group companies with cooperation, mitigation or information obligations under the Contribution Agreement. Moreover, the Company is obliged to pay certain tax refunds received by Covestro Deutschland AG or certain of its subsidiaries, which have not been transferred under a Local Agreement, and which relate to the period ending on or prior to August 31, 2015 or December 31, 2014, respectively. In addition, the Company is obliged to pay to Bayer AG an amount equal to certain (additional) future tax benefits of the Group relating to periods after August 31, 2015 (as regards Covestro Deutschland AG) or December 31, 2014 (as regards certain Group companies), if and to the extent that such tax benefits are connected with additional tax payments to be made by Bayer AG for periods prior to the aforementioned dates. Finally, the Company agreed to ensure that neither Covestro Deutschland AG will be subject to a transaction under the Transformation Tax Act (*Umwandlungssteuergesetz*) nor Group companies take measures in relation to assets for which a violation of holding or retention periods leads to adverse tax consequences for Bayer Group. Such transactions, restructurings or measures shall, generally, neither be undertaken prior to May 1, 2019 nor from May 1, 2019 with retroactive effect for tax or legal purposes to the period prior to May 1, 2019. However, such transactions, restructurings and measures are not subject to the aforementioned limitations if (x) Bayer AG has approved them, (y) they do not and cannot (alone or together with others of such measures) violate a retention or holding period with respect to the aforementioned assets or (z) a binding ruling confirms that they do not violate such retention or holding period.

The parties agreed in the Contribution Agreement to special provisions with regard to the German fiscal unity for VAT purposes for certain companies of the Group. According to these provisions, Bayer AG is obliged to pay exceeding input VAT attributable to these companies of the Group and relating to the period January 1, 2015 until the Separation Date. In case of an exceeding output VAT attributable to these companies and relating to the period January 1, 2015 until the Separation Date, the Company agreed to procure that the respective company of the Group pays such exceeding amount to Bayer AG. Furthermore, the parties agreed in the Contribution Agreement to agree on a calculation method for relevant input and output VAT as well as on the amounts to be paid pursuant to the provisions described above as soon as possible and based on past practice in connection with monthly VAT calculations.

Bayer AG and the Company agreed (i) to cooperate with regard to *inter alia* the filing and amendment of tax returns and (ii) on further cooperation, information, mitigation and instruction provisions outlining the rights and obligations of each party in connection with tax proceedings which may lead to claims under the agreed indemnities. Furthermore, Bayer AG and the Company have agreed on certain general principles to handle potential claims under any of the Local Agreements, the Master Agreement and the Contribution Agreement and both parties will ensure that their subsidiaries comply with these agreements.

Finally, the parties agreed that if and to the extent that payments under the Contribution Agreement result in tax disadvantages for the receiving party whereas the party making the payment realizes certain tax benefits, such tax benefits shall be paid to the party receiving the payment.

Indemnity in connection with the profit and loss transfer agreement between Bayer AG and Covestro Deutschland AG

Moreover, the parties under the Contribution Agreement—*inter alia*—will ensure that all claims for the transfer of profits and compensation of losses arising under the profit and loss transfer agreement between Bayer AG and Covestro Deutschland AG, which was terminated with effect from August 31, 2015, are settled. Thus, any profit transfer or loss compensation claim arising from the financial statements of Covestro Deutschland AG as of August 31, 2015 shall be settled and Bayer AG compensates the Company and vice versa, if and to the extent that such profit transfer or loss compensation deviates substantially from the expected amounts. Furthermore, the Company (i) ensures that all financial statements prepared by Covestro Deutschland AG for periods ending on or prior to

August 31, 2015, will not be amended, unless necessary for the acceptance of the fiscal unity or required by law and (ii) holds Bayer AG harmless from any additional payment obligation in connection with the profit and loss pooling agreement (except for those explicitly agreed in the Contribution Agreement). On the other hand, Bayer AG assigns any payment claim arising under the profit and loss pooling agreement (except for those payments which shall be received by Bayer AG in accordance with the Contribution Agreement). Finally, the Company holds Bayer AG harmless from any obligation arising from or in connection with the termination of the profit and loss pooling agreement, in particular the obligation to grant securities pursuant to section 303 German Stock Corporation Act (*Aktiengesetz*) to creditors of Covestro Deutschland AG. If Bayer AG grants securities pursuant to section 303 German Stock Corporation Act (*Aktiengesetz*), the Company ensures that Bayer AG is indemnified from any obligations it may incur hereunder and that, to the extent possible, the relevant securities are replaced with equivalent securities to be granted by the Company. To the extent the relevant securities are not replaced, the Company provides an unconditional bank guarantee in favor of Bayer AG by an internationally recognized bank with a Standard & Poor's rating of at least ''A –'' to secure in particular potential claims for recourse of Bayer AG against Covestro Deutschland AG.

Cap of claims against the Company under the Contribution Agreement

The parties of the Contribution Agreement have, generally, limited the liability of the Company to an amount of €715 million which will be increased by the amount paid by Bayer AG to the Company under the indemnities given in the Contribution Agreement. The aforementioned limitation of the liability does, in particular, not apply with respect to payments by the Company in case of (i) certain violations of the Company's undertakings in the Contribution Agreement in relation to assets for which a violation of holding or retention periods may lead to adverse tax consequences for the Bayer Group, (ii) certain violations of the Company's undertakings in the Covestro Tax Covenants Agreement causing taxes on the Distribution (for further information see ''*16.1.8 Covestro Tax Covenants Agreement*'' below) and (iii) an indemnity in relation to the violation of certain holding or retention periods if and to the extent that such violation results in tax benefits of the Group.

Withdrawal right of Bayer AG

The parties agreed that Bayer AG has the right to freely withdraw from the Contribution Agreement until the beginning of the extraordinary shareholders' meeting that passes a resolution on the IPO Capital Increase, but not after the payment of the cash contribution. The withdrawal right in favor of Bayer AG shall safeguard Bayer AG from any payment obligations in regard to the cash contribution in the event the placement of the Shares is terminated. It is not expected that Bayer AG will withdraw for any other reason than the termination of the placement of the Shares.

16.1.6 Local Agreements

In the course of the formation of the Group and the carve-out of the MaterialScience business, Local Agreements were concluded as local measures between the respective local transferring entity of the Bayer Group and the respective local acquiring company of the Group. Content and structure of these Local Agreements were extensively discussed between the parties, Bayer AG and Covestro Deutschland AG for all jurisdictions. The Local Agreements deviate from the general principles as agreed between Bayer AG and Covestro Deutschland AG, only if such deviations are necessarily required by the applicable local law or to reflect specific situations in the respective jurisdiction.

Taxes

Under the Local Agreements, the respective transferring entities of the Bayer Group usually granted a tax indemnity to the respective acquiring company of the Group whilst such company of the Group also granted indemnities as well as it agreed to forward certain tax refunds received to the respective transferring entities of the Bayer Group. In detail:

In case of the transfer of shares in companies performing activities of the MaterialScience business, the transferring entities of the Bayer Group regularly granted tax indemnities with respect to taxes of the respective transferred company relating to periods ending on or before a certain reference date (usually the date for which the value of the transferred company was determined). Such tax indemnities, however, are subject to certain limitations, exclusions and exceptions, with respect to, in particular, but not limited to (additional) taxes relating to (i) transfer pricing adjustments and (ii) the unintended maintenance of

permanent establishments, each (i) and (ii) in connection with activities of the MaterialScience business, (iii) any change in accounting policy and any amendment of tax returns for periods ending on or before the reference date initiated by any company of the Group after the respective closing date of the Local Agreement, unless required by mandatory law as well as (iv) the breach of (cooperation and/or information) obligations or the non-compliance with instructions given by the Bayer Group due to rights provided for by the respective Local Agreement. The agreed exclusions and exceptions under the Local Agreements may partially or fully exclude tax indemnity claims of the companies of the Group. Tax indemnities agreed in the Local Agreements are usually capped for the respective acquiring company of the Group at the agreed purchase price under the respective Local Agreement.

In case of the transfer of assets, the respective transferring entity of the Bayer Group regularly agreed to a tax indemnity covering taxes of such entity in connection with the assets transferred to companies of the Group for which this acquiring company may be held liable, unless such taxes directly result from any action by the respective company of the Group. Such tax indemnities are usually capped for the respective acquiring company of the Group at the agreed purchase price under the respective Local Agreement. Furthermore, the respective parties of the local asset transfer agreements have typically agreed that—if the competent tax authorities adjust the agreed purchase price under local tax law—certain future tax benefits associated with such adjustment and generated by one party shall be paid to the other party in order to (partially) compensate additional taxes of such party due to the adjustment.

On the other hand, the respective acquiring company of the Group—in principle and subject to certain limitations, exceptions and exclusions—granted also indemnities to the transferring entity of the Bayer Group under the Local Agreements (i) for taxes arising after the agreed reference date, for which the transferring company of the Bayer Group is liable, and (ii) taxes in connection with transfer pricing adjustments and the unintended maintenance of permanent establishments each in connection with activities of the MaterialScience business even if such taxes relate to the period ending on or before the agreed reference date. Moreover, the acquiring company of the Group is obliged to pay certain tax refunds received by the respective transferred company and relating to the period ending on or prior to the agreed reference date (in case of the transfer of shares in companies).

Finally, the parties of the Local Agreements agreed to cooperate with regard to the filing and amendment of tax returns and agreed on further cooperation, information, mitigation and instruction provisions outlining the rights and obligations of each party in connection with tax proceedings which may lead to claims under the agreed tax indemnities.

16.1.7 Tax Sharing Agreement

In connection with the Distributions, Bayer US Holding LP, Bayer Corporation, Covestro LLC and Covestro Deutschland AG entered into a tax sharing agreement (the ‘‘**Tax Sharing Agreement**’’). The Tax Sharing Agreement generally governs the parties' respective rights, responsibilities, and obligations after the Distributions with respect to taxes, including any taxes imposed on Bayer US Holding LP or its affiliates that arise from the failure of the Distributions to qualify as tax-free transactions for U.S. federal income tax purposes. Covestro LLC has agreed to indemnify Bayer US Holding LP and its affiliates against tax-related liabilities, if any, caused by the failure of the Distributions to qualify as tax-free transactions if the failure to so qualify is attributable to actions by Covestro Deutschland AG, Covestro LLC or its affiliates after the Distributions, including actions that are inconsistent with the representations and covenants provided in connection with the tax opinions provided by tax counsel to Bayer Corporation in connection with the Distributions. If the Distributions fail to qualify for tax-free treatment for any reason for which none of Bayer AG, Bayer US Holding LP (and its affiliates), Covestro Deutschland AG or Covestro LLC (and its affiliates) is responsible, each of Bayer US Holding LP and Covestro LLC has agreed in the Tax Sharing Agreement to be responsible for 50% of the tax-related liabilities arising from the failure of the Distributions to qualify as tax-free transactions. The Tax Sharing Agreement also imposes restrictions on Covestro Deutschland AG's and Covestro LLC's ability to engage in certain transactions after the Distributions. During the two year period following the Distributions, Covestro Deutschland AG and Covestro LLC are not permitted to take certain actions, such as stock issuances, certain stock transfers, mergers, asset sales, contributions or reorganizations, unless they first obtain an opinion of tax counsel or a private letter ruling issued by the IRS that any such action will not result in the Distributions failing to qualify as tax-free transactions. Under the Tax Sharing Agreement, Covestro LLC is responsible for the payment of all income and non-income taxes attributable to its operations and the operations of its affiliates.

16.1.8 Tax Covenants Agreement

In connection with the Contribution Agreement, Bayer AG, Bayer US Holding LP, Bayer Corporation, and the Company entered into the Tax Covenants Agreement. The Tax Covenants Agreement generally imposes certain restrictions on the Company similar to those imposed on Covestro Deutschland AG and Covestro LLC under the Tax Sharing Agreement. Under the Tax Covenants Agreement, the Company generally agrees not to engage in certain activities that could cause the Distributions to fail to qualify as tax-free transactions for U.S. federal income tax purposes. The Tax Covenants Agreement also imposes specific restrictions on the Company's ability to engage in certain transactions after the commencement of trading of the Shares on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) (Prime Standard) for a certain period of time. Until the later of fifteen months after the commencement of such trading or January 1, 2017, the Company is not permitted to take certain actions, such as stock issuances, certain stock transfers, mergers, or stock repurchases unless it first obtains an opinion of tax counsel or a private letter ruling issued by the IRS that any such action will not result in the Distributions failing to qualify as tax-free transactions. The Company has agreed (i) to compensate Bayer AG for the amount resulting from tax-related liabilities caused by the failure of the Distributions to qualify as tax-free transactions (if the breach of the restrictions imposed on the Company causes such tax-related liabilities) or (ii) to indemnify Bayer AG and its affiliates, as well as their respective directors, officers and employees, and hold them harmless from and against any tax-related liabilities caused by the failure of the Distributions to qualify as tax-free transactions (unless the Company can prove that (x) an action of Bayer AG or any of its affiliates did cause such tax-related liabilities or (y) such tax-related liabilities would have been triggered even if the Company had not breached the restrictions imposed on it). Payments made pursuant to the indemnity described in (ii) above are applied against the cap set forth in the Contribution Agreement. No payment shall be required under the Tax Covenant Agreement to the extent it is duplicative of a payment required to be made (and which is actually made) under the Tax Sharing Agreement.

16.1.9 Sales Support Services Agreements between Covestro Deutschland AG and Companies of the Bayer Group

After the separation, companies of the Bayer Group will continue to provide contractually agreed sales support services to the Group in certain countries (including Algeria, Hungary, Pakistan, Sweden, Ukraine, Venezuela). In these countries, these services will be provided only for a limited period of time until the Group has received the required operational licenses and it is currently expected that by end of the first quarter 2016 the respective sales support contracts will be cancelled. For Iran, Morocco and Nigeria, Covestro Deutschland AG and Bayer AG have agreed to sales support services through companies of the Bayer Group for a term of one year plus a one year optional extension period which can be exercised two times. Thereafter, or if mutually agreed before, the Group will take over the sales operations.

16.1.10 Intellectual Property Rights

Covestro Deutschland AG and Bayer AG have entered into agreements with regard to patents, utility models, registered designs, trademarks and domains.

In order to separate and combine all intellectual property rights in connection with the MaterialScience business as well as all related activities and service functions, various entities of the Bayer Group and Covestro Deutschland AG (formerly Bayer MaterialScience Aktiengesellschaft) have entered into an intellectual property transfer framework agreement on August 24, 2015.

As part of the intellectual property transfer framework agreement, Bayer Intellectual Property GmbH (''**BIP**''), Bayer AG and Covestro Deutschland AG have entered into a termination agreement ending Covestro Deutschland AG's right to limited use of the name ''BAYER'', the trademark ''BAYER'' and the Bayer Group cross with effect as of August 30, 2015. As compensation for the termination of that agreement, Bayer AG agreed to pay to BIP €57.5 million. In case of a taxation of the aforementioned compensation in a period after August 31, 2015, at the level of a Group company, Bayer AG agreed in the termination agreement to pay the amount of the net present value of any tax benefit resulting therefrom for the Bayer Group to the Group company. Covestro Deutschland AG intends to use certain trademarks of the Bayer Group for a transitional period beginning on August 31, 2015. Thus, Bayer AG has granted Covestro Deutschland AG and certain of its affiliates a transitional license at no cost to use certain trademarks of the Bayer Group, including the trademark ''BAYER'' and the Bayer Group cross for

identifying its manufactured goods and services as well as its business names and internet domains. Such license will end one year after the carve-out and allows Covestro Deutschland AG and its affiliates to adapt their manufacturing process (''**Changeover Period**''). Products that have been manufactured by Covestro Deutschland prior to or during the Changeover Period, may be distributed by using certain trademarks for a period of three years beginning August 31, 2015.

As part of the intellectual property transfer framework agreement, Covestro Deutschland AG (formerly Bayer MaterialScience Aktiengesellschaft) and BIP have dissolved the silent partnership which was established between Bayer MaterialScience Aktiengesellschaft and BIP in 2012 (''**BMS BIP Silent Partnership**'') with effect as of August 31, 2015. As result of the dissolution of the BMS BIP Silent Partnership, BIP has agreed (i) to transfer all assets and liabilities to which the BMS BIP Silent Partnership relates to Covestro Deutschland AG and (ii) to settle any amount outstanding on the settlement account (*Verrechnungskonto*) of the BMS BIP Silent Partnership via a corresponding payment to Covestro Deutschland AG. Covestro Deutschland AG and BIP have agreed that such payment shall also include the compensation for the termination of the joint use agreement in the amount of €57.5 million. It is the joint understanding of Covestro Deutschland AG and BIP that the dissolution of the silent partnership is a tax-neutral transaction. Nevertheless, the parties agreed on certain indemnities and provisions regarding the compensation of certain tax benefits in order to reflect the agreed risk allocation in connection with such dissolution. In particular the following was agreed: BIP indemnifies Covestro Deutschland AG with respect to taxes imposed on a Group company for a period after August 31, 2015 and relating to the dissolution of the BMS BIP Silent Partnership. The indemnity obligation of BIP is reduced by the net present value of tax benefits of a Group company associated with the treatment of the dissolution as taxable transaction. If the dissolution should be taxed at the level of the Bayer Group, Covestro Deutschland AG agreed to pay the net present value of the aforementioned tax benefits to BIP. Moreover, Covestro Deutschland AG agreed to indemnify Bayer AG on an after tax basis against any taxes imposed on the Bayer Group which are caused by or relate to any violation of any retention or holding period (except for a violation by a conversion of Covestro Deutschland AG (into a partnership)) in relation to certain assets after the dissolution of the BMS BIP Silent Partnership. Such indemnity obligation is reduced by the net present value of tax benefits of Bayer Group companies resulting from the violation of the relevant retention or holding period. If indemnity payments relate to the violation of retention or holding periods and payments are owed by Covestro Deutschland AG under the dissolution agreement and by the Company under the Contribution Agreement, the obligation under the dissolution agreement shall prevail and payments shall, therefore, principally be made under the dissolution agreement.

As part of the intellectual property transfer framework agreement, patents and trademarks were transferred from Bayer AG to Covestro Deutschland AG in connection with the termination of a trust agreement according to which Bayer AG had granted beneficial ownership in such patents and trademarks to Covestro Deutschland AG.

Further, Covestro Deutschland AG and a number of companies of the Bayer Group have entered into several intellectual property license agreements with regard to patents, patent applications, invention disclosures including the respective priority rights.

In addition to the intellectual property transfer framework agreement, Bayer AG sold and transferred certain internet domain names starting with ''Bay'' and which have been primarily or solely allocable to the business activities of the Group to Covestro Deutschland AG.

16.1.11 Real Estate Purchase Agreement between Companies of the Group and Companies of the Bayer Group

Pursuant to certain notarized real estate purchase agreements (*Grundstückskaufvertrag*) between two real estate companies of the Group and companies of the Bayer Group, dated August 31,2015, (i) land parcels at the production site in Brunsbüttel and at the chemical park sites in Leverkusen, Dormagen and Uerdingen on which the Group currently operates its business, (ii) certain supplementary real estate property which the Group may use in the future and (iii) significant additional real estate property outside the scope of its current or future use, from companies of the Bayer Group will be sold to companies of the Group. The agreements can be revoked by the companies of the Bayer Group if the capital increase in the context of the Offering has not been registered until October 6, 2015. The properties will be sold together with all rights and significant fixtures related thereto and any appurtenances relating to the relevant parcel as well as operating equipment belonging to the parcels and buildings, to the extent that the sellers own

these items. The Group has its major German production and other business operations at those locations. The properties will be sold subject to a disclaimer of liability by the sellers with respect to the size, quality and features of the parcels. Specifically, the sellers disclaim any liability for any latent or hidden qualitative defects. The net purchase price for the real property (including any buildings thereon, and the appurtenances and operating equipment sold therewith) will total €80 million, which is below the market value. Possession, use and risk and encumbrances, as well as general duties to maintain safety in any respect on the property, was transferred on September 1, 2015. In this context, two real estate companies of the Group assume a large number of long-term lease agreements and hereditary building rights agreements with release of debt (*Schuldbefreiung*) and the companies of Bayer Group cease to be part of such agreements. The conveyance of title in performance of the agreement will be made as soon as the relevant land register (*Grundbuch*) requirements are met. Environmental liability will be split between the Company and Bayer AG as set forth in the Master Agreement. The sellers shall have the right to request registration of certain rights of usage relating to real estate which may be secured by *in rem* usage rights (*dingliche Nutzungsrechte*) registered in the land register and certain repurchase rights (*Rückkaufrechte*) *inter alia* if the usage rights can not be secured by *in rem* rights or if the Company transfers its headquarters from Leverkusen, Germany. In addition, real estate in Santa Clara, Mexico, and Filago, Italy, was sold from Bayer Group companies to companies of the Group. In case of future Currenta projects that are not yet eligible by law for *in rem* protection the same effect will be created by registering buy-back reservations (*Vormerkungen auf Rückkauf und –übereignung*).

Pursuant to a current long-term property and building usage agreement (*Grundstücksnutzungsvertrag*), with economic effect as of January 1, 2002, concluded between certain predecessor companies of the Bayer Group and Covestro Deutschland AG certain parcels of land and buildings have been leased to the Group until July 31, 2028 to continue their business operations on real estate remaining in the property of companies of the Bayer Group.

Pursuant to a site agreement (*Standortvereinbarung*), dated December 30, 2004 between Bayer AG, the Lanxess group, members of the Group and Currenta , amongst others, Currenta is the sole operator of the chemical park sites located in Leverkusen, Dormagen and Uerdingen, Germany. Companies of the Group have joined the site agreement with effect as of the date of the notarization of the real estate purchase agreement by unilateral declaration (*Beitritt*). All rights and obligations existing under a long-term property and building usage agreement (*Grundstücks- und Bauwerksnutzungsvertrag*) entered into between Currenta and companies of the Bayer Group, dated July 8, 2008, will pass to the Group to the extent the respective real estate is transferred as of the date of such transfer. This agreement entitles Currenta *inter alia* to use these properties for infrastructure services. In addition, the real estate purchase agreement provides for the exclusive right of usage of real property, and certain assets in favor of Bayer Real Estate GmbH which is secured by *in rem* usage rights (*dingliche Nutzungsrechte*) registered in the land register. Covestro Deutschland AG and Currenta have also entered a long-term services agreement relating to the delivery of energy, maintenance services, environmental services, logistic services and infrastructure services, in particular relating to basic infrastructure for chemical parts, electricity grid, pipeline services, railway services, harbor services, waste treatment facilities and site security. The agreement entitles the Group to the right and obligation to utilize certain infrastructure services whereas other services can be selected by the Group on a voluntary basis. It was agreed that the Group will be entitled to use the services at the prices agreed with companies of the Bayer Group until 3 years after the expiry of the affiliate status of Covestro AG with Bayer AG pursuant to section 15 of the German Stock Corporation Act (*Aktiengesetz*). Consequently, the Group is limited in its ability to use alternative service providers in particular for mandatory services and may be required to pay above market prices for services and at unfavorable conditions.

The real estate transfer tax on the agreed purchase price for the real estate will be covered by the selling companies of the Bayer Group whereas the risk that real estate transfer tax is assessed on the basis of a substantially higher market value will be covered by the respective acquiring companies of the Group.

16.1.12 Real Estate Leasing Agreement

Several lease and rental agreements exist between companies of the Group as lessor and lessee, respectively, companies of the Bayer Group as lessee or lessor, respectively, and Currenta GmbH & Co OHG as operator of the chemical park sites in Leverkusen, Dormagen and Uerdingen. The most important leasing agreements relate to real estate located in Leverkusen, Dormagen and Uerdingen, Germany. The majority of these real estate leasing, rental agreements and related service agreements will be transferred to companies of the Group.

Furthermore, some locations are rented by companies of the Bayer Group and are subleased to subsidiaries of the Group in part or in total.

16.1.13 Financing

Prior to the separation, Covestro Deutschland AG (formerly Bayer MaterialScience Aktiengesellschaft) was mainly financed by the Bayer Group as described below. Such financing by the Bayer Group will be replaced with external financings of the Group over time, and for an interim period certain financing relations remain in place.

Historically, Covestro Deutschland AG (formerly Bayer MaterialScience Aktiengesellschaft) participated in the cash pool and other cash management systems of the Bayer Group with customary interest rates. This included, among other things, the investment of excess short-term liquidity and the financing via granted overdraft facilities as well as the processing and invoicing of intra-group and external receivables and payables. These participations were terminated as of August 31, 2015 and replaced by the Group's cash pooling and cash management systems.

In addition, the Bayer Group and the Group have concluded loan and cash pooling agreements in the past. The Covestro Group reported loan and cash pool receivables in an amount of €405 million, €1,503 million and €1,303 million as of December 31, 2014, 2013 and 2012, respectively, and €433 million as of June 30, 2015. Furthermore, the Covestro Group reported loan and cash pool payables to the Bayer Group in an amount of €3,864 million, €3,703 million and €3,471 million as of December 31, 2014, 2013 and 2012, respectively, and €4.236 million as of June 30, 2015. For further information, see note 18 to the combined financial statements as of and for Fiscal Years 2014, 2013 and 2012 included in ''*25. Financial Information.*''

Currently, four inter-group loans in the total amount of €5,150 million (the ''**Inter-Group Debt**'') are owed by the Covestro Group to Bayer Antwerpen NV, a subsidiary of the Existing Shareholder. The inter-group loans bear interest at rates between 0.46% and 0.69% per annum, which is regarded by the Company as having been negotiated at arm's length. The inter-group loan in an amount of €715 million due on September 29, 2015 shall be fully repaid with the proceeds from the Capital Contribution (i.e. Inter-Group Debt Repayment I), and the inter-group loan in an amount of €2,375 million due on October 6, 2015 shall be fully repaid with a substantial part of the net proceeds from the placement of the New Shares (i.e. Inter-Group Debt Repayment II). The inter-group loan in an amount of €1,250 million due on March 30, 2016 and the inter-group loan in an amount of €810 million due on June 29, 2016 are currently planned to be repaid with the proceeds from future bond issuances or other financial instruments and operating cash generated by the Group.

In connection with the replacement of financing previously provided by the Bayer Group, Covestro Deutschland AG has entered into a Facilities Agreement with a number of financial institutions. For further information on the Facilities Agreement see ''*15. Business—15.19 Material Agreements—15.19.1 Financing Agreements.''* In case the repayment of the two inter-group loans due in March 2016 and June 2016, respectively, is not made as currently planned from the proceeds of future bond issuances or other financial instruments and operating cash generated by the Group, the Group plans to draw the term loan facility and to partially draw the revolving credit facility, which both form part of the Facilities Agreement and use the proceeds for the repayment of the two inter-group loans at their maturity.

In addition, external local financing agreements by some of Covestro Deutschland AG's subsidiaries will remain in place. The guarantees issued by the Bayer Group for financial debt of the Group amounted to €419 million as of June 30, 2015. They include, in particular, two syndicated loans in China in a total amount of €410 million. In the context of the carve out of the Group, Covestro Deutschland AG has agreed to indemnify and hold harmless those companies of the Bayer Group which have granted guarantees to the financing banks with regard to one of the syndicated loans in China. The guarantees issued in relation to the second syndicated loan in China were released in the context of the carve out of the Group. As of June 30, 2015, no other guarantees for financial debt of the Group had been granted.

In the past, Covestro Deutschland AG entered into derivative hedging contracts with Bayer AG relating to currency exchange rate risks. Bayer AG acted as counterparty, unless local legal restrictions demanded otherwise. All internal foreign exchange hedging contracts of Covestro Deutschland AG with Bayer AG were terminated prior to August 28, 2015 at market values.

Furthermore, the Bayer Group as well as banks, insurance companies and other financial institutions instructed by the Bayer Group have granted guarantees or other types of collateral for the benefit of suppliers, customers and partners in a total amount of €253 million as of June 30, 2015, which were drawn only to a minor extent. The Group has begun to obtain the release of the collateral granted by the Bayer Group. Such discharge occurs in the form of a substitution by collateral granted by the Group or based on its guarantee facilities.

Covestro Deutschland AG has agreed with the Bayer Group that any collateral granted that has not yet been released and any remaining liability of the Bayer Group shall be fully released. At that time, Covestro Deutschland AG will have to substitute or otherwise discharge Bayer from all existing obligations. Covestro Deutschland AG is required to reimburse the Bayer Group for fees, costs and expenses the Bayer Group incurs in connection of the relevant security. In addition, Covestro Deutschland AG has agreed to hold the Bayer Group harmless from and against any and all liabilities and costs, especially against payment claims raised in respect of the aforementioned security.

16.1.14 Services Supply and Other Agreements

As a subgroup of the Bayer Group, Covestro Deutschland AG was historically able to use certain services performed at Bayer Group level as well as Bayer sector level (such as tax, legal and contract management, IT services, corporate communications, human resources, internal audit, compliance, accounting and finance). Bayer also charges the sectors and subgroups for services provided by headquarter functions of the Bayer Group. Since the Group generally established stand-alone functions by the end of August 2015, no more general charges have been incurred.

As of the date of the Prospectus, the Group is covered by the global policies (including directors and officers insurance (''**D&O insurance**'')) of Bayer AG. The Company will purchase new stand-alone policies for the Group and its future direct and indirect subsidiaries, which are or will be under current or future control of the Group. All of these new separate global group policies shall become effective when the Group or a company of the Group is no longer covered under the global policies held by Bayer AG.

In addition, service level agreements, relating in particular to accounting and finance (including tax and treasury), compliance, export control and customs (use of special systems), human resource matters, insurance, intellectual property, IT, legal, environment, health & safety, procurement and real estate, existed between certain companies of the Group, including regional companies, and the Bayer Group. In connection with its separation from Bayer AG, most of these service level agreements were either terminated and replaced by the Group's in-house solutions or by new agreements with external providers, which also include external agreements with Bayer; or will be replaced by transitional service agreements with the Bayer Group. For additional information on the agreements see ''—*16.1.22 Transitional Service Agreements*.''

In addition to the services provided by the Bayer Group to the Company, companies of the Group also have provided, and will continue to provide, certain services to the Bayer Group on the basis of several service level agreements, relating in particular to the renting of building, office space and facilities, warehousing, education and the provision of capacities in day-care centers. The Bayer technology services companies provide in particular engineer technical and process technical services, in particular in the area of process technology, raw material technology, logistics, planning and construction of plants and process analytical technology. The Bayer business services companies provide services, in particular in the areas of accounting and human resources.

16.1.15 Data Access and Transfer

Bayer AG and Covestro Deutschland AG have entered into several data access and transfer agreements setting out the rules as to which and how structured and unstructured data and information is to be shared between the Group and the Bayer Group and stipulating that both parties shall have ongoing access to the data and information which is relevant to their businesses. Such data access and transfer agreements apply to the companies of the Group and the Bayer Group in Germany but also in various other countries.

16.1.16 Participation and Benefit Programs of the Bayer Group

Prior to the Offering, several of the Group's employees and members of the Management Board participated in the share-based payment plans of Bayer AG. As a result of the Offering, the share-based payment plans for employees and members of the Management Board that were in place prior to the

Offering will be terminated for future tranches that have not yet started to run. With regard to already running tranches of the respective four-year-cycles, the Group intends to fix the outstanding rights according to the currently applicable rules and relevant metrics at the end of Fiscal Year 2015, and once due, the rights will be settled by one-time payments in cash. The Covestro Group has made provisions for stock-based compensation programs in the amount of €57 million as of December 31, 2014. For further details on the existing participation programs, see note 24.6 to the Covestro Group's audited combined financial statements as of and for Fiscal Years 2014, 2013 and 2012, which are included in ''*25. Financial Information.*''

16.1.17 Pension Schemes

The Group provides retirement benefits for most of its employees in various countries, either directly or by contributing to privately or publicly administered funds or other institutions. The way these benefits are provided varies according to the legal, fiscal and economic conditions of each country, with benefits generally being based on employee compensation and years of service. The obligations of the Group relate both to existing retirees' pensions and to pension entitlements of future retirees. In Germany, there are two main pension systems in place, the old pension system (until December 31, 2004) and the new pension system (since January 1, 2005). The old pension system for entries until December 31, 2004 was made up of a three-layer arrangement, (i) the basic pension (*Grundrente Bayer Pensionskasse*) provided by Bayer-Pensionskasse VVaG, (ii) the additional pension (*Zusatzrente*) based on a direct pension promise and (iii) the third pension provision layer (*Dritte Versorgungsstufe*) based on a direct pension promise. The new pension system consists of two layers and provides pension entitlements for persons who joined the Bayer Group in Germany on or after January 1, 2005. The basic pension is granted via Rheinische Pensionskasse VVaG (RPK) and employees and employer both contribute a certain percentage of the base salary. Future pension payments from this plan are based on contributions and the return on plan assets, and a guaranteed interest rate applies. Above the social security contribution ceiling (West) for the statutory pension insurance plan, the pension system is supplemented by a further direct promise with matching components (voluntary employee contributions and corresponding employer matching contributions).

As of December 31, 2014, the present value of the Covestro Group's pension obligations (defined benefit obligations) was €3,282 million and the fair value of the plan assets was €1,894 million resulting in net defined benefit liability of €1,388 million. Germany is the country with the highest net defined benefit liability amounting to a provision of €1,074 million, followed by the United States with €258 million.

Currently, certain direct German pension liabilities (e.g. for certain parts of employees' retirement income, deferred compensation etc.) are partially funded within a Contractual Trust Arrangement with Bayer Pension Trust e.V. The corresponding assets of the Covestro Group amounted to €202 million as of December 31, 2014. The Group will provide for a funding solution at least having the same quality and degree of security. For example, this can be achieved by using a similar Bayer-independent CTA (Contractual Trust Agreement), having a comparable legal structure and comparable trust agreements, and providing for at least the same funding level.

For further details on the pension schemes and the accounting of the respective pension liabilities, see note 23 to the combined financial statements as of and for Fiscal Years 2014, 2013 and 2012 included in ''*25. Financial Information.*''

Bayer Business Services GmbH and Covestro Deutschland AG expect to enter into an agreement on the administration of company pension schemes. Pursuant to this agreement, Bayer Business Services GmbH will provide support services such as assisting pensioners, processing of compensation payments and providing consulting on pension schemes and on the statutory pension insurance.

16.1.18 Sponsoring Management Agreement

In order to maintain Covestro Deutschland AG's sponsorship of sports and cultural activities after the Separation Date, Bayer AG and Covestro Deutschland AG have entered into an agreement that provides that Bayer AG will support Covestro Deutschland AG with different activities such as solicitation of sponsoring opportunities and support in negotations of sponsorships.

16.1.19 Software License and Maintenance Agreements

Prior to the Offering, the IT infrastructure of the Group was largely dependent on and highly integrated with the Bayer Group. Applications and IT infrastructure which have previously been provided within the Bayer Group will, after a transitional period, as the case may be, be provided within the Group and by service providers independently from the Bayer Group, respectively.

Historically, the Group used certain software (e.g. SAP, Microsoft, Oracle) under group frame agreements of the Bayer Group which were primarily held by Bayer Business Services GmbH. Going forward, the Group will enter into own Group license agreements. The individual licenses currently used by the Group but held by the Bayer Group shall, to the extent possible, be transferred to the Group, although the Group would in most cases be entitled to use them until the Bayer Group disposes of its majority share in the Group, plus an additional period of up to 12 months. If and to the extent that there are no adequate licenses that can be transferred to the Group, this may result in additional costs where the Group will need to procure licenses directly from third-party software providers. The Group may incur additional costs where third-party suppliers are not prepared to grant the Group the same favorable conditions as the Bayer Group. Independently thereof, the Group will enter into license and service agreements with the third-party software providers going forward based on the existing demand.

With respect to software developed by Bayer AG or Bayer Business Services GmbH for Covestro Deutschland AG or vice versa, these companies and their relevant affiliates have been granted fully paid-up, perpetual and non-exclusive licenses to use such software for their own businesses.

16.1.20 Shared Agreements

Certain companies of the Group and companies of the Bayer Group have entered *inter alia* into shared purchase, procurement and logistics agreements with third parties. These agreements have, with few exceptions, been split-up between the Group and the Bayer Group or replaced by newly negotiated separate agreements for the Group and the Bayer Group. The remaining agreements will be split up in connection with the Offering.

Certain companies attributable to the Group business were in the past not subsidiaries directly or indirectly owned by the Group but by Bayer AG or other companies of the Bayer Group. Likewise, certain customer relationships, assets and employees attributable to the Group were previously held or employed by Bayer AG or other companies of the Bayer Group.

16.1.21 Ongoing Relationships and Services Provided by the Bayer Group

As described above, several lease and rental agreements, supply and delivery arrangements with companies of the Bayer Group will remain in place after the completion of the Offering. In addition, some guarantees and securities provided by the Bayer Group for certain of the obligations will stay in place for a transitional period. Furthermore, following completion of the Offering, the Bayer Group will provide the following ongoing services to companies of its Group.

16.1.22 Transitional Service Agreements

In connection with the separation from Bayer, Covestro Deutschland AG has entered with Bayer AG into an overarching transitional service agreement under which further service-specific and individual TSAs have been entered into between companies of the Group and of the Bayer Group for transitional services rendered in Germany and abroad (each a "**TSA**"). The TSAs are governing the Bayer Group's provision of IT services, accounting services, technical services, travel management and collaboration services to the Group in particular. These TSAs have come into force effective at the latest upon the date when the Group is separated from the Bayer Group. In principle, the TSAs have a maximum term of 36 months as from the stock exchange listing of the Company. Bayer AG and companies of the Bayer Group may not terminate the TSAs or individual transitional services prematurely. At the end of the term of each transitional service, such service will be migrated to the Group or a third-party supplier according to a predefined migration scheme the Group and the Bayer Group will agree upon during the term of the TSAs. The purpose of the TSAs is to enable the Group to conduct its business without interruption as it was previously conducted by the Bayer Group.

16.1.23 Other Relationships with the Bayer Group

The Group received various services from the Bayer Group in the past, including tax, legal and contract management, IT services, corporate communications, human resources, internal audit, compliance, accounting and finance, and the Group has conducted other business with the Bayer Group as described in more detail in this section.

Sales of goods and services to, as well as purchases of goods and services from, the Bayer Group in Fiscal Years 2014, 2013 and 2012 are set forth in the following table. For further information, see ''*—16.1.14 Services Supply and Other Agreements*'':

	Sales of goods and services			Purchases of goods and services		
	Fiscal Year			Fiscal Year		
	2014	2013	2012	2014	2013	2012
	(audited) *(EUR in millions)*					
Bayer AG	18	43	28	46	48	45
Bayer Group companies	98	98	89	1,065	1,052	1,074
Non-consolidated companies	23	1	3	—	—	—

The table below sets forth the sales of goods and services and purchases of goods and services in the relationship with the Bayer Group in the first six months ended June 30, 2015 and June 30, 2014, respectively:

	Sales of goods and services		Purchases of goods and services	
	Six months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(unaudited) *(EUR in millions)*			
Bayer AG	7	10	26	23
Bayer Group companies	42	51	445	515
Non-consolidated companies	20	1	—	—

As of the dates indicated below, the Covestro Group's receivables from and liabilities to the Bayer Group are as follows:

	December 31		June 30	
	2014	2013	2015	2014
	(audited) (EUR in millions)		(unaudited) (EUR in millions)	
Receivables from Bayer AG	**374**	**493**	**426**	**396**
therein:				
Financing activities	345	471	420	383
Receivables from Bayer Group companies	**113**	**1,084**	**61**	**1,108**
therein:				
Financing activities	70	1,051	21	1,076
Receivables from non-consolidated subsidiaries	**2**	**1**	**5**	**2**
therein:				
Financing activities	—	—	—	—
Liabilities to Bayer AG	**108**	**63**	**164**	**59**
therein:				
Financing activities	99	56	159	53
Liabilities to Bayer Group companies	**4,005**	**3,837**	**4,243**	**3,947**
therein:				
Financing activities	3,795	3,657	4,103	3,736
Liabilities to non-consolidated subsidiaries	**5**	**—**	**9**	**3**
therein:				
Financing activities	—	—	—	—

16.1.24 Other Agreements

Covestro AG entered into agreements with Bayer AG prior to September 1, 2015 such as a contribution agreement, dated August 31, 2015, and effective as of September 1, 2015, regarding the contribution of all shares of Covestro Deutschland AG into the unrestricted capital reserves (*ungebundene Kapitalrücklage*) of Covestro AG; and a contribution agreement, effective as of August 27, 2015, regarding the contribution of all shares of Covestro First Real Estate GmbH into the unrestricted capital reserves (*ungebundene Kapitalrücklage*) of Covestro AG.

16.2 RELATIONSHIP WITH ASSOCIATES AND JOINT VENTURES

The Covestro Group has several business relationships with its associates and joint ventures. Sales of goods and services, as well as purchases of goods and services from its associates and joint ventures in Fiscal Years 2014, 2013 and 2012 are set forth in the following table:

	Sales of goods and services			Purchases of goods and services		
	Fiscal Year			Fiscal Year		
	2014	2013	2012	2014	2013	2012
	(audited) (EUR in millions)					
Associates	10	8	10	737	703	674
Joint Ventures	15	14	13	—	—	—

The Covestro Group's receivables from and liabilities to its associates and joint ventures as of December 31, 2014, 2013 and 2012 are set forth in the following table:

	Receivables As of December 31,			Liabilities As of December 31,		
	2014	**2013**	**2012**	**2014**	**2013**	**2012**
	(audited) *(EUR in millions)*					
Associates	4	3	4	—	—	—
Joint Ventures	2	3	2	—	—	—

The table below sets forth the sales of goods and services and purchases of goods and services in the relationship with the Covestro Group's associates and joint ventures in the first six months ended June 30, 2015 and June 30, 2014:

	Sales of goods and services		Purchases of goods and services	
	Six months ended June 30,		Six months ended June 30,	
	2015	**2014**	**2015**	**2014**
	(unaudited) *(EUR in millions)*			
Associates	7	5	339	445
Joint ventures	5	8	—	—

The Covestro Group's receivables from and liabilities to its associates and joint ventures as well as to and from associates and joint ventures of the Bayer Group as of June 30, 2015 were as follows:

	Receivables As of June 30, 2015	Liabilities As of June 30, 2015
	(unaudited) *(EUR in millions)*	
Associates	4	—
Joint ventures	1	—

16.3 RELATIONSHIP WITH MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

For an overview regarding the compensation, shareholding and share-based compensation of the members of the Management Board and the Supervisory Board, see ''*21. Description of Governing Bodies—21.2 Management Board*'' and ''*21. Description of Governing Bodies—21.3 Supervisory Board*,'' as well as note 35.2 to the Covestro Group's combined financial statements for Fiscal Years 2014, 2013 and 2012, which are included in ''*25. Financial Information.*''

17. REGULATORY ENVIRONMENT

17.1 GENERAL

The Group's raw material manufacturing business for polyurethanes, polycarbonates and raw materials for coatings, adhesives and specialties and selected inorganic basic chemicals is subject to a variety of laws and regulations in the various jurisdictions in which it is active. If the Group fails to comply with any of these laws and regulations, it may be subject to civil liability, administrative orders, fines, or even criminal sanctions.

The following provides only a brief overview of certain selected areas of regulation applicable to the Group's business operations.

17.2 REGULATORY ENVIRONMENT IN THE FEDERAL REPUBLIC OF GERMANY AND THE EUROPEAN UNION

The Group's business activities in Germany are subject to a wide array of regulatory requirements under German and European Union law. Since many European Union regulations are directly applicable in all member states of the European Union, the Group's business is subject to these regulations in the other European Union member states in which it is active. While member states are obligated to implement European Union directives into national law, the method of implementation is at the discretion of the respective member state. Thus, the implementation of the directives applicable to the Group's business may vary from one European Union member state to another. However, given the harmonized European regulatory background and despite the fact that European Union member states may go beyond the environmental protection standards required, the regulatory environment in most other European Union member states, as well as in the member states of the European Economic Area, is in principle comparable to that in Germany, insofar as the regulatory matter has been addressed by European Union law.

17.2.1 Legal Requirements Related to Chemical Products

REACH and related regulation

The introduction of REACH has restructured the regulatory framework at the European level, and has created substantial obligations on those in the chemical supply chain, in particular manufacturers and importers of chemical substances, such as the Group. The legal framework established by REACH is contained in Regulation (EC) No. 1907/2006 of the European Parliament and of the Council of 18 December 2006 as last amended by Commission Regulation (EU) 2015/830 of 28 May 2015, which became effective on June 1, 2007 concerning the Registration, Evaluation, Authorization and Restriction of Chemicals "REACH," establishing a European Chemicals Agency, amending Directive 1999/45/EC and repealing Council Regulation (EEC) No 793/93 and Commission Regulation (EC) No 1488/94 as well as Council Directive 76/769/EEC and Commission Directives 91/155/EEC, 93/67/EEC, 93/105/EC and 2000/21/EC. Under the REACH Regulation, manufacturers and, in principle, also importers of chemicals are, in particular, required to register all substances produced in or imported into the European Union in quantities exceeding one ton per year with the European Chemicals Agency (the "**ECHA**").

Registration of certain chemicals with the ECHA has been compulsory since June 1, 2008. For pre-registered substances, three registration deadlines are applicable, depending on their tonnage and certain hazard criteria. The first two deadlines, December 1, 2010 and May 31, 2013, have already passed. The third deadline for substances exceeding one Ton per year is May 31, 2018. Registration involves the submission of various data depending on the tonnage of the substance to be manufactured or imported and the specific risks associated with each substance. Due to the data required, registration of substances with ECHA can impose a substantial financial burden upon chemical manufacturers or importers.

The Group completed the first two phases of registration under the REACH Regulation by registering about 110 pre-registered substances without being required to make any significant changes to its product portfolio due to registration.

The Group continues to register substances within the third registration phase (deadline May 31, 2018). By then, it expects to be required to register approximately 30 further substances.

Registration of substances is not the only prerequisite for legally compliant manufacturing, import or placement on the EU-market. In the future, restriction and authorization requirements under REACH

could also impair the Group's business. Raw materials or manufactured substances may be listed on Annex XVII and subject to certain restrictions. Raw materials and manufactured substances may also be listed on the so-called candidate list or on Annex XIV to the REACH Regulation. A listing on Annex XIV would mean a full ban as of a certain date, requiring application for authorization, which the European Commission will grant for a limited timeframe, but which does not necessarily provide planning reliability. The application procedures also entail a substantial financial burden. Substances that are potentially subject to authorization are, for instance, so-called endocrine disruptors (ED). Endocrine disruptors are chemicals that may interfere with the body's endocrine system and produce adverse developmental, reproductive, neurological, and other effects in humans and wildlife. As a downstream user and supplier of chemical substances, the Group is also subject to information, notification and record keeping obligations under the REACH and CLP Regulations. According to several regulations, e.g. REACH Regulation, Regulation (EU) No 528/2012 of the European Parliament and of the Council of 22 May 2012 concerning the making available on the market and use of biocidal products, or Regulation (EC) No 1107/2009 of the European Parliament and of the Council of 21 October 2009 concerning the placing of plant protection products on the market, the European Commission has to establish a set of criteria for the identification of endocrine disruptors. Depending on the European Commission's findings, some of the substances produced, procured and/or sold by the Group could be affected.

Recently, a German regulatory authority indicated its intention to regulate the industrial and professional use of diisocyanates under a REACH restriction. Proposals for a restriction may range from implementing a training and certification scheme defining minimum conditions for the safe handling of diisocyanates to an authorization process.

The REACH Regulation is supplemented by Regulation (EC) No 1272/2008 of the European Parliament and of the Council of 16 December 2008 on classification, labeling and packaging of substances and mixtures (the ''**CLP Regulation**'').

Under the comprehensive information system of the CLP Regulation, for example, if a substance qualifies as hazardous, the recipient of any shipment of the substance must be provided with a label and a safety data sheet that includes information on the hazards and exposures associated with the substance, as well as potential precautionary and remedial measures against those hazards.

Regulation of chemical production

The German Chemicals Act (*Chemikaliengesetz*) imposes particular obligations on producers, processors, and users of chemicals. As the production and handling of chemicals is the Group's core business, these obligations are of significant importance for its operations. The Group is subject to various notification and labeling requirements under the German Chemicals Act and must also comply with certain safety obligations arising under the German Chemicals Act and related legislation. The German Ordinance on Prohibitions and Restrictions on the Marketing of Hazardous Substances, Preparations and Products under the Chemicals Act (*Chemikalien-Verbotsverordnung*) contains requirements that must be complied with, e.g. when marketing dangerous materials, such as proof of competence and notification, information and recording duties. The Group's business includes the handling and storage of certain hazardous substances and is therefore also subject to regulation under the German Ordinance on the Protection against Hazardous Substances (*Gefahrstoffverordnung*) which regulates the handling of particularly dangerous substances and requires compliance with additional notification and safety requirements.

Specific regulation of certain products

Some of the Group's products are subject to specific requirements as a result of their intended use. This is particularly the case for products that are used as raw materials for food contact applications, for medical products or for cosmetics.

Food contact and food applications

EU Regulation (EC) No 1935/2004 of the European Parliament and of the Council of 27 October 2004 regulates materials and articles intended to come into contact with food (including bottled water). It is supplemented by specific requirements for manufacture and marketing under Commission Regulation (EU) No 10/2011 of 14 January 2011 on plastic materials and articles intended to come into contact with food. These regulations contain requirements for the composition, production, assessment, use, labeling,

advertising and presentation of materials intended for food contact in all stages of the supply chain, including the products provided by the Group.

European food law in general is based on Regulation No. 178/2002 of the European Parliament and of the Council of 28 January 2002 laying down the general principles and requirements of food law, establishing the European Food Safety Authority and laying down procedures in matters of food safety. In addition, there are a number of more specific regulations such as Regulation (EC) No 1333/2008 of the European Parliament and of the Council of 16 December 2008 on food additives which prohibits the marketing of food additives not approved by the regulation or Commission Regulation (EU) 231/2012 of 9 March 2012 laying down specifications for food additives listed in Annexes II and III to Regulation (EC) No 1333/2008 of the European Parliament and of the Council.

Additional German legal requirements are contained in the German Act on Food, Articles of Daily Use and Feed (*Lebensmittel-, Bedarfsgegenstände- und Futtermittelgesetzbuch*) and related ordinances.

Drinking water contact

While bottled water is regulated at the EU level under Food Contact regulations (above), piped water is regulated at the national level. In Germany, materials allowed for piped water applications are regulated in the Ordinance on the Quality of water for use by humans (*Trinkwasser-Verordnung*). Materials for drinking water applications are subject to compositional and testing requirements.

Medical device applications

Medical Devices are currently regulated by Council Directive of 20 June 1990 on the approximation of the laws of the Member States relating to active implantable medical devices (90/385/EEC), including several implementing measures of the European Commission, Council Directive 93/42/EEC of 14 June 1993 concerning medical devices and Directive 98/79/EC of the European Parliament and of the Council of 27 October 1998 on *in vitro* diagnostic medical devices and their respective national implementation measures such as the German Law on Medical Products (*Medizinproduktegesetz*). However, the European legislative process to replace the three aforementioned directives with two new regulations, one on medical devices and one on *in vitro* diagnostic medical devices, has been started. The current directives place certain requirements on the actual device manufacturer. The proposals for the new regulations on medical devices (COM (2012 542 final) and COM (2014 541 final)) set out additional requirements such as the introduction of a unique device identification and registration in a central European database as well as tightened pre- and post-market surveillance.

Cosmetics ingredients

The production, marketing, sale and labeling of cosmetics products is regulated by European Union Regulation (EC) No. 1223/2009 of the European Parliament and of the Council of 30 November 2009 on cosmetic products. This regulation also prohibits or restricts the use of certain chemicals in cosmetics ingredients. In Germany, legal requirements of cosmetic products and ingredients are contained in the German Act on Food, Articles of Daily Use and Feed (*Lebensmittel-, Bedarfsgegenstände- und Futtermittelgesetzbuch*) and the Ordinance on Cosmetic Products (*Kosmetik-Verordnung*).

Whilst all of the applications of the Group's cosmetics ingredients are classified as cosmetics applications according to EU and German law, some applications may be classified as OTC pharmaceutical or quasi-drug applications in some non-EU countries. In these cases, the cosmetics ingredients provided by the Group would be excipients, i.e. the non-active parts of a formulated drug product. Certain excipients need to comply with pharmacopoeial monographs (collections of standards for medicinal products and pharmaceutical substances) and additional legislation in the relevant countries, including the United States, Japan, Australia and other jurisdictions.

Legal requirements for the transport of dangerous goods

While the majority of goods transported for and on behalf of the Group are non-dangerous goods, the absolute volume of dangerous goods is still quite substantial. The transport of these dangerous goods is governed by international conventions under the auspices of the United Nations Economic Commission for Europe (UNECE), the European Agreement concerning the International Carriage of Dangerous Goods by Road (ADR) and the European Agreement concerning the International Carriage of Dangerous Goods by Inland Waterways (ADN), as well as by the Regulations concerning the International Carriage

of Dangerous Goods by Rail (RID) as set forth in Appendix C to the Convention concerning International Carriage by Rail (COTIF). These international treaties contain basic regulations relating to the transport of hazardous substances as well as the packaging of these goods in the signatory states. They have been enacted in the European Union as part of Directive 2008/68/EC of the European Parliament and of the Council of 24 September 2008 on the inland transport of dangerous goods, repealing and replacing Council Directive 94/55/EC and Council Directive 96/49/EC, and have been implemented into national legislation by the German Act on the Carriage of Dangerous Goods (*Gefahrgutbeförderungsgesetz*). This act regulates the permission of transporting goods, labeling of packages, requirements for the construction and identification of containers and tanks, certificates of qualification and transport documentation, protection measures during the transport as well as loading, unloading, handling and carriage procedures.

Legal requirements for manufacturing and storage sites

In addition to the requirements set out below, the Group's sites must generally comply with zoning law requirements.

Emissions control laws

On January 6, 2011, Directive No. 2010/75/EU of the European Parliament and of the Council of November 24, 2010 on industrial emissions (integrated pollution prevention and control) (the "**IED Directive**") came into force. The IED Directive sets out rules on the prevention and control of pollution from industrial activities and includes rules aimed at reducing emissions into air, water, and land, as well as preventing the generation of waste in order to achieve a high level of overall environmental protection. Since January 2013, Germany must comply with emissions limits for certain industries. Further, the so-called "Sevilla"-process, originally introduced by the European Union Integrated Pollution Prevention and Control Directive 2008/1/EC and amended by the IED Directive, is aimed at defining best available techniques as binding industry standards.

The IED Directive has been fully implemented in German law in the first half of 2013 through the Act on the Transformation of the Directive on Industrial Emissions dated April 8, 2013 *(Gesetz zur Umsetzung der Richtlinie über Industrieemissionen*), the Ordinance for the Implementation of the Directive for Industrial Emissions, for the amendment of the Regulation on Authorized Persons for intromission Protection and Accidents and relating to the Issuance of a Publication Regulation (*Verordnung zur Umsetzung der Richtlinie über Industrieemissionen, zur Änderung der Verordnung über Immissionsschutz- und Störfallbeauftragte und zum Erlass einer Bekanntgabeverordnung* (as of May 2, 2013)) and the Ordinance for the implementation of the directive on industrial emissions, on the amendment of the directive regulation with regard to the limitation of emissions of volatile organic components due to the storage of Otto fuel, fuel mixtures or raw benzene, as well as the amendment of the directive relating to the limitation of hydrocarbon emissions at the refilling of motor vehicles *(Verordnung zur Umsetzung der Richtlinie über Industrieemissionen, zur Änderung der Verordnung zur Begrenzung der Emissionen flüchtiger organischer Verbindungen beim Umfüllen oder Lagern von Ottokraftstoffen, Kraftstoffgemischen oder Rohbenzin sowie zur Änderung der Verordnung zur Begrenzung der Kohlenwasserstoffemissionen bei der Betankung von Kraftfahrzeugen* (as of May 2, 2013)). The implementation acts amended the German Federal Emissions Control Act (*Bundes-Immissionsschutzgesetz*), the German Federal Water Act (*Wasserhaushaltsgesetz*) and the German Act on Recycling (*Kreislaufwirtschaftsgesetz*) or ordinances under these acts, respectively. They relate particularly to new rules for the greenhouse gas emission installations and installations which are subject to the EU directive and provide, *inter alia,* for information obligations.

These regulations provide new rules concerning the establishment of certain installations requiring official permission (g*enehmigungspflichtige Anlagen*), their operation and termination, as well as the determination of competent authorities and experts and related procedures and obligations.

Moreover, the implementation of the IED Directive led to new industrial emissions thresholds, authorization and operation requirements and supervisory obligations regarding both existing and new facilities; existing facilities not in compliance with the new industry standard are, in general, not privileged.

Notwithstanding the IED Directive, Germany has its own system of regulations with which the Group must comply. The construction and operation of most of the Group's manufacturing sites in Germany require permits under the German Federal Emissions Control Act (*Bundes-Immissionsschutzgesetz*). These sites must be regularly adapted to current emissions reduction and safety technology standards (*Stand*

der Technik). As a result, the Group must periodically modernize its facilities which are subject to German Federal Emissions Control Act requirements to comply with evolving technical standards.

In addition to the general requirements under the German Federal Emissions Control Act, operators of facilities storing hazardous goods in larger quantities are required to comply with additional safety standards set forth in the 12th Ordinance under the German Federal Emissions Control Act (*Zwölfte Verordnung zur Durchführung des Bundes-Immissionsschutzgesetzes (Störfall-Verordnung)*), which implements Council Directive 96/82/EC on the control of major-accident hazards involving dangerous substances, commonly referred to as the ''Seveso II Directive.'' The Seveso II Directive will be amended and replaced by the new Directive 2012/18/EU (''**Seveso III**''), which had to be transposed into national law by the member states by June 2015. In Germany, such transposition has not yet occurred. The provisions of the 12th Ordinance under the German Federal Emissions Control Act are designed to prevent major accidents involving dangerous substances (*Störfälle*) (such as emissions, fires and larger explosions), and to limit the consequences in the event of an accident. The degree of additional safety requirements depends on the amounts of various classes of hazardous substances stored in the facility. Some of the facilities the Group owns and operates must comply with the 12th Ordinance under the German Federal Emissions Control Act as well as the Seveso-III-Directive, including adherence to safety distances to e.g. residential areas or natural sensitive areas.

Regulations on the control of explosion hazards

Some of the substances produced, processed, stored and transported by the Group are subject to explosion prevention regulations, such as Directives No. 1999/92/EC and 2014/34/EU (repealing Directive No. 94/9/EC as of April 20, 2016). Directive No. 1999/92/EC sets out minimum requirements for the protection of the health and safety of workers potentially at risk from explosive atmospheres and is intended to prevent explosion accidents in the workplace. The requirements of this directive have been implemented into German law by in particular the German Ordinance on Facility Safety (*Betriebssicherheitsverordnung*) and the German Ordinance on the Protection against Hazardous Substances (*Gefahrstoffverordnung*), which require employers to prevent explosive working environments where possible and to remove any potential sources of ignition in critical areas. Employers who operate facilities with explosion hazards are also required to i.a. develop and regularly update an Explosion Protection Manual (*Explosionsschutzdokument*), which sets forth precautionary measures that operators must take against explosion hazards.

Directive No. 94/9/EC, on the other hand, regulates the requirements for equipment and protective systems used in areas with explosion hazards and has been implemented into German law by the 11th Ordinance under the Act on the Safety of Equipment and Products (*Elfte Verordnung zum Geräte- und Produktsicherheitsgesetz—Explosionsschutzverordnung*). Under this Ordinance, equipment used in areas with explosion hazards must meet specific technical requirements.

Occupational health and safety requirements

Particularly in the Group's raw material manufacturing business for polyurethanes, high-tech polycarbonates and raw materials for coatings, adhesives and specialties and selected inorganic basic chemicals, occupational health and safety requirements apply as certain employees work in hazardous environments that may threaten such employees' well-being. German occupational safety regulation is heavily influenced by the requirements of European Union law and is contained in the German Act on Occupational Protection (*Arbeitsschutzgesetz*) and in the German Act on Occupational Safety (*Arbeitssicherheitsgesetz*), which require employers to provide for their employees' safety. These general obligations are substantiated in several ordinances under the respective laws, which are further detailed in technical guidelines. Germany's occupational safety regulatory regime also includes the German Ordinance on Facility Safety (*Betriebssicherheitsverordnung*), the German Ordinance on Requirements for Workplaces (*Arbeitsstättenverordnung*), the German Ordinance on the Protection against Hazardous Substances (*Gefahrstoffverordnung*), the German Ordinance on the Prohibitions and Restrictions on the Marketing of Hazardous Substances, Preparations and Products under the Chemicals Act (*Chemikalien-Verbotsverordnung*) and a number of technical guidelines enacted under these ordinances. Occupational safety requirements are also contained in several of the regulatory instruments described above, including regulations relating to explosion prevention, the handling of chemicals and the transport of dangerous goods.

Production, possession and handling of waste

The Group's business activities lead to the generation, possession, and handling of waste, including hazardous waste. Under the German Act on Recycling (*Kreislaufwirtschaftsgesetz*), the generation, possession and handling of waste is subject to several restrictions, depending, among other things, on the dangers posed by such waste. As a generator (*Erzeuger*) and owner (*Besitzer*) of waste, the Group is generally responsible for the proper handling of this waste.

The German Act on Recycling requires generators, owners, collectors and transporters of waste to demonstrate to the competent authority and to other parties that it has properly disposed of hazardous waste (*gefährliche Abfälle*) by proof of waste disposal (*Entsorgungsnachweis*). Whether a certain substance qualifies as hazardous waste is determined in accordance with the German Ordinance on the European Waste List (*Verordnung über das Europäische Abfallverzeichnis*). Certain details regarding the handling of hazardous waste, such as the type of waste, the amount handled and its origin must also be documented.

In March 2011, the German parliament amended the German Act on Recycling with effect from June 1, 2012 in order to implement Directive No. 2008/98/EC of the European Parliament and of the Council. The amendment introduced new measures to protect the environment and human health, requiring producers to prevent or reduce the adverse effects of the generation and management of waste. In addition, producers are required to reduce the overall effects of resource use and improve the efficiency of its use, in particular through avoiding the generation of waste and through recycling.

Use of and dangers to water resources

The Group also uses water for its business operations which is highly regulated, both at the European and German law level. Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 establishing a framework for Community action in the field of water policy, also known as the Water Framework Directive, commits European Union member states to achieving a good qualitative and quantitative status of all water bodies by 2015, including marine waters close to the shore. Its main goals include expanding the scope of water protection to all waters, including surface waters and groundwater, water management based on river basins, a ''combined approach'' of emission limit values and quality standards, and streamlining legislation. This directive was originally implemented in Germany in December 2000 changing the German Federal Water Resources Act (*Wasserhaushaltsgesetz*) and water laws of the German states (*Bundesländer*).

Use of public water resources and discharging of wastewater

The Group's facilities make use of public water resources, including groundwater, by drawing water from rivers, discharging wastewater into public waters and other forms of use. Certain uses of public water resources require permits (*Erlaubnisse*) or licenses (*Bewilligungen*) under the German Federal Water Resources Act (*Wasserhaushaltsgesetz*) or relevant laws of the German states (*Bundesländer*). Permits under the German Federal Water Resources Act may be revoked or amended and operative restrictions imposed without compensation in certain circumstances. In addition, when wastewater is discharged into the public sewer system, state laws require permits for such wastewater discharge (*Indirekteinleitergenehmigungen*). If the Group's permits or licenses were to be revoked, the Group would need to find alternative water supply or discharge solutions.

Storage and handling of substances hazardous to waters (water pollutants)

The Group produces, stores and handles substances that would pollute water if released or spilled. Special safety requirements under the German Federal Water Resources Act apply to those sites that store and handle such substances. These requirements include structural and organizational standards, as well as notifications to the relevant authorities. Additionally, the relevant sites have to be continuously upgraded to reflect new developments in technology standards (Regulation relating to installations for the treatment of water endangering substances—*Verordnung über Anlagen zum Umgang mit wassergefährdenden Stoffen*).

Ground water remediation

At some of its sites, the Group may be legally required to remediate existing ground water contamination by purifying it. These activities are subject to notification and, under certain circumstances, require

permission under the German Federal Water Resources Act (*Wasserhaushaltsgesetz*) and relevant legislation by the German federal states (*Bundesländer*).

Soil contamination

The Group handles chemicals that could cause soil contamination. As a result, the Group's business operations are subject to regulation under the German Federal Act on Soil Protection (*Bundes-Bodenschutzgesetz*), which requires the Group to prevent soil contamination (*schädliche Bodenveränderungen*) by taking adequate precautions.

Where soil contamination has occurred, or where pollution was caused in the past (or there are strong reasons to suspect it was caused) on sites of abandoned facilities (*Altlasten*, ''past pollution''), the Group may be required to undertake remediation measures. Under the German Federal Act on Soil Protection, the Group can be held responsible for soil contamination and related groundwater contamination even in the absence of any fault or negligence on its part. The German Federal Act on Soil Protection places responsibility for remediation measures on the owner, the person controlling the property, the polluter, the universal successor (*Gesamtrechtsnachfolger*) of the polluter, the previous owner if such owner transferred title to the real property after March 1, 1999 and knew, or should have known, of the contamination or past pollution and the party which under corporate or commercial law is responsible for a legal person governed by private law that owns real estate affected by harmful alteration or contamination of the soil. The relevant authorities may also require each of the responsible parties to take remediation measures, or undertake such measures themselves, and require the responsible party to bear the costs of any remediation action. If several parties are responsible, they are jointly and severally liable. Each responsible party has a statutory claim to reimbursement against the other parties. The amount of such claim will depend on the degree to which each person has contributed to the contamination or past pollution. This statutory claim may be contractually modified or waived among the parties.

At some of the Group's sites, past pollution exists. For further information on risks related to pollution at the Group's sites, see ''*3. Risk Factors—3.2 Risks Related to Legal, Regulatory and Tax Matters—3.2.5 The Group may be subject to losses due to liabilities or lawsuits related to contaminated land that it owns or operates or arising out of environmental damage or personal injuries associated with exposure to chemicals, the release of chemicals or other hazardous substances.*'' At other sites, the Group cannot be certain that such past pollution does not exist. Some of the Group's sites have been used for industrial purposes for decades or even more than a century and soil contamination or past pollution exists at some of the Group's sites.

Environmental Damage Act

Some of the Group's facilities and activities are subject to Directive No. 2004/35/EC on environmental liability with regard to the prevention and remedying of environmental damage, as implemented into German law by the German Environmental Damage Act (*Umweltschadensgesetz*). The German Environmental Damage Act establishes an obligation to prevent environmental damage and to remedy such damage regardless of fault. The Group's obligations under the German Environmental Damage Act reach beyond the general rules of German civil liability for water and soil contamination and cover environmental losses that may not be eligible for compensation under other laws (e.g. damage to biodiversity). The obligations and liabilities under the German Environmental Damage Act constitute public law obligations to avoid or remedy environmental damage and compliance with such obligations is enforced by public authorities. In addition, non-governmental environmental organizations may institute legal proceedings in the event the relevant authority has failed to take the necessary steps for enforcement.

German Act on Environmental Liability

If damage is caused by one of the Group's facilities to persons or property, the Group may also be held strictly liable under the German Act on Environmental Liability (*Umwelthaftungsgesetz*). Liability under this statute may arise for damage caused by substances or gases that spread through soil, air or water. The statute applies to facilities of the Group that exceed certain size thresholds. Under the statute, there is a presumption that any damage has been caused by a facility if the facility is generally capable of causing the damage in question.

Under the German Act on Environmental Liability, the Group is required to provide financial security (*Deckungsvorsorge*) for environmental damage in sites that fall under the 12th Ordinance of the German Federal Emissions Control Act. The Group believes that it is currently in compliance with its obligation to provide financial security.

Emissions trading

At several European production facilities, specifically the facilities in Germany, Belgium and Spain, the Group operates plants that require carbon dioxide (CO2) emission allowances. Total CO2 emissions from the plants operated by the Group's polymers business in the European Union that are covered by the trading scheme amounted to 0.37 million tons in 2013, which is about 9.6% of the total provided allowances for the 3rd Emissions Trading Period from 2013 to 2020.

Germany has implemented Directive No. 2003/87/EC as the German Greenhouse Gas Emissions Trading Act (*Treibhausgas-Emissionshandelsgesetz*), which establishes a scheme for greenhouse gas emission allowance trading within the European Union. Similarly, all other European Union member states had to implement the Directive into national law. The Directive and the respective national legislation provide that allowances (*Berechtigungen*) are required to emit CO2. One allowance grants the right to emit the equivalent of one ton of CO2. In accordance with Article 12 of the Directive, the Group must submit yearly a number of allowances equal to the total emissions from all of its affected European plants in the prior year.

If the number of allowances allocated does not suffice to cover all CO2 emissions, the Group must purchase additional allowances in the market. Since January 1, 2013, total CO2 emission allowances are allocated based on harmonized European allocation rules. The German regulation on the allocation of emission allowances (*Zuteilungsverordnung 2020*) on the basis of the German Greenhouse Gas Emissions Trading Act (*Treibhausgas-Emissionshandelgesetz*), implementing the allocation rules which had been determined by the European Commission in April 2011 for the period from 2013 through 2020, came into force on September 30, 2011.

As of 2013, the number of emission allowances allocated to heat-generating plants has been significantly reduced and no free-of-charge allocation for electricity producing entities exists anymore. Plants have been allocated emission allowances on the basis of Europe-wide product benchmarks and based on the most efficient 10% of plants in Europe, which results in less efficient plants having to purchase additional emission allowances.

17.2.2 Certain Provisions of German Energy Law

The German energy law is regulated by a large number of laws, regulations and other provisions, including the German Renewable Energy Act (*Erneuerbare-Energien-Gesetz*), the Electricity Grid Fee Regulation (*Stromnetzentgeltverordnung*) and provisions on Energy Price Compensation (*Strompreiskompensation*) which affect the business operations of the Group.

Renewable Energy Act (Erneuerbare-Energien-Gesetz)

The EEG was designed to encourage cost reductions based on improved energy efficiency from economies of scale over time. The EEC purports to enable the energy supply to develop in a sustainable manner particularly in the interest of mitigating climate change and protecting the environment, to reduce the costs to the economy by including long-term external effects, to conserve fossil energy resources and to promote the further development of technologies to generate electricity from renewable energy sources. In order to attain these purposes EEG aims to increase the share of electricity generated from renewable energy sources in a steady and cost-efficient manner to at least 80% of gross electricity consumption by 2050. To this end, the share is to amount to (i) 40 to 45% by year 2025 and (ii) 55 to 60% by year 2035. The EEG provides special compensation provisions (*Ausgleichsregelung*) for energy intensive companies with an energy consumption exceeding one giga watt hour and which has a certain electricity cost intensity (*Stromkostenintensität*) such as the electricity intensive businesses of the Group in order to protect their international competitiveness and to avoid migration abroad. Such exemptions are granted only upon application and the Group has applied for such exemption which has been granted. The German Renewable Energy Act is expected to be amended until 2017.

Climate Action Programme 2020 (Aktionsprogramm Klimaschutz 2020)

In addition, in December 2014, the German Government released the ''*Climate Action Programme 2020*'' (*Aktionsprogramm Klimaschutz 2020*) pursuing a reduction of 40% of GHG emissions by 2020 in comparison to GHG emissions in 1990. Key policy measures designed to meet the 40% target in Germany are (i) the National Action Plan on Energy Efficiency, (ii) a climate-friendly building and housing strategy, (iii) measures in the transport sector, (iv) reduction in non-energy-related emissions in industry, the commerce/trade/services sector, waste management and agriculture, (v) the reform of the emissions trading scheme, and (vi) further measures, especially in the energy sector.

Electricity Grid Fee Ordinance (Stromnetzentgeltverordnung)

The Electricity Grid Fee Ordinance provides the rules on fees with regard to the access to electricity supply grids and contains significant discounts for electricity intensive companies such as the Group which use 10 giga watt hours and consummate during 7,000 hours of the 8,766 hours of a year. Such a discount has been granted to the Group.

Energy price compensation (Strompreiskompensation)

Pursuant to the electricity price compensation (*Strompreiskompensation*), qualified companies from certain sections of the economy with particularly electricity intensive production processes such as the Group may be financially compensated. In Germany, the Sponsor Guidelines for subsidies of enterprises in sectors or subsectors apply, in which it is assumed that there is a substantial risk of transformation of CO2 emissions due to the cost related to EU-ETS (trading system) certificates. (*Förderrichtlinien für Beihilfen für Unternehmen in Sektoren oder Teilsektoren, bei denen angenommen wird, dass angesichts der mit der EU-ETS-Zertifikaten verbundenen Kosten, die auf den Strompreis abgewälzt werden, ein erhebliches Risiko der Verlagerung von CO2-Emissionen besteht (Beihilfen für indirekte CO2-Kosten*)). These guidelines are substantially based on guidelines of the European Commission, i.e. the Guidelines on certain State aid measures in the context of the greenhouse gas emission allowance trading scheme post-2012 (2012/C 158/04, June 5, 2012). These guidelines explicitly permit subsidies for the compensation of GHGs costs charged on the electricity price to reduce the risk of transfer of production activity outside the European Union. The allowance is granted upon application in the dutiful discretion of the competent authority and there is no legal claim of the applicant to qualify for such subsidies and allowance. The Group has applied for such allowance which has been granted in the past.

17.2.3 Aarhus Convention

The United Nations Economic Commission for Europe (UNECE) Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters was adopted on June 25, 1998 in Aarhus, Denmark, at the Fourth Ministerial Conference as part of the ''Environment for Europe'' process and entered into force on October 30, 2001 (the ''**Aarhus Convention**''). The Aarhus Convention established several rights of the public (individuals and their associations), including access to information, with regard to the environment.

The decision on ratification of the Aarhus Convention by the European Community was adopted on February 17, 2005. In 2003, two EU directives were adopted which were implemented into German law: Directive 2003/35/EC of the European Parliament and of the Council of May 26, 2003 providing for public participation in respect to the drawing up of certain plans and programs concerning the environment and amending with regard to public participation and access to justice Council Directives 85/337/EEC and 96/61/EC and Directive 2003/4/EC of the European Parliament and of the Council of January 28, 2003 on public access to environmental information.

The Objectives of Directive 2003/4/EC are: (i) to guarantee the right of access to environmental information held by or for public authorities and to set out the basic terms and conditions of, and practical arrangements for, its exercise; and (ii) to ensure that, as a matter of course, environmental information is progressively made available and disseminated to the public in order to achieve the widest possible systematic availability and dissemination of environmental information to the public. To this end, the use, in particular, of computer telecommunication and/or electronic technology, where available, is promoted. The right to access environmental information has increased transparency, and additional information of product specific information has been made available to the public.

17.2.4 General Civil Liability

The Group operates in an industry in which civil product liability and civil liability for environmental damage cannot be completely excluded. Under the general rules of the German Civil Code (*Bürgerliches Gesetzbuch*), fault-based damages (*Schadenersatz*) must be paid for breaches of contract or unlawful infringements of legally protected rights. This obligation applies to the Group's own acts and may extend to actions of agents whose conduct is attributable to the Group under sections 31, 278 and 831 of the German Civil Code (*Bürgerliches Gesetzbuch*).

17.2.5 Product Liability

In addition to the general rules of civil liability, Council Directive 85/374/EEC, concerning liability for defective products, and the German Product Liability Act (*Produkthaftungsgesetz*) contain provisions relating to civil liability for defective products and damage caused by such products, imposing strict liability in certain circumstances.

17.3 REGULATORY ENVIRONMENT IN THE UNITED STATES

The Group's business activities in the United States are subject to a wide range of regulatory requirements. The laws and regulations that apply to the Group's U.S. operations relate primarily to environmental protection, occupational safety and health, hazardous chemicals safety, food and drug safety, anti-terrorism, export control, and the transport of hazardous materials. Since the Group's business is heavily regulated, the Group is required to apply for and maintain a wide variety of licenses and permits, to maintain records and file reports, and to follow certain work practices. The laws and regulations applicable to the Group's U.S. operations are subject to frequent change based on new legislation, new regulations, and administrative agency activities. Administrative agencies regularly inspect the Group's operations and are authorized in various respects to request additional information when needed. Many of the agency files on regulated facilities are open for inspection by the public. In addition, when facilities are issued permits, the draft permits are subject to public notice and comment. Legal sanctions, including fines, orders and civil and criminal penalties, can apply in the case of violations of these permits or applicable laws and regulations. In the United States, certain laws may allow private citizens, in addition to public agencies, to file lawsuits against and seek monetary penalties and other remedies from violators. Resolutions of lawsuits, whether initiated by an agency or by a private party, can include restrictions on the Group's operations or other legal requirements.

The following summary highlights some of the key U.S. federal laws and regulations that apply to the Group's business in the United States. These are not the only U.S. federal laws that apply to the Group's operations; in some cases, additional (and sometimes more stringent) state and local laws apply. In recent years, states have been more active in passing product content or chemical-specific related bans (e.g. plastic packaging and brominated fire resistance).

17.3.1 Regulation of Chemical Production

Air emissions

The U.S. Clean Air Act, as amended (the ''**Clean Air Act**''), regulates emissions of air pollutants. The Clean Air Act establishes national limits for six priority pollutants, carbon monoxide, lead, nitrogen oxides, particulate matter, ozone and sulfur dioxide, and regulates the emission of other designated air pollutants. It also authorizes the EPA to regulate hazardous air pollutants emitted from industrial sources and phases out the production of substances that deplete stratospheric ozone. The Clean Air Act requires emissions sources to obtain permits and to periodically certify compliance with permitted standards. Most of the Group's manufacturing sites have permits under the Clean Air Act, which include major or minor source permits. Even if facilities do not have permits under the Clean Air Act, they may have permits issued under, or otherwise be regulated by similar state and local laws. Owners and operators of facilities that handle quantities of listed flammable and toxic substances above certain threshold limits must implement detailed risk management plans, which are filed with and approved by the EPA. Approximately three of the Group's sites in the U.S. have such approved plans. The EPA's rule requiring reporting of greenhouse gas emissions is currently in effect; the Group's larger facilities in the United States are required to report greenhouse gas emissions as they emit over 25,000 tons of CO2 equivalents per year from stationary sources within the given facility. Future additional regulation of greenhouse gases and ozone can be expected under the Clean Air Act as well as under regional, state and local regulatory programs.

Wastewater discharges

Pursuant to the U.S. Federal Water Pollution Control Act, as amended by the U.S. Clean Water Act of 1977 (the ''**CWA**''), the EPA regulates discharges of pollutants into U.S. waters and establishes quality standards for surface waters, such as streams, rivers and lakes. Under the CWA, the EPA sets wastewater standards for industry and water quality standards for all contaminants in surface waters. The discharge of any regulated pollutant from a point source, such as pipes or ditches, into navigable waters requires a National Pollution Discharge Elimination System or state equivalent permit. Most of the Group's facilities are required to obtain these permits for discharges of treated process wastewaters. Several of the Group's facilities discharge into municipal wastewater treatment facilities and are required to obtain pre-treatment discharge permits from local agencies. In either case, the applicable regulations and permits require the Group to file periodic discharge monitoring reports disclosing wastewater discharges and any permit limit exceedances. In addition, under the CWA, any non-permitted discharge of a pollutant to navigable waters must be immediately reported to the federal government and remedial measures must be taken.

Facilities that store bulk quantities of oils, lubricants and related substances near navigable waters must also prepare and implement a Spill Prevention, Control and Countermeasure (''**SPCC**'') plan. Implementation of the SPCC plan is designed to prevent spills of these substances into the waters and shorelines. The SPCC regulations require written plans, record-keeping and the training of employees. The Group handles several products that meet the EPA's definition of an oil, such as mineral spirits, lubricants and synthetic oils. The Group's U.S. operations are subject to these SPCC requirements. Additionally, in 2014, the state of West Virginia (location of two of the Group's facilities) passed the Aboveground Storage Tank Act, which requires certain owners or operators of aboveground storage tanks to have an annual inspection of each tank, associated equipment, leak detection system and secondary containment. The Aboveground Storage Tank Act was amended in March 2015 to exempt the majority of aboveground storage tanks from its requirements, though it still applies to the largest aboveground storage tanks located in certain critical areas.

Hazardous waste

Pursuant to the U.S. Resource Conservation and Recovery Act of 1976, as amended (the ''**RCRA**''), the EPA regulates the generation, transport, treatment, storage and disposal of hazardous waste. The RCRA also sets forth a framework for managing non-hazardous waste. Most generators of hazardous waste must register with the EPA, obtain a generator identification number, and follow certain standards for record-keeping, inspections, and short-term storage of wastes based on the amounts of wastes generated on a monthly basis. Generators must also select licensed businesses and facilities to transport, treat and dispose of their waste. Facilities that want to store, treat, or dispose of hazardous wastes on-site are required to obtain a RCRA permit and be classified as a treatment, storage, and disposal facility (''**TSDF**''). TSDF's have additional record-keeping, reporting, inspections, training, and spill response obligations.

The RCRA program also requires owners and operators of TSDF's to demonstrate that they have the financial resources to properly close the permitted operations at the end of their useful lives and respond appropriately to any releases of hazardous waste. The transport and disposal of hazardous waste is strictly regulated by the EPA. There are prohibitions against the land disposal of certain hazardous wastes, requiring use of certain treatment methods, such as incineration, prior to land disposal. Disposal methods for liquid hazardous waste that involve underground injection wells are also covered by the Safe Drinking Water Act and the EPA's Underground Injection Control program.

Generally, any site discovered to be contaminated by hazardous substances, including hazardous waste, is remediated under the RCRA's corrective action program or the Comprehensive Environmental Response, Compensation, and Liability Act or similar state laws. For further information, see ''—*Releases and investigation and remediation of hazardous substances.*'' The EPA and some state regulating agencies have authority to issue compliance orders to, or to initiate legal proceedings against, responsible parties under either law. The RCRA program also has programs for waste minimization and reuse and recycling. Many of the Group's facilities generate various hazardous and non-hazardous waste streams, as part of normal operations, for treatment and disposal. Two Group facilities have a TSDF permit and are subject to corrective action requirements relating to releases of hazardous waste.

Emergency Planning and Community Right-To-Know Act

The Emergency Planning and Community Right-To-Know Act (the ''**EPCRA**'') establishes record-keeping, planning, and reporting rules for facilities that store or process certain chemicals above threshold quantities. The EPCRA's regulations require facilities to coordinate with state and local agencies to plan for chemical emergencies, to notify agencies of chemical releases, and to provide annual public disclosures regarding toxic and hazardous chemical emissions and usage. These annual reports must also include information on the quantities of chemicals transferred to other facilities for management and disposal. The EPCRA requires specific notification to state emergency response commissions and local emergency planning committees regarding the presence of any ''extremely hazardous substances'' at facilities in excess of certain thresholds. The EPA maintains the information gathered through these reports in its Toxics Release Inventory database, which is available to the public. All the Group's manufacturing facilities are subject to these planning, reporting, and notice requirements.

Releases and investigation and remediation of hazardous substances

The Comprehensive Environmental Response, Compensation, and Liability Act (also known as the ''**CERCLA**'' or ''**Superfund**'') requires any owner or operator of a facility storing or using hazardous substances to immediately report a release of a hazardous substance into the environment above a ''reportable quantity'' (''**RQ**''). Each hazardous substance has a unique RQ based on its toxic or hazardous characteristics. The reporting of a release triggers a remediation obligation and the possibility of an agency inspection; the report may or may not result in a fine for a violation.

Whether or not subject to reporting, the CERCLA, the RCRA and similar state laws can impose strict, joint and several liabilities on parties for the investigation and remediation of property contaminated by past or current releases of hazardous substances. Because the liability is also retroactive, liability may be imposed even if the original release or disposal was lawful at the time. Under the CERCLA, a waste generator, a former or current site owner, lessor or operator, and certain other parties who arrange for disposal of hazardous substances, can each be held individually liable for the entire cost of remediating an active, abandoned or non-operating site that has been contaminated by releases of hazardous substances, regardless of the amount of hazardous substances a party has sent to the site. The EPA has authority under the CERCLA and the RCRA to order responsible parties to investigate and remediate contaminated sites and can seek recovery of the government's response costs from responsible parties. States have similar legal authority to compel site investigations and clean-ups and to recover costs from responsible parties. Under some state laws, clean-up obligations may be triggered by the transfer or closure of the facility. Both federal and state governments allow, and in some cases establish incentives for, voluntary investigation and remediation under strict guidelines. Under the CERCLA and similar state laws, the U.S. government and states may also sue responsible parties for natural resources damages (e.g. pollution of rivers and wetlands and damage to fish stocks) arising from contamination.

At both the federal and state level, a number of agencies are issuing vapor intrusion guidance to evaluate whether vapors from the migration of volatile subsurface pollutants at remediation sites are migrating into overlying buildings and pose an unacceptable risk to human health. While implementation varies by jurisdiction, the guidance is used as a screening tool to determine if additional remedial measures must be taken before a project may be certified as complete. No Group project has been reopened because of vapor intrusion concerns.

Two of the Group's current manufacturing sites in the United States have current remediation programs underway. In addition, the Group is conducting or participating in remediation activities at three other sites in the U.S. These include, one site under contractual agreements with a purchaser (when property was sold), one under agreement with state authorities (when operations were shut down), and a third-party site utilized by the Group. Additionally, the Group has been alleged to be liable at other third-party sites where liability has been resolved, such settlements are typically subject to reopeners. Other third-party sites exist which could be subject to remediation or give rise to Superfund liability in the future.

Manufacturing and use of chemical substances

TSCA regulates the manufacture, import, processing, distribution and use of a broad range of chemicals in the United States. The EPA has authority to restrict or ban a chemical substance it believes poses an unreasonable risk to safety, health or the environment. The TSCA Chemical Substance Inventory, maintained by the EPA, lists over 84,000 covered chemicals; unless an exemption or exclusion applies, chemicals not listed on the TSCA Inventory cannot be imported into, manufactured, or sold for

commercial use in the United States until a pre-manufacture notification and notice of commencement has been made, provided the EPA does not take action to prohibit the intended activities associated with the new chemical. The Group files a pre-manufacture notification with the EPA for a relatively small number of substances each year. The TSCA does not apply to chemicals regulated under certain other laws, such as the Federal Insecticide, Fungicide and Rodenticide Act and the Federal Food Drug and Cosmetics Act. The TSCA sets forth specific reporting, record-keeping and testing rules for chemicals (including requirements for the import and export of certain chemicals), as well as other restrictions relevant to the Group's business. Pursuant to the TSCA, the EPA can issue ''Significant New Use Rules'' when it identifies new uses of already listed chemicals, or new uses of new chemicals, that could pose risks. The Group routinely provides a TSCA import certification for chemicals imported into the U.S., and export notices for certain chemicals. The Group also submits chemical use and testing data to the EPA, either individually or along with the chemicals trade association. Any manufacturer, importer, processor or distributor of a chemical substance or mixture who has information reasonably suggesting a substantial risk of injury to health or the environment is required to make an immediate TSCA notification to the EPA. The EPA also requires periodic chemical importing, manufacturing and use reporting under the TSCA Chemical Data Reporting Rule. The Group provides these notices or reports to the EPA when required. The TSCA currently applies to nanomaterials, and in April 2015 the EPA proposed record-keeping and reporting rules with respect to companies that manufacture nanomaterials. U.S. efforts to reform TSCA have led to ongoing debates within the U.S. Congress and, if enacted, reforms could impose a burden of proof regarding product safety on chemical manufacturers.

Some U.S. states have ''right to know'' laws, intended to increase awareness of the presence of hazardous chemicals in products. The two most notable examples of such laws are California's Proposition 65 and New Jersey's Right to Know Act. Compliance with these two laws generally ensures compliance with similar laws in other states.

The state of California maintains a list of Proposition 65 chemicals ''known to the state to cause cancer or reproductive toxicity.'' If a product contains a listed chemical, the Group is required to provide a warning statement on labels and material safety data sheets and to identify the chemical. Failure to comply can result in lawsuits by government agencies or private parties.

New Jersey requires that chemical product labels list the top five ingredients and all hazardous ingredients in excess of 1% (0.1% if carcinogen). As product compositions can be trade secrets, the law allows components to be described by a New Jersey Trade Secret Registry (''**NJTSR**'') number on the label. In the event of a medical emergency, medical professionals would contact the Group, state the NJTSR numbers on the label, and the Group would then be required to reveal the identity of the protected ingredients. These requirements affect all the Group specialty chemicals businesses that sell products in the United States.

17.3.2 Other Regulation of Production Facilities and Raw Materials

Controlled substances

The U.S. Controlled Substances Act, as amended (the ''**CSA**''), regulates the distribution, receipt, sale, import or export, or an international transaction involving, narcotics, similar drugs, and their precursor chemicals. Regulated entities, including distributors of chemicals listed under the CSA, must promptly report certain transactions to the U.S. Drug Enforcement Administration, including those involving an extraordinary quantity of a listed chemical, an uncommon method of payment or delivery, or any unusual or excessive loss of a controlled substance. The Group's operations in the United States have limited use of regulated substances, usually as a raw material or intermediate.

Any person who purchases and uses distilled spirits or specially denatured spirits not intended for human consumption must obtain an industrial alcohol use permit under the Federal Alcohol Administration Act. Permits setting forth the scope of authorized operations must be obtained from the Alcohol and Tobacco Tax and Trade Bureau (the ''**ATTB**'') of the U.S. Department of the Treasury. Some of the Group's U.S. operations purchase and use distilled spirits or specially denatured spirits and are required to have ATTB-issued industrial use permits.

The U.S. is a party to the Chemical Weapons Convention (the ''**CWC**''), which prohibits the development, production, stockpiling, and use of chemical weapons. In the United States, the Department of Commerce, Bureau of Industry and Security, oversees implementation and enforcement of the CWC. The U.S. regulatory framework for the CWC is similar to that of Germany and the European Union.

Building and zoning laws

The Group's production and administration facilities in the United States are required to comply with construction, electric and fire codes, and obtain building permits and follow zoning requirements promulgated by applicable federal, state and local agencies. Permit and zoning requirements, which differ based on type of facility and location, define structural specifications and establish limits on building usage. Regulatory authorities are entitled to address non-compliance through enforcement.

Chemical Facility Anti-Terrorism Standards

The U.S. Department of Homeland Security (the "**DHS**") regulates high-risk chemical facilities through its Chemical Facility Anti-Terrorism Standards ("**CFATS**"). CFATS provides for facility user registration, top-screen evaluation, security vulnerability assessment, and site security planning. The site security plan must address the vulnerabilities identified through a security vulnerability assessment and identify and describe how each security measure will meet the applicable risk-based performance standards. The risk-based performance standards include access control, personnel credentialing, record-keeping, employee training, emergency response, testing of security equipment, reporting of security incidents and suspicious activity, and methods to deter, detect and delay potential attacks. Under the rule, the DHS must review, and approve or deny, all security vulnerability assessments and site security plans. CFATS facilities must keep detailed security records for three to six years, and the DHS is authorized to enter, inspect, and audit the property, equipment, operations, and records of such facilities. The Company handles several chemicals that are regulated by CFATS. A comparable anti-terrorism program authorized under the U.S. Maritime Transportation Security Act (the "**MTSA**") of 2002 is administered by the U.S. Coast Guard. The MTSA is applicable to Group facilities that are on or near navigable waters and receive raw materials via barge. The CFATS program is subject to reauthorization by the U.S. Congress every four years, with the last reauthorization having occurred in December 2014. The reauthorized CFATS includes an expedited approval program, which will allow some chemical facilities to move to an approved site security plan on a faster timeline. The DHS released guidelines for this new program in May 2015.

17.3.3 Regulation of Certain Products

Food & feed additives, food contact products

The U.S. Federal Food, Drug and Cosmetic Act, as amended (the "**FD&C Act**"), is the primary law that regulates food, feed, and anything pertaining to food quality, including additives and packaging. The U.S. Food and Drug Administration (the "**FDA**") is the lead agency for the FD&C Act. The regulations that implement the FD&C Act for food are very application specific, i.e. even if a chemical is allowed for use in a given application, it is not automatically allowed for use in a different FDA-regulated application.

The regulations in this area are divided broadly into eight groups: Food, Drugs, Medical Devices, Radiation Emitting Equipment, Vaccines Blood & Biologics, Animal & Veterinary, Cosmetics and Tobacco. There are many detailed regulations regarding direct additives (chemicals intended to be added) but less detailed for indirect additives (chemicals that may be present but are not intentionally added). Regulatory notifications for new additives or new uses of existing additives can be very expensive due to the need to generate data, and the approval period can be very long. The Group is involved in the area of food additives and in a broad range of indirect additives.

Cosmetics

The FD&C Act is also the primary law that regulates cosmetics and cosmetic ingredients. The number and level of detail in the regulations governing this class of products is not as stringent as the regulations governing foods and drugs. The Group must still maintain safety and testing data on its products and submit them to authorities or customers when requested for regulatory or quality control purposes. There has been some debate in the U.S. Congress regarding the modernization and strengthening of the 1938 federal cosmetics laws. There is also some pressure to regulate the use of nanomaterials in cosmetics, such as the use of titanium dioxide in sunscreens. The Group has several customers who manufacture cosmetics.

Dual use or military use products, technology and services

The Group, like other U.S. manufacturers, must exercise due diligence (e.g. screening of transactions using the Global Trade Server) in the sale of its products to help ensure through export and re-export that such a U.S. origin product or technology does not end up in the possession of a person, entity or country that is subject to U.S. trade sanctions. Violators of the following trade laws can subject a company to administrative sanctions, including seizure of product or debarment from government contracts, and to civil and criminal penalties.

The U.S. Export Administration Regulations (the ''**EAR**'') are administered by the U.S. Department of Commerce, Bureau of Industry and Security. The EAR regulates sensitive commercial technology (including equipment, tests, materials, software, technical data and technical assistance), as well as dual use products having both commercial and military application that are listed in the EAR Commerce Control List. Under both the EAR and the International Traffic and Arms regulations, a prohibited transfer of technology can occur due to a ''deemed export'' (i.e. a release or disclosure visually, electronically, or in any medium or form to certain foreign national inside the United States). An appropriate license or other authorization must be obtained from the authorizing government agency before the export of the controlled product or technology can occur. The Group applies for the EAR export and deemed export licenses on an infrequent basis.

The U.S. Department of Treasury, Office of Foreign Assets Control (''**OFAC**'') administers U.S. embargoes, economic sanctions, and prohibitions on trade to certain countries, e.g. Cuba, Iran, North Korea, Syria, Sudan and the Crimea region of Ukraine, and transactions with specified persons and entities. The OFAC regulations broadly prohibit any U.S. person from doing business with private or government individuals or entities located in or associated with sanctioned or embargoed countries. Prohibited transactions include exporting or re-exporting goods, services, or technology to or importing goods, services or technology from individuals or entities located in embargoed countries. U.S. law prohibits even indirect exports to embargoed countries. The Group utilizes the Global Trade Services system to screen orders from, or shipments to, sanctioned targets. A shipment is confirmed or denied depending on the screening results.

The Arms Export Control Act authorizes the federal government to control the export and temporary import of defense articles and defense services. The Act's implementing regulations are known as the International Traffic in Arms Regulations (the ''**ITAR**''). Implementation and enforcement of the ITAR is overseen by the U.S. Department of State's Directorate of Defense Trade Controls (the ''**DDTC**''). Any U.S. company that manufacturers, brokers, imports, and exports technology, articles or services designated as a defense article or defense service and included in the U.S. Munitions List must comply with the ITAR. This includes registration with the DDTC and obtaining a license for the export (or temporary import) of the controlled technology, article, or service.

Currently, the Group doesn't produce, sell, export or import any ITAR regulated materials. Therefore, at this time, the Group is not registered with the DDTC.

Transportation of hazardous materials

The Hazardous Materials Transportation Act of 1975, as amended (the ''**HMTA**''), regulates the transportation of chemicals and other substances designated as hazardous materials (equivalent to ''dangerous goods'' in the European Union). The HMTA also regulates other transportation-related activities, such as packaging, marking, labeling, placarding, and loading and unloading of hazardous materials. Some of these requirements are being modified to conform to the globally harmonized system for markings and hazard communication. All employees engaged in such activities must receive appropriate hazardous materials training. Any company offering hazardous materials for transport must ensure the materials are properly packaged and secured for shipping and are accompanied by a certified shipping document. Rail cars and tank trucks used for bulk shipments must be tested and inspected for compliance with the applicable technical requirements of the HMTA. Maritime transport is also regulated. Non-compliance with the HMTA can lead to holds on shipments, and administrative, civil and criminal fines. The Group's U.S. companies are registered with the U.S. Department of Transportation as shippers of hazardous materials.

17.3.4 Occupational Health and Safety Requirements

Occupational Safety and Health Act of 1970

The Occupational Safety and Health Act of 1970, as amended (the ''**OSH Act**''), was created to provide U.S. workers with a safe working environment. The OSH Act is administered through the Department of Labor, but many states have their own OSH laws or are delegated responsibility to enforce the federal law. In general, the OSH Act addresses safety and health in workplace environments. The OSH Act primarily requires employers to:

- allow inspections by the regulating agency without notice and conduct interviews with employees, which, in some instances, may be the result of an employee complaint;
- provide workers with information on protection, through workplace posters and other notifications; and
- provide workers with information on identifying hazardous substances in the workplace and training on how to treat injuries from these substances.

The OSH Act's catch-all ''general duty'' clause requires an employer to provide a safe workplace for all of its employees by managing recognized safety or health hazards. The OSH Act imposes certain requirements for workplace monitoring and surveillance, including employee monitoring and requiring employers to maintain a log of workplace illnesses and injuries. The OSH Act also establishes standards for specific hazards and exposure, such as airborne chemical exposure levels and proper use of equipment in the workplace. This aspect includes assessing facilities for the presence of asbestos-containing material and following certain notice and work practice requirements to prevent employee exposure. The OSH Act's hazard identification and control requirements cover both physical hazards (such as the potential for explosions) and health hazards (such as equipment safety and electrical hazards). Employers must provide a minimum level of training to ensure that employees are properly equipped to handle chemicals and workplace hazards.

The Group provides training to employees and visitors who have access to chemical handling areas. The OSH Act requires that employers provide its employees with personal protective equipment when other controls are not feasible or effective in reducing the risk of exposure to hazardous substances (or other workplace hazards).

Process safety management

Process safety management is a regulation, promulgated by the U.S. Occupational Safety and Health Administration (''**OSHA**''). A covered process is any activity or combination of activities, including any use, storage, manufacturing, handling or the on-site movement of highly hazardous chemicals, as defined by OSHA and the Environmental Protection Agency.

When certain chemicals are present at a workplace above a threshold amount, the PSM Rule requires employers to compile written process safety information, operating procedures and facility management plans, conduct hazard analyses, revalidate those analyses every five years and develop written action plans for employee participation in safety management, and certify every three years that they have evaluated their compliance with process safety requirements. Employees must have access to safety analyses and related information, and employers must maintain and provide process-specific training to relevant employees. Facilities must conduct ''pre-startup'' safety reviews. Permits are required for hot work (i.e. cutting and welding operations) conducted near a covered process. Employers are required to promptly investigate incidents that resulted, or could reasonably have resulted, in injuries or in the catastrophic release of certain chemicals. The Group handles several chemicals that are listed chemicals under the PSM Rule. The process safety management program is divided into 14 elements and OSHA defines all 14 elements of the process safety management plan.

Hazardous waste operations and emergency response

OSHA's hazardous waste operations and emergency response rules (the ''**HAZWOPER Rule**'') require employers and employees to comply with certain safety standards when conducting operations involving exposure or potential exposure to hazardous substances, including hazardous waste. The HAZWOPER Rule require hazardous substances preparedness training for employees and generally apply to individuals engaged in clean-up operations, facility operations related to the treatment, storage and

disposal of hazardous wastes, and emergency responses to uncontrolled releases of hazardous substances.

Emergency Action Plan

Various OSHA regulations require employers to develop and maintain an emergency action plan (the ''**EAP**'') to direct employer and employee actions in the event of a workplace emergency. The EAP must contain descriptions of the: (i) means for reporting fires and other emergencies; (ii) procedures for evacuations and routes for emergency escape; (iii) employee procedures for individuals who remain to operate critical plant operations during an evacuation; (iv) procedures to account for all employees after evacuation, (v) rescue and medical responsibilities for employees assigned such responsibilities; and (vi) names and titles for individuals able to provide additional information regarding the EAP. Under most circumstances, the EAP must be maintained in writing, remain accessible at the workplace, and be made available to employees for review.

Hazard communication

The OSHA Hazard Communication Standard requires employers to notify workers and customers of the hazards of chemicals and products through hazard communication documents, such as the safety data sheet and the product label. The Standard requires chemical manufacturers, distributors, or importers to provide Safety Data Sheets (''**SDSs**'') (formerly known as Material Safety Data Sheets or MSDSs) to communicate the hazards of hazardous chemical products. As of June 1, 2015, the new SDSs are required to be in a uniform format, it is customary, however, to provide these documents for all products. The hazard communication requirements are consistent with comparable requirements outside the United States. OSHA published an updated rule for hazard communication on March 26, 2012 starting a five-year process to blend the Globally Harmonized System based on the UN Purple Book with existing OSHA requirements. The process includes training of employees at sites that handle or manage chemicals on the modifications of the hazard communication rules and new requirements for safety data sheets and labels. The Group expects that the updated rules will make documentation more consistent with globally harmonized system requirements already in place in the European Union.

17.3.5 Use of public water resources

The Group's facilities make use of public water resources, including groundwater, by drawing water from rivers or wells. Such withdrawal and use is subject to state and/or local authorization or permitting, and, in some cases (for potable water systems), to regulation under the federal Safe Drinking Water Act. Regulation of the use of public water resources is similar to that described for Germany. For further information, see ''*—17.2 Regulatory Environment in the Federal Republic of Germany and the European Union—17.2.1 Legal Requirements Related to Chemical Products—Use of and dangers to water resources.*'' Any land development activities that are proposed to disrupt or fill wetlands require wetlands dredge and fill permits from either federal or state authorities.

17.4 REGULATORY ENVIRONMENT IN CHINA

The Group's business activities in China are subject to a wide array of regulatory requirements under Chinese law which provide for very detailed regulations. The laws and regulations that apply to the Group's Chinese operations relate primarily to aspects such as environmental protection (permitting), air emissions, wastewater discharges and boundary noise, hazard waste management, soil and groundwater, hazardous substances, health and safety (permitting), chemical management, fire protection, and other safety requirements.

Administrative agencies regularly inspect the Group's operations and are authorized in various respects to request additional information. Legal sanctions, including fines, orders and civil and criminal penalties, can apply in the case of violations of these permits. Resolutions of lawsuits can include restrictions on the Group's operations or other legal requirements.

The following provides only a brief overview of certain selected areas of regulation applicable to the Group's business operations in China.

17.4.1 Environmental Permitting

According to the Environmental Impact Assessment Law (2003), an Environmental Impact Assessment (''**EIA**'') is required for all new, modification, and expansion projects in China (including the construction of new buildings). The approval of the EIA by the local Environmental Protection Bureau (''**EPB**'') is a pre-requisite in procuring a business license and a construction permit. The EIA must be developed during the project feasibility stage. According to the Completion Approval Management Methods for the Environmental Protection of Construction Projects (2002), pollution control equipment must be constructed and operated in parallel with the overall project development. A facility is required to apply for the completion inspection of its environmental pollution control equipment within three months of trial operations. A facility can only commence full operations once the site has obtained Completion Acceptance Inspection (CAI) Approval.

17.4.2 Air Emissions, Wastewater Discharges & Boundary Noise

Air emission is regulated by the Air Pollution Prevention and Control Law (2000) and the Integrated Emission Standard for Air Pollutants (GB 16297-1996). Wastewater discharge is regulated by the Water Pollution Prevention and Control Law (2008) and the Integrated Wastewater Discharge Standard (GB 8978-1996). Both air pollutant and wastewater discharge standards are specific to industry, time and pollutant type. The pollutant discharge standards are stipulated in the EIA documents of the construction project. In addition, for any facility allocated with pollutants discharge mass loading quota, the pollutants discharge shall meet both the required standard limits and allocated mass loading quotas.

General requirements for environmental noise are regulated under the Noise Pollution Prevention and Control Law (1997). The Emission Standard of Environment Noise for Boundary of Construction Site (GB 12523-2011) applies during the construction stage and the Emission Standard for Noise at the Boundary of Industrial Enterprises (GB 12348-2008) applies during routine operations. The noise limits vary per different functional areas, and the limits for a specific project are defined in its EIA documents. Regular monitoring of air emission, wastewater and boundary noise shall be performed to verify compliance status.

17.4.3 Hazardous Waste Management

The National Catalogue of Hazardous Waste (2008) defines 49 categories of hazardous waste. The general requirements for hazardous waste management are defined in the Law on the Prevention and Control of Solid Waste Pollution (2005), including provisions for storage, licensed transportation, disposal and transfer manifest documentation of hazardous wastes. Other regulations related to hazardous waste management include the Standard for Pollution Control on Hazardous Waste Storage (GB 18597-2001) which requires hazardous waste be stored in a dedicated waste area/warehouse, and the Technical Specifications for Collection, Storage and Transportation of Hazardous Waste (HJ 2025-2012) which requires an internal hazardous waste transfer logging system to be established and maintained at the facilities generating hazardous wastes.

17.4.4 Soil and Groundwater

In China, if any soil and/or ground water contamination is identified, risk assessment and/or remediation should be conducted. The polluter or land user should take responsibility for associated costs and damages and the inheritor of the enterprises which cause contamination shall take relevant liability.

17.4.5 Hazardous Substances (PCBs, ODSs)

As legally required, use of PCB (Poly-Chlorinated Biphenyls) -containing equipment shall be registered with local EPB. In addition, an approval from a local EPB is required prior to storage, transportation and/or handling of PCB-containing equipment. For ozone depleting substances (''**ODSs**'') usage, China signed the Montreal Protocol in 1991, and developed a phase-out schedule ODSs accordingly, i.e. CFCs and Halon were phased out by 2010 and HCFCs are to be phased out by 2030.

17.4.6 Health and Safety Permitting and Management

According to the Occupational Disease Prevention and Control Law (2002, updated in 2011), an Occupational Hazard Pre-assessment (''**ODHA**'') be conducted for all new, expansion or renovation projects, and an ODHA approval is required prior to construction. Before start of formal operation, an

Occupational Disease Hazardous Control Effectiveness Assessment (''**ODHCEA**'') report shall be prepared, supported by necessary exposure monitoring, and shall be reviewed and approved by local safety competent authority. Job-related ODH communication shall be made to employees and stated in the employment contracts. Other requirements such as arranging occupational health examination (before employment, during employment and upon employment termination) and industrial hygiene monitoring, providing proper PPEs, etc. are stipulated.

As required by the Measures for the Supervision and Administration of ''Three Simultaneities'' for the Safety Facilities of Construction Projects (2011, updated in 2015), for any new, expansion or renovation project related to hazardous chemicals manufacture or storage, the facility shall develop Safety Pre-assessment Report and submit to local safety authority for approval. In addition, upon completion of safety facilities construction, a Safety Completion Assessment Report and corresponding approval from local safety authority are required to be developed/obtained prior to start of full-scale operations. According to the Regulations for the Control of the Safety of Hazardous Chemicals (2002, updated in 2011), the enterprises that manufacture, store or use hazardous chemicals, shall commission licensed institutes to conduct the safety assessment for the safety conditions every three years. The assessment reports shall be filed to local safety competent authority. Based on the newly revised Safe Production Law (2014 revision), a hazardous chemical manufacture and storage facility shall establish a work safety management body or have full-time work safety management personnel. Besides, requirements such as establishing safe production responsibility systems, organizing safety trainings, preparing emergency rescue plans and organizing relevant drills, arranging work safety inspections to eliminate hidden risks, etc. are also stipulated in the law.

17.4.7 Chemical Management

The storage and use of chemicals and hazardous substances is mainly regulated by the Safety Management Regulation on Hazardous Chemicals (2011), the Rules for the Storage of Hazardous Chemicals (GB 15603-1995), etc. As required, a hazardous chemical manufacture and storage facility shall set up monitoring, controlling, ventilation, sun-proof, temperature-controlled, fireproof, fire-fighting, blast-proof, lightning-proof, static proof, antisepsis, and anti-leakage safety facilities or equipment, etc. at the work places per properties of the hazardous chemicals, and provide telecommunications and alarm devices as well. Besides, Chinese Material Safety Data Sheets (MSDS) and Chinese-language labelling shall be provided for the hazardous chemicals used onsite. For those identified as major hazards, management requirements are subject to the Interim Provisions on the Supervision and Management of Major Hazards of Dangerous Chemicals.

17.4.8 Fire Protection

According to Fire Fighting Law (1998, updated in 2008), fire-fighting design approval shall be obtained before the construction and CAI approval shall be obtained prior to formal operation. Fire protection responsibilities of a facility includes establishing a fire safety accountability system, preparing a firefighting and emergency evacuation preparedness plan, providing fire protection equipment and testing regularly, setting up fire safety signs, organizing fire prevention inspections, organizing pertinent fire prevention drills, etc.

17.4.9 Other Safety Requirements (i.e. Special Equipment, Work Permit, Lightning, Emergency Response)

Special Equipment can be determined based on the Special Equipment Catalog (2014). Based on the Special Equipment Safety Law, the user shall register the use of special equipment with local authority and obtain use registration certificate. Routine maintenance and regular inspection shall be conducted. A facility shall establish a work permit system/procedure for special operations (i.e. confined space work, hot work, work at height, etc.) and provide training to relevant personnel. Lightning protection devices can only be put into use upon completion acceptance of the devices. The lightning protection devices are subject to regular testing, i.e. once per year (once every six months if in an explosive environment).

The emergency response plan (i.e. for chemical manufacture/storage, use of special equipment, fire emergency, etc.) shall be prepared and signed and released by the top management in charge of the facility.

17.5 OVERVIEW OF REGULATORY ENVIRONMENT IN OTHER JURISDICTIONS

In the jurisdictions in which the Group operates outside the European Union, the United States and China, in particular in jurisdictions in the rest of Asia and in South America, the Group faces a wide range of laws and regulations, the majority of which deal with the same general themes discussed above under ''*—17.2 Regulatory Environment in the Federal Republic of Germany and the European Union*'' and ''*—17.3 Regulatory Environment in the United States*'' and ''*—17.4 Regulatory Environment in China*.'' These regulations vary from jurisdiction to jurisdiction. For further information regarding regulatory risks and uncertainties, see ''*3. Risk Factors—3.2. Risks Related to Legal, Regulatory and Tax Matters—3.2.1 Legal and regulatory changes in the jurisdictions in which it operates and trades may have an adverse effect on the Group.*''

18. SHAREHOLDER STRUCTURE

Prior to the completion of the Offering, all Shares in the Company are held by Bayer AG, a stock corporation (*Aktiengesellschaft*) organized under the laws of Germany and registered with the commercial register (*Handelsregister*) of the local court of Cologne (*Amtsgericht Köln*) under docket number 48248. The registered office of Bayer AG is in Leverkusen and its business address is Kaiser-Wilhelm-Allee 1, 51373 Leverkusen.

Each Share of the Company carries one vote at the general shareholders' meeting of the Company. All of the Company's Shares confer the same voting rights. There are no restrictions on voting rights.

All Shares are freely transferable in accordance with the applicable legal requirements for bearer shares. Except for the restrictions set forth in ''*6. The Offering—6.6 Lock-up Agreements*,'' there are no prohibitions on disposal or restrictions with respect to the transferability of the Shares of the Company.

Bayer Global Investments B.V may acquire Shares in case the Stabilization Manager exercises the Put Option which has been granted to it by Bayer Global Investments B.V. as Put-Grantor. For further information on Stabilization Measures and the Put Option, see ''*6. The Offering—6.5 Stabilization Measures and Put Option*.''

		Upon completion of the Offering					
	Prior to the Offering	Full exercise of the Put Option			Without exercise of the Put Option		
		Low End	Mid-Point	High End	Low End	Mid-Point	High End
Bayer AG	100%	59.7%	63.5%	66.5%	59.7%	63.5%	66.5%
Bayer Global Investments B.V.	0%	4.0%	3.7%	3.3%	—	—	—
Free-float	0%	36.2%	32.9%	30.1%	40.3%	36.5%	33.5%

19. GENERAL INFORMATION ON THE GROUP

19.1 FORMATION, NAME, REGISTERED OFFICE, FISCAL YEAR, AND DURATION OF THE COMPANY

Covestro AG is a stock corporation (*Aktiengesellschaft*) organized under German law. The Company was established as a stock corporation organized under German law on August 20, 2015 and was registered with the Commercial Register of the local court of Cologne (*Amtsgericht Köln*), Germany, under docket number 85281 on August 24, 2015 under the legal name ''Covestro AG.'' The Company is the holding company of the Group, which operates under the commercial name ''Covestro,'' and the MaterialScience business, which was contributed to it, previously operated under the commercial name ''Bayer MaterialScience.''

The Company is subject to the German Stock Corporation Act (*Aktiengesetz*).

The Company's fiscal year is the calendar year. The current fiscal year of the Company is a rump year (*Rumpfgeschäftsjahr*) from inception until December 31, 2015.

The Company has been formed for an unlimited duration.

The Company's registered office and business address is Covestro AG, Kaiser-Wilhelm-Allee 60, 51373 Leverkusen, Germany (Tel. +49 214 6009 2000).

19.2 COMPANY HISTORY AND FOUNDATION OF THE GROUP

The Company was established by Bayer AG in a notarial foundation deed (*Gründungsurkunde*) on August 20, 2015 and registered in the Commercial Register (*Handelsregister*) of Cologne on August 24, 2015. The share capital (*Grundkapital*) in the amount of €140,000,000 has been fully paid in by contribution in cash (*Bargründung*). With effect as of September 1, 2015, Bayer AG contributed all shares of Covestro Deutschland AG (formerly Bayer MaterialScience Aktiengesellschaft) to the unrestricted capital reserves (*ungebundene Kapitalrücklage*) pursuant to section 272 paragraph 2 number 4 of the German Commercial Code (*Handelsgesetzbuch*) of the Company.

For further information on the history of the Company see ''*15. Business—15.4 History*.''

19.3 POST FORMATION PROCEEDINGS

On September 17, 2015, Bayer AG and the Company entered into the Contribution Agreement. For further information on the Contribution Agreement see ''*16. Certain Relationships and Related Party Transactions—16.1.5 Cash Contribution and Indemnity Agreement between Bayer AG and the Company*.'' The Contribution Agreement could be considered an agreement that requires the execution of post formation proceedings (*Nachgründung*) pursuant to Section 52 of the German Stock Corporation Act (*Aktiengesetz*).

Post formation proceedings require the Supervisory Board to review and a court-appointed post formation auditor to audit the so-called post formation contract. Subsequently, the shareholders' meeting of the Company has to approve the post formation contract and it has to be registered in the commercial register.

Following an application of the Company, the local court of Cologne (*Amtsgericht Köln*) appointed an auditor located in Germany as the post formation auditor. On September 17, 2015, the Supervisory Board issued a post formation report on its review and the post formation auditor issued an opinion on its audit of the Contribution Agreement. On the same date, an extraordinary shareholders' meeting of the Company approved the Contribution Agreement, and the Company applied for its registration in the commercial register. It is to be expected that the registration will take place prior to September 29, 2015.

19.4 CORPORATE PURPOSE

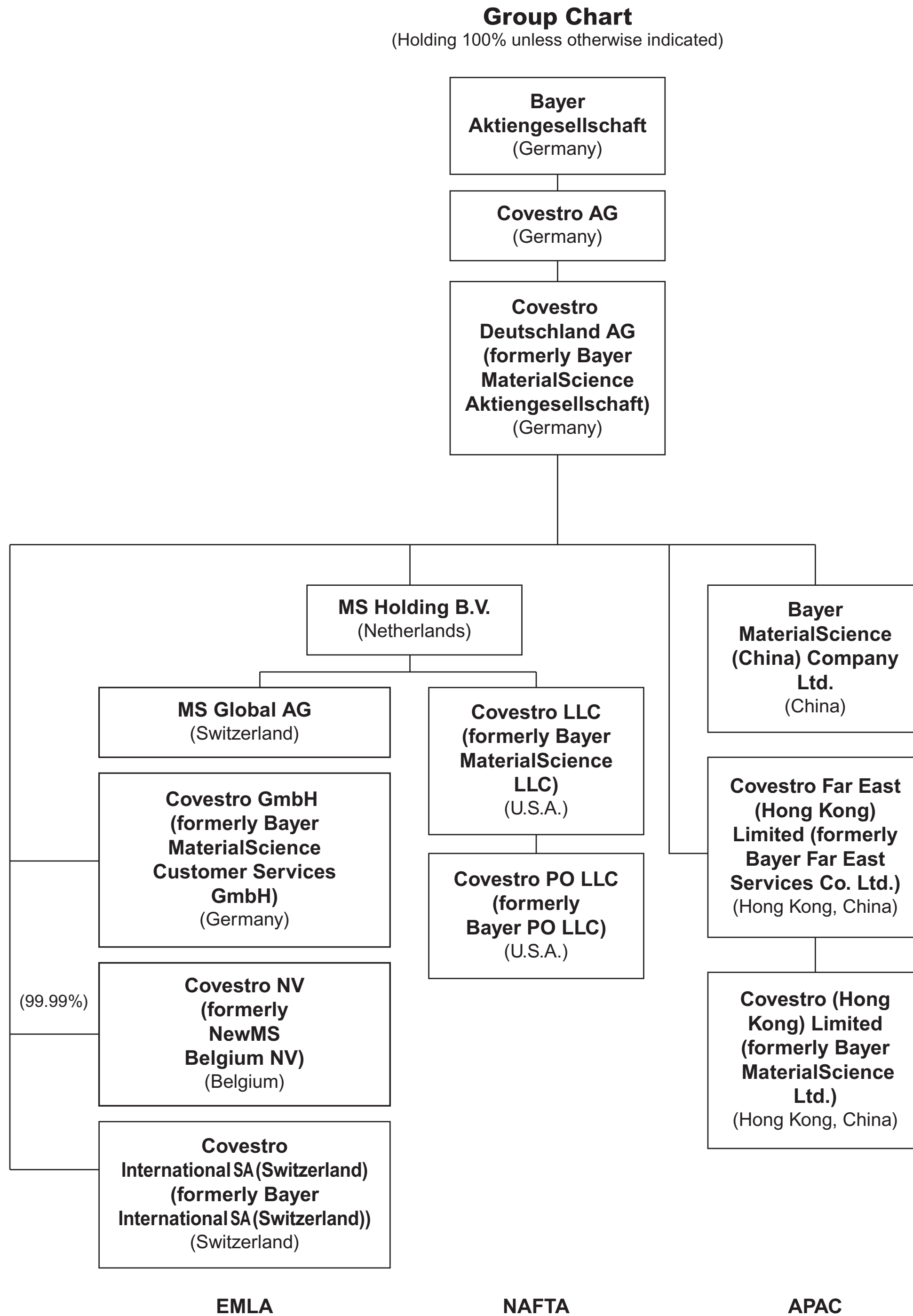
Pursuant to section 2 of the Articles of Association in the notarial foundation deed on August 20, 2015, the corporate purpose of the Company is the manufacturing, marketing or other industrial activities and provision of services in the field of polymers and chemistry. The Company is authorized to undertake all business which is related to, or directly or indirectly serves, the object of the Company. The Company may establish, acquire and take participating interests in other companies, in particular those whose objects fully or partially cover the above-mentioned field. The Company may bring companies, in which it holds participating interests, under its uniform control or confine itself to the administration thereof. The Company may transfer their operations in full or in part to newly established or existing subsidiaries or affiliates.

19.5 GROUP STRUCTURE

Until the registration of the capital increase with regard to the New Shares the Company will be a wholly owned subsidiary of Bayer AG.

The Company is the parent company of the Group. The Company's business is not conducted by Covestro AG itself but almost entirely by the relevant operating subsidiaries. The combined financial statements include all significant companies whose financial or business policy the Company can determine directly or indirectly to derive economic benefit from the activities of these companies. As of December 31, 2014, the Group includes 95 companies worldwide, of which 11 are German companies.

The following chart provides an overview of the Company's parent company and selected subsidiaries at the date of the Prospectus:



Covestro AG will be the stock exchange listed parent company of the Group. Covestro AG and Covestro Deutschland AG have entered into a profit and loss transfer agreement (*Ergebnisabführungsvertrag*) effective as of September 1, 2015. There also are certain profit and loss transfer agreements (*Ergebnisabführungsvertrag*) between certain other companies of the Group.

The main operating companies of the Group are Covestro Deutschland AG in Germany and Bayer MaterialScience (China) Company Ltd. in China and Covestro LLC (formerly Bayer MaterialScience LLC) in the U.S.A.

Covestro GmbH (formerly Bayer MaterialScience Customer Service GmbH) is a subsidiary of Covestro Deutschland AG and the Group's legal entity for sales in Germany. Under the internal functional description as Supply Chain Center (SCC), the company is also responsible for the regional outbound supply chain operations of the business units in EMLA.

Covestro NV (formerly MS NewCo NV) in Belgium is a manufacturing company and additionally serves as hub for support- and sales functions. Covestro International SA in Switzerland is responsible for sales of the entire Group's product portfolio in Eastern Europe, the Middle East and Africa, as well as for certain products of business unit Polyurethanes to certain customers in Western Europe. MS Holding B.V., the Netherlands, serves as a holding for foreign affiliated companies as well as hosting of the Dutch sales support activities.

Covestro (Hong Kong) Limited (formerly Bayer MaterialScience Ltd) in Hong Kong, China, is engaged in the selling and distribution of the Group's products in the Asia Pacific Region. Covestro Far East (Hong Kong) Limited (formerly Bayer Far East Service Company Ltd) in Hong Kong, China is an investment holding company of Covestro (Hong Kong) Limited. Bayer MaterialScience (China) Company Ltd in China is the main operating company of the Group in China.

Covestro LLC in the U.S.A. is the main operating company in the Group in the U.S.A. Covestro PO LLC (formerly Bayer PO LLC) in the U.S.A. is the operational entity for the Group's propylene oxide joint venture with Lyondell Chemical Company in the U.S.A.

19.6 INFORMATION ON THE COMPANY'S MATERIAL SUBSIDIARIES

The following table provides an overview of the material subsidiaries of the Group, i.e. equity interests whose carrying value amounts to at least 10% of the combined equity or at least 10% of the combined net profit of the Group, as well as key company information relating to these equity interests, in addition to equity interests in combined subsidiaries. The following figures have been taken from the accounting systems as of December 31, 2014 when the Company did not yet exist. All shares in affiliated companies have been fully paid in.

The names of the material subsidiaries and the Company's share of subscribed share capital have not changed at the date of the Prospectus.

19.6.1 Covestro Deutschland AG (formerly Bayer MaterialScience Aktiengesellschaft), Leverkusen, Germany

	As of December 31, 2014
	(unaudited) *(in EUR thousand, unless otherwise indicated)*
Purpose of the company	Industrial activities in the field of polymers
Company's share of subscribed capital	100%
Subscribed capital	100,000
Reserves[4]	(403,187)
Net profit (before profit transfer)	132,990
Carrying value of shares in the subsidiary[2]	—
Receivables from the subsidiary[1]	—
Liabilities to the subsidiary[1]	—

19.6.2 Covestro International SA, Fribourg, Switzerland

	As of December 31, 2014
	(unaudited) *(in EUR thousand, unless otherwise indicated)*
Purpose of the company	Distribution, sale, research and development with respect to Group products
Company's share of subscribed capital	100%
Subscribed capital	680
Reserves[4]	129,316
Net profit (before profit transfer)	54,774
Carrying value of shares in the subsidiary	549,131
Receivables from the subsidiary[1]	—
Liabilities to the subsidiary[1]	—

19.6.3 Covestro Polyurethanes B.V. (formerly Bayer Polyurethanes B.V.), Nieuwegein, the Netherlands

	As of December 31, 2014
	(unaudited) *(in EUR thousand, unless otherwise indicated)*
Purpose of the company	Holding company
Company's share of subscribed capital	100%
Subscribed capital	10,000
Reserves[4]	344,963
Net profit (before profit transfer)	6,646
Carrying value of shares in the subsidiary	20,000
Receivables from the subsidiary[1]	—
Liabilities to the subsidiary[1]	—

19.6.4 Covestro PO LLC, New Martinsville, West Virginia, United States

	As of December 31, 2014
	(unaudited) *(in EUR thousand, unless otherwise indicated)*
Purpose of the company	Holding company
Company's share of subscribed capital	100%
Subscribed capital	—
Reserves[4]	238,903
Net profit (before profit transfer)	71,951
Carrying value of shares in the subsidiary	667,841
Receivables from the subsidiary[1]	—
Liabilities to the subsidiary[1]	—

19.6.5 Lyondell Bayer Manufacturing Maasvlakte, VOF Rotterdam, the Netherlands

	As of December 31, 2014
	(unaudited) *(in EUR thousand, unless otherwise indicated)*
Purpose of the company	Production of propylene oxide
Company's share of subscribed capital	50%
Subscribed capital[3]	716,044
Reserves[3][4]	(643,043)
Net profit (before profit transfer)[3]	(9,341)
Carrying value of shares in the subsidiary	371,646
Receivables from the subsidiary[1]	—
Liabilities to the subsidiary[1]	—

19.6.6 Covestro LLC, Pittsburgh, Pennsylvania, United States

	As of December 31, 2014
	(unaudited) *(in EUR thousand, unless otherwise indicated)*
Purpose of the company	Production and sale of polymer related products
Company's share of subscribed capital	100%
Subscribed capital	—
Reserves[4]	1,224,222
Net profit (before profit transfer)	262,079
Carrying value of shares in the subsidiary	1,096,451
Receivables from the subsidiary[1]	—
Liabilities to the subsidiary[1]	—

19.6.7 Bayer MaterialScience (China) Company Limited, Shanghai, China

	As of December 31, 2014
	(unaudited) *(in EUR thousand, unless otherwise indicated)*
Purpose of the company	Development and production of polycarbonates and other polymers
Company's share of subscribed capital	100%
Subscribed capital	1,097,677
Reserves[4]	(205,710)
Net profit (before profit transfer)	47,545
Carrying value of shares in the subsidiary	1,106,934
Receivables from the subsidiary[1]	—
Liabilities to the subsidiary[1]	—

Notes:

(1) At December 31, 2014 the Company had not yet been founded.

(2) Covestro Deutschland AG has become a 100% subsidiary of Covestro AG prior to the Offering. The book value of the equity interest in Covestro Deutschland AG was not part of Covestro AG's assets.

(3) Lyondell Bayer Manufacturing Maasvlakte VOF is classified as a joint operation with a share of 50%. The stated value comprises the total shareholding of Lyondell Bayer Manufacturing Maasvlakte VOF (assuming ownership of 100% of its shares).

(4) Capital reserve and surplus reserve as well as other components of equity.

19.7 AUDITOR OF THE FINANCIAL STATEMENTS

The combined financial statements of the Covestro Group, prepared in accordance with IFRS as of and for the fiscal years ended December 31, 2014, 2013 and 2012, included in the Prospectus, have been audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (''**PwC**''), Moskauer Straße 19, 40227 Düsseldorf, Germany, as stated in the unqualified auditor's report (*Bestätigungsvermerk*) appearing herein.

Furthermore, the opening statement of financial position of Covestro AG prepared in accordance with IFRS as of August 21, 2015, included in the Prospectus, has been audited by PwC, as stated in the unqualified auditor's report (*Bestätigungsvermerk*) appearing herein.

Furthermore, the opening statement of financial position of Covestro AG prepared in accordance with the German Commercial Code (*Handelsgesetzbuch*) (''**HGB**'') as of August 21, 2015, included in the Prospectus, has been audited by PwC, as stated in the unqualified auditor's report (*Bestätigungsvermerk*) appearing herein.

PwC is a member of the German Chamber of Public Accountants (*Wirtschaftsprüferkammer*), Rauchstraße 26, 10787 Berlin.

19.8 NOTICES, PAYING AGENT

Pursuant to the Articles of Association, its notices shall be published in the German Federal Gazette (*Bundesanzeiger*). All notices required under German securities laws will be published in an official national newspaper designated for stock exchange notices by the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and, if required, in the German Federal Gazette (*Bundesanzeiger*).

Notices in connection with the approval of the Prospectus or any supplements thereto will be published in accordance with the German Securities Prospectus Act, in the manner of publication provided for in the Prospectus, that is, through publication on the Company's website, http://investor.covestro.com/boersengang/ and http:// investor.covestro.com/en/ipo, and the provision of printed copies at the Company's offices at Kaiser-Wilhelm-Allee 60, 51373 Leverkusen, Germany.

The paying agent and custodian is Deutsche Bank Aktiengesellschaft, Taunusanlage 12, 60325 Frankfurt, Germany.

20. DESCRIPTION OF SHARE CAPITAL

20.1 CURRENT SHARE CAPITAL AND SHARES

Immediately prior to the capital increase pursuant to the Offering, the Company's share capital amounts to €140,000,000. It is divided into 140,000,000 ordinary bearer shares with no par value (*Stückaktien*), each representing a notional value of €1.00. The share capital has been fully paid up.

Section 5 paragraph 1 of the Articles of Association stipulates that the shareholders' right to the issuance of share certificates representing their respective Shares is excluded to the extent legally permitted. The Company is entitled to issue share certificates representing individual shares (*Einzelurkunden*) or multiples of shares (*Sammelurkunden*). Pursuant to section 5 paragraph 2 of the Articles of Association, the form and content of the share certificates as well as of profit share and renewal coupons (*Gewinnanteils- und Erneuerungsscheine*) are decided by the Management Board.

The Company's Existing Shares and the New Shares issued pursuant to the Offering will also be deposited with Clearstream Banking AG, Mergenthalerallee 61, 65760 Eschborn, Germany, in the form of two global share certificates without dividend coupon.

Neither the Company nor any of its subsidiaries currently hold any Shares of Covestro AG.

20.2 DEVELOPMENT OF THE COMPANY'S SHARE CAPITAL

The Company was established by Bayer AG in a notarial foundation deed (*Gründungsurkunde*) on August 20, 2015 and registered in the commercial register (*Handelsregister*) of Cologne on August 24, 2015. The share capital (*Grundkapital*) in the amount of €140,000,000 has been fully paid in by contribution in cash. With effect as of September 1, 2015, Bayer AG contributed all shares of Covestro Deutschland AG to the unrestricted capital reserves (*ungebundene Kapitalrücklage*) pursuant to section 272 paragraph 2 number 4 of the German Commercial Code (*Handelsgesetzbuch*) of the Company. The share capital consists of 140,000,000 ordinary bearer Shares with no par value (*Stückaktien*), each representing a notional value of €1.00.

In connection with the Offering, the Existing Shareholder will also make a cash contribution in the amount of €715 million into the unrestricted capital reserves of the Company (*ungebundene Kapitalrücklage*), section 272 paragraph 2 number 4 German Commercial Code (*Handelsgesetzbuch* (*HGB*)), by no later than September 29, 2015 to increase the Company's equity before completion of the Offering.

In the context of the Offering, the share capital will be increased from €140,000,000 by up to €94,339,622 to up to €234,339,622 by the issuance of up to 94,339,622 Shares with the exclusion of subscription rights.

20.3 AUTHORIZED CAPITAL

On September 30, 2015, the extraordinary shareholders' meeting of the Company will resolve the authorization of the Management Board, subject to the consent of the Supervisory Board, to increase the Company's share capital from up to €234,339,622 (after the IPO Capital Increase) by up to €117,169,811 to up to a total of €351,509,433(Authorized Capital) (*Genehmigtes Kapital*). The resolution will be filed with the Commercial Register (*Handelsregister*) of Cologne on or about September 30, 2015, and is expected to be entered into the Commercial Register (*Handelsregister*) prior to the commencement of trading of the Shares on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), on October 2, 2015.

The Management Board will be authorized, with the approval of the Supervisory Board, to increase the share capital by up to €117,169,811 by issuing bearer shares with no par value (*Stückaktien*) on one or more occasions in the period up to September 30, 2020. It will be resolved that new bearer shares with no par value (*Stückaktien*) can be issued against cash or contributions in kind (Authorized Capital) (*Genehmigtes Kapital*). Shareholders will generally be granted subscription rights. Subscription rights can also be granted to shareholders indirectly in accordance with section 186 paragraph 5 of the German Stock Corporation Act (*Aktiengesetz*). However, the Management Board will be authorized, with the consent of the Supervisory Board, to exclude shareholders' subscription rights:

- where the subscription ratio gives rise to fractions in the case of capital increases;

- to the extent necessary to grant the holders or creditors of bonds with warrants or conversion rights (including participation rights) or obligations issued by the Company or its companies of the Group a right to subscribe for new Shares to the extent to which they would be entitled after exercise of their warrants or conversion rights, or performance of their exercise of conversion obligations;
- if capital is increased against contributions in kind;
- if the issue price of the new shares is not significantly below the stock market price and the aggregate number of Shares issued under exclusion of subscription rights pursuant to section 186 paragraph 3 sentence 4 of the German Stock Corporation Act does not exceed 10% of the capital stock, neither on the date on which this authorization takes effect nor on the date of exercise of this authorization. The sale of treasury shares shall be counted towards this threshold provided that the sale occurs during the term of this authorization, subject to the exclusion of subscription rights pursuant to section 71 paragraph 1 number 8 sentence 5 in conjunction with section 186 paragraph 3 sentence 4 of the German Stock Corporation Act. Furthermore, such shares shall count towards this threshold that must be issued to service bonds (including participation rights) with conversion or option rights or a conversion obligation, provided that the bonds or participation rights were issued during the term of this authorization subject to exclusion of subscription rights in corresponding application of section 186 paragraph 3 sentence 4 of the German Stock Corporation Act; and
- to implement a scrip dividend in which shareholders are given the option of contributing their dividend entitlements to the Company (either in whole or in part) as a contribution in kind against the issue of new Shares from Authorized Capital.

The Management Board shall decide, with the consent of the Supervisory Board, on the details of the rights attached to the shares and all additional conditions governing their issuance, including the issue price.

20.4 CONTINGENT CAPITAL

By a resolution of the extraordinary shareholders' meeting on September 1, 2015, contingent capital was created which was registered with the commercial register (*Handelsregister*) on September 3, 2015.

The share capital has been conditionally increased by an additional amount of up to €70,000,000, composed of up to 70,000,000 bearer shares with no par value (*Stückaktien*) (*Contingent Capital*) (*Bedingtes Kapital*). The contingent capital increase will only be implemented to the extent that the holders of bonds (including profit participating rights) with warrants or conversion rights which will be issued or guaranteed for a period from September 1, 2015 until August 31, 2020 on the basis of the authorization resolved by the extraordinary shareholders' meeting on September 1, 2015, by the Company or a company of the Group exercise their options or conversion rights, that the obligation to exercise the option or the conversion is fulfilled, and to the extent that such option or conversion right or such conversion obligation is not settled by means of the issuance of own shares, authorized capital or in other forms of settlement. The new Shares will be issued at the option premium or conversion price to be determined in accordance with the authorizing resolution referred to below.

The new Shares will participate in profits from the beginning of the fiscal year in which they come into existence as a result of the exercise of options or conversion rights, or the fulfillment of exercise or conversion obligations; contrary to this, the Management Board, with the consent of the Supervisory Board, may determine that the new Shares participate in profits from the beginning of the fiscal year for which, at the point in time when the options or conversion rights are exercised or the exercise or conversion obligations are fulfilled, the annual shareholders' meeting has not yet adopted a resolution on the appropriation of the distributable profit. The Management Board is authorized, with the consent of the Supervisory Board, to determine the further details of the implementation of the contingent capital increase.

The authorization resolution passed in the extraordinary shareholders' meeting on September 1, 2015 contains the following:

The Management Board of the Company shall be authorized, upon the approval of the Supervisory Board, to issue bonds carrying conversion rights, bonds carrying option rights and/or participation rights (hereinafter jointly referred to as the ''**Bonds**'') in bearer or registered form, once or several times, on or before August 31, 2020 in the aggregate nominal amount of up to €1,500,000,000 with or without a

definite maturity and to grant to the bond holders conversion or option rights for up to 70,000,000 no-par value bearer Shares of the Company in a proportionate amount of the capital stock of up to €70,000,000 in aggregate (hereinafter jointly referred to as the ''**Shares in the Company**''), as further specified in the terms and conditions for the Bonds. The authorization may be exercised in full or in several parts. The bonds carrying conversion rights may also be issued against contributions in kind.

In addition to Euro, the Bonds may also be issued in the legal currency of an OECD country, limited by the corresponding equivalent value in Euro. If the Bonds are issued in a currency different from Euro the equivalent value, calculated by the Euro reference rate of the European Central Bank on the date of the resolution on issuing Bonds, has to be taken as basis.

The Bonds may also be issued by companies of the Group in accordance with section 18 of the German Stock Corporation Act; in this case the Management Board shall be authorized, upon the approval of the Supervisory Board to issue a guarantee in respect of the repayment of the Bonds on behalf of the Company and to grant the bond-holders conversion or option rights on Shares in the Company.

If Bonds carrying conversion rights are issued, the holders can convert their Bonds into Company Shares according to the terms and conditions of the Bonds. The proportionate share in the capital stock of the Shares to be issued upon conversion shall not exceed the nominal value, or a lower issue amount, of the convertible Bond. The exchange ratio is calculated by dividing the nominal value of the convertible Bond by the conversion price for one Share of the Company. The exchange ratio can also be calculated by dividing the issue price of the convertible Bond, which may be lower than its nominal value, by the conversion price for one Share of the Company. The exchange ratio may be rounded up or down to a whole number; in addition, a cash premium may be stipulated. It may also be stipulated that fractional amounts are to be combined and/or settled in cash. The terms and conditions may also stipulate a fixed or a variable exchange ratio.

The terms and conditions may stipulate a conversion obligation. The terms and conditions may further stipulate the right of the Company to grant holders of convertible Bonds, on maturity or at any prior time, either in whole or in part, in lieu of the payment of the due sum, Shares in the Company (Company's right to substitute).

The terms and conditions of the Bonds may entitle the Company to settle in cash, either in part or in whole, any difference between the nominal value of the convertible bonds and the result obtained from multiplying the exchange ratio and a stock market price specified in the terms and conditions of the Bonds of the Shares at the time of the exchange. The stock market price, meant by the calculation in the previous sentence, shall amount to at least 80% of the relevant stock market price per Share for the lower conversion price limit, as set out below.

If Bonds carrying option rights or the duty to exercise an option are issued, one or more warrants shall be attached to each bond, entitling the bearer to purchase Shares of the Company pursuant to the terms and conditions of the warrants to be more closely defined by the Management Board. The subscription ratio shall be determined by dividing the nominal amount of the Bond by the option price for a Share in the Company. The proportionate share in the capital stock of the Shares in the Company to be issued per Bond may not exceed the nominal value of the Bond. The terms and conditions of the Bonds may also stipulate that the number of Shares to be subscribed on exercising the option rights is variable. The terms and conditions of the Bonds may stipulate that the option price can also be paid by means of transferring Bonds (part-exchange) and, where applicable, by making an additional cash payment.

The Company may in case of a conversion or the exercise of the option or in case of the fulfillment of the obligation to convert or to exercise the option, decide whether it shall issue new shares of the contingent capital or existing shares in the Company or shares of another company at the stock exchange. Instead, in case of a conversion or the exercise of the option or in case of the fulfilment of the obligation to convert or to exercise the option, the terms and conditions for the Bond can provide a right for the Company for a cash payment instead of the issuance of Shares.

The conversion/option price as determined respectively may not fall short of 80% of the volume-weighted average price of the Shares quoted in the XETRA trading system (or a comparable successor system) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) on the last 10 trading days before the day of the resolution of the Management Board and may not fall short of 80% of the average closing price of the Shares of the Company in the XETRA trading system (or a comparable successor system) during the

days on which the subscriptions rights were traded on the Frankfurt Stock Exchange except for the last two trading days.

In the case of an issuance of Bonds with mandatory conversion or a substitution right of the Company, the conversion price for a Share to be set must correspond at least to either the aforementioned minimum price or the average closing price of the Share of the Company over the 10 trading days in the XETRA-trading system (or any comparable successor system) before the day on which the conversion becomes effective.

The terms and conditions of the Bonds may stipulate that the option or conversion price, subject to the above- mentioned minimum prices, can be changed within a margin to be specified by the Management Board based on the development of the Share price over the term.

The terms and conditions of the Bonds may contain anti-dilution clauses to provide protection during the conversion or option period against the Company raising its capital stock by granting a pre-emptive right to the shareholders, issuing or guaranteeing additional Bonds carrying conversion or option rights or participation rights or other option rights, without granting the holders of conversion or option rights the subscription rights, to which they would be entitled if they exercised their conversion or option rights or if the conversion obligation were fulfilled. The terms and conditions may also stipulate, to cover other measures taken by the Company or events that might result in a dilution of the value of the conversion or option rights (e.g. dividends), a value-preserving adjustment of the conversion or option price or of the option ratio, or the granting of cash components. The proportionate share in the capital stock of the Shares to be issued per bond may not, in any instance, exceed the nominal value of the bond. Sec. 9 (1) and sec. 199 of the Stock Corporation Act remains unaffected.

The Management Board is authorized, with the consent of the Supervisory Board, to determine the details of the Bonds and their issuance.

In case of an issuance of Bonds, shareholders shall generally have a subscription right to acquire the Bonds; the Bonds may also be acquired by one or several financial institutions, provided that such institutions commit to offer them for subscription to the shareholders. The Management Board, however, with the approval of the Supervisory Board, is authorized to exclude the right of shareholders to subscribe for the Bonds:

- to eliminate fractional amounts resulting from a subscription ratio from shareholders' subscription rights in the Bonds;
- insofar as necessary to grant subscription rights to Shares of the Company to holders of Bonds carrying conversion or option rights or creditors of convertible bonds with conversion obligations, to such an extent as such holders would be entitled to after having exercised their conversion or option rights or after any conversion obligations have been fulfilled;
- insofar as they are issued against payment in cash and the issue price for the Bonds is not significantly lower than the Bonds' theoretical market value as ascertained by recognized methods of financial calculation. This authorization to exclude subscription rights shall only apply, however, to Bonds carrying rights to receive Shares corresponding to a proportionate amount of the capital stock not exceeding 10% in the aggregate, neither on the date on which the authorization takes effect nor on the date of exercising this authorization. The sale of treasury shares shall be counted towards this limitation, if the sale occurs during the term of this authorization to the exclusion of subscription rights pursuant to section 71 paragraph 1 number 8 sentence 5 in conjunction with section 186 (3), sentence 4 of the German Stock Corporation Act. In addition, Shares issued during the term of this authorization from Authorized Capital shall be counted towards this limitation, provided that subscription rights are excluded pursuant to section 186 (3), sentence 4 of the German Stock Corporation Act;
- insofar as Bonds are to be issued against contributions in kind, provided that the value of the contribution in kind is proportionate to the market value of the Bonds as calculated pursuant to the preceding paragraph.

The capital stock has been increased by up to €70,000,000 divided into up to 70,000,000 bearer shares with entitlement to profits as of the beginning of the fiscal year in which said shares will be issued (Contingent Capital 2015). The contingent capital increase shall serve to issue Shares in the Company to

creditors of Bonds if they exercise their conversion or option right or in case of the fulfillment of the obligation to convert or to exercise the option which are based on the bonds carrying conversion rights, bonds carrying option rights and/or convertible participation rights issued on the basis of the authorization by the shareholders' meeting on September 1, 2015.

The new shares shall be issued at the conversion or option price pursuant to the respective authorization. The conditional capital increase shall be carried out only to the extent that conversion or option rights granted under bonds issued against cash are exercised or that conversion obligations of such bonds are fulfilled, and to such extent as the conversion or option rights or conversion obligations are not serviced through treasury shares, through shares from authorized capital or through other forms of fulfilment.

The Management Board is authorized, with the consent of the Supervisory Board, to determine the further details of the implementation of the contingent capital increase.

20.5 EMPLOYEE PARTICIPATION PROGRAM

The Group will not establish a specific employee participation program in connection with the Company's initial public offering.

20.6 AUTHORIZATION TO PURCHASE AND SELL OWN SHARES

A resolution was adopted at the extraordinary shareholders' meeting on September 1, 2015 with the following content:

(a) The Management Board is authorized through August 31, 2020, to purchase its own shares up to a total of 10% of the Company's share capital at a time the resolution is passed, provided that the own shares, purchased on the basis of this authorization, together with other own shares already purchased by the Company and still in its possession and together with shares attributed to the Company pursuant to sections 71d and 71e of the German Stock Corporation Act do not exceed 10% of the Company's share capital at any time. The provisions in section 71 (2) sentence 2 and 3 of the German Stock Corporation Act shall apply.

    The purchase may be made on the exchange or by means of a public tender offer and must conform to the principle of equal treatment of the shareholders (section 53(a) of the German Stock Corporation Act). If the purchase is made on the exchange, the per-share equivalent value paid by the Company (not including additional expenses in connection with the purchase) may not exceed or fall below, by more than 10%, the market price on the relevant trading day in XETRA trading (or in a functionally comparable successor system taking the place of the XETRA system) on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) as determined by the opening auction. If the purchase is made by a public tender offer, the per-share offer price paid by the Company (not including additional expenses in connection with the purchase) may not exceed or fall below, by more than 10%, the closing auction price in XETRA trading (or in a functionally comparable successor system taking the place of the XETRA system) on the Frankfurt Stock Exchange on the last exchange trading day before the date of publication of the offer. If the total amount of Shares offered in the public tender offer exceeds such volume, the purchase may be made in the proportion of offered Shares. Provisions may be made for preferential purchase of odd lots of up to 50 shares per shareholder or for financial rounding to avoid fractions of Shares. A further offer of Shares of the shareholders is excluded.

(b) The authorization may be exercised in whole or in part, and, in the dependent latter case, at more than one time until the maximum amount is reached. The purchase may also be exercised via companies of the Group within the meaning of section 17 of the German Stock Corporation Act or may be exercised by third parties on their account. The authorization may—if legally possible—be exercised for any legally permitted purpose, in particular the purposes listed below under (c), (d), (e) and (f). The Shares may not be used for trading on the market.

    If the Shares are used for the purposes listed below in lit. (c) or (d), the shareholders are exempted from subscription rights. If the Shares are used for the purpose listed below in lit. (f), the Management Board is authorized to exclude the subscription right. In addition, in case of a sale of the Shares in the stock market, no subscription right may be granted. In case of a sale of the Shares by way of a public

tender offer complying with the principle of equal treatment of the shareholders, the Management Board is authorized to disapply the subscription rights in order to avoid fraction amounts.

(c) The Management Board is authorized with regard to the Shares purchased on the basis of the authorization to sell own Shares in the Company, other than through the stock exchange or through an offer to all shareholders provided that the sale is effected against cash payment at a price which does not materially fall below the market price at the time of sale of Shares in the Company with the same terms. This authorization, however, is only valid on the condition that Shares sold may not exceed a total of 10% of the share capital neither on the date on which the authorization takes effect nor—if the amount is lower—on the date of exercising this authorization. The upper limit of 10% of share capital is reduced by the notional amount of the share capital accounted for by those Shares sold or issued in connection with a capital increase, with exclusion of subscription rights under section 186 paragraph 3 sentence 4 of the German Stock Corporation Act, after beginning of September 1, 2015. The upper limit of 10% of share capital is further reduced by the notional amount of the share capital accounted for by those Shares which are to be issued to cover bonds with warrant or conversion rights or a conversion obligation, insofar as the bonds are issued after beginning of September 1, 2015, with exclusion of subscription rights by analogous application of section 186 paragraph 3 sentence 4 of the German Stock Corporation Act.

(d) The Management Board is authorized to transfer own Shares acquired on the basis of the above authorization to third parties in connection with company combinations or when acquiring companies, equity interests therein or other assets.

(e) The Management Board is authorized to cancel own Shares in the Company without a shareholder resolution. The cancellation can be executed also without a capital decrease by adjustment of the proportional amount of the Company's share capital of the remaining Shares. In this case the Management Board is authorized to adjust the number of Shares in the articles of association.

(f) The Management Board is authorized to use Shares acquired on the basis of the above authorization for a scrip dividend.

(g) The authorizations in (c), (d) and (f) may only be exercised with the consent of the Supervisory Board. The Supervisory Board may further determine that measures of this resolution may only be exercised with its consent.

(h) The authorizations set out above may be exercised once or several times, in whole or in part and in respect of a specific portion or all of the treasury shares acquired.

The purchase of own Shares on the basis of this authorization may also be effected by using put or call options. In this case the trading in options has to be settled by an independent credit institute or a company acting pursuant to section 53 (1) sentence 1 or section 53b (1) sentence 1 or (7) of the German Banking Act (''**Financial Institution**'') provided that the Financial Institution, upon the exercise of the relevant option, will only deliver Shares which it previously acquired on the stock exchange, subject to compliance with the principle of equal treatment, at a price close to the market price.

The acquisition of Shares using put or call options is limited to Shares accounting for a maximum of 5% of the company's capital stock when the resolution is adopted by the Annual General Meeting or—if this figure is lower—at the exercise of the authorization.

The option premium paid or received by the Company for exercising the call or put options may not deviate significantly from the theoretical market value of the respective option calculated by recognized financial calculation methods. The agreed exercise price of the option trade (each without incidental acquisition costs, but including the received or paid option premium) may not exceed or fall below, by more than 10%, the market price on the relevant trading day in XETRA-trading (or in a functionally comparable successor system taking the place of the XETRA system) on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) as determined by the opening auction.

The term of the individual derivatives is not permitted to exceed 18 months, must end on August 31, 2020, at the latest, and must be chosen in such a way that the acquisition of the Shares upon the exercise of derivatives will take place no later than August 31, 2020.

For using Shares of the Company, purchased on the basis of this authorization, the abovementioned rules will apply.

20.7 GENERAL PROVISIONS RELATING TO PROFIT ALLOCATION AND DIVIDEND PAYMENTS

Distributions of dividends on shares for a given fiscal year are generally determined by a process in which the management board and supervisory board submit a proposal to the general shareholders' meeting held in the subsequent fiscal year and such general shareholders' meeting adopts a resolution on the distribution of dividends. German law provides that a resolution concerning dividends and distributions thereof may be adopted only if the Company's unconsolidated financial statements prepared in accordance with German GAAP show a net retained profit (*Bilanzgewinn*). In determining the profit available for distribution, the result for the relevant fiscal year must be adjusted for profits and losses carried forward from the previous year and for withdrawals from or transfers to reserves. Certain reserves are required by law, and must be deducted to a certain extent when calculating the profit available for distribution.

Dividends on shares resolved by the general shareholders' meeting are paid annually, immediately after the general shareholders' meeting, unless provided otherwise in the dividend resolution, in compliance with the rules of the respective clearing system. Dividend payment claims are subject to a three-year statute of limitation. Details concerning any dividends resolved by the general shareholders' meeting and the respective paying agent(s) will be published in the German Federal Gazette (*Bundesanzeiger*).

20.8 GENERAL PROVISIONS RELATING TO LIQUIDATION OF THE COMPANY

Apart from liquidation as a result of insolvency proceedings, the Company may be liquidated only with a vote of 75% or more of the share capital represented when the shareholders' resolution is passed. Pursuant to the German Stock Corporation Act (*Aktiengesetz*), in the event of the Company's liquidation, any assets remaining after all of the Company's liabilities have been settled will be distributed pro rata among its shareholders. The German Stock Corporation Act (*Aktiengesetz*) further stipulates certain protections for creditors which must be observed in the event of liquidation.

20.9 GENERAL PROVISIONS RELATING TO A CHANGE IN THE SHARE CAPITAL

The German Stock Corporation Act (*Aktiengesetz*) provides that the share capital of a stock corporation may be increased by a resolution adopted at the general shareholders' meeting. Such resolution must be adopted by a majority of at least 75% of the share capital represented when the resolution is passed, unless the stock corporation's articles of association provide for a different majority. The Articles of Association provide in section 17 paragraph 2 that the resolutions of the general shareholders' meeting are adopted by a simple majority of the votes cast and, to the extent the law requires approval by a majority of capital in addition to the majority of votes, resolutions may be adopted by a simple majority of the share capital represented at the meeting, except as otherwise provided by mandatory law or the Articles of Association of the Company. In case of an increase of capital, the profit sharing of the new shares can be determined in deviation from section 60 paragraph 2 of the German Stock Corporation Act (*Aktiengesetz*) according to section 4 paragraph 4 of the Articles of Association. Section 60 paragraph 2 of the German Stock Corporation Act (*Aktiengesetz*) provides that, if contributions to share capital have not been made in the same proportion for all shares, shareholders shall first be paid from the distributable profit an amount of 4% of the contributions made, and, if the profit is insufficient to make such payment, the amount to be paid shall be determined on the basis of an appropriately lower percentage (contributions which have been made during the course of the fiscal year shall be taken into account in proportion to the time which has elapsed since the date of such contributions).

In addition, shareholders may resolve to issue authorized capital (*Genehmigtes Kapital*), upon a vote of 75% of the share capital represented at the passing of the resolution authorizing the management board to issue shares, up to a specific amount within a period not exceeding five years. The nominal amount of such issuance may not exceed 50% of the share capital in existence at the time the resolution of the general shareholders' meeting is registered with the commercial register.

The authorized capital for the Company is described above under ''—*20.3 Authorized Capital*.'' Additionally, shareholders may resolve to create contingent capital (*Bedingtes Kapital*) for the purpose of

issuing shares (i) to holders of convertible bonds or other securities convertible into shares of the Company, (ii) as consideration in connection with a merger with another company or (iii) to executives and employees. A resolution to create contingent capital must be adopted by at least 75% of the share capital represented at the passing of the resolution. The nominal amount of the contingent capital created for the purpose of share issues to executives and employees may not exceed 10% of the nominal share capital in existence at the time such resolution is passed, while the nominal amount of the contingent capital created for the purpose of share issues to holders of convertible bonds or other securities convertible into shares of Covestro AG or as consideration in connection with a merger with another company may not exceed 50% of the nominal share capital in existence at the time such resolution is passed, however, there is in general no limitation with respect to a time period during which the contingent capital may be used. The authorization of the management board to issue convertible bonds or other securities convertible into shares must be limited to a period not exceeding five years as of the respective shareholder resolution.

The contingent capital for the Company, resolved solely for the purpose of issuing Shares to holders of convertible bonds or other securities convertible into Shares in the Company, is described above under ''—*20.4 Contingent Capital*.'' In general, a resolution to lower the share capital must be adopted by at least 75% of the share capital represented at the passing of the resolution.

20.10 EXCLUSION OF MINORITY SHAREHOLDERS

According to the ''squeeze-out'' regulations of sections 327a et seq. of the German Stock Corporation Act (*Aktiengesetz*), the general shareholders' meeting of a stock corporation can, at the request of a shareholder holding 95% of the share capital (''principal shareholder''), resolve to transfer the Shares of the minority shareholders to the principal shareholder against payment of an appropriate cash settlement. The amount of the cash settlement to be paid to the minority shareholders must reflect ''the company's situation'' at the time the resolution is passed by the general shareholders' meeting. The amount of the cash settlement is based on the full value of the Company, which generally is determined using the discounted earnings method (*Ertragswertmethode*). The minority shareholders are entitled to file for a valuation proceeding (*Spruchverfahren*), in the course of which the appropriateness of the cash payment is reviewed and potentially amended.

Section 62(5) of the German Transformation Act (*Umwandlungsgesetz*) further stipulates that within three months of the signing of a merger agreement between a transferring stock corporation and a shareholder holding at least 90% of the share capital acting as acquiring company, a squeeze-out resolution in accordance with sections 327a et seq. of the German Stock Corporation Act (*Aktiengesetz*) can be adopted at the general shareholders' meeting of the transferring stock corporation at the request of such shareholder when the minimum shareholding of such shareholder in the transferring stock corporation amounts to or exceeds 90% of the share capital of the transferring stock corporation. As a prerequisite, such shareholder must be in the legal form of a stock corporation (*Aktiengesellschaft*), a partnership limited by shares (*Kommanditgesellschaft auf Aktien*) or a European Company (*Societas Europaea—SE*).

In addition, according to sections 39a and 39b of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*) concerning squeeze-outs after a takeover or mandatory public offer, at the request of the bidder who owns shares of the target company amounting to at least 95% of the voting rights, the remaining shares must be transferred to the bidder by order of court in exchange for the granting of an appropriate settlement. To this end, the compensation granted as part of the takeover or mandatory public offer is deemed an appropriate settlement if, on the basis of the offering, the bidder has acquired shares amounting to at least 90% of the share capital subject to the offering.

In addition, after a takeover or mandatory public offer, the shareholders of a target company who have not accepted the offer can accept it within three months of the acceptance period expiry (a ''**sell-out**''), if the bidder is authorized to file an application for the transfer of the outstanding voting shares in accordance with section 39a of the German Securities Acquisition and Takeover Act (section 39c of the German Securities Acquisition and Takeover Act).

Under sections 319 et seq. of the German Stock Corporation Act (*Aktiengesetz*), the shareholders' meeting of a stock corporation may vote for integration (*Eingliederung*) with another stock corporation that has its registered office in Germany, provided the prospective parent company holds at least 95% of the shares of the company to be integrated. The former shareholders of the integrated company are

entitled to adequate compensation, which must generally be provided in the form of shares in the parent company. Where the compensation takes the form of own shares in the parent company, it is considered appropriate if the shares are issued in the same proportion as shares of the parent company would have been issued per share in the company integrated if a merger had taken place. Fractional amounts may be paid out in cash.

20.11 GENERAL PROVISIONS RELATING TO SUBSCRIPTION RIGHTS

According to the German Stock Corporation Act (*Aktiengesetz*), every shareholder is generally entitled to subscription rights to any new shares issued within the framework of a capital increase, including convertible bonds, bonds with warrants, profit-sharing rights or income bonds. Such subscription rights are freely transferable and may be traded on German stock exchanges within a specified period prior to the expiration of such period. The general shareholders' meeting may pass a resolution excluding subscription rights, if at least 75% of the share capital represented adopts the resolution. To exclude subscription rights, the management board must also make a report available to the shareholders justifying the exclusion and demonstrating that the company's interest in excluding the subscription rights outweighs the shareholders' interest in keeping them. The exclusion of subscription rights upon the issuance of new shares is permitted, in particular, if the company increases the share capital against cash contributions, the amount of the capital increase does not exceed 10% of the existing share capital and the issue price of the new shares is not significantly lower than the stock market price of the shares in the company. In such cases, no further justification of the exclusion of subscription rights is required. The management board must present a written report at the general shareholders' meeting that states the reasons for the partial or complete exclusion of subscription rights and the proposed issue amount. However, a resolution providing that the new shares are to be acquired by a financial institution with the obligation to offer such shares to the shareholders for subscription is not considered as exclusion of subscription rights.

20.12 SHAREHOLDER REPORTING AND DISCLOSURE REQUIREMENTS

Covestro AG, as a listed company admitted to official trading on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), is subject to the provisions of the German Securities Trading Act (*Wertpapierhandelsgesetz*) governing disclosure requirements for shareholdings.

The German Securities Trading Act (*Wertpapierhandelsgesetz*) requires that anyone who acquires, sells or in some other way reaches, exceeds or falls below the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of the voting rights in an issuer whose country of origin is Germany and whose shares are admitted to trading on an organized market must immediately but no later than within four trading days notify the issuer and at the same time the BaFin. The notice can be drafted in either German or English and either sent in writing or via telefax. The notice must include, *inter alia*, the individual or entity's address, the share of voting rights held and the date of reaching, exceeding or falling below the respective threshold. As a domestic issuer, the Company must publish such notices immediately but no later than within three trading days of receiving them via media outlets, including those which one can assume will disseminate the information throughout the European Union and in the non-EU contracting parties to the Agreement on the European Economic Area. The Company must also transmit the notice to BaFin and to the company register (*Unternehmensregister*) for storage. There are certain exceptions to the notice requirement.

In connection with the notice requirements, the German Securities Trading Act (*Wertpapierhandelsgesetz*) contains various attribution rules to ensure that shareholdings are allocated to the person who actually controls the voting rights attached to the shares. For example, shares belonging to a third party are allocated to a party required to report if the reporting party controls the third party. Similarly, shares held by a third party on behalf of a party required to report are allocated to the party that is required to report. Shares or financial instruments held for trading by a securities services company are not taken into account for determining the notification obligation if, among others, it is ensured that the voting rights held by them are not exercised and that they amount to no more than 5% of the voting shares, or do not grant the right to purchase more than 5% of the voting shares.

Since the German Risk Limitation Act (*Risikobegrenzungsgesetz*) came into force, any kind of cooperation among shareholders that is designed to effect a permanent and material change in the business strategy of the Company can result in an attribution of voting rights, namely that the cooperation

does not necessarily have to be specifically about the exercise of voting right, coordination in individual cases, however, will not trigger the attribution of voting right.

If a shareholder willfully fails to file a notice or provides false information, the shareholder is excluded from exercising the financial rights attached to its shares for the duration of the failure. If the failure relates specifically to the share of voting rights held and the shareholder acted willfully or was grossly negligent, the shareholder is generally not permitted to exercise the administrative (voting) rights attached to his shares for a period of six months after he files the necessary notification. In addition, a fine may be imposed for failure to comply with the notification obligation.

Except for the 3% threshold, similar notification obligations exist for the Company and BaFin for reaching, exceeding or falling below the aforementioned thresholds when holding other financial instruments entitling their holder to unilaterally acquire existing shares of the Company carrying voting rights by binding legal agreement. This obligation also applies to ''other instruments'' that grant the holder the right to acquire unilaterally, based on a legally binding agreement, existing shares of the Company carrying voting rights that do not qualify as ''financial instruments'' within the meaning of the German Securities Trading Act (*Wertpapierhandelsgesetz*), for example, securities lending agreements or sales and repurchase agreements.

Section 25a of the German Securities Trading Act (*Wertpapierhandelsgesetz*) states that any person who directly or indirectly holds financial instruments or other instruments that are not covered by section 25 of the German Securities Trading Act (*Wertpapierhandelsgesetz*) or instruments that merely enable the holder to acquire existing shares carrying voting rights of an issuer whose home country is Germany, must notify the issuer and, simultaneously, the BaFin immediately, and within four trading days at the latest, when reaching, exceeding or falling below 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75%. Accordingly, such financial or other instruments do not necessarily entitle the holder to claim delivery of the shares. A notification requirement can be triggered if an acquisition of voting rights is only possible under the economics of the instrument, for instance, if the counterparty to such financial or other instrument can reduce or mitigate its risk by acquiring the relevant shares. Therefore, cash-settled equity swaps and contracts for the payment of price differences are subject to the notification requirement.

Furthermore, the German Securities Trading Act (*Wertpapierhandelsgesetz*) requires any shareholder whose holdings reach or exceed the 10% threshold or a higher threshold to notify the issuer of the aims being pursued with the acquisition of the voting rights and the origin of the funds used for the acquisition within 20 trading days of the date on which the respective threshold is met or exceeded. Once this information is received, and even if no information is received, the issuer has to publish it in the form discussed above, or give notice that the disclosure requirement was not met, within no more than three trading days. The issuer's articles of association may stipulate that the shareholders are not subject to a notification obligation. The Articles of Association of Covestro AG do not provide for such a provision.

In addition, the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*) provides that any person whose voting rights reach or exceed 30% of the Company's voting shares must publish this fact and the percentage of voting rights held in the internet and by means of an electronically operated information dissemination system for financial information within seven calendar days and, unless released from this obligation by the BaFin, must subsequently submit a public mandatory offer addressed to all of the Company's shareholders. The German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*) contains a series of provisions intended to ensure the attribution of shareholdings of the person who actually controls the voting rights connected with the shares. If the shareholder fails to give notice of reaching or exceeding the 30% threshold or fails to submit the mandatory tender offer, the shareholder is barred from exercising the rights associated with these shares (including voting rights and, in case of willful failure to send the notice and failure to subsequently send the notice in a timely fashion, the rights to dividends) for the duration of the delinquency. A fine may be imposed in such case.

20.13 EU SHORT SELLING REGULATION (BAN ON NAKED SHORT-SELLING)

Regulation (EU) No 236/2012 of the European Parliament and of the Council of March 14, 2012 on short selling and certain aspects of credit default swaps (the ''**EU Short Selling Regulation**''), the European Commission's delegated regulation for the purposes of detailing it, and the German EU Short Selling Implementation Act (*EU-Leerverkaufs-Ausführungsgesetz*) of November 15, 2012 only permit the short selling of shares when specific criteria are met. Under the provisions of the EU Short Selling Regulation,

significant net short selling positions in shares must be reported to the BaFin and also published if they exceed a specific percentage. The reporting and publication process is detailed in the German Regulation on Net-Short Positions (*Netto-Leerverkaufspositionsverordnung*) of December 17, 2012. The net short selling positions are calculated by offsetting the short positions a natural person or legal entity has in the shares issued by the issuer concerned with the long positions it has in such securities. The details are regulated in the EU Short Selling Regulation and the other regulations the European Commission has enacted on short selling. In certain situations described in detail in the EU Short Selling Regulation, the BaFin may restrict short selling and comparable transactions after notifying the European Securities Market Association.

20.14 DISCLOSURE OF TRANSACTIONS INVOLVING PERSONS HOLDING MANAGERIAL RESPONSIBILITIES WITHIN LISTED STOCK CORPORATIONS (DIRECTORS' DEALING)

Under the German Securities Trading Act (*Wertpapierhandelsgesetz*), persons holding managerial responsibilities within a listed company (''**Directors**'') are required to notify the Company and the BaFin within five business days (*Werktage*) of their own transactions involving shares of the Company or related financial instruments, including, in particular, derivatives. This obligation also applies for Directors' related parties. Domestic issuers must publish this notification immediately after receiving it, notify BaFin of its publication and send a copy to the company register (*Unternehmensregister*).

Notification is not required if the total sum of all transactions involving a Director and his or her related parties is less than €5,000 for the calendar year.

Director for these purposes means any managing partner or member of the company's management, administrative or supervisory bodies and any person who has regular access to insider information and is authorized to make important managerial decisions.

Related parties include spouses, registered civil partners, dependent children and other relatives who have been living in the same household as the Director for at least one year when the relevant transaction is made. Notice is also required for legal entities in which a Director and/or any of the aforementioned parties holds management/supervisory responsibilities, which are controlled by a Director or such parties, which were established for the benefit of a Director or such a party or the economic interests of which are substantially equivalent to those of a Director or such a party.

Negligent or willful non-compliance with these notification requirements may result in the imposition of a statutory fine on the Director or related party.

21. DESCRIPTION OF GOVERNING BODIES

21.1 OVERVIEW

The governing bodies are the Management Board (*Vorstand*), Supervisory Board (*Aufsichtsrat*) and general shareholders' meeting (*Hauptversammlung*). The powers of these entities are determined by the German Stock Corporation Act (*Aktiengesetz*), the German Corporate Codex (*Deutscher Corporate Governance Kodex*), the articles of association, the internal rules of procedure (*Geschäftsordnung*) of the Supervisory Board and of the Management Board and by the code of conduct (*Verhaltenskodex*) of the Management Board.

The Management Board is responsible for managing the company in accordance with applicable law, the articles of association, the internal rules of procedure for the Management Board, including the business distribution plan (*Geschäftsverteilungsplan*) and the code of conduct (*Verhaltenskodex*) of the Management Board. The Management Board represents the company in dealings with third parties.

The Management Board is responsible for implementing appropriate risk management and risk control systems within the group that provide timely warning of any development that might jeopardize the continued existence. The Management Board is also obligated to report regularly to the Supervisory Board, at least on a quarterly basis, on the status of the business, in particular on the net sales and condition of the company and its subsidiaries. Furthermore, the Management Board reports to the Supervisory Board at least once a year on the projected business objectives and other key issues relating to corporate planning (especially finance, investment and human resources planning), which must include discussion of any deviations between actual developments and objectives previously reported on, including the reasons for such deviations. In addition, the Management Board must submit a budget for the following fiscal year to the Supervisory Board. The Management Board is also required to report to the Supervisory Board in a timely fashion on any transactions that may be significant with respect to the profitability (primarily the profitability of the equity) or liquidity of the company in order to give the Supervisory Board an opportunity to express its opinion on such transactions prior to their implementation. The Management Board must report important matters to the chairman of the Supervisory Board, including any matters involving subsidiaries that become known to the Management Board and could have a material effect on the company.

Simultaneous membership on the Management Board and the Supervisory Board of a German stock corporation is not permitted under German law; however, simultaneous membership that results from a member of the Supervisory Board being elected as substitute for absent members of the Management Board of the same German stock corporation for a maximum period of one year is permissible in exceptional cases. During this period, such an individual may not perform any duties for the Supervisory Board.

The Supervisory Board appoints the members of the Management Board and is entitled to dismiss them for good cause. The Supervisory Board advises and oversees the Management Board on the management of the company, but is not itself authorized to manage the company, as set out in the German Stock Corporation Act (*Aktiengesetz*). The articles of association or the Supervisory Board must, however, designate certain types of transactions that may only be made with the approval of the Supervisory Board. Section 7 paragraph 1 of the Articles of Association assigns the determination of matters subject to the prior consent of the Supervisory Board to the Supervisory Board.

Consent requirements of the Supervisory Board of Covestro AG as set out in section 8 of the internal rules of procedure for the Management Board include:

- determination of the long-term ambitions and the strategic focus of the Company and the Group as well as material changes and amendments to such goals and strategies;
- the annual budget, including the personnel, investment, operative planning (including the planned debt amount);
- finance measures, including the entering into facility agreements and the issuance of bonds, in case the value of the relevant transaction exceeds €500 million. In case of finance measures that do not fulfill such criteria, the consent of the Supervisory Board is only required if the limits determined by it for external financial measures are exceeded or would be exceeded by such financial measure. The consent of the Supervisory Board is not required for utilizations under facility agreements or the refinancing of existing debt by the same type of financial measure, in both cases which the Supervisory Board had already consented to, as well as for group internal transactions;

- formation, acquisition or sale of companies, parts of companies or participations in companies, if the value of the transaction exceeds €30 million. Group-internal transaction do not require the consent of the Supervisory Board;
- purchase, sale or encumbrance of real estate or equivalent rights or rights granted with respect to real estate, if the value of the transaction exceeds €30 million. Group-internal transaction do not require the consent of the Supervisory Board;
- granting of loans or other credit support, if the other part is not a member of the Group and the value of the transaction exceeds €30 million. Investments at the capital market or with financial institutions are exempted;
- granting of sureties, guarantees, security interests or other liabilities if the beneficiary is not a member of the Group and the value of the transaction exceeds €30 million;
- capital expenditure in an amount exceeding €250 million which are not part of the annual budget;
- certain Group-internal reorganizational measures if these lead to the Company or the Group pursuant to section 15 et seq. of the German Stock Corporation Act (*Aktiengesetz*) incurring liabilities or indemnities in an amount exceeding €30 million, e.g. compensation payments, tax liabilities, one-off payments or other liabilities;
- execution, amendment or termination of contracts with third parties with an annual value of more than €100 million. The value for these contracts will be determined as the payment obligation for the relevant time period or as the expected volume of goods to be purchased multiplied with the agreed price, respectively. In case of the purchase of energy and raw materials required for the business of the Company, the relevant threshold values are multiplied by two;
- execution, amendment or termination of contracts with third parties with a fixed amount of goods to be purchased or a fixed payment obligation (take or pay/take and pay) with a value of more than €200 million over the lifetime of the contract. In case of the purchase of energy and raw materials required for the business of the Company, the relevant threshold values are multiplied by two;
- other transactions, in particular cooperation agreements which are beyond the ordinary course of business and are of material importance for the Company, in particular, which could fundamentally change the Company's business, financial condition, results of operations; and
- material transactions between the Company or a company of the Group on one side and a member of the Management Board or a related person or entity on the other side.

Members of the Management Board and of the Supervisory Board owe a duty of care and a duty of loyalty to the Company. Board members must consider a number of interests, including those of the Company and its shareholders, employees and creditors. The Management Board must also take into consideration shareholders' rights to equal treatment and equal access to information. Should members of the Management Board or Supervisory Board breach these duties, they will be jointly and severally liable to the Company for compensatory damages.

A shareholder is generally not able to file suit against members of the Management Board or Supervisory Board if he or she believes that these persons have neglected their duties toward the Company and this has resulted in damage to the company. Company claims for compensatory damages against members of the Management Board or the Supervisory Board may, as a rule, only be asserted by the Company itself, in which case the Company is represented by the Management Board when claims are made against members of the Supervisory Board and the Supervisory Board when claims are made against members of the Management Board. According to a ruling by the German Federal Court of Justice (*Bundesgerichtshof*), the Supervisory Board is obligated to assert claims for compensatory damages against the Management Board that are likely to be successful, unless important company interests would conflict with such an assertion of claims and such grounds outweigh, or are at least comparable to, the grounds in favor of asserting claims. In the event that the relevant entity with powers of representation decides not to pursue such claims, then such claims of the company for compensatory damages must nevertheless be asserted against members of the Management Board or the Supervisory Board if the general shareholders' meeting passes a resolution to this effect by a simple majority vote. Such general shareholders' meeting may appoint a special representative to assert such claims. Shareholders whose aggregate holdings amount to at least 10% or €1.0 million of the company's share capital may apply to the court to appoint a special representative to assert claims for compensatory damages, who, in the event of

such an appointment, becomes responsible for this matter. In addition, if there are facts supporting the claim that the company has been damaged by fraud or gross breaches of duty, shareholders whose aggregate holdings amount to at least 1% or €100,000 of the company's share capital have the option, under certain circumstances, of being granted permission by the competent court to file a lawsuit on their own behalf for compensatory damages for the company against members of the board. Such a lawsuit will be dismissed if the company itself files a lawsuit for compensatory damages.

Under German law, it is illegal for shareholders or any other individuals to attempt to influence members of the Management Board or the Supervisory Board, authorized representatives or other persons holding a commercial power of attorney to act (*Handlungsbevollmächtigter*) in a way harmful to the company or its shareholders. Shareholders with a controlling influence may not use such influence to cause the company to act against its own best interests, unless any resulting damages are compensated for. Any person who uses his or her influence to cause a member of the company's Management Board or Supervisory Board, authorized representative (*Prokurist*) or persons holding a commercial power of attorney to act in a manner harmful to the company or its shareholders is obligated to compensate the company and its shareholders for any resulting damage. In addition, members of the Management Board and Supervisory Board may be jointly and severally liable for breach of their duties.

21.2 MANAGEMENT BOARD

21.2.1 General

The Supervisory Board determines the number of Management Board members which must consist of at least two persons according to the Articles of Association. The Supervisory Board may appoint one Management Board member as chairman and another member as deputy chairman. Currently, the Company's Management Board consists of four members with Patrick Thomas appointed as chairman.

As a general rule, the Supervisory Board appoints the members of the Management Board for a maximum initial term of three years pursuant to the internal rules of procedure (*Geschäftsordnung*) of this Supervisory Board and in accordance with the German Corporate Governance Code (*Deutscher Corporate Governance Kodex*) (the ''**Code**''). Reappointment or extension of the term for up to five years is possible. The Supervisory Board may revoke the appointment of a Management Board member prior to the expiration of his or her term for good cause, such as for gross breach of fiduciary duties or if the shareholders' meeting passes a vote of no confidence with respect to such member, unless the no-confidence vote was clearly unreasonable. The Supervisory Board is also responsible for entering into, amending and terminating employment agreements with the Management Board members and, in general, for representing the Company in and out of court against the Management Board. The Supervisory Board may assign some of these duties to the Personnel Committee (*Personalausschuss*), a sub-committee of the Supervisory Board.

According to section 7 paragraph 2 of the Articles of Association, the Company must be represented by two Management Board members or one Management Board member acting jointly with an authorized representative (*Prokurist*). If only one member of the Management Board is appointed, this member represents the Company alone. Pursuant to the Articles of Association the Supervisory Board may authorize a member of the Management Board that such Management Board member may enter into legal transactions in the name of the Company with himself as an agent of a third party.

The internal rules of procedure for the Management Board require that the delegation of responsibilities to individual Management Board members is established on the basis of the business distribution plan (*Ressortverteilungsplan*). The Management Board resolves on the business distribution plan which is part of the rules of procedure for the Management Board.

The following table lists the members of the Management Board and their respective responsibilities.

Name	Age	First appointed on	Appointed until	Responsibilities
Patrick Thomas (chairman)	57	August 20, 2015	September 30, 2018	Chief executive officer, HR, Communications, Corporate Audit, Corporate Office, Strategy, Sustainability, Business Units Polycarbonate, Polyurethane (until December 31, 2015) and CAS
Frank H. Lutz	46	August 20, 2015	September 30, 2019	Chief financial officer, Finance, Accounting, Controlling, Tax, Investor Relations, Compliance, Law & Intellectual Property Rights, IT, Portfolio & Project Management, Labor Director (*Arbeitsdirektor*)
Dr. Klaus Schäfer	53	August 20, 2015	August 31, 2018	Basic chemicals, technology, investment and capex projects, major production sites, procurement and trading, health, safety & environment
Dr. Markus Steilemann	45	August 20, 2015	August 31, 2018	Business unit Polyurethane (as of January 1, 2016), Innovation, Intellectual property management

Patrick Thomas was born on September 30, 1957 in Portsmouth, United Kingdom. He graduated from Oxford University, United Kingdom, with an engineering degree in 1979. The same year he began his career with British chemicals company Imperial Chemical Industries (ICI). Until 1989 he held a number of positions for ICI Pharmaceuticals and Agrochemicals (which became Zeneca in 1993) in the United Kingdom. In 1989 Mr. Thomas transferred to Belgium to join ICI Polyurethanes, undertaking various management assignments until in 1993 he was named Regional Director for Europe, Africa & Middle East. Four years later he was appointed global chief executive officer. In 1999, Mr. Thomas joined U.S. chemicals company Huntsman Corporation as President of the Polyurethanes, Performance and Advanced Materials Divisions, also based in Belgium. In 2003 he was named Corporate Executive Vice President of Huntsman Matlin Patterson. After a short period as a management consultant for private-equity companies he joined Covestro Deutschland AG on August 15, 2006. Patrick Thomas is president of the European Plastics Manufacturers Association PlasticsEurope and chairman of the Oxford University Business Economics Programme Board (OUBEP). He also holds the position as chairman of the advisory board of the European Institute for Industrial Leadership and non-executive director of the board of BG Group plc. Since January 1, 2007, Patrick Thomas has been Chairman of the Management Board of Covestro Deutschland AG.

Mr. Frank H. Lutz was born on December 14, 1968 in Stuttgart, Germany. He studied economics and business administration at the University of St Gallen, Switzerland, and began his career in 1995 at Goldman Sachs where he held different positions with increasing managerial responsibilities in Frankfurt, London and New York. After a period working for Deutsche Bank, he was appointed Senior Vice President for Finance at MAN AG in November 2006. In December 2009, he became chief financial officer of MAN SE, Munich, Germany. On May 1, 2013, Mr. Lutz was appointed to the coordination council of the Aldi Süd group of companies, where as chief financial officer he had responsibility for the retailer's finances. Effective October 1, 2014 Mr. Lutz has joined Covestro Deutschland AG (formerly Bayer MaterialScience AG) as member of the management board and effective November 1, 2014, as the chief financial officer of Covestro Deutschland AG he is responsible for accounting, controlling, finance, taxes, investor relations, information technology, legal, intellectual property rights & compliance and portfolio & project management. He is also the Company's labor director. Mr. Lutz is a member of the supervisory board of Nordex SE, Rostock, Germany.

Dr. Klaus Schäfer was born on September 2, 1962 in Brühl, Germany, and appointed as member of the Management Board of Covestro AG on August 20, 2015. He studied physics and earned a PhD from the University of Cologne, Germany, in 1989. After two years postdoc research at the same university he began his career with petrochemical company EC Erdölchemie GmbH (a joint venture of Bayer and BP, which is part of the INEOS group today) in Cologne. Until 2000 he held a number of positions in production and technology. In 2000 Dr. Schäfer transferred to Scotland to join BP Grangemouth as the utilities manager. One year later Dr. Schäfer joined the plastics business within Bayer AG. Until 2006 he worked as the senior vice president for technology services in Bayer Polymers and later in Covestro

Deutschland AG. In 2006 he was appointed chief executive officer of Bayer Industry Services a joint venture of Bayer AG and LANXESS AG. In 2011 he moved to Shanghai and became senior country representative of Covestro Deutschland AG for China. In 2013 he returned to Germany and was appointed global senior vice president production and technology for the Polyurethane business of Covestro Deutschland AG. Dr. Schäfer is member of the presidium of Weltenergierat-Deutschland e.V. and member of committees in the Registered Association of the Chemical Industry (*Verband der Chemischen Industrie E.V.*) (VCI) and the European Chemical Industry Council (CEFIC). Since January 1, 2015 Dr. Schäfer has been head of Industrial Operations and member of the executive committee of Covestro Deutschland AG.

Dr. Markus Steilemann was born on April 30, 1970 in Geilenkirchen, Germany, and was appointed as member of the Management Board of Covestro AG with effect of August 20, 2015. He graduated from Technical University of Aachen with a diploma in chemistry in 1995, a PhD in technical chemistry in 1998, and a diploma in chemical economics in 1999. The same year he began his career with German pharmaceutical and chemicals company Bayer AG. He held numerous management positions in consulting, administration, strategy, and supply chain management with increasing responsibilities. In 2008, he moved to SAR Hongkong, China, as a regional marketing and sales director in Asia Pacific for the Polycarbonates business unit. In 2011 he transferred to Shanghai, China, and in 2012 he was named senior vice president Global Marketing for the Polycarbonates business unit. Since April 1, 2013, Dr. Markus Steilemann is the global head of the Polycarbonates business unit, based in Shanghai, China, and member of the executive committee of Covestro Deutschland AG.

The following overview displays the seats on any management, executive or Supervisory Boards or memberships of any partnerships in other comparable governing bodies in Germany or abroad outside of the Group currently held or held within the previous five years.

Patrick Thomas (chairman)	***Current appointments*** Non-executive director of BG Group plc President of the European Plastics Manufacturers Association PlasticsEurope Chairman of the Oxford University Business Economics Programme Board (OUBEP) Chairman of the advisory board of the European Institute for Industrial Leadership ***Previous appointments*** Member of the Supervisory Board of Bayer Technology Services GmbH (until August 31, 2015)
Frank H. Lutz	***Current appointments*** Member of the supervisory board of Nordex SE ***Previous appointments*** Member of the Management Board of MAN SE and various supervisory boards within the MAN Group (until February 2013) Member of the coordination council of the Aldi Süd Group (until December 2013) Member of the supervisory board of Ferrostaal AG (until March 2012) Member of the supervisory board of Manroland AG (until March 2012) Chairman of the supervisory board of Renk AG (until April 2013)
Dr. Klaus Schäfer	***Current appointments*** Member of the presidium of Weltenergierat-Deutschland e.V. Member of the committees in VCI Member of the committees CEFIC ***Previous Appointments*** Chemion Logistik GmbH (until July 2011) Tectrion GmbH (until July 2011)
Dr. Markus Steilemann	***Current appointments*** —

Other than listed above, Mr. Thomas, Mr. Lutz, Dr. Schäfer and Dr. Steilemann have not been members of any administrative, management or supervisory body of any other company or partnership outside the Group within the last five years.

The members of the Management Board may be reached at the Company's business address: Covestro AG, Kaiser-Wilhelm-Allee 60, 51373 Leverkusen, Germany (Tel. +49 214 6009 2000).

21.2.2 Compensation of Management Board Members

The four members of the Management Board are employed under service agreements with a fixed term that may generally only be terminated by mutual agreement or by termination for cause under section 626 of the German Civil Code (*Bürgerliches Gesetzbuch*). The maximum amount of severance payments, if any, to be paid in case of a pre-mature termination of a service contract would be in line with the recommendations of Section 4.2.3 paragraph 4 of the German Corporate Governance Code. If a Management Board member's office as such is revoked for cause according to section 84 paragraph 3 of the German Stock Corporation Act (*Aktiengesetz*), for which the Management Board member is not liable, each party can terminate the service agreement as provided by German law.

The structure of the compensation system for the Management Board of Covestro AG is aimed at ensuring performance-oriented corporate governance and a long-term increase in the Company's value. The core elements of the system include fixed compensation, which takes into account the tasks and duties of the Management Board members, and an incentivized component—the short-term incentive (''**STI**'')—, which depends on the attainment of the annual corporate performance targets. In addition to the compensation directly related to each year of service, there is a long-term stock-based component that is directly related to the development of Covestro's share price over time and thus is intended to create an incentive for a sustained commitment to the Company. The system is also designed to enable the Company to successfully compete for highly qualified executives and to ensure statutory and regulatory compliance. Management Board compensation is set up in line with the basic principles of the compensation structure for managerial employees in the Group.

The compensation paid to the members of the Management Board includes both non-performance-related and performance-related components. The non-performance-related compensation comprises the fixed annual compensation along with fringe benefits. The performance-related compensation consists of the STI for the previous fiscal year and a long-term incentive component (''**LTI**'') based on the share-price development, where a four-year retention period applies. The Supervisory Board may reduce or completely cancel the STI in certain cases including complete failure of meeting the financial goals.

The compensation structure, based on average total annual compensation and 100% target attainment, is as follows: (1) approx. 30% fixed annual compensation, (2) approx. 30% short-term variable cash compensation and (3) approx. 40% long-term variable cash compensation.

Non-performance-related components

Fixed annual compensation

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

Fringe benefits

This component includes in particular perquisites such as a company car or payments toward the cost of security equipment. Fringe benefits are reported at cost or the amount of the pecuniary advantage gained.

Performance-related components

Short-term variable cash compensation

The STI is based on a set percentage of the fixed annual compensation (target value). This amount is adjusted according to the target attainment of the Group, which is measured based on the Group financial performance. The performance criteria are directly derived from the key performance indicators (''**KPIs**'') used for steering the business, which are core volume growth, free operating cash flow, and clean return

on capital employed less the weighted average cost of capital. All three KPIs are equally weighted. For the Fiscal Year 2015 special provisions apply and the STI is determined by 1/3 on attainment of corporate performance targets and 2/3 on the attainment of individual targets (which include the Offering). The payment of the STI is made in cash at the end of April of the following year. The STI payout is capped at 250% of the target amount.

Long-term stock-based cash compensation (LTI)

Members of the Management Board are eligible to participate in the annual cycles of LTI on condition that they purchase a certain number of Covestro shares—determined for each individual according to specific guidelines—as a personal investment and for as long as they continue in the service of the Covestro Group. The payments made under this program are based on the LTI target amount, which is a contractually agreed percentage of fixed annual compensation. Depending on the performance of the Covestro share, measured in absolute terms through the Total Shareholder Return (TSR; share price appreciation plus dividends paid) and relative to the Dow Jones Stoxx Europe 600 Chemicals benchmark index, Participants are granted an award at the end of the respective performance period. The automatic cash out payment of the LTI is made in January after the performance period which is 4 years. The LTI maximum payout is capped at 200% of the target amount. In addition, there is an overall cap of 1.8 times the cash compensatory payments (considering base salary, STI at target and LTI at target).

The maximum amount is capped and is defined as percentage of the target payout for all cash compensation components (annual salary, STI target, LTI target) and limits the maximum payout to 180% of this amount. It is applied to all compensation components to be paid in a given calendar year (annual salary, actual STI, actual LTI). LTI can never exceed the cap. The calculated STI payout amount will then—before the payout is conducted—be added to the annual salary plus actual LTI, and if the resulting amount exceeds the defined cap, then the STI payout will be decreased accordingly before payout.

With the maximum payout percentages for STI and LTI set at 250% and 200%, respectively, the cap amounts to approximately 97.4% of the theroetical maximum that could be achieved if both STI and LTI yielded their respective maximum payout.

Pension Plan

Members of the Management Board are eligible to participate in the pension plan available to the senior management of the Company, for which the design and conditions will be adopted from the pension plan of the parent company Bayer AG. The pension plan has two components: (1) The Basic Pension under which both, the Board Member and the Company, make a certain contribution of his pensionable income up to the ceiling for contribution to the state pension plan. Depending on the executive's previous seniority with Bayer, this Basic Plan is implemented either under the roof of Bayer Pensionskasse VVaG or the Rheinische Pensionskasse VVaG. The Board Member makes a contribution of 2 percent of his pensionable income up to the contribution ceiling of the state pensions system into the applicable Pensionskasse. The Company pays 2 percent of the pensionable income up to the aforementioned contribution ceiling (Rheinische Pensionskasse VVaG) or a flexible contribution (Bayer-Pensionskasse VVaG). (2) The Supplementary Pension which applies to pensionable income above the ceiling for contributions to the state pension plan. The Company makes a contribution of at least 6 percent of the pensionable income above this level and the rest depends on the Board Member who can make an additional voluntary contribution of up to 9 percent to his income above the ceiling. The Company will contribute a defined further addition contribution. The pensionable income is the base income without LTI or STI.

Contractual and Post-contractual non-compete agreements

The service agreements contain a contractual non-compete clause during the remaining term of the contract duration. Post-contractual non-compete agreements exist with the members of the Management Board, providing for compensatory payments to be made by the Company in the amount of 100% of the average fixed compensation for the twelve months preceding their departure.

Change of control

Agreements exist with the members of the Management Board providing for severance payments to be made in certain circumstances in the event of a change in control. The amount of any possible severance payments in the case of early termination of service on the Management Board as a result of a change in

control is 250% of the annual fixed salary (plus compensation during the termination period) in line with the recommendation in section 4.2.3 of the German Corporate Governance Code. Such payments do not exceed the compensation payable for the remaining term of the service contract and are limited to the lower of 3 times annual compensation (annual fixed salary plus STI at target) or compensation payment for the recovery of the remaining contract period. The change of control clauses included in the Management Board members' service agreements is aligned with the recommendations of the German Corporate Governance Code.

Management board compensation for the Management Board of Covestro Deutschland AG for the period from January 1, to December 31, 2014.

Covestro AG was established only on August 31, 2015 and the members of the Management Board of Covestro AG were only appointed with effect as of August 20, 2015; therefore, the current members of the Management Board of Covestro AG received no compensation from Covestro AG in 2014.

The aggregate total compensation of all five members of the Management Board of Covestro Deutschland AG (for all or part of Fiscal Year 2014) that was recorded in Fiscal Year 2014 amounted to €7,237 thousand.

The table below provides an overview for the members of the Management Board which held a position as member of the Management Board of Covestro Deutschland AG in 2014. Patrick Thomas and Frank H. Lutz had already been a member of the Management Board of Covestro Deutschland AG since August 1, 2006 and October 1, 2014, respectively, whereas Klaus Schäfer and Markus Steilemann have joined the Management Board only on August 20, 2015.

Management Board Compensation

Serving members of the management board of Covestro Deutschland AG as of dated December 31, 2014

	Fixed Annual Compensation	Fringe Benefits	Short term Variable Cash Compensation	Long-term Variable Cash Compensation Based on Virtual Buyer Shares[1]	Long-term Stock-Based Cash Compensation ("Aspire")[2]	Aggregate Compensation	Pension Cost[3]
				(in EUR thousands)			
Patrick Thomas . . .	916	177	876	876	883	3,728	261
Frank H. Lutz[4] . . .	113	6	102	—	—	221	—

Notes:

(1) Fair value at converse date.

(2) Fair value at grant date.

(3) Including company contribution to Bayer-Pensionskasse VVaG or Rheinische Pensionskasse.

(4) Frank H. Lutz was appointed to the management board effective October 1, 2014 and chief financial officer effective November 1, 2014.

In addition, the Management Board members are entitled to further benefits that include, among other things, accident insurance, luggage insurance and D&O insurance. All service agreements of the Management Board members provide that in the case of permanent incapacity to work, the relevant base salary will continue to be paid for 18 months. In the case of death, the spouse is entitled to receive the relevant base salary for 6 months.

Currently the members of the Management Board of Covestro AG and Covestro Deutschland AG are identical and in such case the members of the Management Board receive no separate compensation for their board membership in Covestro Deutschland AG.

The members of the Management Board are covered under a D&O insurance policy the costs of which are borne by the Company with a deductible in the amount of 10% of each insured event, limited, however, to 1.5 times the annual base salaries for the insured bodies (pursuant to section 93 paragraph 2 sentence 3 of the German Stock Corporation Act (*Aktiengesetz*)).

21.2.3 Shareholdings of Management Board Members

Currently, the members of the Management Board hold neither Shares nor options for Shares in the Company.

21.3 SUPERVISORY BOARD

21.3.1 General

Currently, the Supervisory Board of the newly established Covestro AG consists of three shareholder representatives. At the first meeting of the Supervisory Board, Dr. Richard Pott has been elected as chairman of the Supervisory Board. Currently, the members of the Supervisory Board hold neither Shares nor options for Shares in the Company.

The extraordinary shareholders' meeting of Covestro AG on September 1, 2015 has amended the Articles of Association regarding the Supervisory Board insofar as the Supervisory Board will in the future consist of 12 shareholder representatives (''**Amendment I**''). The amendment of the Articles of Association is expected to be registered with the Commercial Register of the local court of Cologne (*Amtsgericht Köln*) on October 1, 2015.

Upon the Company's formation in cash (*Bargründung*), which became effective on August 20, 2015 and the contribution of all shares in Covestro Deutschland AG by Bayer AG to the capital reserves of Covestro AG with effect as of August 31, 2015, 12:00 p.m. (midnight) Covestro Deutschland AG has become a wholly owned subsidiary of Covestro AG and Covestro AG will therefore become subject to the German Co-determination Act (*Mitbestimmungsgesetz*). In accordance with sections 95 and 96 of the German Stock Corporation Act (*Aktiengesetz*) and section 7 of the German Co-determination Act (*Mitbestimmungsgesetz*), the Supervisory Board will in the future consist of 12 members (six shareholders representatives and six employee representatives). The shareholder representatives are elected by the shareholders at the general shareholders' meeting. The new composition of the Supervisory Board must be determined through a formal procedure, the so-called status proceedings (*Statusverfahren*) that has already been initiated by the Management Board of Covestro AG. The extraordinary shareholders' meeting of Covestro on September 1, 2015 amended the Articles of Association regarding the Supervisory Board insofar as the Supervisory Board will in the future consist of 12 members (six shareholder representatives and six employee representatives) (''**Amendment II**''). The amendment of the Articles of Association will be registered with the commercial register in such a manner as to ensure that it only becomes effective upon completion of the status proceedings.

Subject to the registration of Amendment I with the commercial register and until the registration of Amendment II with the commercial register, the shareholders' meeting of Covestro AG on September 1, 2015 has appointed 12 shareholder representatives. The initial three members of the Supervisory Board will resign from office with effect as of registration of Amendment I with the commercial register. In anticipation of the future composition of the Supervisory Board in accordance with the German Co-determination Act (*Mitbestimmungsgesetz*), the shareholders' meeting has appointed six Supervisory Board members upon recommendation of the employees.

Upon registration of the Amendment II with the commercial register, the office of the elected 12 Supervisory Board members will terminate. Therefore, the extraordinary shareholders' meeting of Covestro AG on September 1, 2015 has appointed six shareholder representatives, subject to registration of the Amendment II with the commercial register. In addition, following registration of the Amendment II with the commercial register, the Company plans to have six employee representatives be appointed by the competent court until the time regular employee representatives have been elected in accordance with the provisions of the German Co-determination Act (*Mitbestimmungsgesetz*). Management expects that the status proceedings will be completed by the beginning of October 2015 and the employee representatives will be appointed by the local court in the course of October 2015. Assuming that the local court will appoint the proposed members, all newly appointed members of the Supervisors Board will be identical with the previously appointed members of the Supervisory Board.

The subsidiary, Covestro Deutschland AG, has its own supervisory board currently consisting of 12 members (six shareholder representatives and six employee representatives), which will remain in place. The future shareholders' representatives in the Supervisory Board mentioned above have been either elected members of the supervisory board of the subsidiary, Covestro Deutschland AG, already in the past or will be elected members at the latest with effect as of September 1, 2015 (in the case of Prof. Dr. Nonnenmacher), and as of October 1, 2015 (in the case of Mrs. Stachelhaus, Mrs. Bortenlänger and Mr. Beccalli). The employee representatives in the Supervisory Board of Covestro that will be suggested for the court appointment are already members of the supervisory board of the subsidiary, Covestro Deutschland AG. Accordingly, provided that they will be appointed by the court, the members of the

supervisory board of the subsidiary, Covestro Deutschland AG, will be identical with the members of the Supervisory Board of Covestro AG in the future.

The shareholders' representatives are elected by the shareholders at the general shareholders' meeting. Unless the general shareholders' meeting has set a shorter term, the term of a Supervisory Board member elected by the shareholders, as well as the term of each substitute member, expires at the end of the annual general shareholders' meeting ratifying the activities of the Supervisory Board for the fourth fiscal year following the commencement of the member's term of office, not including the fiscal year in which the term commences. The election of a successor for a member leaving his or her office before the end of his or her term of office is valid for the remainder of the term of office of the departing member. Re-election is possible. The Supervisory Board's internal rules of procedure provide for an age limit at the age of 68.

Supervisory Board members elected by the general shareholders' meeting may be removed by a resolution of the shareholders' meeting if such resolution is approved by at least 75% of the votes cast. The general shareholders' meeting may appoint substitute members for one or more Supervisory Board member(s), who, in accordance with specific determinations by the general shareholders' meeting, may become members of the Supervisory Board if elected Supervisory Board members resign before the end of their term. The term of the substitute member expires as soon as a successor for the departing Supervisory Board member is appointed, but no later than the expiration of the departing Supervisory Board member's term. As soon as the Supervisory Board has been established, it will elect a chairman and deputy chairman from among its members to serve for the duration of those members' terms unless a shorter term is determined at the time of their appointment. Should the chairman or the deputy chairman resign prior to the expiration of his or her term, the Supervisory Board must without delay elect a new chairman or deputy chairman to fill the remaining term of the departing chairman or deputy chairman. Under mandatory statutory provisions and the Articles of Association, the Supervisory Board is authorized to establish internal rules of procedure and form committees of at least three individuals from among its members. The Supervisory Board's internal rules of procedure are dated August 20, 2015. The Supervisory Board is authorized to make amendments to the Articles of Association that only affect their wording. The Supervisory Board must hold at least two meetings every calendar half year.

The following table lists the Supervisory Board members which are appointed as of the date of the Prospectus:

Name	Age	Appointed until	Member since	Other activities
Dr. Richard Pott (Chairman)	62	Annual general shareholders' meeting ("**AGM**") 2016[(1)]	August 20, 2015	Member of the supervisory board of Freudenberg SE, member of the supervisory board of Schott AG, Chairman University Council of the University of Cologne, Chairman of the supervisory board of Covestro Deutschland AG Previous activities: member of the management board of Bayer AG
Johannes Dietsch	53	AGM 2016[(1)]	August 20, 2015	Member of the management board of Bayer AG, chairman of the supervisory board of Bayer Business Services GmbH
Prof. Dr. Rolf Nonnenmacher	61	AGM 2016[(1)]	August 20, 2015	Senior advisor at Lazard & Co. GmbH, member of the supervisory board of Continental AG, member of the supervisory board of ProSiebenSat.1 Media SE Previous activities: German senior partner of KPMG Europe LLP (until 2013)

Note:

(1) Annual general shareholders' meeting which resolves upon the ratification of the acts of the members of the Supervisory Board for the fiscal year 2015. The member of the Supervisory Board is expected to resign on October 1, 2015.

The following table lists the Supervisory Board members which are expected to be appointed after completion of the proceedings described above:

Name	Age	Appointed until	Member since	Other activities
Dr. Richard Pott (Chairman)	62	AGM 2020[(1)]	August 20, 2015	Member of the supervisory board of Freudenberg SE, member of the supervisory board of Schott AG, Chairman University Council of the University of Cologne, Chairman of the supervisory board of Covestro Deutschland AG Previous activities: member of the management board of Bayer AG (until 2013)
Petra Kronen (Vice Chairman)	51	AGM 2017[(2)]	Registration of Amendment I, expected on October 1, 2015	Employee of Covestro Deutschland AG (fulltime member of works council), member of the supervisory board of Bayer AG and member of the supervisory board of Covestro Deutschland AG and Bayer Beistandskasse, deputy supervisory board member of Bayer Pensionskasse
Ferdinando Falco Beccalli	66	AGM 2020[(1)]	Registration of Amendment I, expected on October 1, 2015	Chief executive officer at Falco Enterprises AG, chairman of ASK Chemicals GmbH, chairman of Rankpak Corp, member of the board of directors of the Foreign Policy Association New York, member of the board of directors of Centre for European Policy Studies (CEPS), senior advisor A.T. Kearney Italia, member of steering committee LUISS School of Governmental Studies, member of the International Board of Overseers of Sabanci University and the International Business Advisory Council of Jerusalem, Rome and Rotterdam Previous activities: president and chief executive officer of GE Europe and GE Germany, Frankfurt (until 2014), president and chief executive officer of GE International, Brussels (until 2010); president of the board of GE Avio S.r.l. (until 2014); board member of INTER RAO UES Russia, (until 2014), member of the European Commission, president's science and technology advisory board (until 2014), member of the Trilateral Commission, North America Group (until 2014), member of the B20 task force on transparency and anti-corruption (until 2012), board member of the GE foundation (until 2014), board member of the Junior Achievement Young Enterprise, Europe (until 2014), member of the International Advisory Council of the Bocconi university, Milan (until 2014), board member of the Emmanuel Center Stiftung, Germany, board member of the New Cities Foundation (until 2012), member of the International Advisory Council of the Singapore Economic Development Board (until 2010)

Name	Age	Appointed until	Member since	Other activities
Dr. Christine Bortenlänger	49	AGM 2020(1)	Registration of Amendment I, expected on October 1, 2015	Chief executive officer of Deutsches Aktieninstitut e. V., member of the supervisory boards of OSRAM GmbH, OSRAM Licht AG, SGL Carbon SE and TÜV Süd Aktiengesellschaft, member of representatives assembly of Münchener Hypothekenbank e. G. Previous activities: member of supervisory board of ERGO Versicherungsgruppe AG (until April 2015), member of supervisory board of Fondbörse Deutschland Beteiligungsmakler AG (until September 2012), member of the management board of Bayrische Börse AG (until June 2012), member of the management of Börse München (until June 2012)
Johannes Dietsch	53	AGM 2020(1)	August 20, 2015	Member of the management board of Bayer AG, chairman of the supervisory board of Bayer Business Services GmbH
Thomas Fischer	60	AGM 2017(2)	Registration of Amendment I, expected on October 1, 2015	Employee of Covestro Deutschland AG, chairman managerial employees committee of Covestro Deutschland AG and Bayer AG, member of supervisory board of Bayer Pensionskasse, member of supervisory board of Bayer AG, President of the VAA (Verband angestellter Akademiker und leitender Angestellter), vice president of the ULA (United Leader Association), vice president in the European Federation of Managers in the Chemical and Allied Industries (''FECCIA'')
Peter Hausmann	61	AGM 2017(2)	Registration of Amendment I, expected on October 1, 2015	Member of executive committee of IG BCE, member of the supervisory boards of Bayer AG, Henkel AG & Co. KGaA, Continental AG, 50Hertz Transmission GmbH (vice chairman), Vivawest GmbH and Vivawest Wohnen GmbH
Irena Küstner	49	AGM 2017(2)	Registration of amendment I, expected on October 1,2015	Employee of Covestro Deutschland AG (works council)
Michael Mostert	58	AGM 2017(2)	Registration of Amendment I, expected on October 1, 2015	Employee of IG BCE
Prof. Dr. Rolf Nonnenmacher	61	AGM 2020(1)	August 20, 2015	Senior advisor at Lazard & Co. GmbH, member of the supervisory board of Continental AG, member of the supervisory board of ProSiebenSat.1 Media SE Previous activities: German senior partner of KPMG Europe LLP (until 2013)

Name	Age	Appointed until	Member since	Other activities
Regine Stachelhaus	60	AGM 2020[1]	Registration of Amendment I, expected on October 1, 2015	Director of the British Group ComputaCenter, director of SPIE SA (France), member of the supervisory board of SPIE GmbH, non executive director of ComputaCenter plc (UK), member of the University Council, Furtwangen Previous activities: member of the management board of E ON SE (until June 2015)
Sabine Wirtz	45	AGM 2017[2]	Registration of Amendment I, expected on October 1, 2015	Employee of Covestro Deutschland AG

Notes:

(1) Annual general shareholders' meeting which resolves upon the ratification of the acts of the members of the Supervisory Board for the fiscal year 2019.

(2) Annual general shareholders' meeting which resolves upon the ratification of the acts of the members of the Supervisory Board for the fiscal year 2016.

Dr. Richard Pott born 1953, obtained a doctorate in physics at the University of Cologne, and joined Bayer's Central Research Division in Uerdingen in 1984. After holding a number of management positions in various departments within the company he finally served as a member of the management board of Bayer AG from 2002 to 2013 with responsibility for Strategy and Human Resources. He was Bayer AG's Labor Director and responsible for the Americas, Africa and Middle East regions. Dr. Richard Pott is a member of the supervisory boards of Freudenberg SE and Schott AG. He is also Chairman of the University Council of the University of Cologne. Effective March 26, 2015, Dr. Richard Pott has been appointed Chairman of the supervisory board of Covestro Deutschland AG.

Petra Kronen, born 1964, served an apprenticeship as a young chemical laboratory technician (*Chemielaborjungwerkerin*) at Bayer AG in Uerdingen from 1980 to 1982. Subsequently, she worked for Central Research in Uerdingen from 1982 to 1991. In 1987, Petra Kronen was elected as member of the works council (*Betriebsrat*) of Bayer AG and as steward (*Vertrauensfrau*) in Central Research for the first time. As of 1 May 1991, she was elected as full-time member of the works council. In 1997, she was elected as deputy chairwoman of the works council and as member of the central works council (*Gesamtbetriebsrat*), the central operations committee (*Gesamtbetriebsausschuss*) and the economics committee (*Wirtschaftsausschuss*) of Bayer AG. In 1999, Petra Kronen was elected as chairwoman of the works council of Bayer AG at the Uerdingen site and has held this office since then. Since July 2000, she has been a member of the supervisory board (*Aufsichtsrat*) of Bayer AG; since August 2003 she has been a member of the supervisory board of Covestro Deutschland AG (since 7 December 2009: deputy chairwoman) and a member of the economics committee of Covestro Deutschland AG (spokeswoman) and she is a member of the supervisory board of Bayer Beistandskasse.

Ferdinando Falco Beccalli, born 1949, graduated with a masters in chemical engineering from Polytechnic of Torino in Italy. Mr. Beccalli currently is chief executive officer at Falco Enterprises AG, Zürich, Switzerland. He started his career in the United States in 1975, then serving in leadership positions in the U.S., the Netherlands, Japan, Belgium and Germany for GE and left the company in 2014 as senior vice president and member of the corporate executive council responsible for GE Europe. Prior to his current roles, he spent 40 years at GE and is senior operating executive of Rhône Capital and president of ENAV S.p.A. He is also chairman of ASK Chemicals GmbH and of Ranpak Corp. Mr. Falco Beccalli serves as a member of the board of directors of the Foreign Policy Association in New York and of the Centre for European Policy Studies (CEPS) in Brussels. He acts as senior advisor to A.T. Kearney Italia and to the Steering Committee of LUISS School of Governmental Studies. He participates in the International Board of Overseers of the Sabancı University and in the International Business Advisory Council of the cities of Jerusalem, Rome and Rotterdam. In 2007, he became a Knight of Merit for Labor in Italy and in 2009, he was granted the French Legion of Honor.

Dr. Christine Maria Bortenlänger, born 1966, started with an apprenticeship at Bayerische Vereinsbank AG, Munich, and continued to study economics and business administration at the Ludwig-Maximilians-University in Munich, graduating in 1994. In 1996 Dr. Bortenlänger passed her doctorate. She is a scholarship holder of the Friedrich-Ebert-Foundation. Dr. Bortenlänger began her career as a senior consultant in the financial services sector in 1996 with Dr. Seebauer & Partner in Munich. Prior to this she has held several project manager roles, including working for Bayerische Landesbank on their electronic business networking/electronic commerce project and for an international research project for the German Research Council. In July 1998 Bortenlänger has joined Munich Stock Exchange as deputy managing director, responsible for marketing and public relations. Between 2000 and 2012 she was a member of the executive board of Bayerische Börse AG and managing director of the Munich Stock Exchange. In her role she was responsible for customer service, marketing and sales, market policy, public relations, organization and IT. Effective September 1, 2012 Dr. Bortenlänger has joined Deutsches Aktieninstitut e.V., Frankfurt, Germany, as chief executive officer. Dr. Bortenlänger is a member of the supervisory boards of OSRAM GmbH (Munich), OSRAM Licht AG (Munich), SGL Carbon SE (Wiesbaden), TÜV Süd Aktiengesellschaft (Munich) and a member of representatives' assembly of Münchener Hypothekenbank e.G. (Munich).

Johannes Dietsch, born 1962, started his career after graduating from high school as he joined Bayer Group as a commercial trainee. On completion of his training in 1984, he held a number of management positions in various departments within the company. He gained several years of overseas experience during two assignments at Bayer Japan, Ltd., latter as chief financial officer in finance and administration. In 2001 Dietsch was made Head of Corporate Finance in the Finance Division, becoming Head of Finance in the Corporate Center of Bayer AG on July 1, 2002. His area of responsibility included Treasury, Corporate Finance, Financial Controlling, Asset Management Pensions, Mergers & Acquisitions and Taxes. In September 2011, he was appointed as Senior Bayer Representative and CFO for Greater China at Bayer China in Shanghai. Johannes Dietsch has been a member of the Management Board of Bayer AG since September 1, 2014. Since October 1, 2014, he is responsible for Finance (chief financial officer).

Dr. Thomas Fischer, born 1955, graduated from technical university of Dortmund, Germany with a chemical engineering degree in 1982 and with a doctor's degree in 1987. From 1984 to 1985 he studied industrial engineering at university of applied sciences (*Fachhochschule*) Dortmund, Germany. 1986 he began his career at Bayer Group where he held different positions with increasing managerial responsibilities in Uerdingen, Dormagen and Leverkusen. In Covestro Deutschland AG Dr. Fischer has the position vice president special projects Industrial Operations Safety & Asset Integrity. In 1998 he was elected chairman of the of the Managerial Employees' Committee of Uerdingen. Dr. Fischer is chairman of the managerial employees' committee (*Sprecherausschuss*) of Covestro Deutschland AG and of the Bayer AG (*Konzernsprecherausschuss*). Dr. Fischer is member of the supervisory board of Bayer Pensionskasse, of Covestro Deutschland AG and Bayer AG as well as member of the audit committee. In the managers federations in Germany Dr. Fischer is President of the VAA (*Verband angestellter Akademiker und leitender Angestellter*) and vice-president of the ULA (United Leaders Association). In the European Federation of Managers in the Chemical and Allied Industries, FECCIA, Dr. Fischer is vice-president.

Peter Hausmann, born 1954, studied law at the University in Göttingen and then worked as a trainee lawyer in Braunschweig and Hannover until 1982. Subsequently he worked as an attorney with focus on labor law and consumer protection. 1983 he became secretary at the German Chemical, Paper and Ceramics Industrial Union in Hannover. He started to work at the executive committee division for Youth Education. In 1987 he transferred to the division for Wage Policy/Humanization where he became head of the department wage law and wage law/humanization, respectively. In 2006 he became chairman of the North Rhine District of the German Mining, Chemical and Energy Industrial Union (IG BCE) in Düsseldorf. Since 2009 he has been member of the executive committee of IG BCE in Hannover where he is responsible for wages and finances. Peter Hausmann is a member of the supervisory boards of Bayer AG (Leverkusen), Henkel AG & Co. KGaA (Düsseldorf), Continental AG (Hannover), 50Hertz Transmission GmbH (Berlin) (Vice Chairman), Vivawest GmbH (Gelsenkirchen) and Vivawest Wohnen GmbH (Gelsenkirchen).

Irena Helga Küstner, born 1966, completed training as a chemical laboratory technician at the Technical School of Engineering of the City of Cologne in 1985. She then worked in various fields of the applications technology PUR. In addition, she was responsible for the development in the field service and laboratory.

In 2006, she was a candidate on the list of IG Bergbau, Chemie, Energie as a staff representative and was exempted as area staff representative for Covestro Deutschland AG in the works council of Bayer AG at the Leverkusen site.

Michael Mostert, born 1956, started to study Law at the University of Bonn (Rheinische Friedrichs-Wilhelm-Universität Bonn) in 1976. He passed the First State Examination in Law (*erste juristische Staatsprüfung*) in 1982. In 1986, he completed the preparatory legal training for the regulated legal professions (*juristischer Vorbereitungsdienst*) by passing the Second State Examination in Law (*zweite juristische Staatsprüfung*). Following temporary work for the Federal Employment Agency (*Bundesanstalt für Arbeit*)—Employment Office (*Arbeitsamt*) of Essen—and Deutsche Immobilien Leasing GmbH in Düsseldorf, he started to work in the bargaining policy department of the Trade Union for the Chemical, Paper and Ceramics Industries (*Industriegewerkschaft Chemie Papier Keramik*)—now: Trade Union for the Mining, Chemical and Energy Industries (*Industriegewerkschaft Bergbau, Chemie, Energie—IG BCE*)—in January 1989 and he currently works in the collective bargaining law/collective bargaining department of the Trade Union for the Mining, Chemical and Energy Industries. Among other things, he is responsible for addressing general collective bargaining law questions, but also for the social partners' occupational pension schemes (the framework agreement between the associations of employers and employees in the chemical industry (*Chemie-Verbandsrahmenvertrag*) and the pension scheme for employees in the chemical industry (*Chemie Versorgungswerk*)).

Prof. Dr. Rolf Nonnenmacher, born 1954, studied business administration at the University of Regensburg, Germany. Following his doctorate from the University of Hohenheim, Stuttgart, Germany, Prof. Dr. Nonnenmacher joined KPMG Germany in 1981 and became Partner in 1987. In 2005 he was appointed German senior partner and member of the global executive team of KPMG Europe LLP. Prof. Dr. Nonnenmacher became chairman of KPMG Europe Middle East Africa in 2007 and retired from KPMG in 2013. In 2014 Prof. Dr. Nonnenmacher joined Lazard & Co. GmbH, Frankfurt, Germany, as senior advisor and became member of the supervisory board and chairman of the audit committee of Continental AG (Hanover). In 2015 he became also member of the supervisory board and chairman of the audit committee of ProSiebenSat.1 Media SE (Unterföhring / Munich).

Regine Stachelhaus, born 1955, studied law at the University of Tübingen. She began her career at a German law firm. Thereafter in 1984 she joined Hewlett Packard GmbH and held a number of positions in administration before serving as Managing Director from 2000 to 2009. In May 2002 she was appointed Vice President of Imaging and Printing Group in Germany. In 2009, Mrs Stachelhaus joined the German committee for UNICEF as Executive Secretary. In 2010 she was appointed Head of Human Resources and Member of the Board of Directors of E.ON SE Germany, a major energy company included in the EUROSTOXX 50 Index. From July 2013 until June 2015 she has been a senior consultant to the chief executive officer of E.ON SE. Since 2013 she holds the position as a director of the British Group Computacenter and since 2014 of the French Group SPIE SA and since 2015 as a member of the supervisory board of SPIE GmbH (Essen). She is a member of the University Council, Furtwangen, Germany.

Sabine Wirtz, born 1970, joined Bayer AG at the Leverkusen site in 1987, where she successfully completed an apprenticeship to become a chemical laboratory technician (*Chemielaborfachwerkerin*) in 1989. She was with Bayer Coatings and Colorants from 1989 to 2002, and afterwards for one year with Bayer Polymers. She has been with Covestro Deutschland AG since 2003, where she was elected steward (*Vertrauensfrau*) in 2008. In March 2010, she became a works council (*Basisbetriebsrat*) substitute member. She has been a member of the supervisory board of Covestro Deutschland AG since 2012.

The members of the Supervisory Board may be contacted at the Company's business address: Kaiser-Wilhelm-Allee 60, 51373 Leverkusen, Germany (Tel: +49 214 6009 2000).

21.3.2 Committees of the Supervisory Board

The Supervisory Board will form committees from among its members after the number of the members of the Supervisory Board has been extended to 12 members.

The Supervisory Board will have a Presidial Committee (*Präsidium*) which will consist of four members: The chairman of the Supervisory Board, the vice chairman of the Supervisory Board and two additional members to be elected by the members of Supervisory Board, one representing the shareholders and

one representing the employees. Currently, it is envisaged that the members of the Presidial Committee will be Dr. Richard Pott (chairman), Petra Kronen, Regine Stachelhaus and Peter Hausmann. The Presidial Committee prepares the meeting of the Supervisory Board and exercises the participation rights and approval rights of the Supervisory Board with regard to authorized capital and the exercise of option bonds and convertible bonds, including the amendment of the Articles of Association in connection therewith. Once the Supervisory Board is co-determined, the Presidial Committee also constitutes the mediation committee (*Vermittlungsausschuss*) in accordance with the German Co-Determination Act (*Mitbestimmungsgesetz*).

The Nomination Committee (*Nominierungsausschuss*) will consist of the chairman of the Supervisory Board, and the other member of the Supervisory Board Presidial Committee that has been elected by the shareholders representatives of the Supervisory Board. The members of the Nomination Committee are expected to become Dr. Richard Pott (chairman) and Regine Stachelhaus. The Nomination Committee proposes to the Supervisory Board candidates suited to be proposed as election nominees by the Supervisory Board to the shareholders' meeting in respect of the members of the Supervisory Board to be elected by the shareholders.

The Audit Committee (*Prüfungsausschuss*) will consist of six members to be elected by the Supervisory Board. Currently, the members of the Audit Committee are expected to be Prof. Dr. Rolf Nonnenmacher (Chairman), Dr. Richard Pott, Johannes Dietsch, Peter Hausmann, Petra Kronen and Irena Küstner and are equally split between the representatives of the shareholders and the employees. The Audit Committee deals with issues relating to accounting, risk management and compliance, prepares the resolutions of the Supervisory Board on the unconsolidated and consolidated financial statements, the notes and the recommendation for the use of the balance profit (*Bilanzgewinn*) for any given fiscal year and prepares the arrangements with the auditor.

On the Company's executive committee (*Personalausschuss*) (the "**Executive Committee**") shareholders' and employee representatives in the Supervisory Board are equally represented. The Executive Committee will be chaired by Dr. Richard Pott as the chairman of the Supervisory Board, Johannes Dietsch, Thomas Fischer and Petra Kronen will be further members. The Executive Committee prepares decisions regarding, *inter alia*, the service contracts or other dealings of the members of the Management Board and consults on suitable future candidates for the Management Board.

21.3.3 Compensation of Supervisory Board Members

The members of the Supervisory Board receive an annual fixed remuneration in the amount of €100,000 payable after the expiry of each fiscal year. The chairman of the audit committee receives an additional amount of €50,000 and each other member €25,000. The chairman of the Supervisory Board receives a fixed amount of €300,000 annually, the vice chairman receives a fixed amount of €150,000 annually which also compensates them for membership and chairmanship in committees. The additional compensation for the chairman of other committees is €30,000 and for each member €20,000, however, this does not apply for the nomination committee. No more than two committee positions are taken into account and the two highest paid positions are remunerated. The Supervisory Board members are further entitled to reimbursement of expenses. The Company may provide a D&O insurance for the members of the Supervisory Board which covers the legal liability resulting from the service as Supervisory Board member. The D&O insurance does provide for a deductible for the members of the Supervisory Board. The Supervisory Board members do not receive pension benefits.

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

The Company was established in 2015 and, therefore, the Supervisory Board received no compensation in the year 2014. There were no provisions for pension payments made for members of the Supervisory Board.

The aggregate total compensation paid to the Supervisory Board members of Covestro Deutschland AG in Fiscal Year 2014 amounted to €130,468.50.

It is expected that upon completion of the appointment process for the members of the Supervisory Board of Covestro AG and Bayer MaterialScience AG (renamed Covestro Deutschland AG) the members of both supervisory boards are identical and in such case the members of the Supervisory Board receive no separate compensation for their board membership in Covestro Deutschland AG but their remuneration received for their service on the Supervisory Board of Covestro Deutschland AG will offset against the remuneration on the Covestro AG level.

21.4 GENERAL SHAREHOLDERS' MEETING

Pursuant to the Articles of Association, the annual general shareholders' meeting takes place within the first eight months of each fiscal year at the seat of the Company, or at the seat of a German stock exchange, or in a German city with more than 100,000 inhabitants. Notices of shareholders' meetings will be published in the German Federal Gazette (*Bundesanzeiger*) at least 30 days before the shareholders' meeting unless statutory law provides for a different notice period. When calculating the notice period the day the invitation is sent and the day of the general shareholders' meeting are disregarded.

The Management Board, Supervisory Board (as required by law) or, under certain circumstances, shareholders holding an aggregate of 5% or more of the registered share capital may call a shareholders' general meeting. The Supervisory Board must call a general shareholders' meeting whenever the interests of the company so require. The company must hold the annual general shareholders' meeting during the first eight months of each fiscal year.

Pursuant to section 15 paragraph 1 of the Articles of Association, shareholders who wish to attend the general shareholders' meeting and exercise their right to vote must register with the Company. This registration must be made in text form (*Textform*) in accordance with section 126b of the German Civil Code (*Bürgerliches Gesetzbuch*) in German or in English and must reach the Company at the address given in the invitation of the general shareholders' meeting at least six days prior to the general shareholders' meeting. The day of the receipt of the registration and the day of the general shareholders' meeting are not counted for this purpose. The registration deadline for attending the meeting is published concurrently with the notice of meeting. If it is announced in the notice of the general shareholders' meeting, the Management Board may permit participation in the meeting, transmission of the meeting and participation in voting via electronic means, to the extent permitted by law.

Pursuant to section 15 paragraph 2 of the Articles of Association, the shareholders are further required to provide proof to the Company of their shareholding in order to be admitted for participation and the exercising of their voting rights. This proof of shareholding must be made by way of a certification in text form (*Textform*) in accordance with section 126b German Civil Code (*Bürgerliches Gesetzbuch*) in German or English issued by the bank with which the securities account is kept. The proof of shareholding must relate to the beginning of the 21st day prior to the general shareholders' meeting and must reach the Company at the address given in the invitation at least six days prior to the general shareholders' meeting. The day of the receipt of the proof of shareholding and the day of the general shareholders' meeting are not counted for this purpose.

The general shareholders' meeting votes on the use of the distributable profit and on the discharge of the members of the Management Board and those of the Supervisory Board for the fiscal year completed before the respective general shareholders' meeting. The general shareholders' meeting also appoints an external auditor for the respective current fiscal year. The general shareholders' meeting approves the annual financial statements of the Company if the Supervisory Board has not approved the annual financial statements or if the Management Board and Supervisory Board have decided that the general shareholders' meeting shall approve the annual financial statements.

Each share entitles its holder to one vote at the general shareholders' meeting. Voting rights can be exercised through a proxy. Authority to vote by proxy must be granted in text form (*Textform*) in accordance with section 126b of the German Civil Code (*Bürgerliches Gesetzbuch*). Neither the German Stock Corporation Act (*Aktiengesetz*) nor the Articles of Association require a minimum participation at a general shareholders' meeting for a quorum. Resolutions are adopted by the general shareholders' meeting with a simple majority and, if the law requires a majority of share capital, with a simple majority of share capital, unless otherwise provided by mandatory applicable law or the Articles of Association. The

Articles of Association require a three quarter's majority of the votes cast for the removal of members of the Supervisory Board (section 8 paragraph 5 of the Articles of Association).

Under the German Stock Corporation Act (Aktiengesetz), resolutions of fundamental importance (*grundlegende Bedeutung*) require both a majority of votes cast and a majority of at least 75% of the registered share capital represented at the vote on the resolution. Resolutions of fundamental importance include:

- capital decreases;
- the creation of authorized or contingent capital;
- the exclusion of subscription rights;
- changes to the company's articles of association regarding the corporate purpose of the company;
- transformations pursuant to the German Transformation Act (*Umwandlungsgesetz*), including mergers, divisions, transfers of assets and changes in legal form;
- an agreement to transfer all of the company's assets pursuant to section 179a of the German Stock Corporation Act (*Aktiengesetz*);
- the execution of inter-group agreements, such as domination and profit and loss transfer agreements; and
- the dissolution of the company.

Neither German law nor the Articles of Association restrict the right of foreign shareholders or shareholders not domiciled in Germany to hold Shares or vote their Shares.

21.5 CORPORATE GOVERNANCE

The German Corporate Governance Code (*Deutscher Corporate Governance Kodex*) (the ''**Code**''), as adopted in February 2002 and last amended May 5, 2015, includes recommendations and suggestions for managing and supervising companies listed on German stock exchanges with regard to shareholders and shareholders' meetings, management and supervisory boards, transparency, accounting and the auditing of financial statements. While the recommendations or suggestions of the Code are not mandatory, the German Stock Corporation Act (*Aktiengesetz*) requires the management and supervisory boards of a listed company to disclose each year which recommendations were not or will not be followed and to explain the reasons for the non-compliance. This disclosure must be made permanently publicly accessible. However, deviations from the suggestions contained in the Code need not be disclosed.

Prior to the Listing of the Shares of the Company, the Company is not obligated to issue a declaration relating to the Code.

The main recommendations of the Code in the current version include the following:

- The remuneration of members of the management board should contain a fixed component and a component based on economic performance, and a cap should be specified and individual information is to be provided in the notes to the consolidated financial statements in reference to remuneration of the individual members of the management board.
- The members of the management board shall disclose any conflicts of interest to the supervisory board.
- The supervisory board shall form committees; in particular, an audit committee should be set up to deal with issues of accounting and risk management, the necessary independence of the auditor, and the awarding of audit engagements to auditors, as well as the determination of the special areas emphasized in the audit and the agreement on fees.
- The number of former members of the management board on the supervisory board shall be limited, and services on governing entities of major competitors of the company and advisory activities for major competitors of the company by members of the supervisory board shall be restricted.

- Transparency in dealings with shareholders shall be ensured; this includes the use of appropriate communication media such as the Internet and publication of the most important dates for regularly recurring announcements to shareholders with sufficient advance notice, additional use of English on websites, and the issuance of interim reports.
- Transactions with related parties shall be disclosed in the notes to the financial statements.
- A declaration of independence concerning business, financial, personal, or other relationships between the auditor and the company shall be obtained before engaging the auditors, and regular reports shall be made concerning the independence of the auditors.

As of the date of the Prospectus the Company is not obligated to, and does not, comply with the Code. However, the Company plans to comply with all recommendations of the Code.

21.6 CERTAIN INFORMATION ON THE MEMBERS OF MANAGEMENT BOARD AND SUPERVISORY BOARD

During the last five years, no member of the Management Board or Supervisory Board has been convicted of any fraudulent offenses. In addition, no member of either board has been publicly incriminated or sanctioned by statutory or regulatory authorities (including professional associations) or, acting in the capacity of a member of a management or supervisory entity or as founder of an issuer, been associated with any bankruptcies and/or insolvencies, receiverships or liquidations other than Mr. Lutz. Mr. Lutz was member of the supervisory board of Manroland AG when the company became insolvent. No member of the Management Board or Supervisory Board has ever been deemed by a court to be unfit for membership in a management or supervisory entity of a company or to be unfit to exercise management duties for or manage the business of an issuer during the past five years. No family relationships exist among the members of the Management Board and Supervisory Board.

21.7 CONFLICTS OF INTEREST

There are no conflicts of interest or potential conflicts of interests between the duties of members of the Management Board and duties of members of the Supervisory Board vis-à-vis the Company and their private interests or other duties. The member of the Supervisory Board Johannes Dietsch is currently member of the management board of Bayer AG. The interests of Bayer AG and Covestro AG are not necessarily the same.

No member of the Management Board or Supervisory Board has entered into any service contract with any Group company providing for benefits upon termination of employment.

22. UNDERWRITING

22.1 GENERAL

This Offering consists of ordinary bearer shares with no par value (*Stückaktien*), each such share representing a notional value of €1.00 and full dividend rights since inception, from a capital increase against cash contributions to be resolved by the extraordinary shareholders' meeting of the Company expected on September 30, 2015.

The Offering consists of a public offering in Germany and Luxembourg and a private placement in certain jurisdictions outside of Germany. In the United States, the New Shares are being offered to qualified institutional buyers in accordance with Rule 144A under the Securities Act. Outside the United States, the New Shares are being offered by means of a private placement in accordance with Regulation S under the Securities Act.

On September 18, 2015, the Company, the Existing Shareholder, the Put Grantor and the Underwriters entered into the Underwriting Agreement with respect to the Offering. Pursuant to the Underwriting Agreement, each of the Underwriters has severally agreed to underwrite the following number of New Shares of the Company in proportion to the following percentages at the low end, the mid-point and the high end of the Price Range:

	Address	Low end Number of New Shares	Mid-point Number of New Shares	High end Number of New Shares	Percentage of New Shares
Deutsche Bank Aktiengesellschaft	Taunusanlage 12, 60325 Frankfurt, Germany	28,301,889	24,193,549	21,126,762	30.00
Morgan Stanley & Co. International plc	25 Cabot Square, Canary Wharf, London, E14 4QA, United Kingdom	28,301,888	24,193,549	21,126,762	30.00
Merrill Lynch International	2 King Edward Street, , London, EC1A 1HQ, United Kingdom	6,603,773	5,645,161	4,929,577	7.00
Citigroup Global Markets Limited	Citigroup Centre, Canada Square, London, E14 5LB, United Kingdom	6,603,773	5,645,161	4,929,577	7.00
Credit Suisse Securities (Europe) Limited	One Cabot Square, London, E14 4QJ, United Kingdom	6,603,773	5,645,161	4,929,577	7.00
J.P. Morgan Securities plc	25 Bank Street, Canary Wharf, London, E14 5JP, United Kingdom	6,603,773	5,645,161	4,929,577	7.00
UBS Limited	1 Finsbury Avenue, London, EC2M 2PP, United Kingdom	6,603,773	5,645,161	4,929,577	7.00
BNP Paribas	16 Boulevard des Italiens, 75009 Paris, France	2,358,490	2,016,129	1,760,563	2.50
UniCredit Bank AG	Arabellastrasse 14, 81925 München, Germany	2,358,490	2,016,129	1,760,563	2.50
Total		94,339,622	80,645,161	70,422,535	100.00

The New Shares originate from the capital increase resolved by the extraordinary general shareholders' meeting of the Company on September 30, 2015. The resolution on the authorized share capital will be recorded in the commercial register of the local court of Cologne (*Amtsgericht Köln*), on October 1, 2015.

Pursuant to the Underwriting Agreement, the Underwriters will pay the Company the offer price for the New Shares.

The Underwriting Agreement also stipulates that the Company must release the Underwriters from certain liabilities and that their obligations under the agreement are contingent on the fulfillment of certain conditions, including, for example, the receipt of standard legal opinions that the Underwriters deem satisfactory.

For further information on termination of the Underwriting Agreement, see ''—*22.6 Indemnity and Termination.*''

22.2 UNDERWRITING AGREEMENT

In the Underwriting Agreement, the Underwriters agreed to subscribe the New Shares with a view to offering them to investors in this Offering. The Underwriters agreed to remit to the Company the purchase price of the New Shares (less agreed commissions and expenses), at the time the New Shares are delivered, which is expected to be one banking day after admission to trading.

The obligations of the Underwriters are subject to various conditions, including, but not limited to (i) the absence of a material adverse event, e.g. a material adverse change in or affecting the business, prospects, or consolidated financial position of the Group, or (ii) the absence of a suspension or material limitation in trading in securities generally on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), the London Stock Exchange or the New York Stock Exchange (other than for technical reasons), and (iii) receipt of customary certificates, legal opinions, auditor letters, and (iv) the introduction of the Shares to trading on the Frankfurt Stock Exchange.

The Underwriters have provided and may in the future provide services to the Company and the Existing Shareholder in the ordinary course of business and may extend credit to and have regular business dealings with the Company and the Existing Shareholder in their capacity as financial institutions. For a more detailed description of the interests of the Underwriters in the Offering, see ''*6. The Offering—6.10 Interests of Persons Participating in the Offering*.''

22.3 COMMISSIONS

Under the Underwriting Agreement, the Company is obligated to pay the Underwriters a commission of approximately €20 million. In addition to this commission, the Existing Shareholder may pay the Underwriters incentive fees, payable entirely at the discretion of the Existing Shareholder, of up to €16.67 million. The Existing Shareholder will arrange for the payment of incentive fees, if any, within 35 days after commencement of exchange trading of the Company's shares on the Regulated Market of the Frankfurt Stock Exchange (*Frankfurt Wertpapierbörse*). The Company has also agreed to reimburse the Underwriters for certain expenses incurred by them in connection with the Offering.

22.4 RELATIONSHIPS AND TRANSACTIONS WITH DIRECTLY INTERESTED PARTIES

Certain of the Underwriters or their affiliates have engaged in and may, from time to time, engage in commercial transactions or perform services in the ordinary course of business with members of the Group. They have received and are expected to receive customary fees and commissions for these services.

22.5 STABILIZATION AND PUT OPTION

In connection with the placement of the New Shares, the Stabilization Manager, acting for the account of the Underwriters, may, as Stabilization Manager, and acting in accordance with legal requirements (section 20a(3) of the German Securities Trading Act (*Wertpapierhandelsgesetz*) in conjunction with the EU Stabilization Regulation), take Stabilization Measures.

The Stabilization Manager is under no obligation to initiate Stabilization Measures. Accordingly, there is no guarantee that Stabilization Measures will be initiated at all. To the extent that Stabilization Measures are initiated, they can be terminated at any time without prior notice. Stabilization Measures may only be taken during the Stabilization Period and may result in the market price of the Shares being higher than would otherwise have been the case. Moreover, the market price may temporarily be at an unsustainable level.

The Stabilization Manager may, as a result of the Stabilization Measures during the Stabilization Period, acquire Stabilization Shares at the then current market price when the Stabilization Measure is undertaken, provided that such number of Company's shares acquired as a result of Stabilization Measures may not exceed 10% of the New Shares. To facilitate such Stabilization Measures, the Put-Grantor has granted the Stabilization Manager the Put Option to sell to it the Stabilization Shares at the aggregate price at which it acquired the Stabilization Shares in connection with the Stabilization Measures. This option will terminate upon completion of the Stabilization Measures at the end of the Stabilization Period.

22.6 INDEMNITY AND TERMINATION

Under the Underwriting Agreement, the Company has indemnified the Underwriters from certain liability risks arising in connection with the Offering. The Underwriting Agreement provides that the Underwriters may, under certain circumstances, terminate the Underwriting Agreement, including after the New Shares have been allotted and listed, up to delivery and settlement. Reasons for termination include, in particular, if:

- there has been any material change or development reasonably likely to result in a material change to the share capital of the Company;
- there has been any material change or development reasonably likely to result in a material change in the long-term debt of the Company or the Group;
- there has been any material adverse change, or any development involving a prospective material adverse change, in or affecting the condition, business, prospects, management, consolidated financial position, shareholders' equity or results of operations of the Group or such as would prevent the Company from performing any of its material obligations under the Underwriting Agreement;
- the Company or the Group has incurred any liability or obligation, direct or contingent, or entered into any material transaction not in the ordinary course of business, other than in each case as disclosed in the Prospectus;
- there is a suspension of trading on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), the London Stock Exchange or the New York Stock Exchange (other than for technical reasons);
- a general moratorium is imposed on commercial banking activities in Frankfurt am Main, London, or New York by the relevant authorities;
- a material disruption takes place in securities settlement, payment or clearance services in Europe or the United States;
- there has been a material adverse change in national or international financial, political, or economic conditions or currency exchange rates or currency controls which could have a material adverse impact on the financial markets in Germany, the United Kingdom or the United States;
- there has been an outbreak or escalation of hostilities or any calamity or crisis or the occurrence of any acts of terrorism which has a material adverse impact on the financial markets in Germany, the United Kingdom or the United States; or
- there has been any material adverse change in national or international financial, political or economic conditions or currency exchange rates or currency controls which could have a material adverse effect on the financial markets in Germany, the United Kingdom or the United States.

If the Underwriting Agreement is terminated, the Offering will not take place, in which case any allotments already made to investors will be invalidated and investors will have no claim for delivery. Claims with respect to subscription fees already paid and costs incurred by an investor in connection with the subscription will be governed solely by the legal relationship between the investor and the financial intermediary to which the investor submitted its purchase order. Investors who engage in short-selling bear the risk of being unable to satisfy their delivery obligations.

22.7 SELLING RESTRICTIONS

The distribution of the Prospectus and the sale of the New Shares may be restricted by law in certain jurisdictions. Pursuant to the Underwriting Agreement, no action has been or will be taken by the Company or the Underwriters that will permit a public offering of the New Shares anywhere other than Germany and Luxembourg or the possession or distribution of this document in any other jurisdiction in which action for that purpose may be required by applicable law or regulation.

Accordingly, neither this document nor any advertisement or any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession the Prospectus comes are required to inform themselves about or observe any such restrictions, including those set forth in the following paragraphs. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

The New Shares have not been and will not be registered under the Securities Act or with the securities regulatory authority of any state of the United States of America. They may not be offered or sold, directly or indirectly, in the United States of America except pursuant to an exemption from, or in a transaction not subject to, the registration requirement of the U.S. securities laws and in compliance with all other applicable provisions of U.S. law. Pursuant to the Underwriting Agreement, the Underwriters have represented, warranted and agreed that they have not offered or sold and will refrain from offering and selling the New Shares (i) in or into the United States of America except to persons they reasonably believe to be qualified institutional buyers within the meaning of Rule 144A under the Securities Act and (ii) outside the United States of America except in accordance with Rule 903 of Regulation S under the Securities Act, and in compliance with all other applicable provisions of U.S. law. The Company does not intend to register the Offering or any portion thereof in the United States of America or to conduct a public offering of the New Shares in the United States of America.

In relation to each EEA member state, an offer to the public of any shares may not be made in that EEA member state (other than the offers in Germany and Luxembourg contemplated herein once the Prospectus has been approved by the BaFin and published in accordance with the Prospectus Directive as implemented in Germany and Luxembourg and notified by the BaFin to the CSSF), except that an offer to the public in that EEA member state of any of the shares may be made at any time under the following exemptions from the Prospectus Directive:

a. at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

b. at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Global Coordinators for any such offer; or

c. in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer (as set forth in clauses (a) to (c)) of the shares shall result in a requirement for the publication by the Company or any Underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive or of a supplement to the Prospectus pursuant to Article 16 of the Prospectus Directive and each person who initially acquires shares or to whom any offer is made (other than a person in Germany or Luxembourg) will be deemed to have represented, warranted and agreed to and with the Underwriters and the Company that it is a ''qualified investor'' within the meaning of the law in that EEA member state implementing Article 2(1)(e) of the Prospectus Directive.

For purposes of this section, the expression an ''offer to the public'' in relation to any shares in any EEA member state means the communication in any form and by any means of sufficient information on the terms of the offer and any shares so as to enable an investor to decide to purchase the shares, as the same may be varied in that Member State. The expression ''Prospectus Directive'' includes any amendments thereto, including the Directive 2010/73/EG, which amends the Prospectus Directive and any relevant implementing measure in each EEA member state.

Each Underwriter will undertake that it: (i) has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity within the meaning of section 21 of the Financial Services and Markets Act 2000 (''**FSMA**'') received by it in connection with the issue or sale of any shares in circumstances in which section 21(1) of the FSMA does not apply to the Company; and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

In addition, each Underwriter undertakes that it will comply, in connection with the shares, with all applicable laws and regulations in each jurisdiction in which it offers, sells, or delivers any of the shares or has in its possession, or distributes any of the Offering Documents or any other material or communication relating to the shares.

23. TAXATION IN THE FEDERAL REPUBLIC OF GERMANY

The following section presents a number of key German taxation principles which generally are or can be relevant to the acquisition, holding or transfer of shares both by a shareholder (an individual, a partnership or corporation) that has a tax domicile in Germany (that is whose place of residence, habitual abode, registered office or place of management is in Germany) and by a shareholder without a tax domicile in Germany. The information is not exhaustive and does not constitute a definitive explanation of all possible aspects of taxation that could be relevant for shareholders. The information is based on the tax law in force in Germany as of the date of the Prospectus (and its interpretation by administrative directives and courts), as well as typical provisions of double taxation treaties that Germany has concluded with other countries. Tax law can change—sometimes retroactively. Moreover, it cannot be ruled out that the German tax authorities or courts may consider an alternative assessment to be correct that differs from the one described in this section.

This section cannot serve as a substitute for tailored tax advice to individual shareholders. Shareholders are therefore advised to consult their tax advisors regarding the tax implications of the acquisition, holding or transfer of shares and regarding the procedures to be followed to achieve a possible reimbursement of German withholding tax (Kapitalertragsteuer). Only such advisors are in a position to take the specific tax-relevant circumstances of individual shareholders into due account.

23.1 TAXATION OF THE COMPANY

As a general rule, the taxable profits generated by German corporations are subject to corporate income tax (*Körperschaftsteuer*). The rate of the corporate income tax is a standard 15% for both distributed and retained earnings, plus a solidarity surcharge (*Solidaritätszuschlag)* amounting to 5.5% on the corporate income tax liability (i.e. 15.825% in total).

In general, dividends (*Dividenden*) or other profit shares that the Company derives from domestic or foreign corporations are effectively 95% exempt from corporate income tax, as 5% of such receipts are treated as a non-deductible business expenses, and are therefore subject to corporate income tax (and solidarity surcharge). However, dividends that the Company receives from domestic or foreign corporations are fully subject to corporate income tax (including solidarity surcharge thereon), if the Company only holds a direct participation of less than 10% in the share capital of such corporation at the beginning of the calendar year (hereinafter in all cases, a ''**Portfolio Participation**''—*Streubesitzbeteiligung*). Participations of at least 10% acquired during a calendar year are deemed to have been acquired at the beginning of the calendar year. Participations in the share capital of other corporations which the Company holds through a partnership (including those that are co-entrepreneurships (*Mitunternehmerschaften*)) are attributable to the Company only on a pro rata basis at the ratio of the interest share of the Company in the assets of relevant partnership.

The Company's gains from the disposal of shares in a domestic or foreign corporation are, in general, effectively 95% exempt from corporate income tax (including the solidarity surcharge thereon), regardless of the size of the participation and the holding period. 5% of the gains are treated as non-deductible business expenses and are therefore subject to corporate income tax (plus the solidarity surcharge thereon) at a rate of 15.825%. Conversely, losses incurred from the disposal of such shares are generally not deductible for corporate income tax purposes. Currently, there are no specific rules for the taxation of gains arising from the disposal of Portfolio Participations, but discussions are ongoing whether the 10% threshold applicable to dividends received from Portfolio Participations (see above) shall also be introduced with regard to gains arising from the disposal of Portfolio Participations.

Additionally, German corporations are also usually subject to trade tax (*Gewerbesteuer*) with respect to their taxable trade profit (*Gewerbeertrag*) generated at their permanent establishments maintained in Germany (*inländische Betriebstätten*). Trade tax generally ranges from approximately 7% to 18.2% of the taxable trade profit depending on the municipal trade tax multiplier applied by the relevant municipal authority (*Hebesatz*). When determining the income of the corporation that is subject to corporate income tax, trade tax may not be deducted as a business expense. In principle, profits derived from the sale of shares in another domestic and foreign corporation are treated in the same way for trade tax purposes as for corporate income tax. Contrary to this, profit shares derived from domestic and foreign corporations are only effectively 95% exempt from trade tax, if the Company either held an interest of at least 15% in the share capital of the company making the distribution at the beginning of the relevant assessment period or—in the case of foreign corporations—if the Company has held a stake of this size since the beginning of such period (trade tax participation exemption privilege—*gewerbesteuerliches*

Schachtelprivileg). If the participation is held in a foreign corporation as per Article 2 of Council Directive 2011/96/EU of November 30, 2011 (the ''**Parent-Subsidiary Directive**'') with its registered office in another member state of the European Union, the trade tax participation exemption privilege becomes applicable from an interest of 10% in the share capital of the foreign corporation at the beginning of the relevant assessment period. Otherwise, the profit shares will be subject to trade tax in full. Additional restrictions apply for profit shares originating from foreign corporations which do not fall under Article 2 of the Parent-Subsidiary Directive.

The provisions of the so-called interest barrier (*Zinsschranke*) limit the degree to which interest expenses are deductible from the tax base. Accordingly, as a rule, interest expenses exceeding interest income are deductible in an amount of up to 30% of the EBITDA as determined for tax purposes in a given financial year, although there are exceptions to this rule. Non-deductible interest expenses must be carried forward to subsequent financial years. EBITDA that has not been fully utilized can under certain circumstances be carried forward to subsequent years and may be deducted subject to the limitations set out above. For trade tax purposes, 25% of the interest expenses deductible after applying the interest barrier for corporate income tax purposes are added back when calculating the taxable trade profit. Therefore, for trade tax purposes, the amount of deductible interest expenses is only 75% of the interest expenses deductible for purposes of corporate income tax.

Under certain conditions, negative income of the Company that has not been offset by current year positive income can be carried forward or back into other assessment periods. Loss carry-backs to the immediately preceding assessment period are only permissible up to €1,000,000 for corporate income tax but not for trade tax purposes. Negative income that has not been offset and not carried back can only be carried forward to subsequent assessment periods in an amount of up to €1,000,000 to offset positive income for corporate income and trade tax purposes (tax loss carry-forward). If the taxable income or the taxable trade profit exceeds this amount, only 60% of the excess amount can be offset by tax loss carry-forwards. The remaining 40% of the taxable income is subject to tax in any case (minimum taxation—*Mindestbesteuerung*). Unused tax loss carry-forwards can, as a rule, be carried forward indefinitely and deducted pursuant to the rules set out regarding future taxable income or trade income. However, if more than 25% or more than 50% of the Company's share capital or voting rights respectively is/are transferred within five years to a purchaser or group of purchasers acting in concert, directly or indirectly, or if a similar situation arises (harmful share acquisition—*schädlicher Beteiligungserwerb*), the Company's unutilized losses and interest carry-forwards (possibly also EBITDA carry-forwards) will generally be forfeited in part (in case of a participation of more than 25% but no more than 50%) or in full (in case of a participation of more than 50%). Certain exceptions might apply subject to further requirements.

23.2 TAXATION OF SHAREHOLDERS

Income Tax Implications of the Holding, Sale and Transfer of Shares

In terms of the taxation of shareholders of the Company, a distinction must be made between taxation in connection with the holding of shares (''—23.2.1 *Taxation of Dividends-Withholding Tax,*'' ''*—23.2.2 Taxation of Dividends of Shareholders with a Tax Domicile in Germany''* and *''—23.2.3 Taxation of Dividends of Shareholders without a Tax Domicile in Germany*'') and taxation in connection with the sale of shares (''*—23.2.4 Taxation of Capital Gains of Shareholders with a Tax Domicile in Germany*'' and ''*—23.2.5 Taxation of Capital Gains of Shareholders without a Tax Domicile in Germany*'') and taxation in connection with the gratuitous transfer of shares (''*—23.2.7 Inheritance and Gift Tax*'').

23.2.1 Taxation of Dividends—Withholding Tax

As a general rule, dividends distributed to shareholders are subject to a withholding tax (*Kapitalertragsteuer*) of 25% and a solidarity surcharge of 5.5% thereon (i.e. 26.375% in total plus church tax (*Kirchensteuer*), if applicable). This, however, will not apply if and to the extent that dividend payments are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto; section 27 Körperschaftsteuergesetz ''KStG''*); in this case, no withholding tax will be withheld. The assessment basis for the withholding tax is the dividend approved by the general shareholders' meeting.

If shares—as it is the case with the shares in the Company—are admitted for collective custody by a securities custodian bank (*Wertpapiersammelbank*) pursuant to section 5 of the German Act on Securities Accounts (*Depotgesetz*) and are entrusted to such bank for collective custody (*Sammelverwahrung*) in Germany, the withholding tax is withheld and passed on for the account of the

shareholders by the domestic credit or financial services institution (*inländisches Kredit- oder Finanzdienstleistungsinstitut*) (including domestic branches of such foreign enterprises), by the domestic securities trading company (*inländisches Wertpapierhandelsunternehmen*) or the domestic securities trading bank (*inländische Wertpapierhandelsbank*) which keeps or administers the shares and disburses or credits the dividends or disburses the dividends to a foreign agent or by the central securities depository (*Wertpapiersammelbank*) to which the shares were entrusted for collective custody if the dividends are disbursed to a foreign agent by such central securities depository (*Wertpapiersammelbank*) (hereinafter in all cases, the ''**Dividend Paying Agent**'').

The Company assumes responsibility for the withholding of taxes on distributions at source, in accordance with statutory provisions. This means that the Company is released from liability for the violation of its legal obligation to withhold and transfer the taxes at source if it provides evidence that it has not breached its duties intentionally or grossly negligently.

In general, the withholding tax must be withheld without regard to whether and to which extent the dividend is exempt from tax at the level of the shareholder and whether the shareholder is domiciled in Germany or abroad.

However, withholding tax on dividends distributed to a company domiciled in another EU member state, within the meaning of Article 2 of the Parent-Subsidiary Directive, may be exempt or refunded upon application and subject to further conditions. This also applies to dividends distributed to a permanent establishment of such a parent company in another member state of the European Union or to a parent company that is subject to unlimited tax liability in Germany, provided that the participation in the Company is actually part of such permanent establishment's business assets. Further requirements for the refund of withholding tax under the Parent-Subsidiary Directive are that the shareholder has directly held at least a 10% of the company's registered capital for one year and that a respective application is filed with the German Federal Central Tax Office (*Bundeszentralamt für Steuern*).

With respect to distributions made to other shareholders without a tax domicile in Germany, the withholding tax rate may be reduced in accordance with the double taxation treaty if Germany has entered into a double taxation treaty with the shareholder's country of residence and if the shares neither form part of the assets of a permanent establishment or a fixed place of business in Germany, nor form part of business assets for which a permanent representative in Germany has been appointed. The withholding tax reduction is generally granted by the German Federal Central Tax Office (*Bundeszentralamt für Steuern*) upon application in such a manner that the difference between the total amount withheld, including the solidarity surcharge, and the reduced withholding tax actually owed under the relevant double taxation treaty (generally 15%) is exempt or refunded by the German Federal Central Tax Office (*Bundeszentralamt für Steuern*).

If dividends are distributed to corporations subject to limited taxation, i.e. corporations with no registered office or place of management in Germany, and if the shares neither belong to the assets of a permanent establishment or fixed place of business in Germany nor are part of business assets for which a permanent representative in Germany has been appointed, two-fifths of the tax withheld at the source can generally be refunded even if not all of the prerequisites for a refund under the Parent-Subsidiary Directive or the relevant double taxation treaty are fulfilled.

The aforementioned possibilities for a refund of withholding tax depend on certain other conditions being met (particularly the fulfillment of so-called substance requirements—*Substanzerfordernisse*).

In a ruling dated October 20, 2011, the European Court of Justice (''**ECJ**'') held that the German taxation of dividends distributed by German corporations to companies located in another EU member state violated EU law because these dividends would, if the shareholding does not reach the minimum participation of 10% provided for in the Parent-Subsidiary Directive, economically be subject to higher taxation than dividends which are distributed to companies with their registered offices in the Federal Republic of Germany. According to the judgment of the ECJ, the German taxation of dividends also violated the Treaty on the European Economic Area because dividends which are distributed to companies with their registered offices in Iceland or Norway would economically be subject to a higher taxation than dividends distributed to companies with their registered office in the Federal Republic of Germany.

The legislator reacted to the ECJ's ruling dated October 20, 2011 by enacting the Act for the implementation of the ECJ's ruling dated October 20, 2011 (*Gesetz zur Umsetzung des EuGH-Urteils vom 20. Oktober 2011 in der Rechtssache C-284/09*, (BR-Drucks. 146/13/B)) which provides for (i) new

rules for the taxation of dividends from Portfolio Participations received after February 28, 2013 (see "—*23.1 Taxation of the Company*") and (ii) for a mechanism under which corporations domiciled in the EU or EEA, which do not fall under the Parent-Subsidiary Directive, can apply for a refund of withholding tax on the dividends received before and including February 28, 2013 if certain prerequisites are met. Investors should note that such a refund might in certain situations also be available with regard to withholding tax imposed on dividends received after February 28, 2013 if corporate shareholders, which are domiciled in the EU or EEA, directly hold at least 10% in the equity capital of the Company at the beginning of the relevant calendar year or acquire a stake of at least 10% in the equity capital of the Company in the course of the relevant calendar year, but do not fulfill the requirements provided for by the Parent-Subsidiary Directive at the time they apply for such refund. Shareholders affected by these rules are recommended to consult their tax advisors.

23.2.2 Taxation of Dividends of Shareholders with a Tax Domicile in Germany

Shares held as non-business assets

Dividends distributed to shareholders with a tax domicile in Germany whose shares are held as non-business assets form part of their taxable capital investment income, which is subject to a special uniform income tax rate of 25% plus solidarity surcharge of 5.5% thereon (i.e. 26.375% in total plus church tax (*Kirchensteuer*), if applicable). The income tax owed for this dividend income is in general satisfied by the withholding tax withheld by the Dividend Paying Agent (flat-rate withholding tax—*Abgeltungsteuer*). Income-related expenses cannot be deducted from the shareholder's capital investment income (including dividends), except for an annual lump-sum deduction (*Sparer-Pauschbetrag*) of €801 (€1,602 for jointly assessed shareholders). However, the shareholder may request that his capital investment income (including dividends) along with his other taxable income be subject to progressive income tax rate (instead of the uniform tax rate for capital investment income) if this results in a lower tax burden. In this case, the withholding tax will be credited against the progressive income tax and any excess amount will be refunded. Pursuant to the current view of the German tax authorities (which has recently been rejected by a fiscal court; an appeal to the German Federal Tax Court (*Bundesfinanzhof*) is still pending), in this case as well, income-related expenses cannot be deducted from the capital investment income, except for the aforementioned annual lump-sum deduction.

Exceptions from the flat rate withholding tax apply upon application for shareholders who have a shareholding of at least 25% in the Company and for shareholders who have a shareholding of at least 1% in the Company and work for the Company in a professional capacity.

With regard to dividends subject to church tax (*Kirchensteuer*) received by shareholders from January 1, 2015 onwards, an automatic procedure for deducting church tax applies unless the shareholder has filed a blocking notice (*Sperrvermerk*) with the German Federal Central Tax Office (*Bundeszentralamt für Steuern*). In this case, the church tax (*Kirchensteuer*) for dividends is satisfied by the Dividend Paying Agent withholding such tax. A deduction of the withheld church tax (*Kirchensteuer*) as a special expense is not permissible, but the withholding tax to be withheld (including the solidarity surcharge) is reduced by 26.375% of the church tax to be withheld on the dividends. In the case where the shareholder has filed a blocking notice with the German Federal Central Tax Office (*Bundeszentralamt für Steuern*), a shareholder subject to church tax (*Kirchensteuer*) is obligated to declare the dividends in his income tax return. The church tax (*Kirchensteuer*) on the dividends is then levied by way of a tax assessment.

As an exemption, dividend payments that are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto*) and are paid to shareholders with a tax domicile in Germany whose shares are held as non-business assets, do—contrary to the above—not form part of the shareholder's taxable income. If the dividend payment funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto*) exceeds the shareholder's acquisition costs, negative acquisition costs will arise which can result in a higher capital gain in case of the shares' disposal (cf. below). This will not apply if (i) the shareholder or, in the event of a gratuitous transfer, its legal predecessor, or, if the shares have been gratuitously transferred several times in succession, one of his legal predecessors at any point during the five years preceding the (deemed, as the case may be) disposal, directly or indirectly, held at least 1% of the share capital of the Company (a "**Qualified Holding**") and (ii) the dividend payment funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto*) exceeds the acquisition costs of the shares. In the case of a Qualified Holding, a dividend payment funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto*) is deemed a sale of the shares and is taxable as a capital gain if and to the extent the dividend payment funded from the

Company's contribution account for tax purposes (*steuerliches Einlagekonto*) exceeds the acquisition costs of the shares. In this case, the taxation corresponds with the description in the sections ''*—23.2.4 Taxation of Capital Gains of Shareholders with a Tax Domicile in Germany*'' and ''*—23.2.5 Taxation of Capital Gains of Shareholders without a Tax Domicile in Germany*'' made with regard to shareholders maintaining a Qualified Holding.

Shares held as business assets

Dividends from shares held as business assets of a shareholder with a tax domicile in Germany are not subject to the flat-rate withholding tax. The taxation depends on whether the shareholder is a corporation, a sole proprietor or a partnership (co-entrepreneurship). The withholding tax (including the solidarity surcharge and church tax (*Kirchensteuer*), if applicable) withheld and paid by the Dividend Paying Agent will be credited against the shareholder's income or corporate income tax liability (including the solidarity surcharge and church tax (*Kirchensteuer*), if applicable) or refunded in the amount of any excess.

Dividend payments that are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto*) and are paid to shareholders with a tax domicile in Germany whose shares are held as business assets are generally fully tax-exempt in the hands of such shareholder. To the extent the dividend payments funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto*) exceed the acquisition costs of the shares, a taxable capital gain should occur. The taxation of such gain corresponds broadly with the description in the sections ''*—23.2.4 Taxation of Capital Gains of Shareholders with a Tax Domicile in Germany*'' and ''*—23.2.5 Taxation of Capital Gains of Shareholders without a Tax Domicile in Germany*'' made with regard to shareholders whose shares are held as business assets.

Corporations

If the shareholder is a corporation with a tax domicile in Germany, the dividends are in general effectively 95% exempt from corporate income tax and the solidarity surcharge. 5% of the dividends are treated as non-deductible business expenses and are therefore subject to corporate income tax (plus the solidarity surcharge thereon) at a total tax rate of 15.825%. In other respects, business expenses actually incurred in direct relation to the dividends may be deducted. However, dividends are fully subject to corporate income tax (including solidarity surcharge thereon) if the shareholder only holds a Portfolio Participation at the beginning of the calendar year. Participations of at least 10% acquired during a calendar year are deemed to have been acquired at the beginning of the calendar year. Participations which a shareholder holds through a partnership (including those that are co-entrepreneurships (*Mitunternehmerschaften*)) are attributable to the shareholder only on a pro rata basis at the ratio of the interest share of the shareholder in the assets of the relevant partnership.

Dividends (after deducting business expenses economically related to the dividends) are subject to trade tax in the full amount, unless the requirements of the trade tax participation exemption privilege are fulfilled. In this latter case, the dividends are not subject to trade tax; however, trade tax is levied on the amount considered to be a non-deductible business expense (amounting to 5% of the dividend). Trade tax ranges from approximately 7% to 18.2% of the taxable trade profit depending on the municipal trade tax multiplier applied by the relevant municipal authority.

Sole proprietors

If the shares are held as business assets by a sole proprietor with a tax domicile in Germany, only 60% of the dividends are subject to progressive income tax (plus the solidarity surcharge) at a total tax rate of up to approximately 47.5% (plus church tax (*Kirchensteuer*), if applicable), the so-called partial income method (*Teileinkünfteverfahren*). Only 60% of the business expenses economically related to the dividends are tax deductible. If the shares belong to a domestic permanent establishment in Germany of a business operation of the shareholder, the dividend income (after deducting business expenses economically related thereto) is not only subject to income tax but is also fully subject to trade tax, unless the prerequisites of the trade tax participation exemption privilege are fulfilled. In this latter case, the net amount of dividends, i.e. after deducting directly related expenses, is exempt from trade tax. As a rule, trade tax can be credited against the shareholder's personal income tax, either in full or in part, by means of a lump-sum tax credit method, depending on the level of the municipal trade tax multiplier and certain individual tax-relevant circumstances of the taxpayer.

Partnerships

If the shareholder is a commercially active or commercially tainted partnership (co-entrepreneurship) with a tax domicile in Germany, the income or corporate income tax is not levied at the level of the partnership but at the level of the respective partner. The taxation for every partner depends on whether the partner is a corporation or an individual. If the partner is a corporation, the dividends contained in the profit share of the shareholder will be taxed in accordance with the principles applicable for corporations. For information on the taxation of corporations, see ''—*Corporations*'' above. If the partner is an individual, the taxation is in line with the principles described for sole proprietors. For further information on the taxation of sole proprietors, see ''—*Sole Proprietors*'' above. Upon application and subject to further conditions, an individual as a partner can have his personal income tax rate lowered for earnings not withdrawn from the partnership.

In addition, the dividends are generally subject to trade tax in the full amount at the partnership level if the shares are attributed to a German permanent establishment of the partnership. If a partner of the partnership is an individual, the portion of the trade tax paid by the partnership pertaining to his profit share will generally be credited, either in full or in part, against his personal income tax by means of a lump-sum method—depending on the level of the municipal trade tax multiplier and certain individual tax-relevant circumstances of the taxpayer. Due to a lack of case law and administrative guidance, it is currently unclear how the new rules for the taxation of dividends from Portfolio Participations (see ''—*Corporations*'' above) might impact the trade tax treatment at the level of the partnership. Shareholders are strongly recommended to consult their tax advisors. Under a literal reading of the law, if the partnership fulfills the prerequisites for the trade tax exemption privilege at the beginning of the relevant assessment period, the dividends (after the deduction of business expenses economically related thereto) should generally not be subject to trade tax. However, in this case, trade tax should be levied on 5% of the dividends to the extent they are attributable to the profit share of such corporate partners to whom at least 10% of the shares in the Company are attributable on a look-through basis, since such portion of the dividends should be deemed to be non-deductible business expenses. The remaining portion of the dividend income attributable to other than such specific corporate partners (which includes individual partners and should, under a literal reading of the law, also include corporate partners to whom, on a look-through basis, only Portfolio Participations are attributable) should not be subject to trade tax.

23.2.3 Taxation of Dividends of Shareholders without a Tax Domicile in Germany

Shareholders without a tax domicile in Germany, whose shares are attributable to a German permanent establishment or fixed place of business or are part of business assets for which a permanent representative in Germany has been appointed, are liable for tax in Germany on their dividend income. In this respect, the provisions outlined above for shareholders with a tax domicile in Germany whose shares are held as business assets apply accordingly. For further information, see ''—*23.2.2 Taxation of Dividends of Shareholders with a Tax Domicile in Germany—Shares held as business assets.*'' The withholding tax (including solidarity surcharge) withheld and passed on will be credited against the income or corporate income tax liability or refunded in the amount of any excess.

In all other cases, any German tax liability for dividends is satisfied by the withholding of the withholding tax by the Dividend Paying Agent. Withholding tax is only reimbursed in the cases and to the extent described above under ''—*23.2.1 Taxation of Dividends—Withholding Tax*.''

Dividend payments that are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto*) are generally not taxable in Germany.

Financial and insurance sector

Special rules apply to companies operating in the financial and insurance sector. For further information, see ''—*23.2.6 Special Treatment of Companies in the Financial and Insurance Sector and Pension Funds.*''

23.2.4 Taxation of Capital Gains of Shareholders with a Tax Domicile in Germany

Shares held as non-business assets

Gains on the disposal of shares held by a shareholder with a tax domicile in Germany and held as non-business assets are generally—regardless of the holding period—subject to a uniform tax rate on

capital investment income in Germany (25% plus the solidarity surcharge of 5.5% thereon, i.e. 26.375% in total, plus any church tax (*Kirchensteuer*), if applicable).

The taxable capital gain is computed from the difference between (i) the proceeds of the disposal and (ii) the acquisition costs of the shares and the expenses related directly and materially to the disposal. Dividend payments that are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto*) reduce the original acquisition costs; if dividend payments that are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto*) exceed the acquisition costs, negative acquisition costs—which can increase a capital gain—can arise in case of shareholders, whose shares are held as non-business assets and do not qualify as a Qualified Holding.

Only an annual lump-sum deduction of €801 (€1,602 for jointly assessed shareholders) may be deducted from the entire capital investments income. It is generally not possible to deduct income-related expenses in connection with capital gains, except for the expenses directly related in substance to the disposal which can be deducted when calculating the capital gains. Losses on disposals of shares may only be offset against gains on the disposal of shares.

If the shares are held in custody or administered by a domestic credit institution, a domestic financial services institution, a domestic securities trading company or a domestic securities trading bank, including domestic branches of foreign credit institutions or financial service institutions, or if such an office executes the disposal of the shares and pays out or credits the capital gains (a ''**Domestic Paying Agent**''), the income tax on the capital gains will in general be satisfied by the Domestic Paying Agent withholding the withholding tax on investment income in the amount of 26.375% (including the solidarity surcharge) on the capital gain and transferring it to the tax authority for the account of the seller.

However, if the withholding tax on capital gains, is not or not sufficiently withheld by a Domestic Paying Agent, the shareholder is required to declare the capital gains in his income tax return. The income tax on the capital gains will then be collected by way of assessment. Also, the shareholder can apply for his total capital investment income, together with his other taxable income, to be subject to progressive income tax rate as opposed to the uniform tax rate on investment income, if this results in a lower tax liability. In this case, the withholding tax is credited against the progressive income tax and any resulting excess amount will be refunded; limitations on offsetting losses are applicable. Further, pursuant to the current view of the German tax authorities (which has recently been rejected by a fiscal court; an appeal to the German Federal Tax Court (*Bundesfinanzhof*) is still pending), income-related expenses are non-deductible, except for the annual lump-sum deduction. Further, the limitations on offsetting losses are also applicable under the income tax assessment.

With regard to capital gains received from January 1, 2015 by shareholders subject to church tax (*Kirchensteuer*), an automatic procedure for deducting church tax applies unless the shareholder has filed a blocking notice (*Sperrvermerk*) with the German Federal Central Tax Office (*Bundeszentralamt für Steuern*). In this case, the church tax (*Kirchensteuer*) for capital gains is satisfied by the Domestic Paying Agent withholding such tax. A deduction of the withheld church tax (*Kirchensteuer*) as a special expense is not permissible, but the withholding tax to be withheld (including the solidarity surcharge) is reduced by 26.375% of the church tax to be withheld on the capital gains. In case a shareholder has filed a blocking notice with the German Federal Central Tax Office (*Bundeszentralamt für Steuern*), a shareholder subject to church tax (*Kirchensteuer*) is obligated to declare the capital gains in his income tax return. The same applies if church tax (*Kirchensteuer*) on capital gains, is not or not sufficiently withheld by a Domestic Paying Agent. The church tax (*Kirchensteuer*) on the capital gains is then levied by way of a tax assessment.

Regardless of the holding period and the time of acquisition, gains from the disposal of shares are not subject to a uniform withholding tax but to progressive income tax in the case of a ''**Qualified Holding**.'' In this case, the partial income method applies to gains on the disposal of shares, which means that only 60% of the capital gains are subject to tax and only 60% of the losses on the disposal and expenses economically related thereto are tax deductible. Even though withholding tax is withheld by a Domestic Paying Agent in the case of a Qualified Holding, this does not satisfy the tax liability of the shareholder. Consequently, such shareholder must declare his capital gains in his income tax returns. The withholding tax (including the solidarity surcharge and church tax (*Kirchensteuer*), if applicable) withheld and paid will be credited against the shareholder's income tax on his tax assessment (including the solidarity surcharge and any church tax if applicable) or refunded in the amount of any excess.

Shares held as business assets

Gains on the sale of shares held as business assets of a shareholder with a tax domicile in Germany are not subject to the uniform tax rate on capital investment income. The taxation of the capital gains depends on whether the shareholder is a corporation, a sole proprietor or a partnership (co-entrepreneurship). Dividend payments that are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto*) reduce the original acquisition costs. In the case of disposal, a higher taxable capital gain can arise herefrom. If the dividend payments exceed the shares' book value for tax purposes, a taxable capital gain can arise.

Corporations

If the shareholder is a corporation with a tax domicile in Germany, the gains on the disposal of shares are, in general, effectively 95% exempt from corporate income tax (including the solidarity surcharge) and trade tax, currently, regardless of the size of the participation and the holding period. 5% of the gains are treated as a non-deductible business expenses and are therefore subject to corporate income tax (plus the solidarity surcharge) at a tax rate amounting to 15.825% and trade tax (depending on the municipal trade tax multiplier applied by the municipal authority, generally between approximately 7% and 18.2%). As a general rule, losses on disposals and other profit reductions in connection with shares (e.g. from a write-down) cannot be deducted as business expenses. Currently, there are no specific rules for the taxation of gains arising from the disposal of Portfolio Participations but discussions are ongoing whether the 10% threshold applicable to dividends received from Portfolio Participations (see above) shall also be introduced with regard to gains arising from the disposal of Portfolio Participations.

Sole proprietors

If the shares are held as business assets by a sole proprietor with a tax domicile in Germany, only 60% of the gains on the disposal of the shares are subject to progressive income tax (plus the solidarity surcharge) at a total tax rate of up to approximately 47.5%, and, if applicable, church tax (*Kirchensteuer*) (partial-income method). Only 60% of the losses on the disposal and expenses economically related thereto are tax deductible. If the shares belong to a German permanent establishment of a business operation of the sole proprietor, 60% of the gains of the disposal of the shares are, in addition, subject to trade tax.

Trade tax can be credited towards the shareholder's personal income tax, either in full or in part, by means of a lump-sum tax credit method—depending on the level of the municipal trade tax multiplier and certain individual tax-relevant circumstances of the taxpayer.

Partnerships

If the shareholder is a commercially active or commercially tainted partnership (co-entrepreneurship) with a tax domicile in Germany, the income or corporate income tax is not levied at the level of the partnership but at the level of the respective partner. The taxation depends on whether the partner is a corporation or an individual. If the partner is a corporation, the gains on the disposal of the shares as contained in the profit share of the partner will be taxed in accordance with the principles applicable for corporations (see ''—*Corporations*'' above). For capital gains in the profit share of a partner that is an individual, the principles outlined above for sole proprietors apply accordingly. For further information on the partial-income method, see ''—*Sole proprietors.*'' Upon application and subject to further conditions, an individual as a partner can obtain a reduction of his personal income tax rate for earnings not withdrawn from the partnership.

In addition, gains on the disposal of shares are subject to trade tax at the level of the partnership, if the shares are attributed to a domestic permanent establishment of a business operation of the partnership, generally, at 60% as far as they are attributable to the profit share of an individual as the partner of the partnership, and, currently, at 5% as far as they are attributable to the profit share of a corporation as the partner of the partnership. Losses on disposals and other profit reductions in connection with the shares are currently not considered for the purposes of trade tax if they are attributable to the profit share of a corporation, and are taken into account at 60% in the context of general limitations if they are attributable to the profit share of an individual.

If the partner of the partnership is an individual, the portion of the trade tax paid by the partnership attributable to his profit share will generally be credited, either in full or in part, against his personal income

tax by means of a lump-sum method—depending on the level of the municipal trade tax multiplier and certain individual tax-relevant circumstances of the taxpayer.

Special rules apply to capital gains realized by companies active in the financial and insurance sector, as well as pension funds. For further information, see ''*—23.2.6 Special Treatment of Companies in the Financial and Insurance Sector and Pension Funds.*''

Withholding tax

In the case of a Domestic Paying Agent, the gains of the sale of shares held as business assets are in general subject to withholding tax in the same way as shares held as non-business assets by a shareholder. For further information, see ''*—Shares Held as Non-Business Assets.*'' However, the Dividend Paying Agent will not withhold the withholding tax, if (i) the shareholder is a corporation, association of persons or estate with a tax domicile in Germany, or (ii) the shares belong to the domestic business assets of a shareholder, and the shareholder declares so to the Domestic Paying Agent using the designated official form and certain other requirements are met. If the withholding tax is nonetheless withheld by a Domestic Paying Agent, the withholding tax (including the solidarity surcharge and church tax (*Kirchensteuer*), if applicable) withheld and paid will be credited against the income or corporate income tax liability (including the solidarity surcharge and church tax (*Kirchensteuer*), if applicable) or will be refunded in the amount of any excess.

23.2.5 Taxation of Capital Gains of Shareholders without a Tax Domicile in Germany

Capital gains derived by shareholders with no tax domicile in Germany are only subject to German tax if the selling shareholder has a Qualified Holding in the Company or the shares belong to a domestic permanent establishment or fixed place of business or are part of business assets for which a permanent representative in Germany has been appointed.

In the case of a Qualified Holding, 5% of the gains on the disposal of the shares are currently in general subject to corporate income tax plus the solidarity surcharge if the shareholder is a corporation. If the shareholder is a private individual, only 60% of the gains on the disposal of the shares are subject to progressive income tax plus the solidarity surcharge (partial-income method). However, most double taxation treaties provide for exemption from German taxation and assign the right of taxation to the shareholder's country of residence. According to the tax authorities, there is no obligation to withhold withholding tax at source in the case of a Qualified Holding if the shareholder submits to the Domestic Paying Agent a certificate of domicile issued by a foreign tax authority.

With regard to gains or losses on the disposal of shares belonging to a domestic permanent establishment, or fixed place of business, or which are part of business assets for which a permanent representative in Germany has been appointed, the above-mentioned provisions pertaining to shareholders with a tax domicile in Germany whose shares are business assets apply *mutatis mutandis*. For further information, see ''*—23.2.4 Taxation of Capital Gains of Shareholders with a Tax Domicile in Germany—Shares held as business assets.*'' The Domestic Paying Agent can refrain from deducting the withholding tax if the shareholder declares to the Domestic Paying Agent on an official form that the shares form part of domestic business assets and certain other requirements are met.

23.2.6 Special Treatment of Companies in the Financial and Insurance Sector and Pension Funds

If financial institutions or financial services providers hold or sell shares that are allocable to their trading book pursuant to section 1a of the German Banking Act (*Gesetz über das Kreditwesen*), they will neither be able to use the partial income method nor have 60% of their gains exempted from taxation nor be entitled to the effective 95% exemption from corporate income tax plus the solidarity surcharge and any applicable trade tax. Thus, dividend income and capital gains are fully taxable. The same applies to shares acquired by financial institutions in the meaning of the German Banking Act (*Gesetz über das Kreditwesen*) for the purpose of generating profits from short-term proprietary trading. The preceding sentence applies accordingly for shares held in a permanent establishment in Germany by financial institutions, financial service providers, and finance companies tax resident outside of Germany. Likewise, the tax exemption described earlier afforded to corporations for dividend income and capital gains from the sale of shares does not apply to shares that qualify as a capital investment in the case of life insurance and health insurance companies, or those which are held by pension funds.

However, an exemption to the foregoing, and thus a 95% effective tax exemption, applies to dividends obtained by the aforementioned companies, to which the Parent-Subsidiary Directive applies.

23.2.7 Inheritance and Gift Tax

The transfer of shares to another person by will or gift is generally subject to German inheritance or gift tax if:

(i) the place of residence, habitual abode, place of management or registered office of the decedent, the donor, the heir, the donee or another acquirer is, at the time of the asset transfer, in Germany, or such person, as a German national, has not spent more than five consecutive years outside of Germany without maintaining a place of residence in Germany; or

(ii) the decedent's or donor's shares belonged to business assets for which there had been a permanent establishment in Germany or a permanent representative had been appointed; or

(iii) the decedent or the donor, at the time of the inheritance or gift, held a direct or indirect interest of at least 10% of the Company's share capital either alone or jointly with other related parties.

The few German double taxation treaties in respect of inheritance and gift tax currently in force usually provide for German inheritance or gift tax only to be levied in the cases under (i) and, subject to certain restrictions, in the cases under (ii). Special provisions apply to certain German nationals living outside of Germany and to former German nationals.

23.2.8 Other Taxes

No German capital transfer taxes, value-added-tax, stamp duties or similar taxes are currently levied on the purchase or disposal or other forms of transfer of the shares. However, an entrepreneur may opt to subject disposals of shares, which are in principle exempt from value-added-tax, to value-added-tax if the sale is made to another entrepreneur for the entrepreneur's business. Wealth tax is currently not levied in Germany.

On January 22, 2013, the Council of the European Union approved the resolution of the ministers of finance from 11 EU member states (including Germany), which wished to establish enforced cooperation between themselves in the area of financial tax. On February 14, 2013, the European Commission accepted the proposal for a council directive that implements enhanced cooperation in the area of financial transaction tax. The plan focuses on levying a financial transaction tax of 0.1% (0.01% for derivatives) on the purchase and sale of financial instruments. The directive awaits the unanimous agreement of the participating member states.

24. TAXATION IN THE GRAND DUCHY OF LUXEMBOURG

24.1 LUXEMBOURG TAXATION OF SHARES OF A NON-RESIDENT COMPANY

The following information is of a general nature only and is based on the laws in force in Luxembourg on the date of the Prospectus and is subject to any change in law that may take effect after such date. It does not purport to be a comprehensive description of all of the tax considerations that might be relevant to an investment decision. It is included herein solely for preliminary information purposes. It is not intended to be, nor should it be construed to be, legal or tax advice. It is a description of the essential material Luxembourg tax consequences with respect to the Offering and may not include tax considerations that arise from rules of general application or that are generally assumed to be known to shareholders.

Prospective shareholders should consult their professional advisors with respect to particular circumstances, the effects of state, local or foreign laws to which they may be subject and as to their tax position. Investors should be aware that the residence concept used under the respective headings applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy impost or other charge or withholding of a similar nature refers to Luxembourg tax law and/or concepts only. Also, investors should note that a reference to Luxembourg income tax encompasses corporate income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial communal*), and a solidarity surcharge (*contribution au fonds pour l'emploi*), as well as personal income tax (*impôt sur le revenu*) and a temporary equalization tax (*impôt d'équilibrage budgétaire temporaire*). Corporate shareholders may further be subject to net wealth tax (*impôt sur la fortune*), as well as other duties, levies or taxes.

Corporate income tax and municipal business tax, as well as the solidarity surcharge, invariably applies to most corporate taxpayers resident of Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

24.2 INCOME TAX

24.2.1 Withholding Taxes

Dividend payments made to shareholders by a non-resident company, such as the Company, as well as liquidation proceeds and capital gains derived therefrom, are not subject to a withholding tax in Luxembourg.

24.2.2 Taxation of Income Derived from Shares and Capital Gains Realized on Shares/ Subscription Rights by Luxembourg Residents

Luxembourg resident individuals

Dividends and other payments derived from shares by resident individual shareholders, who act in the course of the management of either their private wealth or their professional/business activity, are subject to income tax at a progressive ordinary rate depending on the annual level of income. The current top income tax rate is 43.6% (i.e. maximum 40% plus a solidarity surcharge of currently up to 9% on the 40% and a 0.5% temporary equalization tax). A tax credit may be granted for foreign withholding taxes, provided it does not exceed the corresponding Luxembourg tax. Under current Luxembourg tax law, 50% of the gross amount of dividends received by resident individuals from (i) a Luxembourg resident fully taxable company limited by share capital, or (ii) a company limited by share capital resident in a country with which Luxembourg has concluded a double tax treaty and liable to a tax corresponding to Luxembourg's corporate income tax, or (iii) a company resident in an EU member state and covered by Article 2 of the amended EU Parent-Subsidiary Directive on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States (2011/96/EU of November 30, 2011, as amended) is exempt from income tax.

Capital gains realized on the disposal of shares/subscription rights by resident individual shareholders, who act in the course of the management of their private wealth, are not subject to income tax, unless said capital gains qualify either as speculative gains or as gains on a substantial participation. Capital gains are deemed to be speculative and are subject to income tax at ordinary rates if shares/subscription rights are disposed of within six months after their acquisition or if their disposal precedes their acquisition (and such capital gains exceed €500 within a fiscal year). A participation is deemed to be substantial where a

resident individual shareholder holds, either alone or together with his spouse or partner and/or minor children, directly or indirectly at any time within the five years preceding the disposal, more than 10% of the share capital of the Company. The same regime applies to subscription rights if a holder of subscription rights holds also a substantial participation of shares in the Company. A shareholder is also deemed to transfer a substantial participation if he acquired free of charge, within the five years preceding the transfer, a participation that was constituting a substantial participation in the hands of the transferor (or the transferors in case of successive transfers free of charge within the same five-year period). Capital gains realized on a substantial participation more than six months after the acquisition thereof are subject to income tax according to the half-global rate method (that is the average rate applicable to the total income is calculated according to progressive income tax rates and half of the average rate is applied to the capital gains realized on the substantial participation). A disposal may include a sale, an exchange, a contribution or any other kind of alienation of shares/subscription rights.

Capital gains realized on the disposal of shares/subscription rights by resident individual shareholders, who act in the course of their professional/business activity, are subject to income tax at ordinary rates. Taxable gains are determined as being the difference between the price for which the shares/subscription rights have been disposed of and the lower of their cost or book value. Neither the €500 threshold, nor the half-global rate method apply to capital gains realized in the course of a professional/business activity.

Luxembourg fully taxable corporate residents and Luxembourg permanent establishments of foreign companies

Dividends and other payments derived from shares held by a Luxembourg resident fully taxable company are, in principle, subject to income taxes at the aggregate rate of 29.22% (including the solidarity surcharge). Such income is exempt if the conditions of the participation exemption regime, as described below, are satisfied. If these conditions are not met, 50% of the gross amount of dividends is exempt from income tax, if received from (i) a Luxembourg resident fully taxable company limited by share capital, or (ii) a company limited by share capital resident in a country with which Luxembourg has concluded a double tax treaty and liable to a tax corresponding to Luxembourg's corporate income tax, or (iii) a company resident in an EU member state and covered by Article 2 of the amended EU Parent-Subsidiary Directive. A tax credit may further be granted for foreign withholding taxes, provided it does not exceed the corresponding Luxembourg corporate tax on the dividends and other payments derived from shares of the Company. Under the participation exemption regime, dividends derived from shares may be exempt from income tax at the level of the shareholder if cumulatively (I) the shareholder is (a) a Luxembourg resident fully taxable company, (b) a Luxembourg permanent establishment of a company covered by Article 2 of the amended EU Parent-Subsidiary Directive, (c) a Luxembourg permanent establishment of a company limited by share capital resident in a country having a tax treaty with Luxembourg, or (d) a Luxembourg permanent establishment of a company limited by share capital or a cooperative company resident in the European Economic Area other than an EU member state, (II) the Company is either (a) an entity covered by Article 2 of the amended EU Parent-Subsidiary Directive, or (b) a Luxembourg resident fully taxable company limited by share capital, or (c) a non-resident company limited by share capital liable to a tax corresponding to Luxembourg corporate income tax, (III) the shareholder has held or commits itself to hold the shares for an uninterrupted period of at least 12 months, (IV) during this uninterrupted period of 12 months, the shares represent a participation of at least 10% in the share capital of the Company or a participation of an acquisition price of at least €1.2 million, and (V) the dividend is put at its disposal within such period. Liquidation proceeds are deemed to be a received dividend and may be exempt under the same conditions. Shares held through a tax transparent entity are considered as being a direct participation proportionally to the percentage held in the net assets of the transparent entity.

Capital gains realized by a Luxembourg fully taxable resident company on shares/subscription rights are subject to the corporate income taxes at the global rate of 29.22% (including the solidarity surcharge), unless the conditions of the participation exemption regime, as described below, are satisfied. Under the participation exemption regime, capital gains realized on shares may be exempt from income tax if the conditions mentioned above for dividends are met, except that the acquisition price must be at least €6 million for capital gains purposes. Under Luxembourg tax law, it is debatable to what extent the subscription rights are eligible for the participation exemption regime although recent case law supports such argumentation in certain circumstances. Shares/subscription rights held through a tax transparent entity are considered as being a direct participation in the underlying company proportionally to the percentage held in the net assets of the transparent entity. Taxable gains are determined as being the

difference between the price for which the shares/subscription rights have been disposed of and the lower of their cost or book value.

24.2.3 Luxembourg Corporate Residents Benefiting from a Special Tax Regime

Shareholders who are (i) undertakings for collective investment governed by the law of December 17, 2010, or (ii) specialized investment funds governed by the law of February 13, 2007, or (iii) family wealth management companies governed by the law of May 11, 2007 are exempt from income tax in Luxembourg. Dividends derived from, and capital gains realized on, shares/subscription rights are thus not subject to income tax in their hands.

24.3 NET WEALTH TAX

Shares/subscription rights held by a Luxembourg fully taxable resident company or a Luxembourg permanent establishment or a permanent representative of a foreign entity of the same type, to whom or to which the shares are attributable, are subject to Luxembourg net wealth tax (*impôt sur la fortune*) (''**NWT**'') at the rate of 0.5% applied on its net assets as determined for NWT purposes. Net worth is referred to as the unitary value (*valeur unitaire*), as determined at January 1 of each year. The unitary value is basically calculated as the difference between (i) assets estimated at their fair market value (*valeur estimée de réalisation* or *Gemeiner Wert*) and (ii) liabilities *vis-à-vis* third parties, unless one of the exceptions mentioned below are satisfied. Luxembourg net wealth tax will not be levied on the shares in the hands of a shareholder unless such shareholder is a corporate entity resident in Luxembourg other than an undertaking for collective investment governed by the law of December 17, 2010, a securitization company governed by the law of March 22, 2004, or a specialized investment fund governed by the law of February 13, 2007.

Further, if the shareholder is (A) a Luxembourg fully taxable corporate entity, (B) a Luxembourg permanent establishment of a company covered by Article 2 of the amended EU Parent-Subsidiary Directive or of a company resident in a country having a tax treaty with Luxembourg, or of a company resident in the European Economic Area other than an EU member state, the shares may be exempt from NWT for a given year, if the shares represented at the end of the previous year at least 10% in the share capital of the Company or a participation of an acquisition price of at least €1.2 million. Under Luxembourg tax law, it is debatable to what extent subscription rights are eligible for the participation exemption regime although recent case law supports such argumentation in certain circumstances. The NWT charge for a given year can be avoided or reduced if a specific reserve, equal to five times the NWT to save, is created before the end of the subsequent tax year and maintained during the five following tax years. The maximum NWT to be saved is limited to the corporate income tax amount due for the same tax year, including the solidarity surcharge, but before imputation of available tax credits.

24.4 OTHER TAXES

Under Luxembourg tax law, where an individual shareholder is a resident of Luxembourg for inheritance tax purposes at the time of his/her death, shares/subscription rights are included in his or her taxable basis for inheritance tax purposes. Gift tax may be due on a gift or donation of shares/subscription rights if the gift is recorded in a Luxembourg notarial deed or otherwise registered in Luxembourg.

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25. FINANCIAL INFORMATION

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Condensed Combined Interim Financial Statements of the Covestro Group
(prepared in accordance with IFRS)
as of and for the six months ended June 30, 2015
(unaudited)

Combined Interim Income Statements of the Covestro Group

(Table 1.1)

	1st Half 2014	1st Half 2015
	€ million	€ million
Net sales	**5,719**	**6,264**
Cost of goods sold	(4,616)	(4,832)
Gross profit	**1,103**	**1,432**
Selling expenses	(518)	(632)
Research and development expenses	(111)	(125)
General administration expenses	(173)	(209)
Other operating income	54	51
Other operating expenses	(41)	(44)
EBIT[1]	**314**	**473**
Equity-method loss	(8)	–
Financial income	16	3
Financial expenses	(64)	(90)
Financial result	**(56)**	**(87)**
Income before income taxes	**258**	**386**
Income taxes	(80)	(114)
Income after income taxes	**178**	**272**
of which attributable to non-controlling interest	–	5
of which attributable to the Bayer Group	**178**	**267**

[1] EBIT: earnings before financial result and taxes

Combined Interim Statements of Comprehensive Income of the Covestro Group

(Table 1.2)

	1st Half 2014	1st Half 2015
	€ million	€ million
Income after income taxes	**178**	**272**
of which attributable to non-controlling interest	*–*	*5*
of which attributable to the Bayer Group	*178*	*267*
Remeasurements of the net defined benefit liability for post-employment benefit plans	(425)	41
Income taxes	134	(12)
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans	**(291)**	**29**
Other comprehensive income that will not be reclassified subsequently to combined profit or loss	**(291)**	**29**
Changes in fair values of derivatives designated as cash flow hedges	(3)	(4)
Reclassified to combined profit or loss	(7)	3
Income taxes	2	–
Other comprehensive income from cash flow hedges	**(8)**	**(1)**
Changes in exchange differences on translation of operations outside the eurozone included in the scope of combination	10	176
Reclassified to combined profit or loss	–	–
Other comprehensive income from exchange differences	**10**	**176**
Other comprehensive income that may be reclassified subsequently to combined profit or loss	**2**	**175**
Effects of changes in scope of combination	**1**	**(10)**
Total other comprehensive income*	**(288)**	**194**
of which attributable to non-controlling interest	*–*	*(1)*
of which attributable to the Bayer Group	*(288)*	*195*
Total comprehensive income	**(110)**	**466**
of which attributable to non-controlling interest	*–*	*4*
of which attributable to the Bayer Group	*(110)*	*462*

* total changes recognized outside combined profit or loss

Combined Interim Statements of Financial Positions of the Covestro Group

(Table 1.3)

	As of June 30, 2014	As of June 30, 2015	As of December 31, 2014
	€ million	€ million	€ million
Noncurrent assets			
Goodwill	234	259	243
Other intangible assets	145	138	133
Property, plant and equipment	4,412	5,061	4,893
Investments accounted for using the equity method	198	227	216
Other financial assets	1,060	57	39
Other receivables	78	70	74
Deferred taxes	314	405	413
	6,441	**6,217**	**6,011**
Current assets			
Inventories	1,820	1,921	1,904
Trade accounts receivable	1,622	1,794	1,561
Other financial assets	452	539	431
Other receivables	252	206	277
Claims for income tax refunds	7	6	7
Cash and cash equivalents	30	106	201
	4,183	**4,572**	**4,381**
Total assets	**10,624**	**10,789**	**10,392**
Equity			
Invested equity attributable to the Bayer Group	2,703	1,198	1,427
Other components of equity	4	519	343
Total invested equity attributable to the Bayer Group	**2,707**	**1,717**	**1,770**
Invested equity attributable to non-controlling interest	9	11	17
	2,716	**1,728**	**1,787**
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	1,045	1,409	1,395
Other provisions	178	217	187
Financial liabilities	736	521	779
Other liabilities	28	29	30
Deferred taxes	197	181	176
	2,184	**2,357**	**2,567**
Current liabilities			
Other provisions	246	366	322
Financial liabilities	3,860	4,697	3,943
Trade accounts payable	1,350	1,456	1,522
Income tax liabilities	1	13	3
Other liabilities	267	172	248
	5,724	**6,704**	**6,038**
Total equity and liabilities	**10,624**	**10,789**	**10,392**

Combined Interim Statements of Cash Flows of the Covestro Group

(Table 1.4)

	1st Half 2014	1st Half 2015
	in Mio €	in Mio €
Income after income taxes	178	272
Income taxes	80	115
Financial result	56	87
Income taxes paid or accrued	(48)	(94)
Depreciation, amortization and impairments	296	359
Change in pension provisions	(8)	6
(Gains) losses on retirements of noncurrent assets	-	(18)
Gross cash flow	**554**	**727**
Decrease (increase) in inventories	(192)	80
Decrease (increase) in trade accounts receivable	(245)	(163)
(Decrease) increase in trade accounts payable	31	(185)
Changes in other working capital, other non-cash items	6	86
Net cash provided by (used in) operating activities (net cash flow)	**154**	**545**
Cash outflows for additions to property, plant, equipment and intangible assets	(239)	(224)
Cash inflows from sales of property, plant, equipment and other assets	3	21
Cash inflows from divestitures	3	-
Cash inflows from (outflows for) noncurrent financial assets	11	(6)
Cash outflows for acquisitions less acquired cash	-	(14)
Interest and dividends received	1	1
Cash inflows from (outflows for) current financial assets	-	(96)
Net cash provided by (used in) investing activities	**(221)**	**(318)**
Financial transactions with Bayer Group	118	(366)
Dividend payments	-	(5)
Issuances of debt	36	222
Retirements of debt	(82)	(171)
Interest paid including interest rate swaps	(13)	(20)
Net cash provided by (used in) financing activities	**59**	**(340)**
Change in cash and cash equivalents due to business activities	**(8)**	**(113)**
Cash and cash equivalents at beginning of period	**37**	**201**
Change in cash and cash equivalents due to changes in scope of combination	-	-
Change in cash and cash equivalents due to exchange rate movements	1	18
Cash and cash equivalents at end of period	**30**	**106**

Combined Interim Statements of Changes in Equity of the Covestro Group

(Table 1.5)

		Other components of equity					
	Invested equity attributable to the Bayer Group	Exchange differences	Cash flow hedges	Revaluation surplus	Total invested equity attributable to the Bayer Group	Invested equity attributable to non-controlling interest	**Equity**
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Jan. 1, 2014	**2,767**	**–8**	**9**	**1**	**2,769**	**10**	**2,779**
Equity transactions with owners							
Capital increase / decrease	26				26		26
Dividend payments	–22				–22	–1	–23
Profit / loss transfer to Bayer AG	20				20		20
Withdrawals / contributions	24				24		24
Other changes							
Other comprehensive income	–290	10	–8		–288		–288
Income after income taxes	178				178		178
June 30, 2014	**2,703**	**2**	**1**	**1**	**2,707**	**9**	**2,716**
Jan. 1, 2015	**1,427**	**340**	**2**	**1**	**1,770**	**17**	**1,787**
Equity transactions with owners							
Capital increase / decrease	122				122		122
Dividend payments	–7				–7	–6	–13
Profit / loss transfer to Bayer AG	–155				–155		–155
Withdrawals / contributions	–131				–131		–131
Distribution to the Bayer Group (purchase price Covestro operations and companies)	–344				–344		–344
Other changes						–4	–4
Other comprehensive income	19	177	–1		195	–1	194
Income after income taxes	267				267	5	272
June 30, 2015	**1,198**	**517**	**1**	**1**	**1,717**	**11**	**1,728**

Notes to the Condensed Combined Interim Financial Statements of the Covestro Group

1. Key data by segment and region

Key Data by Segment (Table 1.6)

	Polyurethanes		Polycarbonates		Coatings, Adhesives and Specialties		Other/Consolidation				Group	
							All other segments		Corporate Center and Reconciliation			
	1st Half 2014	1st Half 2015	1st Half 2014	1st Half 2015	1st Half 2014	1st Half 2015	1st Half 2014	1st Half 2015	1st Half 2014	1st Half 2015	1st Half 2014	1st Half 2015
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Net sales (external)	3,037	3,191	1,355	1,594	958	1,097	369	382	–	–	5,719	6,264
Change	–	+5.1%	–	+17.6%	–	+14.5%	–	+3.5%	–	–	–	+9.5%
Currency-adjusted change	–	–4.5%	–	+4.7%	–	+5.0%	–	–1.6%	–	–	–	–0.5%
Intersegment transfers	43	40	12	12	23	23	–	–	(78)	(75)	–	–
Net sales and intersegment transfers (total)	3,080	3,231	1,367	1,606	981	1,120	369	382	(78)	(75)	5,719	6,264
EBIT	158	123	(5)	177	178	224	9	14	(26)	(65)	314	473
Adjusted EBIT	159	184	8	178	183	228	9	16	(26)	(28)	333	578
Adjusted EBITDA	329	386	88	266	222	270	12	20	(26)	(28)	625	914
Depreciation, amortization and impairments	170	225	81	88	42	42	3	4	–	–	296	359

Key Data by Region (Table 1.7)

	EMLA		NAFTA		APAC		Other/Consolidation		Total	
	1st Half 2014	1st Half 2015	1st Half 2014	1st Half 2015	1st Half 2014	1st Half 2015	1st Half 2014	1st Half 2015	1st Half 2014	1st Half 2015
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Net sales (external) – by market	2,786	2,780	1,444	1,719	1,489	1,765	–	–	5,719	6,264
Change	–	–0.2%	–	+19.0%	–	+18.5%	–	–	–	+9.5%
Currency-adjusted change	–	+0.1%	–	–1.1%	–	–1.1%	–	–	–	–0.5%
Net sales (external) – by point of origin	2,789	2,776	1,469	1,748	1,461	1,740	–	–	5,719	6,264
Change	–	–0.5%	–	+19.0%	–	+19.1%	–	–	–	+9.5%
Currency-adjusted change	–	+0.2%	–	–1.4%	–	–0.9%	–	–	–	–0.5%
Interregional sales	380	393	293	299	58	69	(731)	(761)	–	–

The table titled "Key Data by Region" presents information for three 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. The column “Other/Consolidation” comprises the elimination of intra-group items and transactions (interregional sales).

2. General information

Background and purpose of the condensed combined interim financial statements

On September 18, 2014, Bayer AG, Leverkusen ("Bayer AG"), announced its plan to contribute the Bayer MaterialScience business into a stock corporation (“Aktiengesellschaft”) and list shares of this stock corporation on a stock exchange.

The Bayer MaterialScience business – which consists of the activities in the area of polymer materials and certain inorganic basic chemicals – is to be separated from Bayer AG and its subsidiaries (“Bayer Group”) in two steps. In an initial preparatory step, activities that so far have not been conducted by separate companies have been and will be transferred to separate legal entities. In a second step, all companies comprising the Bayer MaterialScience business have been or will be bundled under Bayer MaterialScience AG, Leverkusen ("BMS AG"), and its direct and indirect subsidiaries. BMS AG is planned to be renamed to Covestro Deutschland AG effective September 2015 and the Bayer MaterialScience business is to be named “Covestro”. Therefore the Bayer MaterialScience business hereinafter is referred to as “Covestro” or the “Covestro Group” for the purpose of these condensed combined interim financial statements.

The parent company of the future Covestro Group and thus the issuer of shares for the planned flotation will be Covestro AG, a company yet to be established. The shares of BMS AG will be contributed to the capital reserve of Covestro AG. Shares in Covestro AG are to be admitted to trading on the regulated market of the Frankfurt Stock Exchange, Germany, while at the same time being admitted to the Prime Standard segment (segment of the official market with additional follow-up requirements for admission).

Pursuant to E.U. Prospectus Regulation No. 809/2004, an issuer's listing prospectus must include historical financial information covering the previous three fiscal years. At the time of issuance, the issuer, Covestro AG, has a "complex financial history" as defined in E.U. Prospectus Regulation No. 211/2007.

Because Covestro AG is not being established until June 30, 2015, the Board of Management of BMS AG has in connection with the European Prospectus Regulation No. 809/2004 Annex I 20.6.2 prepared condensed combined interim financial statements in addition to the combined financial statements for the years ended December 31, 2014, December 31, 2013 and December 31, 2012. These condensed combined interim financial statements consist of the combined interim statements of financial positions, combined interim income statements, combined interim statements of comprehensive income, combined interim statements of changes in equity, combined interim statements of cash flows and selected explanatory notes to the condensed combined interim financial statements as of and for the six-month period ended June 30, 2015 (hereinafter the “condensed combined interim financial statements”) including the corresponding comparative information as of and for the six-month period ended June 30, 2014, and in addition for the comparative information as of December 31, 2014 for the combined interim statements of financial positions.

The condensed combined interim financial statements are presented in euros. Amounts are stated in millions of euros except where otherwise indicated, which may lead to rounding discrepancies.

For further explanation of the Covestro business and additional information reference is made to the combined financial statements for the years ended December 31, 2014, December 31, 2013 and December 31, 2012.

The condensed combined interim financial statements were authorized for issue on August 12, 2015 by the Board of Management of BMS AG, Kaiser-Wilhelm-Allee 60, 51368 Leverkusen, Germany.

The condensed combined interim financial statements should be read in conjunction with the annual combined financial statements for the years ended December 31, 2014, December 31, 2013 and December 31, 2012.

3. Basis of preparation of the condensed combined interim financial statements

Compliance with IFRS

The following condensed combined interim financial statements of the Covestro Group were prepared according to the International Financial Reporting Standards ("IFRS") – as endorsed by the European Union ("EU") – on a combined basis ("combined financial statements").

The IFRS provide no guidelines for the preparation of combined financial statements, which is therefore subject to the rules given in IAS 8.12. IAS 8.12 requires consideration of the most recent pronouncements of other standard-setting bodies, other financial reporting requirements and recognized industry practices.

In the condensed combined interim financial statements of the Covestro Group presented below, the predecessor accounting approach has been applied in accordance with the rules on business combinations under common control. The condensed combined interim financial statements of the Covestro Group reflect the Covestro companies and the operations assigned to Covestro as historically included in the IFRS consolidated financial statements of the Bayer Group and managed by BMS AG management (economic-entity approach).

In general, the Covestro Group applies the same accounting policies and measurement principles in preparing the condensed combined interim financial statements as used by the included Covestro companies and operations in preparing their financial information for inclusion in the IFRS consolidated interim financial statements of the Bayer Group. This approach is adjusted with respect to transactions with Bayer Group companies and to ensure IFRS compliance. Transactions between the Covestro Group and the remainder of the Bayer Group are recognized in accordance with IFRS and classified as related-entity transactions. The condensed combined interim financial statements reflect all material transactions between the Covestro Group and the Bayer Group. In the condensed combined interim financial statements, all IFRS standards whose application was mandatory for the six-month period ended June 30, 2015 have been consistently applied for each of the reporting periods ended June 30, 2015 and June 30, 2014.

The condensed combined interim financial statements as of June 30, 2015, have been prepared in condensed form according to IAS 34 (Interim Financial Reporting) as endorsed by the EU. Reference should be made where appropriate to the combined financial statements for the years ended December 31, 2014, December 31, 2013 and December 31, 2012, in particular to the combination, recognition and measurement principles.

For further information concerning the basis of preparation see also the combined financial statements for the years ended December 31, 2014, December 31, 2013 and December 31, 2012.

Scope of combination

The scope of combination for the condensed combined interim financial statements of the Covestro Group for the six-month period ended June 30, 2015, was determined on economic principles using the common management approach.

The scope of combination includes companies directly or indirectly controlled by BMS AG along with the net assets (assets and liabilities) of corporate units that have conducted operations for the Covestro Group that were already centrally managed by the Board of Management of BMS AG during the reporting period but were not yet legally held, either directly or indirectly, by BMS AG but by Bayer AG. Also included in the scope of combination are assets, particularly land, production facilities, office buildings and other real estate that historically have been used by Covestro or are connected with the business of the Covestro Group. The legal transfer of these assets from the Bayer Group to the Covestro Group will take place at a later date. Thus, the Covestro Group operations included in the scope of combination are conducted by BMS AG and its direct or indirect subsidiaries as well as by direct or indirect subsidiaries of Bayer AG.

Where a business or assets and liabilities of Covestro operations that are included in the condensed combined interim financial statements were already legally transferred to the Covestro Group during the reporting period, these effects are reflected in equity for the respective period as of the date of transfer. Businesses or individual assets or liabilities that qualify as Covestro operations that will not be legally transferred from Bayer Group to the Covestro Group until after June 30, 2015, or will not be transferred at all, are included in the scope of combination with effect from January 1, 2012, in accordance with the above principles.

The structure of the scope of combination of the Covestro Group may be summarized as follows:

- BMS AG and its direct and indirect subsidiaries (for details see note (7) to the combined financial statements for the years ended December 31, 2014, December 31, 2013 and December 31, 2012),
- companies not yet controlled by BMS AG (companies controlled by Bayer AG) that by virtue of their operations are allocated to the Covestro Group and are planned to be legally transferred at a later date, along with interests in individual joint ventures and associates economically and legally allocated to the Covestro Group,
- assets and liabilities economically allocated to the Covestro Group (units of companies (previously) controlled by Bayer AG) whose legal transfer has already been completed,
- assets and liabilities economically allocated to the Covestro Group (units of companies controlled by Bayer AG) whose legal transfer has not yet been completed,
- assets, particulary land, production facilities, other real estate and supply lines that historically have been used by Covestro or are connected with Covestro's operations and whose legal transfer will take place at a later date.

Legal transfers to BMS AG or its subsidiaries during the reporting period or after June 30, 2015, involving shares of companies are referred to as "share deals", the legal entities concerned as "share deal companies".

Legal transfers during the reporting period or after June 30, 2015, that entirely relate to assets and liabilities or obligations are referred to in the following as "asset deals", the legal entities concerned as "asset deal companies".

Treatment of share deal companies in the condensed combined interim financial statements

Separate financial statements were drawn up for share deal companies and are included in the condensed combined interim financial statements. They also include liquidity and financial obligations as well as financial assets or liabilities from central cash pooling agreements with the Bayer Group along with the respective interest income and expense. Assets, liabilities, income and expenses were allocated as necessary. The calculation of taxes is shown in note (13) to the combined financial statements for the years ended December 31, 2014, December 31, 2013 and December 31, 2012.

Treatment of asset deal companies in the condensed combined interim financial statements

For purposes of the condensed combined interim financial statements, the relevant income, expenses, assets and liabilities of asset deal companies were allocated to the Covestro operations. Liquid assets, financial obligations and financial assets or liabilities from cash pooling agreements with the Bayer Group were not allocated to the Covestro operations because such assets or liabilities are not economically allocable to the Covestro operations, nor do legal claims or obligations exist toward Bayer Group in these cases. Accordingly, no interest income or expense pertaining to such items was reflected in the combined interim income statements. The calculation of taxes is shown in note (13) to the combined financial statements for the years ended December 31, 2014, December 31, 2013 and December 31, 2012.

The Covestro Group obtains engineering, accounting, human resources, IT and infrastructure services from Bayer Group service companies, such as Bayer Technology Services, Bayer Business Services and Currenta. Some employees who provided such services for the Covestro Group were transferred to Bayer Technology Services or Bayer Business Services, mainly in 2012, as part of the centralization of service functions. These services, which are essential to the operational business of the Covestro Group, are reflected in the combined interim income statements for six-month period ended June 30, 2015. The respective charges are settled on the basis of framework and service level agreements. Accordingly, the condensed combined interim financial statements do not include personnel-related obligations (such as pension obligations) to employees following their transfer to Bayer Technology Services or Bayer Business Services during the reporting period, or related assets.

Furthermore, Bayer Group companies provided or provide administrative services in the areas of procurement, accounting and IT. These services were charged to the Covestro Group by the Bayer Group units that provided them and are reflected in the combined interim income statements at their historical cost.

Both Bayer AG and Bayer Corporation, Pittsburgh, United States, as holding companies, provide various central services to the Covestro Group. These services were analyzed by BMS AG management and are reflected in the condensed combined interim financial statements where they were deemed essential to the operational business of the Covestro Group. The respective costs were directly allocated or, where this was not possible, indirectly allocated using appropriate keys. The services provided are reflected in the combined interim income statements of Covestro at their historical cost to the holding companies.

No allocations of assets or liabilities were made in the condensed combined interim financial statements to administrative services, service companies or the central activities of the holding companies that pertained to Covestro. The related expenses were consistently recognized in the reporting period in the amounts of the historically charged and allocated costs.

Assets jointly used by Covestro and Bayer Group ("shared assets") that were predominantly used (usage > 50%) by Covestro in the reporting period and will be legally transferred to the Covestro Group at a later date were generally assigned to the Covestro Group. Shared assets that were not predominantly used (usage < 50%) by Covestro in the reporting period were accounted for by way of appropriate usage charges.

Presentation of the condensed combined interim financial statements and consolidation principles

All income, expenses, assets and liabilities that are attributable to the economic operations of the Covestro Group are reflected in the condensed combined interim financial statements of the Covestro Group. Further assumptions and estimates had to be made, particularly with regard to the allocation of expenses. These were appropriately and consistently applied in the reporting period. The actual amounts, however, may vary from the estimates (see "Critical accounting estimates") and therefore do not necessarily indicate what the results of operations of the Covestro Group would have been if it had existed as a separate group in the reporting period.

The carrying amounts of participating interests and BMS AG's interests in the equity of its subsidiaries were eliminated outside combined profit or loss in preparing the condensed combined interim financial statements. Joint operations were included pro rata according to the same principles.

The condensed combined interim financial statements also include joint ventures and associates accounted for using the equity method. The carrying amounts of companies accounted for using the equity method were adjusted annually by the percentage of any changes in their equity corresponding to the Covestro Group's percentage interests in the respective companies. Differences arising upon first-time inclusion using the equity method were accounted for according to full-consolidation principles.

Intercompany balances and transactions within the Covestro Group along with all gains and losses from transactions within the Covestro Group were eliminated for purposes of the condendsed combined interim financial statements.

During the preparation of the condensed combined interim financial statements, deferred income tax effects on combination entries were recognized.

Where payments have been or are being made by Covestro to the Bayer Group in the course of the legal transfer of Covestro legal entities or operations that are already economically included in the Covestro Group, such payments are reported as withdrawals by Bayer AG as stockholder at the time of the transfer.

Assets and liabilities or obligations formerly managed by the Covestro Group are included in the condensed combined interim financial statements, irrespective of their later transfer to or from Covestro Group. Any such transfer is reported outside combined profit or loss as withdrawals or contributions by Bayer AG as stockholder at the date of the transfer provided that the assets and liabilities transferred meet the definition of a business according to IFRS 3.

Assets and liabilities or obligations transferred to Covestro that historically did not fall within the responsibility of the Covestro Group are recognized in the condensed combined interim financial statements at the time of the transfer. If these transferred assets and liabilities meet the definition of a business combination according to IFRS 3, the transfer is made at the carrying amounts outside combined profit or loss; otherwise they are transferred at market values.

Foreign currency translation

The separate financial statements and reporting packages of the combined companies and operations, respectively, included in the condensed combined interim financial statements are prepared in their respective functional currencies. A company’s functional currency is that of the economic environment in which it primarily generates and expends cash. The majority of combined companies carries out its activities autonomously from a financial, economic and organizational point of view, and their functional currencies are therefore the respective local currencies.

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

In the condensed combined interim financial statements, the assets and liabilities of Covestro companies and operations outside the eurozone at the start and end of the year were translated into euros at closing rates. All changes occurring during the year and all income and expense items and cash flows were translated into euros at average annual rates. The components of equity were translated at the historical exchange rates prevailing at the respective dates of their first-time recognition in Bayer Group equity.

The exchange differences arising between the resulting amounts and those obtained by translating at closing rates are recognized outside combined profit or loss as “Changes in exchange differences on translation of operations outside the eurozone included in the scope of combination” (in other comprehensive income) or “Exchange differences” (in the tables in the notes). If a company ceases to be included in the scope of combination, such exchange differences are reclassified from equity to combined profit or loss.

Critical accounting estimates

In preparing the condensed combined interim financial statements, additional assumptions and estimates were made, particularly in connection with operations to be transferred (asset deal companies) and allocable expenses for administrative services provided by Bayer Group companies. These assumptions and estimates affect the amounts and the reporting of recognized assets and liabilities, income and expenses, and contingent liabilities. The actual amounts may vary from the estimates.

Further, the income and expenses assigned to the Covestro Group reflect the income and expenses that would have resulted for the Covestro Group as part of the Bayer Group based on the explanations provided here.

Thus, the combined financial information presented here does not necessarily reflect the financial position and results of operations that would have occurred if Covestro had existed as a separate group in the reporting period. Due to the fact that the Covestro Group did not historically exist the validity of the combined financial information is limited. It also means that the combined financial information cannot be used to forecast the future development of the operations that have been combined to form the Covestro Group.

Pensions and other post-employment benefits

The condensed combined interim financial statements present the pension obligations and corresponding plan assets allocated to Covestro.

The obligations and plan assets have been valued on the basis of expert actuarial opinions. In the case of operations to be transferred (asset deal companies), only active employees assigned to the Covestro Group in the relevant periods have been included; in the case of Covestro companies (share deal companies), both active employees and retirees have been included. The liabilities were mainly calculated on an individual-member basis; only in exceptional cases was an employee-based key applied. Plan assets that were not readily allocable were split based on the obligations of the plan sponsors. The actual amounts of the plan assets to be transferred may differ from the plan assets presented in the condensed combined interim financial statements in light of local regulations and laws to be considered in making the transfer.

Capital structure

The equity of the Covestro Group consists of the invested equity attributable to the Bayer Group, other components of equity and the invested equity attributable to non-controlling interest. The condensed combined interim financial statements do not show a capital stock.

The Covestro Group is largely financed by the Bayer Group, which also concludes most hedging transactions. The capital structure of the Covestro Group at the time of the initial public offering will differ from that shown in the condensed combined interim financial statements. It is intended to replace the net debt toward the Bayer Group by external financing and achieve a level of net debt that ensures an investment-grade rating for Covestro.

Income taxes and deferred taxes

Current and deferred income taxes are recognized in accordance with IAS 12 (Income Taxes). For purposes of the condensed combined interim financial statements, income taxes were determined using the separate tax return approach based on the assumption that the companies and operations of the Covestro Group constitute

separate tax payers. This assumption implies that current and deferred taxes for all companies (share deal companies), operations (asset deal companies) and tax groups within the Covestro Group are calculated separately and that the recoverability of deferred tax assets is assessed on this basis.

Deferred tax assets resulting from tax loss carryforwards were recognized in the condensed combined interim financial statements if it is probable that they can be offset against positive results from the respective Covestro Group companies or operations in the future.

Tax receivables and tax liabilities, along with deferred tax assets on loss carryforwards of companies (share deal companies) or operations (asset deal companies) of the Covestro Group that did not constitute separate income tax payers in the reporting period, were recognized in the condensed combined interim financial statements in the years in which they arose as non-cash contributions or withdrawals by the respective stockholders, and are not included in the scope of combination of the Covestro Group. Apart from the asset deal companies, the companies not constituting separate tax payers in the reporting period mainly included Covestro Group companies in Germany and the United States that were members of tax groups otherwise consisting of Bayer Group companies.

In the combined interim statements of cash flows, the taxes actually paid by the Covestro Group were included as inflows/outflows from operating activities.

Effects of uncertain tax positions on earnings are reflected in the condensed combined interim financial statements where relevant to Covestro.

BMS AG management deems the approach adopted as appropriate though not necessarily indicative of the tax expense or income that would result for Covestro as a separate group.

Outlook

It is intended that the legal restructuring of the Covestro Group, including the transfer of employees, be essentially completed by August 31, 2015 (see note (36) to the combined financial statements for the years ended December 31, 2014, December 31, 2013 and December 31, 2012). This primarily relates to the transfer of the employees of the Bayer Technology Services and Bayer Business Services companies who work for Covestro, along with the respective assets and liabilities. These assets and liabilities are not included in the condensed combined interim financial statements but will be recognized in the respective combined statements of financial positions and combined interim statements of financial positions of the Covestro Group once they have been legally transferred.

The control and profit-and-loss transfer agreement between BMS AG and Bayer AG terminates on August 31, 2015.

Comparative financial information

Comparative financial information in these condensed combined financial interim statements refer to the six-month period ended June 30, 2014, and in addition for the combined statements of financial positions as of December 31, 2014. There has been no change concerning the combination methods. Concerning the change of the combined companies for the six-month period ended June 30, 2015 please refer to note (6). The historical performance of combined results does not indicate that the operations, taken as a whole, are subject to seasonality pattern resulting in significant variations between the first and second halves of the year. The main events affecting the comparability of the combined information for the six months ended June 30, 2015 are described below.

4. Accounting policies

Financial reporting standards applied for the first time in 2015

The accounting policies applied in the preparation of the Condensed Combined Interim Financial Statements as of and for the six-month period ended June 30, 2015 are consistent with those used in the preparation of the Combined Financial Statements for the years ended December 31, 2014, December 31, 2013 and December 31, 2012 except for the adoption of new standards and interpretations effective as of January 1, 2015.

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

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

Changes in underlying parameters

Changes in underlying parameters relate primarily to currency exchange rates and the interest rates used to calculate pension obligations.

The exchange rates for major currencies against the euro varied as follows:

Exchange Rates for Major Currencies (Table 1.8)

1€/				Closing rate		Average rate
		As of June 30, 2014	As of June 30, 2015	As of December 31, 2014	1st Half 2014	1st Half 2015
BRL	Brazil	3.00	3.47	3.22	3.15	3.30
CNY	China	8.47	6.94	7.54	8.45	6.94
HKD	Hong Kong	10.59	8.67	9.42	10.63	8.65
INR	India	82.20	71.19	76.72	83.30	70.11
JPY	Japan	138.44	137.01	145.23	140.50	134.14
MXN	Mexico	17.71	17.53	17.87	17.98	16.88
USD	United States	1.37	1.12	1.21	1.37	1.12

The most important interest rates used to calculate the present value of pension obligations are given below:

Discount Rates for Pension Obligations (Table 1.9)

	As of December 31, 2014	As of June 30, 2015
	in %	in %
Germany	2.30	2.40
United States	3.70	4.10

The data selection criteria used to determine the discount rate in the eurozone were modified at the beginning of 2015. The item "Remeasurements of the net defined benefit liability for post-employment benefit plans" contains gains resulting from the rise in market interest rates. The modification of the data selection criteria had an effect of

€51 million. The discount rate obtained by applying the previous data selection criteria would have been lower by 10 basis points as of June 30, 2015. The change in the way the discount rate is determined reduces the net pension expense for the 2015 fiscal year by €3.5 million. As before, the underlying bond portfolio consists entirely of high-quality corporate bonds with a minimum AA or AAA rating. It does not include government-guaranteed or covered bonds.

5. Segment reporting

For the six-month period ended June 30, 2015 the Covestro Group consists of three reportable segments (June 30, 2014: three reportable segments). For a detailed description of the three segments, please refer to the combined financial statements for the years ended December 31, 2014, December 31, 2013 and December 31, 2012.

The segment data are calculated as follows:

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

Reconciliations

The reconciliations of segments` adjusted EBITDA to income before income taxes of the Covestro Group are given in the following tables:

Reconciliation of Segments' adjusted EBITDA to Covestro Group Income Before Income Taxes (Table 1.10)

	1st Half 2014	1st Half 2015
	€ million	€ million
Adjusted EBITDA of segments	651	942
Adjusted EBITDA of Corporate Center	(26)	(28)
Adjusted EBITDA	**625**	**914**
Adjusted depreciation, amortization and impairment losses of segments	(292)	(336)
Adjusted depreciation, amortization and impairment losses	**(292)**	**(336)**
Adjusted EBIT of segments	359	606
Adjusted EBIT of Corporate Center	(26)	(28)
Adjusted EBIT	**333**	**578**
Special Items of segments	(19)	(68)
Special Items of Corporate Center	–	(37)
Special Items	**(19)**	**(105)**
EBIT of segments	340	538
EBIT of Corporate Center	(26)	(65)
EBIT	**314**	**473**
Financial result	(56)	(87)
Income before income taxes	**258**	**386**

Special Items Reconciliation (Table 1.11)

	EBIT 1st Half 2014	**EBIT** 1st Half 2015	**EBITDA** 1st Half 2014	**EBITDA** 1st Half 2015
	€ million	€ million	€ million	€ million
Before special items	**333**	**578**	**625**	**914**
PUR	**(1)**	**(61)**	**(1)**	**(38)**
Restructuring	(1)	(61)	(1)	(38)
PCS	**(13)**	**(1)**	**(12)**	**(1)**
Restructuring	(13)	(1)	(12)	(1)
CAS	**(5)**	**(4)**	**(2)**	**(4)**
Restructuring	(5)	(4)	(2)	(4)
Other/Consolidation	**–**	**(39)**	**–**	**(39)**
Restructuring	–	(37)	–	(37)
Revaluation of other receivables	–	(2)	–	(2)
Total special items	**(19)**	**(105)**	**(15)**	**(82)**
of which cost of goods sold	(9)	(83)	(9)	(60)
of which selling expenses	(5)	(1)	(5)	(1)
of which research and development expenses	(1)	(1)	(1)	(1)
of which general administration expenses	(2)	(36)	(1)	(36)
of which other operating income / expenses	(2)	16	1	16
After special items	**314**	**473**	**610**	**832**

Special items for the six-month period ended June 30, 2015 contain the close down of the production site in Belford Roxo of the Covestro business of Bayer S.A., São Paulo, Brazil. The impairment of the production facilities

amounted to €22 million, which is attributable to the PUR segment and the set-up of restructuring provisions amounted to €53 million, which is mainly attributable to the PUR segment. These special item effects of PUR were partly offset by gains from the sale of two production facilities.

6. Scope of combination

Changes in the scope of combinations

The condensed combined interim financial statements as of June 30, 2015, included 95 companies (December 31, 2014: 95 companies). For a complete list of the entities and operations forming the Covestro Group for the years ended December 31, 2014, December 31, 2013 and December 31, 2012 please see note (7) to the combined financial statements for the years ended December 31, 2014, December 31, 2013 and December 31, 2012. Of these, one company (December 31, 2014: one company) was accounted for as a joint operation in line with Covestro's interest in its assets, liabilities, revenues and expenses in accordance with IFRS 11 (Joint Arrangements). One (December 31, 2014: two) joint venture and two (December 31, 2014: two) associates were accounted for in the combined financial statements using the equity method according to IAS 28 (Investments in Associates and Joint Ventures).

Acquisitions

On March 2, 2015, Covestro successfully completed the acquisition of all shares of Thermoplast Composite GmbH, Germany, a technology leader specializing in the production of thermoplastic fiber composites. The aim of the acquisition is to expand the range of polycarbonate materials for major industries to include composites made from continuous fiber-reinforced thermoplastics. A purchase price of €18 million was agreed. This includes a variable component of €4 million. The purchase price pertained mainly to patents and goodwill. The goodwill of €7 million results from future business potential that is expected to be made available through the acquisition.

The effects of this transaction made in the first half of 2015 on the Covestro Group's assets and liabilities as of the respective acquisition or adjustment dates are shown in the table. Net of acquired cash and cash equivalents, the transaction resulted in the following cash outflow:

Acquired Assets and Assumed Liabilities (Fair Values at the Respective Acquisition Dates) (Table 1.12)

	2015
	€ million
Goodwill	7
Patents and technologies	18
Other liabilities	(1)
Deferred tax liabilities	(6)
Net assets	**18**
Purchase price	**18**
Liabilities for future payments	(4)
Net cash outflow for acquisitions	**14**

For the period from March 2, 2015 to June 30, 2015, Thermoplast Composite GmbH contributed total sales amounting to €0 million and loss after taxes of €1 million. If the acquisition had already been made as of January

1, 2015, total sales and income after taxes of the Covestro Group would not have been materially affected for the period from January 1, 2015 to June 30, 2015.

7. Sales

Total reported net sales in the first half of 2015 rose compared to the first half of 2014 by €545 million, or 9.5%, to €6,264 million. The sales variations resulted from the following factors:

Factors in Sales Development (Table 1.13)

	Polyurethanes		Polycarbonates		Coatings, Adhesives and Specialties		All Other Segments		Group	
									1st Half 2015	
	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%
Volume	125	+4.1	102	+7.6	54	+5.6	(4)	–1.6	277	+4.9
Price	(262)	–8.6	(39)	–2.9	(6)	–0.6	–	–	(307)	–5.4
Currency	291	+9.6	176	+12.9	91	+9.5	17	+5.1	575	+10.0
Total	**154**	**+5.1**	**239**	**+17.6**	**139**	**+14.5**	**13**	**+3.5**	**545**	**+9.5**

8. Equity

The change in invested equity attributable to the Bayer Group is mainly due to distributions to the Bayer Group as part of the legal reorganization of the Covestro Group (€-344 million) , the profit transfer to Bayer AG in the course of the profit and loss transfer agreement between Bayer AG and BMS AG (€-155 million) and a capital increase in Bayer MaterialScience (China) Company Limited, Shanghai, China (€116 million).

Changes in other components of equity result mainly from exchange differences.

9. Financial instruments

Carrying Amounts and Fair Values of Financial Instruments (Table 1.14)

							June 30, 2015
	Carried at amortized cost		Carried at fair value			Non-financial assets/ liabilities	
			Based on quoted prices in active markets (Level 1)	Based on observable market data (Level 2)	Based on unobservable inputs (Level 3)		
	Carrying amount June 30, 2015	Fair value (for information)	Carrying amount	Carrying amount	Carrying amount	Carrying amount	Carrying amount in the statement of financial position
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Trade accounts receivable	1,794						1,794
Loans and receivables	1,794	1,794					1,794
Other financial assets	460		97	9	30		596
Loans and receivables	453	453					453
Available-for-sale financial assets	7		97				104
Derivatives				9	30		39
Other receivables	75					201	276
Loans and receivables	75	75					75
Non-financial assets						201	201
Cash and cash equivalents	106						106
Loans and receivables	106	106					106
Total financial assets	**2,435**		**97**	**9**	**30**		**2,571**
of which loans and receivables	2,428						2,428
Financial liabilities	5,214			4			5,218
Carried at amortized cost	5,214	5,218					5,214
Derivatives				4			4
Trade accounts payable	1,432					24	1,456
Carried at amortized cost	1,432	1,432					1,432
Non-financial liabilities						24	24
Other liabilities	68			2	12	119	201
Carried at amortized cost	68	68					68
Carried at fair value (non-derivative)					4		4
Derivatives				2	8		10
Non-financial liabilities						119	119
Total financial liabilities	**6,714**			**6**	**12**		**6,732**
of which carried at amortized cost	6,714						6,714
of which derivatives				6	8		14

The preceding table shows the carrying amounts and fair values of financial assets and liabilities by category of financial instrument and a reconciliation to the corresponding line item in the statements of financial position. Since the line items “Other receivables”, “Trade accounts payable” and “Other liabilities” contain both financial instruments and non-financial assets or liabilities (such as other tax receivables or advance payments for services to be received in the future), the reconciliation is shown in the column headed “Non-financial assets / liabilities”.

The loans and receivables reflected in other financial assets and the liabilities measured at amortized cost also include receivables and liabilities under finance leases in which the Covestro Group is the lessor or lessee and which are therefore measured in accordance with IAS 17.

Because of the short maturities of most trade accounts receivable and payable, other receivables and liabilities, and cash and cash equivalents, their carrying amounts at the closing date did not significantly differ from the fair values.

The fair value (Level 2) stated for noncurrent receivables, loans and non-derivative financial liabilities is the present value of the respective future cash flows. This was determined by discounting the cash flows at a closing-date interest rate that takes into account the term of the assets or liabilities and the creditworthiness of the counterparty. Where a market price was available, however, this was deemed to be the fair value.

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

The fair values of derivatives for which no publicly quoted prices existed were 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 were determined to allow for the contracting party's credit risk.

Financial instruments are measured by first calculating the cash flows and then discounting them and, where necessary, translating them into the reporting currency at closing rates of exchange. To measure currency options, the Black-Scholes model is used in addition. Counterparty credit risk is determined at the portfolio level and taken into account in the measurement.

Fair values measured using unobservable inputs are categorized within Level 3 of the fair value hierarchy. This applies to the fair values of embedded derivatives and to obligations for contingent consideration in business combinations.

Embedded derivatives are separated from their respective host contracts. Such host contracts 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 (Level 3). These included planned sales and purchase volumes and prices derived from market data. Regular monitoring is carried out based on these fair values.

The changes in the net amount of financial assets and liabilities recognized at fair value based on unobservable inputs (Level 3) were as follows:

Changes in the Net Amount of Financial Assets and Liabilities Recognized at Fair Value Based on Individual Unobservable Inputs — Table (1.15)

	2015
	€ million
Net carrying amounts, January 1	15
Gains (losses) recognized in combined profit or loss	7
of which related to assets/liabilities still recognized in the statements of financial positions	7
Additions of assets / (liabilities)	(4)
Net carrying amounts, June 30	**18**

The changes recognized in combined profit or loss were included in other operating income or expenses.

Other financial assets of €596 million included €292 million cash pool receivables from the Bayer Group.

Financial liabilities of €5,218 million included €631 million liabilities to banks and €206 million cash pool liabilities to the Bayer Group.

10. Legal risks

To find out more about the Covestro Group's legal risks, please see note (31) to the combined financial statements for the years ended December 31, 2014, December 31, 2013 and December 31, 2012. Since the combined financial statements for the years ended December 31, 2014, December 31, 2013 and December 31, 2012, no significant changes have occurred in respect of the legal risks.

11. Related parties

Related entities

Related entities as defined in IAS 24 (Related Party Disclosures) are companies that are able to exert influence on the Covestro Group or individual combined companies or over which the Covestro Group or individual combined companies exercise control or joint control or have a significant influence.

These include, in particular, companies in the Bayer Group (Bayer AG and its direct and indirect interests – without Covestro operations), since the Covestro Group is controlled by Bayer AG. Related entities also include non-consolidated Covestro subsidiaries, joint ventures and associates as well as post-employment benefit plans.

Transactions with related entities are carried out on an arm's-length basis.

The following table shows the volume of transactions with related parties:

Related Parties (Table 1.16)

	1st Half 2014						1st Half 2015						Full Year 2014			
	Sales of goods and services	Purchases of goods and services	Receivables	*Of which financing*	Liabilities	*Of which financing*	Sales of goods and services	Purchases of goods and services	Receivables	*Of which financing*	Liabilities	*Of which financing*	Receivables	*Of which financing*	Liabilities	*Of which financing*
	€ million	€ million	€ million	*€ million*	€ million	*€ million*	€ million	€ million	€ million	*€ million*	€ million	*€ million*	€ million	*€ million*	€ million	*€ million*
Bayer AG	10	23	396	*383*	59	*53*	7	26	426	*420*	164	*159*	374	*345*	108	*99*
Bayer Group companies	51	515	1,108	*1,076*	3,947	*3,736*	42	445	61	*21*	4,243	*4,103*	113	*70*	4,005	*3,795*
Non-consolidated subsidiaries	1	–	2	–	3	–	20	–	5	–	9	–	2	–	5	–
Joint ventures	8	–	3	–	–	–	5	–	1	–	–	–	2	–	–	–
Associates	5	455	4	–	–	–	7	339	4	–	–	–	4	–	–	–

The goods and services received mainly comprise operational goods and service transactions; services provided by the service companies Bayer Business Services, Bayer Technology Services and Currenta; services procured from the Bayer Group Platform; insurance services procured from Pallas Versicherung AG; allocated holding company costs and leasing and financing services.

The receivables and liabilities pertaining to related entities include the separately described financing measures along with balances on current goods, service transactions and other transactions.

The financing services mainly include loan transactions, current cash pooling activities, finance lease transactions and other financing activities between the Covestro Group and Bayer AG or other Bayer Group companies.

Hedging transactions

Hedging transactions for the Covestro Group are mainly concluded by Bayer AG. The corresponding receivables are reflected in other financial assets, and the liabilities are reflected in financial liabilities or other liabilities.

Capital increase

The capital increase in Bayer MaterialScience (China) Company Limited, Shanghai, China was contributed by Bayer (China) Limited, Shanghai, China.

Legal reorganization

As Covestro Group net assets have been accounted for in the condensed combined interim financial statements under the common management approach any subsequent legal transfers from Bayer to Covestro Group are recognized as an offset in equity, that is for shares being transferred through exchange of cash, as cash withdrawals or cash contributions, and for assets or liabilities transferred, as non-cash withdrawals or non-cash contributions in kind.

Due to the legal reorganization, BMS AG and its direct and indirect subsidiaries acquired the following significant interests in companies from Bayer-Group entities in the first six months:

- 100% of the shares in Bayer Polyurethanes B.V., Mijdrecht, Netherlands, were acquired from Bayer B.V., Mijdrecht, Netherlands, for a purchase price of €202 million.
- 100% of the shares in Bayer MaterialScience B.V., Foxhol, Netherlands, were acquired from Bayer B.V., Mijdrecht, Netherlands, for a purchase price of €37 million.
- 100% of the shares in Bayer MaterialScience LLC, Pittsburgh, USA, which were transferred as contribution in kind to Bayer MaterialScience B.V., Foxhol, Netherlands.
- 100% of the shares in Bayer MaterialScience A/S, Oterrup, Denmark, were acquired from Bayer A/S, Copenhagen, Denmark, for a purchase price of €39 million.
- 95.6% of the shares in Bayer MaterialScience Taiwan Limited, Taipei, Taiwan, were acquired from Bayer B.V., Mijdrecht, Netherlands, for a purchase price of €70 million.

Furthermore, 99.30% of the shares in Bayer MaterialScience Private Limited, Thane, India, were transferred as contribution in kind from Bayer AG, Germany, on June 15, 2015. The aforementioned considerations paid are recognized as a debit to equity and a credit to financial assets.

Related persons

Related persons as defined by IAS 24 are persons who, by virtue of the positions they hold in the Covestro Group and in the interests of Bayer AG, are globally responsible for the operational business of Covestro. These are the members of the Board of Management and Supervisory Board of BMS AG. There was no significant change in the nature and extent of the remuneration of the members of the Board of Management and Supervisory Board of BMS AG compared with December 31, 2014.

12. Events after the reporting period

Legal restructuring of the Covestro Group

In the course of the legal restructuring, all companies that were not yet controlled by BMS AG, but by the Bayer Group and are allocated to the Covestro Group by virtue of their business activities, have been or will be legally transferred from the Bayer Group to the Covestro Group.

In the context of the reorganization, the following significant Covestro companies and operations have been transferred since July 1, 2015 and are now direct or indirect subsidiaries of BMS AG:

- 100% of the shares in Covestro Antwerpen NV, Antwerp, Belgium, for a purchase price of €564 million from Bayer Antwerpen NV, Antwerp, Belgium,
- 100% of the shares in Bayer MaterialScience S.r.l., Milan, Italy, for a purchase price of €107 million from Bayer S.p.A., Milan, Italy, and
- 99% of the shares in Bayer MaterialScience S.p.A., Milan, Italy, for a purchase price of €6 million from Bayer S.p.A., Milan, Italy.

With effective date July 1, 2015, the Covestro business of Bayer S.A., São Paulo, Brazil, has been transferred to the Covestro Group, while certain assets and liabilities and in particular the restructuring provisions as well as any future payment obligations related to the closing of the production site in Belford Roxo remained with the Bayer Group.

Leverkusen, August 12, 2015

Bayer MaterialScience AG

The Board of Management

Patrick Thomas	Frank H. Lutz	Michael Bernhardt

Combined Financial Statements of the Covestro Group
(prepared in accordance with IFRS)
as of and for the fiscal years ended December 31, 2014, 2013 and 2012
(audited)

Combined Income Statements of the Covestro Group

(Table 1.1)

	Note	2012	2013	2014
		€ million	€ million	€ million
Net sales	(8)	**11,610**	**11,357**	**11,761**
Cost of goods sold		(9,306)	(9,390)	(9,609)
Gross profit		**2,304**	**1,967**	**2,152**
Selling expenses		(1,120)	(1,094)	(1,097)
Research and development expenses		(255)	(243)	(212)
General and administrative expenses		(351)	(322)	(343)
Other operating income	(9)	110	161	97
Other operating expenses	(10)	(146)	(78)	(80)
EBIT[1]		**542**	**391**	**517**
Equity-method loss	(12.1)	(17)	(16)	(15)
Financial income		36	40	30
Financial expenses		(204)	(160)	(151)
Financial result	(12)	**(185)**	**(136)**	**(136)**
Income before income taxes		**357**	**255**	**381**
Income taxes	(13)	(93)	(76)	(104)
Income after income taxes		**264**	**179**	**277**
of which attributable to non-controlling interest	(14)	**3**	**(1)**	**5**
of which attributable to the Bayer Group		**261**	**180**	**272**

[1] EBIT: earnings before financial result and taxes

Combined Statements of Comprehensive Income of the Covestro Group

(Table 1.2)

	Note	2012	2013	2014
		€ million	€ million	€ million
Income after income taxes		**264**	**179**	**277**
of which attributable to non-controlling interest	(14)	*3*	*(1)*	*5*
of which attributable to the Bayer Group		*261*	*180*	*272*
Remeasurements of the net defined benefit liability for post-employment benefit plans	(23)	(285)	186	(753)
Income taxes	(13)	84	(58)	242
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans		**(201)**	**128**	**(511)**
Other comprehensive income that will not be reclassified subsequently to combined profit or loss		**(201)**	**128**	**(511)**
Changes in fair values of derivatives designated as cash flow hedges	(29.3)	13	15	(1)
Reclassified to combined profit or loss		25	(17)	(8)
Income taxes	(13)	(10)	1	2
Other comprehensive income from cash flow hedges		**28**	**(1)**	**(7)**
Changes in exchange differences on translation of operations outside the eurozone included in the scope of combination		(32)	(146)	351
Reclassified to combined profit or loss		-	-	-
Other comprehensive income from exchange differences		**(32)**	**(146)**	**351**
Other comprehensive income that may be reclassified subsequently to combined profit or loss		**(4)**	**(147)**	**344**
Effects of changes in scope of combination		**-**	**2**	**1**
Total other comprehensive income*		**(205)**	**(17)**	**(166)**
of which attributable to non-controlling interest		*(1)*	*(1)*	*3*
of which attributable to the Bayer Group		*(204)*	*(16)*	*(169)*
Total comprehensive income		**59**	**162**	**111**
of which attributable to non-controlling interest		*2*	*(2)*	*8*
of which attributable to the Bayer Group		*57*	*164*	*103*

* total changes recognized outside combined profit or loss

Combined Statements of Financial Positions of the Covestro Group

(Table 1.3)

	Note	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2014
		€ million	€ million	€ million
Noncurrent assets				
Goodwill	(15)	243	239	243
Other intangible assets	(15)	226	164	133
Property, plant and equipment	(16)	4,577	4,442	4,893
Investments accounted for using the equity method	(17)	224	202	216
Other financial assets	(18)	1,028	1,021	39
Other receivables	(21)	71	76	74
Deferred taxes	(13)	141	160	413
Noncurrent assets		**6,510**	**6,304**	**6,011**
Current assets				
Inventories	(19)	1,865	1,616	1,904
Trade accounts receivable	(20)	1,428	1,363	1,561
Other financial assets	(18)	344	546	431
Other receivables	(21)	252	259	277
Claims for income tax refunds		22	8	7
Cash and cash equivalents		44	37	201
Current assets		**3,955**	**3,829**	**4,381**
Total assets		**10,465**	**10,133**	**10,392**
Equity	(22)			
Invested equity attributable to the Bayer Group		2,416	2,767	1,427
Other components of equity		149	2	343
Total invested equity attributable to the Bayer Group		**2,565**	**2,769**	**1,770**
Invested equity attributable to non-controlling interest		14	10	17
Stockholders' equity		**2,579**	**2,779**	**1,787**
Noncurrent liabilities				
Provisions for pensions and other post-employment benefits	(23)	798	622	1,395
Other provisions	(24)	189	167	187
Financial liabilities	(25)	827	827	779
Other liabilities	(27)	36	27	30
Deferred taxes	(13)	136	193	176
Noncurrent liabilities		**1,986**	**1,836**	**2,567**
Current liabilities				
Other provisions	(24)	278	243	322
Financial liabilities	(25)	3,920	3,726	3,943
Trade accounts payable	(26)	1,378	1,329	1,522
Income tax liabilities	(24.1)	2	3	3
Other liabilities	(27)	322	217	248
Current liabilities		**5,900**	**5,518**	**6,038**
Total equity and liabilities		**10,465**	**10,133**	**10,392**

Combined Statements of Cash Flows of the Covestro Group

(Table 1.4)

	Note	2012	2013	2014
		€ million	€ million	€ million
Income after income taxes		264	179	277
Income taxes		93	76	104
Financial result		185	136	136
Income taxes paid or accrued		(135)	(85)	(84)
Depreciation, amortization and impairments		669	693	605
Change in pension provisions		(51)	(16)	(23)
(Gains) losses on retirements of noncurrent assets		(19)	(42)	1
Gross cash flow		**1,006**	**941**	**1,016**
Decrease (increase) in inventories		(317)	179	(164)
Decrease (increase) in trade accounts receivable		(20)	17	(110)
(Decrease) increase in trade accounts payable		189	(78)	117
Changes in other working capital, other non-cash items		(44)	(61)	66
Net cash provided by (used in) operating activities (net cash flow)	(32)	**814**	**998**	**925**
Cash outflows for additions to property, plant, equipment and intangible assets		(633)	(583)	(612)
Cash inflows from sales of property, plant, equipment and other assets		7	12	9
Cash inflows from divestitures		8	45	4
Cash inflows from (outflows for) noncurrent financial assets		(21)	(21)	12
Cash outflows for acquisitions less acquired cash		(56)	-	-
Interest and dividends received		4	5	2
Net cash provided by (used in) investing activities	(33)	**(691)**	**(542)**	**(585)**
Financial transactions with Bayer Group		(145)	(132)	(2)
Dividend payments		(1)	(2)	(1)
Issuances of debt		219	43	175
Retirements of debt		(218)	(329)	(332)
Interest paid including interest rate swaps		(51)	(41)	(32)
Net cash provided by (used in) financing activities	(34)	**(196)**	**(461)**	**(192)**
Change in cash and cash equivalents due to business activities		**(73)**	**(5)**	**148**
Cash and cash equivalents at beginning of year		**117**	**44**	**37**
Change in cash and cash equivalents due to exchange rate movements		-	(2)	16
Cash and cash equivalents at end of year		**44**	**37**	**201**

Combined Statements of Changes in Equity of the Covestro Group

(Table 1.5)

	Invested equity attributable to the Bayer Group	Other Components of Equity				Total invested equity attributable to the Bayer Group	Invested equity attributable to non-controlling interest	**Equity**
		Exchange differences	Fair-value measurement of securities	Cash flow hedges	Revaluation surplus			
		€ million	€ million	€ million	€ million	€ million	€ million	€ million
Dec. 31, 2011	**2,711**	**168**		**(18)**	**3**	**2,864**	**13**	**2,877**
Equity transactions with owners								
Capital increase / decrease	8					8		8
Dividend payments	(20)					(20)	(1)	(21)
Profit / loss transfer to Bayer AG	(95)					(95)		(95)
Withdrawals / contributions	(250)					(250)		(250)
Distribution to the Bayer Group (purchase price Covestro operations and companies)								
Other changes	2				(1)	1		1
Other comprehensive income	(201)	(31)		28		(204)	(1)	(205)
Income after income taxes	261					261	3	264
Dec. 31, 2012	**2,416**	**137**		**10**	**2**	**2,565**	**14**	**2,579**
Equity transactions with owners								
Capital increase / decrease	14					14		14
Dividend payments	(13)					(13)	(2)	(15)
Profit / loss transfer to Bayer AG	179					179		179
Withdrawals / contributions	(128)					(128)		(128)
Distribution to the Bayer Group (purchase price Covestro operations and companies)	(10)					(10)		(10)
Other changes	(1)				(1)	(2)		(2)
Other comprehensive income	130	(145)		(1)		(16)	(1)	(17)
Income after income taxes	180					180	(1)	179
Dec. 31, 2013	**2,767**	**(8)**		**9**	**1**	**2,769**	**10**	**2,779**
Equity transactions with owners								
Capital increase / decrease	(436)					(436)		(436)
Dividend payments	(650)					(650)	(1)	(651)
Profit / loss transfer to Bayer AG	20					20		20
Withdrawals / contributions	(15)					(15)		(15)
Distribution to the Bayer Group (purchase price Covestro operations and companies)	(21)					(21)		(21)
Other changes								
Other comprehensive income	(510)	348		(7)		(169)	3	(166)
Income after income taxes	272					272	5	277
Dec. 31, 2014	**1,427**	**340**		**2**	**1**	**1,770**	**17**	**1,787**

Notes to the Combined Financial Statements of the Covestro Group

1. Key data by segment and region

Key Data by Segment (Table 1.6)

	Polyurethanes			Polycarbonates			Coatings, Adhesives and Specialties			Other/Consolidation						Group		
										All other segments			Corporate Center and Reconciliation					
	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Net sales (external)	5,993	6,052	6,282	2,822	2,645	2,822	1,984	1,876	1,928	811	784	729	–	–	–	11,610	11,357	11,761
Change	–	+1.0%	+3.8%	–	–6.3%	+6.7%	–	–5.4%	+2.8%	–	–3.3%	–7.0%	–	–	–	–	–2.2%	+3.6%
Currency-adjusted change	–	+3.8%	+4.9%	–	–4.4%	+7.2%	–	–3.2%	+3.5%	–	–2.3%	–6.6%	–	–	–	–	+0.2%	+4.4%
Intersegment transfers	85	88	85	24	26	27	44	43	46	–	–	–	(153)	(157)	(158)	–	–	–
Net sales and intersegment transfers (total)	6,078	6,140	6,367	2,846	2,671	2,849	2,028	1,919	1,974	811	784	729	(153)	(157)	(158)	11,610	11,357	11,761
Other operating income	58	60	63	20	22	12	25	75	16	7	4	5	–	–	1	110	161	97
EBIT	299	234	233	6	(85)	(32)	274	300	354	3	–	17	(40)	(58)	(55)	542	391	517
Adjusted EBIT	328	242	242	6	(82)	(3)	283	283	359	3	1	17	(40)	(58)	(54)	580	386	561
Adjusted EBITDA	724	639	592	185	94	160	364	367	437	11	14	26	(40)	(58)	(54)	1,244	1,056	1,161
Equity-method income (loss)	(20)	(18)	(17)	3	2	2	–	–	–	–	–	–	–	–	–	(17)	(16)	(15)
Equity-method investments	202	179	191	22	23	25	–	–	–	–	–	–	–	–	–	224	202	216
Assets	5,291	5,012	5,419	2,398	2,199	2,520	1,269	1,186	1,397	194	201	198	1,313	1,535	858	10,465	10,133	10,392
Depreciation, amortization and impairments	401	402	351	178	174	164	82	103	81	8	14	9	–	–	–	669	693	605
of which impairment losses	5	4	3	1	–	2	1	25	6	2	–	3	–	–	–	9	29	14
of which impairment loss reversals	–	–	–	–	–	–	–	–	(2)	–	–	–	–	–	–	–	–	(2)
Liabilities	1,544	1,305	1,739	748	685	994	544	489	801	131	89	123	4,919	4,786	4,948	7,886	7,354	8,605

Key Data by Region (Table1.7)

	EMLA			NAFTA			APAC			Other/Consolidation			Total		
	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Net sales (external) – by market	5,593	5,464	5,485	2,851	2,831	3,022	3,166	3,062	3,254	–	–	–	11,610	11,357	11,761
Change	–	–2.3%	+0.4%	–	–0.7%	+6.7%	–	–3.3%	+6.3%	–	–	–	–	–2.2%	+3.6%
Currency-adjusted change	–	–1.2%	+1.2%	–	+2.2%	+7.3%	–	+0.8%	+7.5%	–	–	–	–	+0.2%	+4.4%
Net sales (external) – by point of origin	5,651	5,450	5,488	2,907	2,888	3,080	3,052	3,019	3,193	–	–	–	11,610	11,357	11,761
Change	–	–3.6%	+0.7%	–	–0.7%	+6.6%	–	–1.1%	+5.8%	–	–	–	–	–2.2%	+3.6%
Currency-adjusted change	–	–2.5%	+1.5%	–	+2.3%	+7.2%	–	+3.2%	+7.0%	–	–	–	–	+0.2%	+4.4%
Interregional sales	645	625	766	630	652	616	130	100	142	(1,405)	(1,377)	(1,524)	–	–	–
Assets	3,601	3,563	3,645	3,012	2,828	2,374	3,711	3,582	3,960	141	160	413	10,465	10,133	10,392

The table titled "Key Data by Region" presents information for three 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. The column “Other/Consolidation” comprises the elimination of intra-group items and transactions (interregional sales) and assets not directly allocable to a specific region.

2. General information

Background

On September 18, 2014, Bayer AG, Leverkusen ("Bayer AG"), announced its plan to contribute the Bayer MaterialScience business into a stock corporation (“Aktiengesellschaft”) and list shares of this stock corporation on a stock exchange.

The Bayer MaterialScience business – which consists of the activities in the area of polymer materials and certain inorganic basic chemicals – is to be separated from Bayer AG and its subsidiaries (“Bayer Group”) in two steps. In an initial preparatory step, activities that so far have not been conducted by separate companies have been and will be transferred to separate legal entities. In a second step, all companies comprising the Bayer MaterialScience business have been or will be bundled under Bayer MaterialScience AG, Leverkusen ("BMS AG"), and its direct and indirect subsidiaries. BMS AG is planned to be renamed to Covestro Deutschland AG effective September 2015 and the Bayer MaterialScience business is to be named “Covestro”. Therefore the Bayer MaterialScience business hereinafter is referred to as “Covestro” or the “Covestro Group” for the purpose of these combined financial statements.

The parent company of the future Covestro Group and thus the issuer of shares for the planned flotation will be Covestro AG, a company yet to be established. The shares of BMS AG will be contributed to the capital reserve of Covestro AG. Shares in Covestro AG are to be admitted to trading on the regulated market of the Frankfurt Stock Exchange, Germany, while at the same time being admitted to the Prime Standard segment (segment of the official market with additional follow-up requirements for admission).

Pursuant to E.U. Prospectus Regulation No. 809/2004, an issuer's listing prospectus must include historical financial information covering the previous three fiscal years. At the time of issuance, the issuer, Covestro AG, has a "complex financial history" as defined in E.U. Prospectus Regulation No. 211/2007.

Because Covestro AG is not being established until 2015, the Board of Management of BMS AG has prepared combined financial statements for the fiscal years January 1, 2012, to December 31, 2012; January 1, 2013, to December 31, 2013; and January 1, 2014, to December 31, 2014, for the Covestro Group.

The combined financial statements comprise combined income statements, combined statements of comprehensive income, combined statements of financial position, combined statements of cash flows, combined statements of changes in equity and notes to the combined financial statements for the fiscal years 2012, 2013 and 2014.

The combined financial statements are presented in euros. Amounts are stated in millions of euros except where otherwise indicated; which may lead to rounding discrepancies.

The combined financial statements were prepared on August 12, 2015 by the Board of Management of BMS AG, Kaiser-Wilhelm-Allee 60, 51368 Leverkusen, Germany.

Description of the Covestro Group

Covestro, one of the world's leading manufacturers of polymers and high-performance plastics, develops, manufactures and markets high-tech polymer materials in the areas of polyurethanes; polycarbonates; and coatings, adhesives and specialties. Covestro also manufactures and markets selected basic inorganic chemicals.
Covestro operates worldwide through various Bayer Group companies and, under IFRS 8 (Operating Segments), is a reportable segment for purposes of the consolidated financial statements of the Bayer Group. The Board of Management of BMS AG has implemented segment reporting for Covestro operations based on internal reporting in accordance with IFRS 8. Covestro manages its operations on an activity basis and maintains three reporting

segments: 1) PUR (Polyurethanes), 2) PCS (Polycarbonates) and 3) CAS (Coatings, Adhesives and Specialties), any activities that cannot be allocated to these segments are reported under “All other segments”. The segment reporting is presented in the combined financial statements for each of the reporting periods 2012 through 2014. Activities of the segments are explained in the combined note (6).

3. Basis of preparation of the combined financial statements

Structure and composition of the combined Covestro Group

Compliance with IFRS

The following financial statements of the Covestro Group were prepared according to the International Financial Reporting Standards (“IFRS”) – as endorsed by the European Union (“EU”) – on a combined basis ("combined financial statements").

The IFRS provide no guidelines for the preparation of combined financial statements, which is therefore subject to the rules given in IAS 8.12. IAS 8.12 requires consideration of the most recent pronouncements of other standard-setting bodies, other financial reporting requirements and recognized industry practices.

In the combined financial statements of the Covestro Group presented below, the predecessor accounting approach has been applied in accordance with the rules on business combinations under common control. The combined financial statements of the Covestro Group reflect the Covestro companies and the operations assigned to Covestro as historically included in the IFRS consolidated financial statements of the Bayer Group and managed by BMS AG management (economic-entity approach). In general, the Covestro Group applies the same accounting policies and measurement principles in preparing the combined financial statements as were used by the included Covestro companies and operations in preparing their financial information for inclusion in the IFRS consolidated financial statements of the Bayer Group. This approach is adjusted with respect to transactions with Bayer Group companies and to ensure IFRS compliance. Transactions between the Covestro Group and the remainder of the Bayer Group are recognized in accordance with IFRS and classified as related-entity transactions. The combined financial statements reflect all material transactions between the Covestro Group and the Bayer Group. In the combined financial statements, all IFRS standards whose application was mandatory for the fiscal year 2014 have been consistently applied for each of the reporting periods 2012 through 2014.

In the combined income statements, combined statements of comprehensive income, combined statements of financial position, combined statements of cash flows and combined statements of changes in equity of the Covestro Group, certain items have been summarized for the sake of clarity. These items are explained in the notes.

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

Deferred tax assets and liabilities and pension provisions are consistently presented as noncurrent in the statements of financial position.

The combined statements of changes in invested equity present the changes in the total invested equity attributable to the Bayer AG and the changes in invested equity to non-controlling interest for the respective years. The combined statements of cash flows were prepared using the indirect method.

The separate financial statements or reporting packages of the combined companies or operations, respectively, were prepared as of the closing dates for the combined financial statements.

Scope of combination

The scope of combination for the combined financial statements of the Covestro Group for the fiscal years ended December 31, 2014, December 31, 2013, and December 31, 2012, was determined on economic principles using the common management approach.

The scope of combination includes companies directly or indirectly controlled by BMS AG along with the net assets (assets and liabilities) of corporate units that have conducted operations for the Covestro Group that were already centrally managed by the Board of Management of BMS AG during the reporting periods but were not yet legally held, either directly or indirectly, by BMS AG but by Bayer AG. Also included in the scope of combination are assets, particularly land, production facilities, office buildings and other real estate that historically has been used by Covestro or is connected with the business of the Covestro Group. The legal transfer of these assets from the Bayer Group to the Covestro Group will take place at a later date. Thus the Covestro Group operations included in the scope of combination are conducted by BMS AG and its direct or indirect subsidiaries as well as by direct or indirect subsidiaries of Bayer AG.

Where a business or assets and liabilities of Covestro operations that are included in the combined financial statements were already legally transferred to the Covestro Group during the reporting periods, these effects are reflected in equity for the respective period as of the date of transfer. Businesses or individual assets or liabilities that qualify as Covestro operations that will not be legally transferred from Bayer Group to the Covestro Group until after December 31, 2014, or will not be transferred at all, are included in the scope of combination with effect from January 1, 2012, in accordance with the above principles.

The structure of the scope of combination of the Covestro Group may be summarized as follows:

- BMS AG and its direct and indirect subsidiaries (for details see note (7)),
- companies not yet controlled by BMS AG (companies controlled by Bayer AG) that by virtue of their operations are allocated to the Covestro Group and are planned to be legally transferred at a later date, along with interests in individual joint ventures and associates economically and legally allocated to the Covestro Group,
- assets and liabilities economically allocated to the Covestro Group (units of companies (previously) controlled by Bayer AG) whose legal transfer has already been completed,
- assets and liabilities economically allocated to the Covestro Group (units of companies controlled by Bayer AG) whose legal transfer has not yet been completed,
- assets, particulary land, production facilities, other real estate and supply lines that historically have been used by Covestro or are connected with Covestro's operations and whose legal transfer will take place at a later date.

As of December 31, 2014, December 31, 2013, and December 31, 2012, the Covestro Group was comprised of, respectively, 95, 98 and 100 companies and Covestro-related operations. A complete list of the entities and operations forming the Covestro Group in each of the reporting periods is provided in note (7).

Legal transfers to BMS AG or its subsidiaries during the reporting periods or after December 31, 2014, involving shares of companies are referred to in the following as "share deals", the legal entities concerned as "share deal companies".

Legal transfers during the reporting periods or after December 31, 2014, that entirely relate to assets and liabilities or obligations are referred to in the following as "asset deals", the legal entities concerned as "asset deal companies".

Treatment of share deal companies in the combined financial statements

Separate financial statements were drawn up for share deal companies and are included in the combined financial statements. They also include liquidity and financial obligations as well as financial assets or liabilities from central cash pooling agreements with the Bayer Group along with the respective interest income and expense. Assets, liabilities, income and expenses were allocated as necessary. The calculation of taxes is shown in note (13).

Treatment of asset deal companies in the combined financial statements

For purposes of the combined financial statements, the relevant income, expenses, assets and liabilities of asset deal companies were allocated to the Covestro operations. Liquid assets, financial obligations and financial assets or liabilities from cash pooling agreements with the Bayer Group were not allocated to the Covestro operations because such assets or liabilities are not economically allocable to the Covestro operations, nor do legal claims or obligations exist toward Bayer Group in these cases. Accordingly, no interest income or expense pertaining to such items was reflected in the combined income statements. The computation of taxes is explained in note (13).

The Covestro Group obtains engineering, accounting, human resources, IT and infrastructure services from Bayer Group service companies, such as Bayer Technology Services, Bayer Business Services and Currenta. Some employees who provided such services in the Covestro Group transferred to Bayer Technology Services or Bayer Business Services, mainly in 2012, as part of the centralization of service functions. These services, which are essential to the operational business of the Covestro Group, are reflected in the combined income statements for the reporting periods. The respective charges are settled on the basis of framework and service level agreements. Accordingly, the combined financial statements do not include personnel-related obligations (such as pension obligations) to employees following their transfer to Bayer Technology Services or Bayer Business Services during the reporting periods, or related assets.

Furthermore, Bayer Group companies provided or provide administrative services in the areas of procurement, accounting and IT. These services were charged on to the Covestro Group by the Bayer Group units that provided them and are reflected in the combined income statements at their historical cost.

Both Bayer AG and Bayer Corporation, Pittsburgh, United States, as holding companies, provide various central services to the Covestro Group. These services were analyzed by BMS AG management and are reflected in the combined financial statements where they were deemed essential to the operational business of the Covestro Group. The respective costs were directly allocated or, where this was not possible, indirectly allocated using appropriate keys. The services provided are reflected in the combined income statements of Covestro at their historical cost to the holding companies.

No allocations of assets or liabilities were made in the combined financial statements to administrative services, service companies or the central activities of the holding companies that pertained to Covestro. The related expenses were consistently recognized in the reporting periods in the amounts of the historically charged and allocated costs.

Assets jointly used by Covestro and Bayer Group ("shared assets") that were predominantly used (usage > 50%) by Covestro in the reporting periods and will be legally transferred to the Covestro Group at a later date were generally assigned to the Covestro Group. Shared assets that were not predominantly used (usage < 50%) by Covestro in the reporting periods were accounted for by way of appropriate usage charges.

Presentation of the combined financial statements and consolidation principles

All income, expenses, assets and liabilities that are attributable to the economic operations of the Covestro Group are reflected in the combined financial statements of the Covestro Group. Further assumptions and estimates had to be made, particularly with regard to the allocation of expenses. These were appropriately and consistently applied in the reporting periods. The actual amounts, however, may vary from the estimates (see "Critical accounting estimates") and therefore do not necessarily indicate what the results of operations of the Covestro Group would have been if it had existed as a separate group in the reporting periods.

The carrying amounts of participating interests and BMS AG's interests in the equity of its subsidiaries were eliminated outside combined profit or loss in preparing the combined financial statements. Joint operations were included pro rata according to the same principles.

The combined financial statements also include joint ventures and associates accounted for using the equity method. The carrying amounts of companies accounted for using the equity method were adjusted annually by the percentage of any changes in their equity corresponding to the Covestro Group's percentage interests in the respective companies. Differences arising upon first-time inclusion using the equity method were accounted for according to full-consolidation principles.

Intercompany balances and transactions within the Covestro Group along with all gains and losses from transactions within the Covestro Group were eliminated for purposes of the combined financial statements.

During the preparation of the combined financial statements, deferred income tax effects on combination entries were recognized.

Where payments have been or are being made by Covestro to the Bayer Group in the course of the legal transfer of Covestro legal entities or operations that are already economically included in the Covestro Group, such payments are reported as withdrawals by Bayer AG as stockholder at the time of the transfer.

Assets and liabilities or obligations formerly managed by the Covestro Group, and therefore included in the combined financial statements, that will not be legally transferred to Covestro companies are reported outside combined profit or loss as non-cash withdrawals or contributions by Bayer AG as stockholder at the time the Covestro operations are transferred to Covestro companies provided that the assets and liabilities transferred meet the definition of a business according to IFRS 3.

Assets and liabilities or obligations transferred to Covestro that historically did not fall within the responsibility of the Covestro Group are recognized in the combined financial statements at the time of the transfer. If these transferred assets and liabilities meet the definition of a business combination according to IFRS 3, the transfer is made at the carrying amounts outside combined profit or loss; otherwise they are transferred at market values.

Foreign currency translation

The separate financial statements and reporting packages of the combined companies and operations, respectively, included in the combined financial statements are prepared in their respective functional currencies. A company’s functional currency is that of the economic environment in which it primarily generates and expends cash. The majority of combined companies carry out their activities autonomously from a financial, economic and organizational point of view, and their functional currencies are therefore the respective local currencies.

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

In the combined financial statements, the assets and liabilities of Covestro companies and operations outside the eurozone at the start and end of the year were translated into euros at closing rates. All changes occurring during the year and all income and expense items and cash flows were translated into euros at average annual rates. The components of equity were translated at the historical exchange rates prevailing at the respective dates of their first-time recognition in Bayer Group equity.

The exchange differences arising between the resulting amounts and those obtained by translating at closing rates are recognized outside combined profit or loss as “Changes in exchange differences on translation of operations outside the eurozone included in the scope of combination” (in other comprehensive income) or “Exchange differences” (in the tables in the notes). If a company ceases to be included in the scope of combination, such exchange differences are reclassified from equity to combined profit or loss.

The exchange rates for major currencies against the euro varied as follows:

Exchange Rates for Major Currencies (Table 1.8)

		Closing rate			Average rate		
1€/		2012	2013	2014	2012	2013	2014
BRL	Brazil	2.69	3.26	3.22	2.50	2.85	3.12
CNY	China	8.22	8.35	7.54	8.10	8.16	8.17
HKD	Hong Kong	10.23	10.69	9.42	9.96	10.29	10.29
INR	India	72.56	85.37	76.72	68.54	77.33	80.99
JPY	Japan	113.61	144.72	145.23	102.38	129.20	140.32
MXN	Mexico	17.18	18.07	17.87	16.90	16.93	17.65
USD	United States	1.32	1.38	1.21	1.28	1.33	1.33

Critical accounting estimates

In preparing the combined financial statements, additional assumptions and estimates were made, particularly in connection with operations to be transferred (asset deal companies) and allocable expenses for administrative services provided by Bayer Group companies. These assumptions and estimates affect the amounts and the reporting of recognized assets and liabilities, income and expenses and contingent liabilities. The actual amounts may vary from the estimates.

Further, the income and expenses assigned to the Covestro Group reflect the income and expenses that would have resulted for the Covestro Group as part of the Bayer Group based on the explanations provided here.

Thus, the combined financial information presented here does not necessarily reflect the financial position and results of operations that would have occurred if Covestro had existed as a separate group in the reporting periods. The fact that the Covestro Group did not historically exist therefore limits the validity of the combined financial information. It also means that the combined financial information cannot be used to forecast the future development of the operations that have been combined to form the Covestro Group.

Pensions and other post-employment benefits

The combined financial statements present the pension obligations and corresponding plan assets allocated to Covestro.

The obligations and plan assets have been valued on the basis of expert actuarial opinions. In the case of operations to be transferred (asset deal companies), only active employees assigned to the Covestro Group in the relevant periods have been included; in the case of Covestro companies (share deal companies), both active employees and retirees have been included. The liabilities were mainly calculated on an individual-member basis; only in exceptional cases was an employee-based key applied. Plan assets that were not readily allocable were split based on the obligations of the plan sponsors. The actual amounts of the plan assets to be transferred may differ from the plan assets presented in the combined financial statements in light of local regulations and laws to be considered in making the transfer.

Capital structure

The equity of the Covestro Group consists of the invested equity attributable to the Bayer Group, other components of equity and the invested equity attributable to non-controlling interest. The combined financial statements do not show a capital stock.

The Covestro Group is largely financed by the Bayer Group, which also concludes most hedging transactions. The capital structure of the Covestro Group at the time of the initial public offering will differ from that shown in the combined financial statements. It is intended to replace the net debt toward the Bayer Group by external financing and achieve a level of net debt that ensures an investment-grade rating for Covestro.

Income taxes and deferred taxes

Current and deferred income taxes are recognized in accordance with IAS 12 (Income Taxes). For purposes of the combined financial statements, income taxes were determined using the separate tax return approach based on the assumption that the companies and operations of the Covestro Group constitute separate tax payers. This assumption implies that current and deferred taxes for all companies (share deal companies), operations (asset deal companies) and tax groups within the Covestro Group are calculated separately and that the recoverability of deferred tax assets is assessed on this basis.

Deferred tax assets resulting from tax loss carryforwards were recognized in the combined financial statements if it is probable that they can be offset against positive results from the respective Covestro Group companies or operations in the future.

Tax receivables and tax liabilities, along with deferred tax assets on loss carryforwards of companies (share deal companies) or operations (asset deal companies) of the Covestro Group that did not constitute separate income tax payers in the reporting periods, were recognized in the combined financial statements in the years in which they arose as non-cash contributions or withdrawals by the respective stockholders, and are not included in the scope of combination of the Covestro Group. Apart from the asset deal companies, the companies not constituting separate tax payers in the reporting periods mainly included Covestro Group companies in Germany and the United States that were members of tax groups otherwise consisting of Bayer Group companies.

In the combined statements of cash flows, the taxes actually paid by the Covestro Group were included as inflows/outflows from operating activities.

Effects of uncertain tax positions on earnings are reflected in the combined financial statements where relevant to Covestro.

BMS AG management deems the approach adopted as appropriate though not necessarily indicative of the tax expense or income that would result for Covestro as a separate group.

Outlook

It is intended that the legal restructuring of the Covestro Group, including the transfer of employees, be essentially completed by August 31, 2015 (see note (36)). This primarily relates to the transfer of the employees of the Bayer Technology Services and Bayer Business Services companies who work for Covestro, along with the respective assets and liabilities. These assets and liabilities are not included in the combined financial statements but will be recognized in the respective combined statements of financial position of the Covestro Group once they have been legally transferred.

The control and profit-and-loss transfer agreement between BMS AG and Bayer AG terminates on August 31, 2015.

4. Effects of new financial reporting standards

Published financial reporting standards that have not yet been applied

The IASB and the IFRS Interpretations Committee have issued the following standards, amendments to standards, exposure draft standards and interpretations whose application was not yet mandatory in the reporting periods and is conditional upon their endorsement by the European Union.

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

In December 2013, the IASB published the fifth and sixth sets of "Annual Improvements to IFRS". The amendments address details of the recognition, measurement and disclosure of business transactions and serve to standardize terminology. They consist mainly of editorial changes to existing standards. They are to be applied for annual periods beginning on or after July 1, 2014. Earlier application is permitted. The Group is currently evaluating the impact the changes will have on the presentation of its financial position and results of operations.

In January 2014, the IASB issued IFRS 14 (Regulatory Deferral Accounts). This standard addresses the accounting for regulatory deferral account balances by first-time adopters of the IFRS and therefore does not apply to entities that already prepare their financial statements according to the IFRS. IFRS 14 is to be applied for annual periods beginning on or after January 1, 2016. It has not yet been endorsed by the European Union. IFRS 14 will have no impact on the presentation of the Group's financial position or results of operations.

In May 2014, the IASB published amendments to IFRS 11 (Joint Arrangements) entitled "Accounting for Acquisitions of Interests in Joint Operations". The amendments clarify the accounting for the acquisition of an interest in a

joint operation in which the activity constitutes a business. They are to be applied prospectively for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The amendments have not yet been endorsed by the European Union. The Group is currently evaluating the impact the changes will have on the presentation of its financial position and results of operations.

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

In May 2014, the IASB issued IFRS 15 (Revenue from Contracts with Customers). According to IFRS 15, an entity must recognize the expected consideration for goods or services as revenue as soon as control over the goods passes to the customer or the services are rendered. Based on this core principle, there are five steps to revenue recognition: In step 1, the contract with the customer is identified. In step 2, the distinct performance obligations in the contract are identified. In step 3, the transaction price is determined. In step 4, this transaction price is allocated to the distinct performance obligations. Finally, in step 5, revenue is recognized either over time or at a point in time. IFRS 15 replaces IAS 11 (Construction Contracts), IAS 18 (Revenue), IFRIC 13 (Customer Loyalty Programs), IFRIC 15 (Agreements for the Construction of Real Estate), IFRIC 18 (Transfers of Assets from Customers) and SIC-31 (Revenue-Barter Transactions Involving Advertising Services). In May 2015, the IASB published a further exposure draft clarifying the previous draft and postponing the date of mandatory application of IFRS 15 by one year until January 1, 2018. It is proposed that earlier application be permitted. First-time application must take place retrospectively. The new standard has not yet been endorsed by the European Union. The Group is currently evaluating the impact the changes will have on the presentation of its financial position and results of operations.

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

In September 2014, the IASB published amendments to IFRS 10 (Consolidated Financial Statements) and IAS 28 (Investments in Associates and Joint Ventures) entitled "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”. The amendments clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The amendments are to be applied for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The amendments have not yet been endorsed by the European Union. The Group is currently evaluating the impact the changes will have on the presentation of its financial position and results of operations.

In December 2014, further amendments were issued to IFRS 10 (Consolidated Financial Statements), IFRS 12 (Disclosure of Interests in Other Entities) and IAS 28 (Investments in Associates and Joint Ventures) under the title “Investment Entities: Applying the Consolidation Exception”. The amendments largely clarify which subsidiaries an investment entity must consolidate and which must be recognized at fair value through combined profit or loss. The amendments are to be applied for annual periods beginning on or after January 1, 2016. Earlier applica-

tion is permitted. The amendments have not yet been endorsed by the European Union. The changes are not expected to have a material impact on the presentation of the Group’s financial position or results of operations.

5. Basic principles, methods and critical accounting estimates

The following recognition and measurement principles have been uniformly applied for the companies included in these combined financial statements and for the reporting periods to which they relate.

The combined financial statements are based on the principle of the historical cost of acquisition, construction or production, with the exception of the items reflected at fair value, such as financial assets held for trading or available for sale, and derivatives.

In preparing the combined financial statements, the management had to make certain assumptions and estimates that may substantially impact the presentation of the Covestro Group’s financial position and/or results of operations. The assumptions and estimates are generally the same as those on which the IFRS reporting to Bayer AG was based at the ends of the respective reporting periods. Exceptions to this are transactions between the Covestro Group and other parts of the Bayer Group, which have been accounted for in accordance with IFRS and classified as transactions with related parties, and the application of new or amended IFRS standards.

Such estimates, assumptions or the exercise of discretion mainly relate to the useful life of noncurrent assets, the discounted cash flows used for impairment testing and purchase price allocations, the recoverability of deferred tax assets and the recognition of provisions, including those for litigation-related expenses, pensions and other benefits, taxes, environmental compliance and remediation costs, sales allowances and product liability. Discretion also had to be exercised for purposes of the combined financial statements with respect to the proportion of the holding company's administration expenses allocable to the Covestro Group.

Significant estimates and assumptions that may affect reporting in the various items of the financial statements are described in the following sections of this note. Estimates are based on historical experience and other assumptions that are considered reasonable under given circumstances. They are continually reviewed; however, may vary from the actual amounts.

Net sales and other operating income

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

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

Research and development expenses

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

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

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

Income taxes

Income taxes comprise the taxes levied on taxable income in the individual countries along with changes in deferred tax assets and liabilities that are recognized in combined profit or loss. For purposes of the combined financial statements, income taxes were determined using the separate tax return approach on the assumption that the companies and business activities of the Covestro Group constitute separate tax subjects. The income taxes recognized are reflected at the amounts likely to be payable under the statutory regulations in force, or already enacted in relation to future periods, at the end of the respective reporting year.

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

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

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

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

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

Goodwill

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

Goodwill is not amortized, but tested at least annually for impairment. Details of the annual impairment tests are given under “Procedure used in global impairment testing and its impact”. Once an impairment loss has been recognized on goodwill, it is not reversed in subsequent periods.

Other intangible assets

An “other intangible asset” is an identifiable non-monetary asset without physical substance, other than goodwill (such as a patent, trademark or marketing right). It is capitalized if the future economic benefits attributable to the asset is likely to flow to the company and the cost of acquisition or generation of the asset can be reliably measured.

Other intangible assets are recognized at the cost of acquisition or generation. Those with a determinable useful life are amortized accordingly on a straight-line basis over a period of up to 30 years, except where their actual depletion demands a different amortization pattern. Determination of the expected useful lives of such assets and the amortization patterns is based on estimates of the period for which they will generate cash flows. An impairment test is performed if there is an indication of possible impairment.

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

Property, plant and equipment

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

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

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

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

Property, plant and equipment are depreciated using the straight-line method over an asset’s useful life, except where depreciation based on actual depletion is more appropriate.The following depreciation periods are applied for the combined financial statements:

Useful Life of Property, Plant and Equipment (Table 1.9)

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

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

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

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

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

Financial assets

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

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

Financial assets held at fair value through combined profit or loss comprise those financial assets that are held for trading. Such financial assets were mainly acquired for purposes of liquidity management with the intention of reselling them within a short time. Receivables from forward commodity contracts and receivables from other derivatives that are included in other financial assets are also allocated to this category, except where hedge accounting is used. This applies to certain embedded derivatives and those not designated in hedge accounting

(booked exposure). Changes in the fair value of financial assets in this category are recognized in combined profit or loss when the increase or decrease in fair value occurs.

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

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

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

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

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

Inventories

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

Cash and cash equivalents

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

Provisions for pensions and other post-employment benefits

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

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

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

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

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

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

Other provisions

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

Other provisions are measured in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) or, where applicable, IAS 19 (Employee Benefits). Where the cash outflow to settle an obligation is expected

to occur after one year, the provision is recognized at the present value of the expected cash outflow. Claims for reimbursements from third parties are separately reflected in other receivables if their realization is virtually certain.

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

To enhance the information content of the estimates, certain provisions that could have a material effect on the financial position or results of operations of the companies included in the combined financial statements are selected and tested for their sensitivity to changes in the underlying parameters. To reflect uncertainty about the likelihood of the assumed events actually occurring, the impact of a five-percentage-point change in the probability of occurrence in a sensitivity analysis is examined in each case. This analysis has not shown material other amounts for other provisions.

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

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

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

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

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

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

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

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

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

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

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

It is frequently impossible to reliably determine the existence of a present obligation or reasonably estimate the probability that a potential outflow of resources will result from a pending or future litigation. The status of the material "legal risks" is described in note (31). Due to the special nature of these litigations, provisions generally are not established until initial settlements allow an estimate of potential amounts or judgments have been issued. Provisions for legal defense costs are established if it is probable that material costs will have to be incurred for external legal counsel to defend the legal position of a company or companies in the Covestro Group.

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

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

Financial liabilities

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

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

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

Other receivables and liabilities

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

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

Derivatives

The Covestro Group uses derivatives – such as forward exchange contracts – to mitigate the risk of fluctuations in exchange rates. Derivatives are recognized at the trade date.

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

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

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

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

Leasing

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

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

Where a company in the Covestro Group is the lessee in an operating lease, the lease payments are expensed using the straight-line method. Where Covestro is the lessor, the lease payments received are recognized in combined profit or loss. The leased asset continues to be recognized under property, plant and equipment in the Covestro Group's statement of financial position.

Acquisition accounting

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

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

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

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

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

Procedure used in global impairment testing and its impact

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

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

Impairment testing involves comparing the carrying amount of each cash-generating unit to the recoverable amount, which is the higher of its fair value less costs of disposal or value in use. If the carrying amount exceeds the recoverable amount, an impairment loss must be recognized for the difference. If a strategic business entity or entity group is found to be impaired, an impairment loss is first recognized on any goodwill allocated to it. Any remaining part of the impairment loss is then allocated among the other assets of the strategic business entity or entity group in proportion to their carrying amounts. The resulting expense is reflected in the functional item of the income statement in which the depreciation or amortization of the respective assets is recognized. The same applies to income from impairment loss reversals.

The recoverable amount is generally determined on the basis of the fair value less costs of disposal, taking into account the present value of the future net cash flows as market prices for the individual units are not normally available. These are forecasted on the basis of the Covestro Group's current planning, the planning horizon normally being three to five years. Forecasting involves making assumptions, especially regarding future selling prices, sales volumes and costs. Where the recoverable amount is the fair value less costs of disposal, the cash-

generating unit is measured from the viewpoint of an independent market participant. Where the recoverable amount is the value in use, the cash-generating unit is measured as currently used. In either case, net cash flows beyond the planning period are determined on the basis of long-term business expectations using the respective individual growth rates derived from market information. The measurement of fair value less costs of disposal is based on unobservable inputs (Level 3).

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

The growth rates applied for impairment testing in 2014, 2013 and 2012 and the capital cost factors used to discount the expected cash flows are shown in the following table:

Impairment Testing Parameters (Table 1.10)

	Growth rate			After-tax cost of capital		
	2012	2013	2014	2012	2013	2014
	in %	in %	in %	in %	in %	in %
Diphenylmethane Diisocyanate (MDI)	2.0	1.0	1.5	6.9	7.4	6.0
Polyether (PET)	-	-	-	6.9	7.4	6.0
Polycarbonates (PCS)	2.0	1.0	1.5	6.9	7.4	6.0
Semi-Finished Products (SFP)	2.0	-	-	6.9	-	-
Base- & Modified Isocyanates (BMI)	-	1.5	2.0	-	7.4	6.0
Resins (RES)	-	1.5	2.0	-	7.4	6.0
Functional Films / Specialties (FFS)	0.5	-	-	6.9	7.4	-
Specialty Films (SF)	-	-	1.0	-	-	6.0

No impairment losses were recognized on goodwill on the basis of the global annual impairment testing of the cash-generating units in 2014, 2013 or 2012. An impairment loss of €6 million was recognized on goodwill in 2014 due to a divestiture (2013: €0 million, 2012: €0 million). Taking into account impairment loss reversals of €2 million (2013: €0 million, 2012: €0 million), net impairment losses on intangible assets, property, plant and equipment amounted to €11 million (2013: €29 million, 2012: €9 million). Details are provided in notes (15) and (16).

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

The sensitivity analysis for cash-generating units to which goodwill is allocated was based on a 10% reduction in future cash flows, a 10% increase in the weighted average cost of capital or a one-percentage-point reduction in the long-term growth rate. The Covestro Group determined that under these conditions no impairment losses would have had to be recognized in the 2012 or 2014 reporting periods. In the 2013 reporting period, impairment losses would have had to be recognized for the cash-generating units Diphenylmethane Diisocyanate (MDI) and

Polycarbonates (PCS). The sensitivities of the cash-generating units MDI and PCS for the 2013 reporting period are as follows: in the event of a relative 8% (MDI) or 10% (PCS) increase in the weighted average cost of capital, a 15% (MDI) or 13% (PCS) reduction in future cash flows, a 1.00-percentage-point (MDI) or 1.08-percentage-point (PCS) reduction in the long-term growth rate or a 0.54-percentage-point (MDI) or 0.57-percentage-point (PCS) reduction in the EBITDA margin, the recoverable amount would correspond to the carrying amount of the unit. The conditions on which the sensitivity analysis is based are considered to have a low probability of occurrence.

6. Segment reporting

The Board of Management of BMS AG, as the chief operating decision maker, allocates resources to the operating segments of the Covestro Group and assesses their performance. The reportable segments and regions are identified, and the disclosures selected, in line with the internal financial reporting system (management approach) and based on the Covestro Group's accounting policies, which are outlined in note (5).

The Covestro Group comprised three reportable segments as of December 31, 2014; December 31, 2013; and December 31, 2012.

The segments' activities are as follows:

Activities of the Segments (Table 1.11)

Segment	Activities
Polyurethanes	Development, production and marketing of high-quality precursors for flexible and rigid polyurethane foam. These components are isocyanates (TDI, MDI) and polyols. Flexible foam is used primarily in the furniture and automotive industries (e.g. cushions, mattresses, automobile seats); rigid foam is used in particular as insulating material in the construction industry and in logistics to optimize refrigeration chains. The segment operates production facilities worldwide as well as systems houses for customer-specific application solutions.
Polycarbonates	Development, production and marketing of the engineering plastic polycarbonate in the form of granules and semi-finished products (sheets). The material is used primarily in the automobile industry (lightweight construction, glazing) and the construction industry (e.g. large roof structures). It is also used in the electrical and electronics industry (e.g. computer cases, DVDs), the medical technology sector and the lighting industry (e.g. for LED components). The Covestro Group produces polycarbonate all around the world and processes it at compounding centers to meet specific customer requirements.
Coatings, Adhesives, Specialties	Development, production and marketing of polyurethane-based, specialty raw materials for coatings, adhesives and sealants as well as specialty chemicals. Components include the isocyanates HDI and IPDI. Produced at facilities located throughout the world, these products are used primarily in the transportation and construction industries, where the materials serve as corrosion protection, for instance. Special raw materials are used in the cosmetics, textiles and health care sectors, among others.

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

Allocated holding company costs within the Covestro Group, the elimination of intersegment transfers, and higher or lower expenses for Group-wide long-term stock-based compensation arising from fluctuations in the performance of Bayer AG stock are presented in our segment reporting as “Corporate Center and Consolidation”.

The table titled "Key Data by Region" presents information for three 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. The column “Other/Consolidation” comprises the elimination of intra-group items and transactions (interregional sales) and assets not directly allocable to a specific region.

The segment data are calculated as follows:

- The intersegment transfers reflect intra-group transactions, which are mainly measured at cost of production.
- EBITDA is the EBIT as reported in the income statement plus amortization and impairment losses on intangible assets as well as depreciation and impairment losses on property, plant and equipment, less impairment loss reversals.
- Although adjusted EBIT and adjusted EBITDA are not defined in the International Financial Reporting Standards, they represent key performance indicators for the Covestro Group. The special items comprise effects that are non-recurring or do not regularly recur or attain similar magnitudes. These indicators are intended to give readers a clear picture of the results of operations and ensure comparability of data over time.
- Since the financial management of the Covestro Group is mainly carried out centrally, financial liabilities are not directly allocated among the segments. Consequently, the liabilities shown for the individual segments do not include financial liabilities. These are included in the column “Other/Consolidation”

Reconciliations

The reconciliation of segments’ adjusted EBITDA to income before income taxes of the Covestro Group and the reconciliation of the assets and liabilities of the segments to the assets and liabilities, respectively, of the Covestro Group are given in the following tables:

Reconciliation of Segments' adjusted EBITDA to Covestro Group Income Before Income Taxes (Table 1.12)

	2012	2013	2014
	€ million	€ million	€ million
Adjusted EBITDA of segments	1,284	1,114	1,215
Adjusted EBITDA of Corporate Center	(40)	(58)	(54)
Adjusted EBITDA	**1,244**	**1,056**	**1,161**
Adjusted depreciation, amortization and impairment losses of segments	(664)	(670)	(600)
Adjusted depreciation, amortization and impairment losses of Corporate Center	–	–	–
Adjusted depreciation, amortization and impairment losses	**(664)**	**(670)**	**(600)**
Adjusted EBIT of segments	620	444	615
Adjusted EBIT of Corporate Center	(40)	(58)	(54)
Adjusted EBIT	**580**	**386**	**561**
Special Items of segments	(38)	5	(43)
Special Items of Corporate Center	–	–	–1
Special Items	**(38)**	**5**	**(44)**
EBIT of segments	582	449	572
EBIT of Corporate Center	(40)	(58)	(55)
EBIT	**542**	**391**	**517**
Financial result	(185)	(136)	(136)
Income before income taxes	**357**	**255**	**381**

Special Items Reconciliation (Table 1.13)

	EBIT Full Year 2012	**EBIT** Full Year 2013	**EBIT** Full Year 2014	**EBITDA** Full Year 2012	**EBITDA** Full Year 2013	**EBITDA** Full Year 2014
	€ million	€ million	€ million	€ million	€ million	€ million
Before special items	**580**	**386**	**561**	**1,244**	**1,056**	**1,161**
PUR	**(29)**	**(8)**	**(9)**	**(24)**	**(3)**	**(8)**
Restructuring	(36)	(8)	(9)	(31)	(3)	(8)
Adjustments to post-employment benefit entitlements	7	–	–	7	–	–
PCS	**–**	**(3)**	**(29)**	**(1)**	**(5)**	**(28)**
Restructuring	(3)	(3)	(29)	(4)	(5)	(28)
Adjustments to post-employment benefit entitlements	3	–	–	3	–	–
CAS	**(9)**	**17**	**(5)**	**(8)**	**36**	**(2)**
Restructuring	(11)	(25)	(5)	(10)	(6)	(2)
Adjustments to post-employment benefit entitlements	2	–	–	2	–	–
Divestitures	–	42	–	–	42	–
Other/Consolidation	**–**	**(1)**	**(1)**	**–**	**–**	**(1)**
Restructuring	–	(1)	(1)	–	–	(1)
Total special items	**(38)**	**5**	**(44)**	**(33)**	**28**	**(39)**
of which cost of goods sold	(7)	(8)	(19)	(5)	(4)	(18)
of which selling expenses	(9)	(3)	(15)	(9)	(3)	(15)
of which research and development expenses	(8)	(21)	2	(6)	(2)	2
of which general administration expenses	(11)	(3)	(4)	(11)	(3)	(4)
of which other operating income / expenses	(3)	40	(8)	(2)	40	(4)
After special items	**542**	**391**	**517**	**1,211**	**1,084**	**1,122**

Reconciliation of Segments' Assets to Covestro Group Assets (Table 1.14)

	2012	2013	2014
	€ million	€ million	€ million
Assets of the operating segments	**9,152**	**8,598**	**9,534**
Corporate Center assets	–	–	–
Non-allocated assets	1,313	1,535	858
Covestro Group assets	**10,465**	**10,133**	**10,392**

The assets not allocated to segments mainly include loan and cash pool receivables from the Bayer Group and deferred tax assets.

Reconciliation of Segments' Liabilities to Covestro Group Liabilities (Table 1.15)

	2012	2013	2014
	€ million	€ million	€ million
Liabilities of the operating segments	**2,967**	**2,568**	**3,657**
Corporate Center liabilities	10	24	31
Non-allocated liabilities	4,909	4,762	4,917
Covestro Group liabilities	**7,886**	**7,354**	**8,605**

The liabilities not allocated to segments mainly include loan and cash pool liabilities to the Bayer Group, liabilities to banks and deferred tax liabilities.

The reconciliation of segment sales to the sales of the Covestro Group is apparent from the table of key data by segment in note (1).

Information on geographical areas

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

Information On Geographical Areas (Table 1.16)

	Net sales (external) - by market			**Intangible assets and property, plant and equipment**		
	2012	2013	2014	2012	2013	2014
	€ million	€ million	€ million	€ million	€ million	€ million
Germany	1,688	1,728	1,729	1,068	1,090	1,128
United States	2,295	2,297	2,470	977	923	1,044
China	1,623	1,672	1,790	2,110	2,066	2,302
Other	6,004	5,660	5,772	891	766	795
Total	**11,610**	**11,357**	**11,761**	**5,046**	**4,845**	**5,269**

Information on major customers

Revenues from transactions with a single customer in no case exceeded 10% of Covestro Group sales in 2014, 2013 or 2012.

7. Scope of combination; subsidiaries and affiliates

7.1 Changes in the scope of combination

Changes in the scope of combination were as follows:

Change in Number of Combined Companies (Table 1.17)

	Germany	Other Countries	**Total**
Covestro and combined companies			
December 31, 2011	6	87	**93**
Changes in scope of combination	-	-	**-**
Additions	5	3	**8**
Retirements	-	(1)	**(1)**
December 31, 2012	**11**	**89**	**100**
Changes in scope of combination	-	-	**-**
Additions	-	1	**1**
Retirements	-	(3)	**(3)**
December 31, 2013	**11**	**87**	**98**
Changes in scope of combination	-	(1)	**(1)**
Additions	-	-	**-**
Retirements	-	(2)	**(2)**
December 31, 2014	**11**	**84**	**95**

The decrease in the number of combined companies in 2014 was largely due to divestments. The decrease in 2013 was mainly the result of mergers among Group companies and a further divestment. The increase in the number of combined companies in 2012 was primarily due to the establishment of new companies.

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

Pure Salt Baytown LLC, Houston, United States, is consolidated as a structured entity. The Covestro Group guarantees the liabilities of Pure Salt Baytown LLC to banks. These liabilities, which are reflected in full in the combined statement of financial position, amounted to €20 million as of December 31, 2014 (2013: €22 million; 2012: €27 million).

The above table includes the joint operation Lyondell Bayer Manufacturing Maasvlakte VOF, Rotterdam, Netherlands, as of December 31, 2014 (2013: one joint operation; 2012: one joint operation). Pursuant to IFRS 11, the Covestro Group's shares of these companies' assets, liabilities, revenues and expenses are included in the combined financial statements in accordance with the Group's rights and obligations. The main purpose of Lyondell Bayer Manufacturing Maasvlakte VOF is the joint production of propylene oxide (PO) for the Covestro Group and its partner Lyondell.

Two (2013: two; 2012: two) associates and two (2013: two; 2012: two) joint ventures are accounted for in the combined financial statements using the equity method. Details of these companies are given in note (17).

Seven (2013: seven; 2012: nine) subsidiaries and one (2013: one; 2012: one) associate that in aggregate are immaterial to the Covestro Group's financial position and results of operations are not consolidated but recognized at cost. The immaterial subsidiaries accounted for less than 0.1% (2013: 0.1%; 2012: 0.1%) of combined

sales, less than 0.2% (2013: 0.1%; 2012: 0.2%) of equity and less than 0.1% (2013: 0.1%; 2012: 0.1%) of total assets.

Scope of combination of the Covestro Group on December 31, 2014, December 31, 2013, and December 31, 2012

The share deal companies (operations of existing Covestro companies) and asset deal companies (companies from which Covestro operations are to be transferred) are listed in the following table:

Fully Consolidated Subsidiaries (Table 1.18)

Company Name	Place of Business
EMLA	
Baulé S.A.S. **)	Romans-sur-Isère, France
Baulé UK Limited **)	Cheadle Hulme, U.K.
Bayer (Proprietary) Limited	Isando, South Africa
Bayer (Schweiz) AG	Zurich, Switzerland
Bayer AB	Solna, Sweden
Bayer Algerie S.P.A.	Algiers, Algeria
Bayer Antwerpen NV (Covestro NV, since July 1, 2015) ***)	Antwerp, Belgium
Bayer Austria Gesellschaft m.b.H.	Vienna, Austria
Bayer B.V.	Mijdrecht, Netherlands
Bayer Bulgaria EOOD	Sofia, Bulgaria
Bayer d.o.o.	Zagreb, Croatia
Bayer d.o.o.	Belgrade, Serbia
Bayer East Africa Ltd.	Nairobi, Kenya
Bayer Hellas A.G.	Athens, Greece
Bayer Hungária Kft.	Budapest, Hungary
Bayer Intellectual Property GmbH	Monheim am Rhein, Germany
Bayer International SA **)	Fribourg, Switzerland
Bayer Limited	Dublin, Ireland
Bayer Ltd.	Kiev, Ukraine
Bayer MaterialScience A/S	Otterup, Denmark
Bayer MaterialScience AG	Leverkusen, Germany
Bayer MaterialScience B.V.	Foxhol, Netherlands
Bayer MaterialScience Brunsbüttel Energie GmbH **)	Brunsbüttel, Germany
Bayer MaterialScience Customer Services GmbH **)	Leverkusen, Germany
Bayer MaterialScience GmbH **)	Darmstadt, Germany
Bayer MaterialScience NV **)	Tielt, Belgium
Bayer MaterialScience Oldenburg GmbH & Co. KG **)	Oldenburg, Germany
Bayer MaterialScience S.p.A.	Milan, Italy
Bayer MaterialScience S.r.l.	Milan, Italy
Bayer MaterialScience s.r.o.	Prague, Czech Republic
Bayer MaterialScience, S.L.	Sant Joan Despi, Spain
Bayer Middle East FZE	Dubai, United Arab Emirates
Bayer Nordic SE	Espoo, Finland
Bayer NV	Diegem, Belgium
Bayer Pearl Polyurethane Systems FZCO **)	Dubai, United Arab Emirates
Bayer Pearl Polyurethane Systems LLC **)	Dubai, United Arab Emirates
Bayer Polyols S.N.C. **)	Fos sur Mer, France
Bayer Polyurethanes B.V.	Mijdrecht, Netherlands
Bayer Public Limited Company	Newbury, U.K.
Bayer Real Estate GmbH	Leverkusen, Germany
Bayer S.A.	Casablanca, Morocco
Bayer S.A.	Buenos Aires, Argentina
Bayer S.A.	San José, Costa Rica
Bayer S.A.	Santiago de Chile, Chile
Bayer S.A.	Guatemala City, Guatemala

*) fully consolidated subsidiary according to IFRS 10.B39

**) direct or indirect majority-owned subsidiaries of BMS AG

***) transferred to BMS AG until August 12, 2015

Fully Consolidated Subsidiaries (Table 1.18) (continued)

Company Name	Place of Business
Bayer S.A.	Caracas, Venezuela
Bayer S.A.	El Dorado, Panama
Bayer S.A.	Bogotá, Colombia
Bayer S.A. (Covestro Indústria e Comércio de Polímeros Ltda., since June 19, 2015) ***)	São Paulo, Brazil
Bayer S.A.S.	Lyon, France
Bayer S.p.A. **)	Milan, Italy
Bayer s.r.o.	Prague, Czech Republic
Bayer SA	Montevideo, Uruguay
Bayer Sp. z o.o.	Warsaw, Poland
Bayer Türk Kimya Sanayii Limited Sirketi	Istanbul, Turkey
Bayer, spol. sr.o.	Bratislava, Slovakia
Epurex Films GmbH & Co. KG **)	Bomlitz, Germany
Erste Bayer Real Estate VV GmbH & Co. KG	Schönefeld, Germany
Fünfte Bayer Real Estate VV GmbH & Co. KG	Schönefeld, Germany
SC Bayer SRL	Bucharest, Romania
Vierte Bayer Real Estate VV GmbH & Co. KG	Schönefeld, Germany
ZAO Bayer	Moscow, Russia
NAFTA	
Artificial Muscle, Inc.	Sunnyvale, U.S.A.
Baulé USA LLC	Coraopolis, U.S.A.
Bayer Corporation	Pittsburgh, U.S.A.
Bayer de México, S.A. de C.V. (Covestro S.A. de C.V., since June 30, 2015) ***)	Mexico City, Mexico
Bayer Inc.	Mississauga, Canada
Bayer International Trade Services Corporation	Weirton, U.S.A.
Bayer MaterialScience LLC	Pittsburgh, U.S.A.
Bayer Overseas Trade Services Corporation	Weirton, U.S.A.
Bayer PO LLC	New Martinsville, U.S.A.
BIPPO Corporation	New Martinsville, U.S.A.
Pure Salt Baytown LLC *)	Houston, U.S.A.
APAC	
Bayer (China) Limited	Beijing, China
Bayer (South East Asia) Pte Ltd	Singapore, Singapore
Bayer Co. (Malaysia) Sdn Bhd	Petaling Jaya, Malaysia
Bayer Far East Service Co. Ltd. **)	Hong Kong, China
Bayer Jinling Polyurethane Co., Ltd.	Nanjing, China
Bayer Korea Ltd.	Seoul, South Korea
Bayer MaterialScience (Beijing) Company Limited	Beijing, China
Bayer MaterialScience (China) Company Limited	Shanghai, China
Bayer MaterialScience (Qingdao) Co. Ltd.	Qingdao, China
Bayer MaterialScience (Shanghai) Management Company Limited **)	Shanghai, China
Bayer MaterialScience Limited **)	Hong Kong, China
Bayer MaterialScience Ltd. **)	Kimhae-City, South Korea
Bayer MaterialScience Ltd. **)	Tokyo, Japan
Bayer MaterialScience Private Limited	Mumbai, India
Bayer MaterialScience Pty Ltd	Cheltenham, Australia
Bayer MaterialScience Taiwan Limited	Taipei, Taiwan
Bayer New Zealand Limited	Auckland, New Zealand
Bayer Pakistan (Private) Limited	Karachi, Pakistan

*) fully consolidated structured entity according to IFRS 10.B8 in conjunction with B19 (b) and (c)

**) direct or indirect majority-owned subsidiaries of BMS AG

***) transferred to BMS AG until August 12, 2015

Fully Consolidated Subsidiaries (Table 1.18) (continued)

Company Name	Place of Business
Bayer Philippines, Inc.	Laguna, Philippines
Bayer Taiwan Company Ltd.	Taipei, Taiwan
Bayer Thai Co., Ltd. **)	Bangkok, Thailand
Bayer TPU (Shenzhen) Co. Ltd.	Shenzhen, China
Bayer Uretech Ltd.	Yu Pu Village, Taiwan
Bayer Vietnam Ltd. (Covestro (Vietnam) Company Limited, since August 1, 2015) ***)	Bien Hoa City, Vietnam
Guangzhou Bayer MaterialScience Company Limited	Guangzhou, China
PT. Bayer MaterialScience Indonesia **)	Jakarta, Indonesia
Sumika Bayer Urethane Co., Ltd. **)	Osaka, Japan

**) direct or indirect majority-owned subsidiaries of BMS AG

***) transferred to BMS AG until August 12, 2015

The following joint operations were included in the combined financial statements in line with the Covestro Group's shares of their assets, liabilities, revenues and expenses:

Joint Operations (Table 1.19)

Company Name	Place of Business	Share of the capital 2012	Share of the capital 2013	Share of the capital 2014
		%	%	%
Lyondell Bayer Manufacturing Maasvlakte VOF	Rotterdam, Netherlands	50	50	50

The following associates and joint ventures were accounted for in the combined financial statements using the equity method:

Associates and Joint Ventures Accounted for Using the Equity Method (Table 1.20)

Company Name	Place of Business	Share of the capital 2012	Share of the capital 2013	Share of the capital 2014
		%	%	%
Associates				
Paltough Industries (1998) Ltd.	Kibbutz Ramat Yochanan, Israel	25	25	25
PO JV, LP	Wilmington, U.S.A.	39.7	39.7	39.4
Joint Ventures				
Bayer IMSA, S.A. de C.V.	Nuevo Leon, Mexico	50	50	50
DIC Bayer Polymer Ltd.	Tokyo, Japan	50	50	50

The following subsidiaries were reflected in the combined financial statements at cost due to their immateriality:

Immaterial Subsidiaries (Table 1.21)

Company Name	Place of Business	Share of the capital 2012	Share of the capital 2013	Share of the capital 2014
		%	%	%
EMLA				
Bayer MaterialScience Oldenburg Verwaltungs-GmbH	Oldenburg, Germany	100	100	100
Bayer Türk Kimya Sanayii Limited Sirketi	Istanbul, Turkey	–	–	100
CleanTech NRW GmbH	Leverkusen, Germany	100	100	100
Epurex Films Geschäftsführungs-GmbH	Bomlitz, Germany	100	100	100
Secmer SARL	Romans-sur-Isère, France	100	–	–
NAFTA				
Baulé Inc.	Allentown, U.S.A.	100	100	100
APAC				
Bayer MaterialScience (Chongqing) Company Limited	Chongqing, China	100	–	–
Bayer MaterialScience (Tianjin) Co., Ltd.	TianJin, China	100	100	100
Bayer Sheets India Private Limited	Mumbai, India	51	100	–
Shanghai Baulé Polyurethane Technology Co. Ltd.	Shanghai, China	100	100	100

The following associate was accounted for in the combined financial statements at cost due to its immateriality:

Immaterial Associates (Table 1.22)

Company Name	Place of Business	Share of the capital 2012	Share of the capital 2013	Share of the capital 2014
		%	%	%
Technology JV, L.P.	Wilmington, U.S.A.	33.3	33.3	50

7.2 Acquisitions and similar transactions

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

Acquisition costs in 2012 amounted to €59 million. The purchase prices of the acquired companies or businesses were settled mainly in cash. Goodwill arising on these acquisitions totaled €20 million. It mainly resulted from the following transaction:

On March 31, 2012, Covestro acquired the remaining 50% interest in the systems house joint venture Baulé S.A.S., Romans-sur-Isère, France. This joint venture was formed in 2008 by Covestro and Michel Baulé S.A., Romans-sur-Isère, France, which was later renamed ExiMiUM S.A.S. Baulé S.A.S. is a global leader in the development, formulation and processing of polyurethane cast elastomers. The purchase price of €50 million pertained mainly to customer relationships and goodwill. The assets and liabilities of Baulé S.A.S. were fully consolidated for the first time as of March 31, 2012. Following the purchase price allocation, the following assets and

liabilities were recognized: goodwill (€39 million), other intangible assets (€55 million), other noncurrent assets (€3 million), inventories and other current assets (€21 million), cash and cash equivalents (€5 million), other liabilities (€8 million) and deferred tax liabilities (€16 million). The revaluation of mainly intangible assets that were previously held by the joint venture resulted in other operating income of €19 million. The fair value of the prior interest was €49 million at the time of the acquisition.

The acquired business named above contributed €17 million to the sales of the Covestro Group in 2012. The portfolio change resulted in EBIT loss of €1 million. After-tax loss of €2 million was recorded for the acquired business since the date of its first-time consolidation. This includes the financing costs incurred since the acquisition date.

If this acquisition had already been made as of January 1, 2012, the Covestro Group would have had total sales of €11,615 million in the 2012 reporting period. The financial result and income after taxes would not have been materially affected.

The effects of this and another, smaller transaction on the assets and liabilities of the Covestro Group as of the respective acquisition or adjustment dates are shown in the table. Net of acquired cash and cash equivalents, the transaction resulted in the following cash outflow:

Acquired Assets and Assumed Liabilities (Fair Values at the Respective Acquisition Dates) (Table 1.23)

	2012	2013	2014
	€ million	€ million	€ million
Goodwill	20	-	-
Patents and technologies	2	-	-
Trademarks	1	-	-
Marketing rights	24	-	-
Production rights	4	-	-
Property, plant and equipment	5	-	-
Other noncurrent assets	1	-	-
Deferred tax assets	6	-	-
Inventories	6	-	-
Cash and cash equivalents	3	-	-
Other provisions	(2)	-	-
Other liabilities	(3)	-	-
Deferred tax liabilities	(8)	-	-
Net assets	**59**	**-**	**-**
Changes in non-controlling interest	-	-	-
Purchase price	**59**	**-**	**-**
Acquired cash and cash equivalents	(3)	-	-
Net cash outflow for acquisitions	**56**	**-**	**-**

7.3 Divestitures

On May 28, 2014, the Covestro Group sold Artificial Muscle Inc., Sunnyvale, United States, along with parts of the intellectual property portfolio, particularly for industrial applications, to Parker-Hannifin Corporation, Cleveland, United States. A purchase price of €4 million was agreed. No gain was realized on the transaction.

On June 1, 2013, the Covestro Group sold its global powder polyester resins business and its U.S.-based liquid polyester resins merchant business to Stepan Company of Northfield, Illinois, United States. A purchase price of €45 million was agreed. The divestment gain of €42 million was reported under special items.

On July 2, 2012, the Covestro Group sold its PET-G sheet business in the NAFTA region to Plaskolite, Inc., Columbus, United States. A purchase price of €5 million was agreed. A gain of €3 million was realized on the transaction.

The effects of these and other, smaller divestitures on the combined financial statements for 2014, 2013 and 2012 were as follows:

Divestitures (Table 1.24)

	2012	2013	2014
	€ million	€ million	€ million
Divested assets and liabilities			
Patents and technologies	-	-	1
Property, plant and equipment	-	3	2
Other noncurrent assets	-	-	1
Inventories	1	-	-
Divested net assets	**1**	**3**	**4**
Net cash inflow from divestitures	8	45	4
Changes in future cash payments receivable	(4)	-	-
Net gain from divestitures (before taxes)	**3**	**42**	**-**

Notes to the Combined Income Statements

8. Sales

Sales were derived primarily from product deliveries. Total reported net sales in 2014 rose compared to 2013 by €404 million, or 3.6%, to €11,761 million. (Total reported net sales in 2013 declined compared to 2012 by €253 million, or 2.2%, to €11,357 million.) The sales variations resulted from the following factors:

Factors in Sales Development (Table 1.25)

2014

	Polyurethanes		Polycarbonates		Coatings, Adhesives and Specialties		All Other Segments		Group	
	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%
Volume	367	+6.1	242	+9.1	107	+5.8	(17)	–2.0	699	+6.2
Price	(71)	–1.2	(51)	–1.9	(7)	–0.4	(36)	–4.6	(165)	–1.5
Currency	(66)	–1.1	(14)	–0.5	(13)	–0.7	(2)	–0.4	(95)	–0.8
Portfolio	–	–	–	–	(35)	–1.9	–	–	(35)	–0.3
Total	**230**	**+3.8**	**177**	**+6.7**	**52**	**+2.8**	**(55)**	**–7.0**	**404**	**+3.6**

2013

	Polyurethanes		Polycarbonates		Coatings, Adhesives and Specialties		All Other Segments		Group	
	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%
Volume	172	+2.8	(88)	–3.1	(10)	–0.5	(5)	–0.6	69	+0.6
Price	53	+0.9	(39)	–1.4	(24)	–1.2	(14)	–1.7	(24)	–0.2
Currency	(169)	–2.8	(52)	–1.9	(45)	–2.2	(8)	–1.0	(274)	–2.4
Portfolio	3	+0.1	2	+0.1	(29)	–1.5	–	–	(24)	–0.2
Total	**59**	**+1.0**	**(177)**	**–6.3**	**(108)**	**–5.4**	**(27)**	**–3.3**	**(253)**	**–2.2**

Breakdowns of net sales by segment and by region are provided in the table in note (1).

9. Other operating income

Other operating income was comprised as follows:

Other Operating Income (Table 1.26)

	2012	2013	2014
	€ million	€ million	€ million
Gains on retirements of noncurrent assets	6	50	4
Reversal of impairment losses on receivables	4	6	2
Reversals of unutilized provisions	1	3	3
Gains from derivatives	33	43	26
Miscellaneous operating income	66	59	62
Total	**110**	**161**	**97**
of which special items	13	42	3

In 2014, miscellaneous operating income included €41 million in insurance reimbursements.

In 2013, gains from the sale of noncurrent assets included €42 million from the sale of the global powder polyester resins business and the U.S.-based liquid polyester resins merchant business to Stepan Company, Northfield, Illinois, United States. Miscellaneous operating income contained a €17 million gain from the sale of the Desmolux product line for UV-curing coating systems to Allnex S.à r.l., Luxembourg, and Allnex Belgium SA, Anderlecht, Belgium. It also included €16 million in insurance reimbursements.

In 2012, miscellaneous operating income contained €19 million from the remeasurement of intangible assets previously held by the systems house joint venture Baulé S.A.S., Romans-sur-Isère, France. It also included €13 million in gains from adjustments to post-employment benefit entitlements in the United States and €5 million in insurance reimbursements.

10. Other operating expenses

Other operating expenses were comprised as follows:

Other Operating Expenses (Table 1.27)

	2012	2013	2014
	€ million	€ million	€ million
Losses on retirements of noncurrent assets	(6)	(8)	(5)
Impairment losses on receivables	(13)	(13)	(9)
Losses from derivatives	(73)	(25)	(14)
Miscellaneous operating expenses	(54)	(32)	(52)
Total	**(146)**	**(78)**	**(80)**
of which special items	(16)	(2)	(11)

In 2014, miscellaneous operating expenses included €6 million in other taxes and €5 million in insurance expenses. They also contained €3 million in donations and €2 million in litigation-related expenses.

In 2013, miscellaneous operating expenses included €5 million in insurance expenses, €4 million in donations and €2 million in other taxes.

In 2012, miscellaneous operating expenses contained €15 million in restructuring charges, €6 million in insurance expenses, €3 million in other taxes and €3 million in donations.

11. Personnel expenses and employee numbers

Personnel expenses were comprised as follows:

Personnel Expenses (Table 1.28)

	2012	2013	2014
	€ million	€ million	€ million
Salaries	997	980	1,073
Social expenses and expenses for pensions and other benefits	246	255	249
of which for defined contribution pension plans	75	75	72
of which for defined benefit and other pension plans	21	58	46
Total	**1,243**	**1,235**	**1,322**

The personnel expenses reflected above do not include the interest portion of the personnel-related provisions – mainly for pensions and other post-employment benefits – which is included in the financial result under other financial expenses (note (12.3)).

The average numbers of employees, classified by corporate function, were as shown in the table below:

Employees (Table 1.29)

	2012	2013	2014
Production	9,733	9,560	9,328
Marketing and distribution	3,277	3,355	3,512
Research and development	959	989	987
General administration	726	666	570
Total	**14,695**	**14,570**	**14,397**
Apprentices	87	91	98

The number of employees on either permanent or temporary contracts is stated in full-time equivalents, with part-time employees included on a pro-rated basis in line with their contractual working hours. The figures do not include apprentices.

12. Financial result

The financial result for 2014 was a loss of €136 million (2013: minus €136 million; 2012: minus €185 million), comprising an equity-method loss of €15 million (2013: €16 million; 2012: €17 million), financial expenses of €151 million (2013: €160 million; 2012: €204 million) and financial income of €30 million (2013: €40 million; 2012: €36 million). Details of the components of the financial result are provided below.

12.1 Loss from investments in affiliated companies

The loss from investments in affiliated companies was comprised as follows:

Income (Loss) from Investments in Affiliated Companies (Table 1.30)

	2012	2013	2014
	€ million	€ million	€ million
Net loss from investments accounted for using the equity method (equity-method loss)	(17)	(16)	(15)
Gains / (losses) from investments in affiliated companies and from profit and loss transfer agreements (net)	1	1	-
Total	**(16)**	**(15)**	**(15)**

The main components of the income from investments in affiliated companies was the equity-method loss of €18 million (2013: €20 million; 2012: €21 million) from the associate PO JV, LP, Wilmington, United States.

Further details of the companies accounted for using the equity method are given in note (17).

12.2 Net interest expense

The net interest expense was comprised as follows:

Net Interest Expense (Table 1.31)

	2012	2013	2014
	€ million	€ million	€ million
Interest and similar expenses	(154)	(126)	(104)
Interest and similar income	34	35	30
Total	**(120)**	**(91)**	**(74)**

In 2012 only, interest and similar expenses included interest expense of €3 million relating to non-financial liabilities. In 2014, interest and similar income contained no interest income from non-financial assets (2013: €4 million; 2012: €3 million).

12.3 Other financial income and expenses

Other financial income and expenses were comprised as follows:

Other Financial Income and Expenses (Table 1.32)

	2012	2013	**2014**
	€ million	€ million	€ million
Expenses			
Interest portion of interest-bearing provisions	(38)	(32)	(37)
Miscellaneous financial expenses	(6)	(2)	-
Miscellaneous financial income	1	2	-
Exchange gain / (loss)	(6)	2	(10)
Total	**(49)**	**(30)**	**(47)**

The interest portion of noncurrent provisions was €27 million (2013: €31 million; 2012: €27 million) in interest expense for pension provisions plus €10 million (2013: €1 million; 2012: €11 million) in effects of interest expense and interest-rate fluctuations for other provisions and corresponding overfunding. The interest expense for pension provisions included €103 million (2013: €98 million; 2012: €101 million) for the unwinding of discount on the present value of the defined benefit obligation and €76 million (2013: €67 million; 2012: €74 million) in interest income from plan assets.

13. Taxes

The breakdown of tax expenses by origin was as follows:

Tax Expense by Origin (Table 1.33)

		2012 of which income taxes		2013 of which income taxes		2014 of which income taxes
	€ million	€ million	€ million	€ million	€ million	€ million
Taxes paid or accrued						
Income taxes	(187)		(124)		(151)	
Other taxes	(82)		(55)		(68)	
	(269)	**(187)**	**(179)**	**(124)**	**(219)**	**(151)**
Deferred taxes						
From temporary differences	7		–		42	
From tax loss carryforwards and tax credits	87		48		5	
	94	**94**	**48**	**48**	**47**	**47**
Total	**(175)**	**(93)**	**(131)**	**(76)**	**(172)**	**(104)**

Other taxes are substantially made up of land, vehicle and other indirect taxes and are reflected in the respective functional cost items.

The deferred tax assets and liabilities were allocable to the following items in the statements of financial position:

Deferred Tax Assets and Liabilities (Table 1.34)

	Dec. 31, 2012		Dec. 31, 2013		Dec. 31, 2014	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	€ million	€ million	€ million	€ million	€ million	€ million
Intangible assets	37	(34)	38	(29)	59	(19)
Property, plant and equipment	20	(258)	29	(271)	41	(304)
Financial assets	1	(74)	3	(65)	1	(71)
Inventories	1	–	1	(1)	1	(1)
Receivables	26	(6)	30	(6)	20	(6)
Other assets	–	–	–	–	–	–
Provisions for pensions and other post-employment benefits	221	(132)	164	(128)	411	(137)
Other provisions	60	–	43	–	55	–
Liabilities	106	–	110	–	145	–
Tax loss carryforwards	36	–	48	–	41	–
Tax credits	1	–	1	–	1	–
	509	**(504)**	**467**	**(500)**	**775**	**(538)**
of which noncurrent	375	(498)	326	(493)	610	(531)
Set-off	(368)	368	(307)	307	(362)	362
Total	**141**	**(136)**	**160**	**(193)**	**413**	**(176)**

Based on the separate tax return approach described in note (3), current and deferred tax assets and liabilities actually pertaining to Bayer Group companies were accounted for as contributions and withdrawals, respectively. As a result, current tax liabilities were reduced by €67 million in 2014 (2013: €41 million; 2012: €53 million). Deferred tax assets were reduced by €16 million in 2014 (2013: €34 million; 2012: €75 million). In addition, tax sharing receivables of €0 million in 2014 (2013: €3 million; 2012: €1 million) and tax sharing liabilities of €56 million in 2014 (2013: €35 million: 2012: €107 million) were recognized as receivables from and liabilities to Bayer Group companies based on tax sharing agreements with these companies.

Deferred taxes on remeasurements, recognized outside combined profit or loss, of the net liability for defined benefit pension and other post-employment benefits increased equity by €242 million in 2014 (2013: reduced equity by €58 million; 2012: increased equity by €84 million). Deferred taxes on changes, recognized outside combined profit or loss, in fair values of available-for-sale financial assets and derivatives designated as cash flow hedges reduced equity by €2 million in 2014 (2013: reduced equity by €1 million; 2012: increased equity by €10 million). These effects on equity are reported in the statement of comprehensive income.

The use of tax loss carryforwards reduced the income taxes paid or accrued in 2014 by €14 million (2013: €1 million; 2012: €1 million). The use of tax credits reduced income taxes paid or accrued in 2014 by €0 million (2013: €1 million; 2012: €0 million).

Of the total tax loss carryforwards of €193 million in 2014 (2013: €314 million; 2012: €240 million), an amount of €150 million (2013: €198 million; 2012: €141 million) is expected to be usable within a reasonable period. Deferred tax assets of €41 million were recognized in 2014 (2013: €48 million; 2012: €36 million) for the amount of loss carryforwards expected to be usable.

The use of €43 million of tax loss carryforwards was subject to legal or economic restrictions in 2014 (2013: €117 million; 2012: €99 million). Consequently, no deferred tax assets were recognized for this amount. If these tax loss carryforwards had been fully usable, deferred tax assets of €15 million would have been recognized in 2014 (2013: €36 million; 2012: €30 million).

Tax credits of €1 million were recognized as deferred tax assets in 2014 (2013: €1 million; 2012: €1 million). The entire amounts were recognized in combined profit or loss. The use of €0 million of tax credits was subject to legal or economic restrictions in 2014 (2013: €0 million; 2012: €24 million). Consequently, no deferred tax assets were recognized for this amount.

Unusable tax credits and tax loss carryforwards will expire as follows:

Expiration of Unusable Tax Credits and Tax Loss Carryforwards (Table 1.35)

	Dec. 31,2012	Dec. 31, 2013	Dec. 31, 2014	Dec. 31,2012	Dec. 31, 2013	Dec. 31, 2014
	€ million	€ million	€ million	€ million	€ million	€ million
Within one year	24	–	–	–	42	–
Within two years	–	–	–	43	–	–
Within three years	–	–	–	–	–	–
Within four years	–	–	–	–	–	6
Within five years	–	–	–	–	22	7
Thereafter	–	–	–	56	53	30
Total	**24**	**–**	**–**	**99**	**117**	**43**

In 2014, subsidiaries that recorded losses for the current or previous reporting year recognized net deferred tax assets totaling €147 million (2013: €117 million; 2012: €110 million) from temporary differences and tax loss carryforwards. These assets were not impaired because the companies concerned were expected to generate taxable income in the future.

No deferred tax liabilities were recognized in any of the reporting periods for planned dividend payments by subsidiaries due to immateriality. Deferred tax liabilities were not recognized in 2014 for temporary differences on €224 million of retained earnings of subsidiaries and associates (2013: €238 million; 2012: €244 million) because the Covestro Group is able to control the timing of the difference reversal and the temporary differences will not reverse in the foreseeable future. Companies included in the combined financial statements were omitted from consideration if their shares were not legally allocable to Covestro in the respective year.

The reported tax expense of €104 million for 2014 (2013: €76 million; 2012: €93 million) differed by €7 million (2013: €24 million; 2012: €26 million) from the expected tax expense of €111 million (2013: €100 million; 2012: €119 million) that would have resulted from applying an expected weighted average tax rate to the pre-tax income reported in the combined financial statements. This average rate, derived from the expected tax rates of the individual Group companies, was 29.1% in 2014 (2013: 39.2%; 2012: 33.3%). The effective tax rate in 2014 was 27.3% (2013: 29.8%; 2012: 26.1%).

The reconciliation of expected to reported income tax expense and of the expected to the effective tax rate for the Group was as follows:

Reconciliation of Expected to Actual Income Tax Expense (Table 1.36)

	2012		2013		2014	
	€ million	in %	€ million	in %	€ million	in %
Expected income tax expense and expected tax rate	**119**	**33.3**	**100**	**39.2**	**111**	**29.1**
Reduction in taxes due to tax-free income						
Income related to the operating business	(4)	–1.1	(5)	–2.0	(2)	–0.5
Income from affiliated companies and divestiture proceeds	(7)	–2.0	(3)	–1.2	(4)	–1.0
First-time recognition of previously unrecognized deferred tax assets on tax loss carryforwards	(1)	–0.3	(1)	–0.4	(12)	–3.2
Use of tax loss carryforwards on which deferred tax assets were not previously recognized	–	–	–	–	(1)	–0.3
Increase in taxes due to non-tax-deductible expenses						
Expenses related to the operating business	9	2.5	6	2.4	6	1.6
Impairment losses on investments in affiliated companies	–	–	–	–	–	–
New tax loss carryforwards unlikely to be usable	5	1.4	4	1.6	1	0.3
Existing tax loss carryforwards on which deferred tax assets were previously recognized but which are unlikely to be usable	3	0.8	–	–	6	1.6
Tax income (-) and expenses (+) relating to other periods	7	2.0	(21)	–8.2	(1)	–0.3
Tax effects of changes in tax rates	(28)	–7.8	(1)	–0.4	(1)	–0.3
Other tax effects	(10)	–2.7	(3)	–1.2	1	0.3
Actual income tax expense and effective tax rate	**93**	**26.1**	**76**	**29.8**	**104**	**27.3**

14. Income/losses attributable to non-controlling interest

Income attributable to non-controlling interest amounted to €5 million (2013: €1 million; €2012: €3 million). Losses attributable to non-controlling interest amounted to €0 million (2013: €2 million; 2012: €0 million).

Notes to the Combined Statements of Financial Position

15. Goodwill and other intangible assets

Changes in intangible assets in 2014 were as follows:

Changes in Intangible Assets (2014) (Table 1.37)

	Acquired goodwill	Patents and technologies	Trade-marks	Marketing and distribution rights	Production rights	Other rights and advance payments	**Total**
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Cost of acquisition or generation, December 31, 2013	**239**	**28**	**4**	**108**	**103**	**1,107**	**1,589**
Changes in scope of consolidation	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-
Capital expenditures	-	-	-	-	-	7	7
Retirements	(6)	(13)	-	-	(6)	-	(25)
Transfers	-	-	-	2	-	(2)	-
Remeasurement (IFRS 3)	-	-	-	-	-	-	-
Exchange differences	10	2	-	1	1	118	132
December 31, 2014	**243**	**17**	**4**	**111**	**98**	**1,230**	**1,703**
Accumulated amortization and impair-ment losses, December 31, 2013	**-**	**22**	**3**	**54**	**84**	**1,023**	**1,186**
Changes in scope of consolidation	**-**	-	-	-	-	-	-
Retirements	**(6)**	(11)	-	-	(6)	-	(23)
Amortization and impairment losses in 2014	6	1	1	10	4	30	52
Amortization	-	1	-	10	4	30	45
Impairment losses	6	-	1	-	-	-	7
Impairment loss reversals	**-**	(2)	-	-	-	-	(2)
Transfers	**-**	-	-	-	-	-	-
Exchange differences	**-**	2	-	2	-	110	114
December 31, 2014	**-**	**12**	**4**	**66**	**82**	**1,163**	**1,327**
Carrying amounts, December 31, 2014	**243**	**5**	**-**	**45**	**16**	**67**	**376**
Carrying amounts, December 31, 2013	**239**	**6**	**1**	**54**	**19**	**84**	**403**

Impairment losses of €5 million (2013: €12 million; 2012: €0 million), net of an impairment loss reversal of €2 million (2013; €0 million; 2012: €0 million), were recognized in other intangible assets.

The impairment losses included €2 million in the Polycarbonates reporting segment (2013: €0 million; 2012: €0 million) and €3 million (2013: €12 million; 2012: €0 million) in the Coatings, Adhesives and Specialties segment.

Details of acquisitions and divestitures are provided in notes (7.2) and (7.3). The impairment testing procedure for goodwill and other intangible assets is explained in note (5).

Changes in intangible assets in 2013 were as follows:

Changes in Intangible Assets (2013) (Table 1.38)

	Acquired goodwill	Patents and technologies	Trade-marks	Marketing and distribution rights	Production rights	Other rights and advance payments	**Total**
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Cost of acquisition or generation, December 31, 2012	**243**	**29**	**4**	**117**	**114**	**1,167**	**1,674**
Changes in scope of combination	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-
Capital expenditures	-	1	-	1	-	7	9
Retirements	-	(2)	-	(14)	(10)	(20)	(46)
Transfers	-	-	-	4	-	(4)	-
Remeasurement (IFRS 3)	-	-	-	-	-	-	-
Exchange differences	(4)	-	-	-	(1)	(43)	(48)
December 31, 2013	**239**	**28**	**4**	**108**	**103**	**1,107**	**1,589**
Accumulated amortization and impairment losses, December 31, 2012	**-**	**14**	**3**	**54**	**90**	**1,044**	**1,205**
Changes in scope of combination	**-**	-	-	-	-	-	-
Retirements	**-**	(2)	-	(14)	(10)	(20)	(46)
Amortization and impairment losses in 2013	-	10	-	15	4	38	67
Amortization	-	2	-	11	4	38	55
Impairment losses	-	8	-	4	-	-	12
Impairment loss reversals	**-**	-	-	-	-	-	-
Transfers	**-**	-	-	-	-	-	-
Exchange differences	**-**	-	-	(1)	-	(39)	(40)
December 31, 2013	**-**	**22**	**3**	**54**	**84**	**1,023**	**1,186**
Carrying amounts, December 31, 2013	**239**	**6**	**1**	**54**	**19**	**84**	**403**
Carrying amounts, December 31, 2012	**243**	**15**	**1**	**63**	**24**	**123**	**469**

Changes in intangible assets in 2012 were as follows:

Changes in Intangible Assets (2012) (Table 1.39)

	Acquired goodwill	Patents and technologies	Trade-marks	Marketing and distribution rights	Production rights	Other rights and advance payments	**Total**
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Cost of acquisition or generation, December 31, 2011	**217**	**28**	**3**	**78**	**107**	**1,153**	**1,586**
Changes in scope of combination	-	-	-	-	-	-	-
Acquisitions	20	2	1	24	4	-	51
Capital expenditures	-	-	-	1	-	37	38
Retirements	-	-	-	-	-	(4)	(4)
Transfers	-	-	-	-	-	-	-
Remeasurement (IFRS 3)	7	-	-	14	3	-	24
Exchange differences	(1)	(1)	-	-	-	(19)	(21)
December 31, 2012	**243**	**29**	**4**	**117**	**114**	**1,167**	**1,674**
Accumulated amortization and impairment losses, December 31, 2011	**-**	**11**	**3**	**44**	**85**	**1,028**	**1,171**
Changes in scope of combination	**-**	-	-	-	-	-	-
Retirements	**-**	-	-	-	-	(4)	(4)
Amortization and impairment losses in 2012	-	3	-	11	5	37	56
Amortization	-	3	-	11	5	37	56
Impairment losses	-	-	-	-	-	-	-
Impairment loss reversals	**-**	-	-	-	-	-	-
Transfers	**-**	-	-	-	-	-	-
Exchange differences	**-**	-	-	(1)	-	(17)	(18)
December 31, 2012	**-**	**14**	**3**	**54**	**90**	**1,044**	**1,205**
Carrying amounts, December 31, 2012	**243**	**15**	**1**	**63**	**24**	**123**	**469**
Carrying amounts, December 31, 2011	**217**	**17**	**-**	**34**	**22**	**125**	**415**

Changes in the carrying amounts of goodwill for the reporting segments in 2012, 2013 and 2014 were as follows:

Goodwill by Reporting Segment (Table 1.40)

	PUR	PCS	CAS	Covestro
	€ million	€ million	€ million	€ million
Carrying amounts, January 1, 2012	**82**	**114**	**21**	**217**
Change in scope of combination	-	-	-	-
Acquisitions	-	-	20	20
Retirements	-	-	-	-
Impairment losses in 2012	-	-	-	-
Transfers	-	-	-	-
Remeasurement (IFRS 3)	-	-	7	7
Exchange differences	-	(1)	-	(1)
Carrying amounts, January 1, 2013	**82**	**113**	**48**	**243**
Change in scope of combination	-	-	-	-
Acquisitions	-	-	-	-
Retirements	-	-	-	-
Impairment losses in 2013	-	-	-	-
Transfers	-	-	-	-
Remeasurement (IFRS 3)	-	-	-	-
Exchange differences	(3)	(1)	-	(4)
Carrying amounts, December 31, 2013	**79**	**112**	**48**	**239**
Change in scope of combination	-	-	-	-
Acquisitions	-	-	-	-
Retirements	-	-	-	-
Impairment losses in 2014	-	(1)	(5)	(6)
Transfers	-	-	-	-
Remeasurement (IFRS 3)	-	-	-	-
Exchange differences	8	3	(1)	10
Carrying amounts, December 31, 2014	**87**	**114**	**42**	**243**

Goodwill that is of material significance for the Covestro Group was allocated to the following cash-generating units as of the ends of the reporting periods:

Material Goodwill of Segments (Table 1.41)

Reporting segment	**Cash-generating unit**			**Goodwill**
		Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2014
		€ million	€ million	€ million
PUR	MDI	62	58	64
PUR	PET	20	21	23
PCS	PCS	113	111	114
CAS	BMI	30	30	30

16. Property, plant and equipment

Changes in property, plant and equipment in 2014 were as follows:

Changes in Property, Plant and Equipment (2014) (Table 1.42)

	Land and buildings	Plant installations and machinery	Furniture, fixtures and other equip-ment	Construction in progress and advance payments	**Total**
	€ million	€ million	€ million	€ million	€ million
Cost of acquisition or construction, December 31, 2013	2,646	9,480	401	829	13,356
Changes in scope of combination	-	-	-	-	-
Transactions with the Bayer Group	6	-	2	-	8
Acquisitions	-	-	-	-	-
Capital expenditures	73	195	15	383	666
Retirements	(35)	(152)	(14)	(1)	(202)
Transfers	131	316	4	(451)	-
Remeasurement (IFRS 3)	-	-	-	-	-
Exchange differences	151	589	26	59	825
December 31, 2014	**2,972**	**10,428**	**434**	**819**	**14,653**
					-
Accumulated depreciation and impairment losses, December 31, 2013	**1,566**	**7,018**	**328**	**2**	**8,914**
Changes in scope of combination	-	-	-	-	-
Transactions with the Bayer Group	3	-	2	-	5
Retirements	(28)	(147)	(13)	(1)	(189)
Depreciation and impairment losses in 2014	79	445	29	1	554
Depreciation	76	443	29	-	548
Impairment losses	3	2	-	1	6
Impairment loss reversals	-	-	-	-	-
Transfers	-	2	(2)	-	-
Exchange differences	69	385	21	1	476
December 31, 2014	**1,689**	**7,703**	**365**	**3**	**9,760**
Carrying amounts, December 31, 2014	**1,283**	**2,725**	**69**	**816**	**4,893**
Carrying amounts, December 31, 2013	**1,080**	**2,462**	**73**	**827**	**4,442**

Impairment losses of €6 million were recognized on property, plant and equipment (2013: €17 million; 2012: €9 million). Of this amount, the Polyurethanes reporting segment accounted for €2 million (2013: €4 million; 2012: €5 million), the Polycarbonates segment for €1 million (2013; €1 million; 2012: €1 million), the Coatings, Adhesives and Specialties segment for €0 million (2013; €12 million; 2012: €1 million) and other segments for €3 million (2013; €0 million; 2012: €2 million).

In 2014, borrowing costs of €20 million (2013: €21 million; 2012: €12 million) were capitalized as components of the cost of acquisition or construction of qualifying assets, applying an average interest rate of 3.1% (2013: 3.8%; 2012: 3.8%).

Capitalized property, plant and equipment included assets with a total net value of €354 million (2013: €299 million; 2012: €318 million) held under finance leases. The cost of acquisition and construction of these assets as of the closing date totaled €580 million (2013: €509 million; 2012: €1,014 million). They comprised plant installations and machinery with a carrying amount of €237 million (2013: €197 million; 2012: €206 million), buildings with a carrying amount of €41 million (2013: €32 million; 2012: €37 million) and other property, plant and equipment with a carrying amount of €76 million (2013: €70 million; 2012: €75 million). For information on the liabilities arising from finance leases, see note (25).

In 2014, rental payments of €48 million (2013: €48 million; 2012: €55 million) were made for assets leased under operating leases as defined in IAS 17 (Leases).

Lease payments of €2 million are expected to be received in 2015 from operating leases – as defined in IAS 17 (Leases) – pertaining to property, plant and equipment. Lease payments totaling €7 million are expected to be received in 2016-2019, and lease payments totaling €2 million after 2019.

Investment property

The fair values of investment property are mainly determined using the income approach based on internal valuations for buildings and developed sites, and using the market comparison approach for undeveloped sites.

The total carrying amount of investment property as of December 31, 2014, was €35 million (2013: €36 million; 2012: €36 million). The fair value of this property was €158 million (2013: €173 million; 2012: €173 million). The rental income from investment property was €4 million (2013: €3 million; 2012: €3 million), and the operating expenses directly allocable to this property amounted to €1 million (2013: €1 million; 2012: €1 million). A further amount of €0 million (2013: €1 million; 2012: €1 million) in operating expenses was directly allocable to investment property from which no rental income was derived.

Changes in property, plant and equipment in 2013 were as follows:

Changes in Property, Plant and Equipment (2013) (Table 1.43)

	Land and buildings	Plant installations and machinery	Furniture, fixtures and other equipment	Construction in progress and advance payments	**Total**
	€ million	€ million	€ million	€ million	€ million
Cost of acquisition or construction, December 31, 2012	2,676	9,495	418	710	13,299
Changes in scope of combination	-	-	1	-	1
Transactions with the Bayer Group	-	-	-	-	-
Acquisitions	-	-	-	-	-
Capital expenditures	29	228	16	349	622
Retirements	(18)	(152)	(34)	(6)	(210)
Transfers	30	171	11	(212)	-
Remeasurement (IFRS 3)	-	-	-	-	-
Exchange differences	(71)	(262)	(11)	(12)	(356)
December 31, 2013	**2,646**	**9,480**	**401**	**829**	**13,356**
					-
Accumulated depreciation and impairment losses, December 31, 2012	**1,529**	**6,856**	**335**	**2**	**8,722**
Changes in scope of combination	-	-	1	-	1
Transactions with the Bayer Group	-	-	-	-	-
Retirements	(13)	(140)	(33)	(6)	(192)
Depreciation and impairment losses in 2013	88	498	33	7	626
Depreciation	86	490	33	-	609
Impairment losses	2	8	-	7	17
Impairment loss reversals	-	-	-	-	-
Transfers	-	-	-	-	-
Exchange differences	(38)	(196)	(8)	(1)	(243)
December 31, 2013	**1,566**	**7,018**	**328**	**2**	**8,914**
Carrying amounts, December 31, 2013	**1,080**	**2,462**	**73**	**827**	**4,442**
Carrying amounts, December 31, 2012	**1,147**	**2,639**	**83**	**708**	**4,577**

Changes in property, plant and equipment in 2012 were as follows:

Changes in Property, Plant and Equipment (2012) (Table 1.44)

	Land and buildings	Plant installations and machinery	Furniture, fixtures and other equip-ment	Construction in progress and advance payments	**Total**
	€ million	€ million	€ million	€ million	€ million
Cost of acquisition or construction, Decem-ber 31, 2011	2,652	9,367	412	478	12,909
Changes in scope of combination	-	-	-	-	-
Transactions with the Bayer Group	-	-	-	-	-
Acquisitions	-	5	-	-	5
Capital expenditures	21	133	12	448	614
Retirements	(3)	(66)	(10)	(11)	(90)
Transfers	28	163	7	(197)	1
Remeasurement (IFRS 3)	-	-	-	-	-
Exchange differences	(22)	(107)	(3)	(8)	(140)
December 31, 2012	**2,676**	**9,495**	**418**	**710**	**13,299**
					-
Accumulated depreciation and impairment losses, December 31, 2011	**1,464**	**6,499**	**314**	**10**	**8,287**
Changes in scope of combination	-	-	-	-	-
Transactions with the Bayer Group	-	-	-	-	-
Retirements	(2)	(59)	(9)	(11)	(81)
Depreciation and impairment losses in 2012	79	498	34	2	613
Depreciation	77	493	34	-	604
Impairment losses	2	5	-	2	9
Impairment loss reversals	-	-	-	-	-
Transfers	1	-	(1)	-	-
Exchange differences	(13)	(82)	(3)	1	(97)
December 31, 2012	**1,529**	**6,856**	**335**	**2**	**8,722**
Carrying amounts, December 31, 2012	**1,147**	**2,639**	**83**	**708**	**4,577**
Carrying amounts, December 31, 2011	**1,188**	**2,868**	**98**	**468**	**4,622**

17. Investments accounted for using the equity method

Two (2013: two; 2012: two) associates and two (2013: two; 2012: two) joint ventures are accounted for in the combined financial statements using the equity method.

Associates and Joint Ventures Accounted for Using the Equity Method (Table 1.45)

Company Name	**Place of Business**	**Share of the capital 2012**	**Share of the capital 2013**	**Share of the capital 2014**
		%	%	%
Associates				
Paltough Industries (1998) Ltd.	Kibbutz Ramat Yochanan, Israel	25	25	25
PO JV, LP	Wilmington, U.S.A.	39.7	39.7	39.4
Joint Ventures				
Bayer IMSA, S.A. de C.V.	Nuevo Leon, Mexico	50	50	50
DIC Bayer Polymer Ltd.	Tokyo, Japan	50	50	50

In 2000, the polyols business and parts of the propylene oxide (PO) production operations of Lyondell Chemicals were acquired with the objective of ensuring access to patented technologies and assuring the long-term, economical supply of PO, a starting product for polyurethane. As part of this strategy, a company was established to produce PO (PO JV, LP, Wilmington, United States). The Covestro Group benefits from fixed long-term supply quotas/volumes of PO from this company's production. The two following tables contain summarized data from the income statements and statements of financial position of the associate PO JV, LP, Wilmington, United States, which is accounted for using the equity method, and show the respective amounts recognized in the combined financial statements.

Income Statement Data of PO JV, LP, Accounted for Using the Equity Method (Table 1.46)

	2012	2013	2014
	€ million	€ million	€ million
Net sales	2,242	2,217	2,414
Net loss after taxes	(53)	(46)	(44)
Share of net loss after taxes	(21)	(18)	(17)
Share of total comprehensive income after taxes	(21)	(18)	(17)
Gain (loss) after taxes from impairments/derecognition of other interests	-	(2)	(1)
Recognized loss after taxes of PO JV, LP, accounted for using the equity method	**(21)**	**(20)**	**(18)**

Data from the Statements of Financial Position of PO JV, LP, Accounted for Using the Equity Method (Table 1.47)

	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2014
	€ million	€ million	€ million
Noncurrent assets	481	441	462
Current liabilities	4	–	–
Equity	477	441	462
Share of equity	**189**	**175**	**182**
Other	7	–1	2
Carrying amount of PO JV, LP, accounted for using the equity method	**196**	**174**	**184**

The item “Other” mainly comprises differences arising from adjustments of data to the uniform accounting policies of the Covestro Group, purchase price allocations and their amortization in combined profit or loss.

The following table contains a summary of the income statement data and the carrying amount of the individually non-material associate Paltough Industries (1998) Ltd., Kibbutz Ramat Yochanan, Israel, which is accounted for using the equity method.

Income Statement Data and Carrying Amount of Paltough Industries (1998) Ltd. (Table 1.48)

	2012	2013	2014
	€ million	€ million	€ million
Income after taxes	9	4	4
Share of income after taxes	2	1	1
Share of total comprehensive income after taxes	**2**	**1**	**1**
Carrying amount of the investment in Paltough Industries (1998) Ltd., accounted for using the equity method	**19**	**20**	**21**

The following table contains a summary of the aggregated income statement data and aggregated carrying amounts of the individually non-material joint ventures that are accounted for using the equity method.

Income Statement Data and Carrying Amount of Joint Ventures Accounted for Using the Equity Method (Table 1.49)

	2012	2013	2014
	€ million	€ million	€ million
Income after taxes	5	6	5
Share of income after taxes	2	3	2
Share of total comprehensive income after taxes	**2**	**3**	**2**
Carrying amount of joint ventures accounted for using the equity method	**9**	**8**	**11**

18. Other financial assets

Other financial assets were comprised as follows:

Other Financial Assets (Table 1.50)

		Dec. 31, 2012		Dec. 31, 2013		Dec. 31, 2014
	Total	of which current	Total	of which current	Total	of which current
	€ million	€ million	€ million	€ million	€ million	€ million
Loans and receivables	1,319	327	1,519	527	420	418
Available-for-sale financial assets	8	-	7	-	6	-
Receivables from derivatives	37	17	33	19	36	13
Receivables under lease agreements	8	-	8	-	8	-
Total	**1,372**	**344**	**1,567**	**546**	**470**	**431**

The loans and receivables included €405 million (2013: €1,503 million; 2012: €1,303 million) in loan and cash pool receivables from the Bayer Group.

The available-for-sale financial assets solely comprised equity instruments, including €5 million (2013: €6 million; 2012: €7 million) in instruments whose fair value could not be determined from a stock exchange or other market price or by discounting reliably determinable future cash flows. These equity instruments were therefore recognized at cost.

No unimpaired other financial assets were past due in the years 2012 through 2014.

Further information on the accounting for receivables from derivatives is given in note (29.3).

Receivables under lease agreements relate to finance leases where the Covestro Group is the lessor and the economic owner of the leased assets is the lessee. These receivables comprised expected lease payments of €45 million (2013: €46 million; 2012: €47 million), including €37 million (2013: €38 million: 2012: €39 million) in interest. Of the expected lease payments, €1 million (2013: €1 million; 2012: €1 million) was due within one year, €2 million (2013: €2 million; 2012: €2 million) within the following four years and €42 million (2013: €43 million; 2012: €44 million) in subsequent years.

19. Inventories

Inventories were comprised as follows:

Inventories (Table 1.51)

	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2014
	€ million	€ million	€ million
Raw materials and supplies	396	337	439
Work in process, finished goods and goods purchased for resale	1,469	1,275	1,464
Advance payments	–	4	1
Total	**1,865**	**1,616**	**1,904**

Impairment losses recognized on inventories were reflected in the cost of goods sold. They were comprised as follows:

Impairments of Inventories (Table 1.52)

	2012	2013	2014
	€ million	€ million	€ million
Accumulated impairment losses, January 1	**(16)**	**(24)**	**(16)**
Impairment losses in the reporting period	(15)	(9)	(11)
Impairment loss reversals or utilization	7	16	8
Exchange differences	–	1	(1)
Accumulated impairment losses, December 31	**(24)**	**(16)**	**(20)**

20. Trade accounts receivable

Trade accounts receivable were comprised as follows:

Trade Accounts Receivable (Tabelle 1.53)

	2012	2013	2014
	€ million	€ million	€ million
Trade accounts receivable (before impairments)	1,464	1,402	1,604
Accumulated impairment losses	(36)	(39)	(43)
Carrying amount, December 31	**1,428**	**1,363**	**1,561**
of which noncurrent	15	3	4

Changes in impairment losses on trade accounts receivable were as follows:

Impairments of Trade Accounts Receivable (Table 1.54)

	2012	2013	2014
	€ million	€ million	€ million
Accumulated impairment losses, January 1	**(34)**	**(36)**	**(39)**
Impairment losses in the reporting period	(12)	(13)	(7)
Impairment loss reversals or utilization	10	8	4
Exchange differences	–	2	(1)
Accumulated impairment losses, December 31	**(36)**	**(39)**	**(43)**

Trade accounts receivable amounting to €1,556 million (2013: €1,358 million; 2012: €1,424 million) were not individually impaired. Of this amount, €141 million (2013: €153 million; 2012: €185 million) was past due or due immediately.

The amounts of impaired and past-due trade accounts receivable are summarized in the following table:

Impaired and Past-Due Trade Accounts Receivable (Table 1.55)

		Of which neither impaired nor past due at the closing date	Of which unimpaired but past due at the closing date				Of which impaired at the closing date
	Carrying amount		up to 3 months	3 – 6 months	6 – 12 months	more than 12 months	
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
December 31, 2014	1,561	1,415	124	6	2	9	5
December 31, 2013	1,363	1,205	136	8	4	5	5
December 31, 2012	1,428	1,239	157	15	8	5	4

The gross carrying amount of individually impaired trade accounts receivable was €44 million (2013: €35 million; 2012: €34 million). The impairment losses recognized on these assets totaled €39 million (2013: €30 million; 2012: €30 million), resulting in a net carrying amount of €5 million (2013: €5 million; 2012: €4 million).

The unimpaired receivables were deemed to be collectible on the basis of established credit management processes and individual assessments of customer risks. The impairment losses recognized included an appropriate allowance for the default risk as of the end of each reporting period.

Further, €41 million (2013: €38 million; 2012: €37 million) of receivables was secured, mainly by letters of credit.

21. Other receivables

Other receivables – on which no impairment losses were recognized in any of the reporting periods – were comprised as follows:

Other Receivables (Table 1.56)

	Dec. 31, 2012		Dec. 31, 2013		Dec. 31, 2014	
	Total	Of which current	Total	Of which current	Total	Of which current
	€ million	€ million	€ million	€ million	€ million	€ million
Other tax receivables	161	148	174	164	176	156
Deferred charges	45	33	42	32	49	39
Reimbursement claims	4	4	1	1	10	10
Net defined benefit asset	2	–	16	–	7	–
Receivables from employees	2	2	1	1	2	2
Miscellaneous receivables	109	65	101	61	107	70
Total	**323**	**252**	**335**	**259**	**351**	**277**

The miscellaneous receivables included an advance payment by Bayer MaterialScience (China) Company Limited, Shanghai, China, to Shanghai Chlor-Alkali Chemical Co., Ltd., Shanghai, China, in the amount of €32 million (2013; €34 million; 2012: €39 million), which was offset against monthly purchases. This item further included €18 million (2013: €18 million; 2012: €18 million) in claims for reimbursements of value-added tax from Bayer AG under German tax group regulations.

Other receivables included €94 million (2013: €85 million; 2012: €108 million) in financial receivables. Of this amount, €6 million (2013: €3 million; 2012: €2 million) was past due or due immediately.

The amounts of impaired and past-due financial receivables included in other receivables are summarized in the following table:

Impaired and Past-Due Other Financial Receivables (Table 1.57)

	Carrying amount	Of which neither impaired nor past due at the closing date				Of which unimpaired but past due at the closing date	Of which impaired at the closing date
			up to 3 months	3 – 6 months	6 – 12 months	more than 12 months	
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
December 31, 2014	94	88	3	1	1	1	-
December 31, 2013	85	82	1	-	1	1	-
December 31, 2012	108	106	1	-	-	1	-

22. Equity

The changes in the various components of equity in the years 2012 through 2014 are shown in the statements of changes in equity of the Covestro Group.

Invested equity attributable to the Bayer Group

The invested equity attributable to the Bayer Group was calculated by aggregating the equity of BMS AG, the equity of its direct and indirect subsidiaries and the net assets of the Covestro operations that were or are being conducted by direct or indirect subsidiaries of Bayer AG. The other changes in invested equity attributable to the Bayer Group relate to the accumulated comprehensive income and to contributions or withdrawals by the owner. Also included in this item are all remeasurements of the net defined benefit liability for pension or other post-employment benefits that are recognized outside combined profit or loss.

The contributions and withdrawals mainly comprise changes in the net assets of asset deal companies; tax receivables, tax liabilities and deferred tax assets on loss carryforwards of companies (share deal companies) or operations (asset deal companies) in the Covestro Group that did not constitute separate tax subjects in the reporting periods; transactions with the Bayer Group; and allocated holding company costs.

A control and profit-and-loss transfer agreement between BMS AG and Bayer AG was in effect throughout the reporting periods

In 2014, the capital of Bayer MaterialScience LLC, Pittsburgh, United States, was reduced by €462 million, and dividend payments of €628 million were made to Bayer Group, resulting in a corresponding decrease in the equity of the Covestro Group.

Capital management

Capital management for the Covestro Group is performed by Bayer AG. The legal requirements regarding equity and liquidity are taken into account in light of the needs of the Bayer Group.

Other components of equity

The other components of equity comprises exchange differences, the changes in fair values of cash flow hedges and available-for-sale financial assets, and the revaluation surplus. The latter results from the acquisition in 2008 of the remaining 50% interest in Bayer MaterialScience Oldenburg GmbH & Co. KG, Oldenburg, Germany. In 2014, an amount of €0 million (2013: €1 million; 2012: €1 million) corresponding to the annual amortization/depreciation of the respective assets was transferred from the revaluation surplus to invested equity attributable to the Bayer Group. The exchange differences included a loss of €26 million (2013: €13 million; 2012: €1 million) attributable to associates and joint ventures accounted for using the equity method.

Invested equity attributable to non-controlling interest

The changes in the invested equity attributable to non-controlling interest in the years 2012 through 2014 are shown in the following table:

Components of Non-Controlling Interest in Invested Equity (Table 1.58)

	2012	2013	2014
	€ million	€ million	€ million
January 1	**13**	**14**	**10**
Changes in invested equity not recognized in profit or loss			
Exchange differences on translation of operations outside the eurozone included in the scope of combination	–1	–1	3
Other changes in equity	–	–	–
Dividend payments	–1	–2	–1
Changes in invested equity recognized in profit or loss	**3**	**–1**	**5**
December 31	**14**	**10**	**17**

Non-controlling interests exist mainly in the equities of Bayer Jinling Polyurethane Co. Ltd., Nanjing, China; Bayer Pearl Polyurethane Systems FZCO, Dubai, United Arab Emirates; Bayer MaterialScience Taiwan Limited, Taipei, Taiwan; and Sumika Bayer Urethane Co. Ltd., Osaka, Japan.

23. Provisions for pensions and other post-employment benefits

Provisions were established for defined benefit obligations pertaining to pensions and other post-employment benefits. The net liability was accounted for as follows:

Net Defined Benefit Liability Reflected in the Statement of Financial Position (Table 1.59)

			Pensions		Other post-employment benefits				**Total**
	Dec 31, 2012	Dec 31, 2013	Dec 31, 2014	Dec 31, 2012	Dec 31, 2013	Dec 31, 2014	Dec 31, 2012	Dec 31, 2013	Dec 31, 2014
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Provisions for pensions and other post-employment benefits (net liability)	**637**	**490**	**1,232**	**161**	**132**	**163**	**798**	**622**	**1,395**
of which Germany	477	408	1,076	-	-	-	477	408	1,076
of which other countries	160	82	156	161	132	163	321	214	319
Net defined benefit asset	**2**	**15**	**6**	**-**	**1**	**1**	**2**	**16**	**7**
of which Germany	2	12	2	-	-	-	2	12	2
of which other countries	-	3	4	-	1	1	-	4	5
Net defined benefit liability	**635**	**475**	**1,226**	**161**	**131**	**162**	**796**	**606**	**1,388**
of which Germany	475	396	1,074	-	-	-	475	396	1,074
of which other countries	160	79	152	161	131	162	321	210	314

The expenses for defined benefit plans for pension and other post-employment benefits comprised the following components:

Expenses for Defined Benefit Plans (Table 1.60)

								Pension plans			Other post-employment benefit plans	
		Germany			Other countries			Total			Other countries	
	2012	2013	**2014**	2012	2013	**2014**	2012	2013	**2014**	2012	2013	**2014**
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	in Mio €	in Mio €
Current service cost	24	37	30	9	13	9	33	50	39	5	5	2
Past service cost	3	5	8	1	-	-	4	5	8	(14)	-	-
of which plan curtailments	-	-	-	*1*	-	*(2)*	*1*	-	*(2)*	-	-	-
Plan settlements	(3)	(2)	(3)	(4)	-	1	(7)	(2)	(2)	-	-	(1)
Net interest	13	18	17	5	6	3	18	24	20	9	7	7
Total	**37**	**58**	**52**	**11**	**19**	**13**	**48**	**77**	**65**	**-**	**12**	**8**

In 2014, total losses of €753 million (2013: plus €186 million; 2012: minus €285 million) in effects of remeasurements of the net defined benefit liability were recognized outside combined profit or loss. Of this amount, losses of €744 million (2013: gains of €161 million; 2012: losses of €292 million) related to pension obligations and losses of €9 million (2013: gains of €25 million; 2012: gains of €7 million) to other post-employment benefit obligations.

The net defined benefit liability developed as follows:

(Table 1.61)

Changes in Net Defined Benefit Liability

	Defined benefit obligation			Fair value of plan assets			Net defined benefit liability		
	2012	2013	**2014**	2012	2013	**2014**	2012	2013	**2014**
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	in Mio €	in Mio €
Germany									
January 1	**1,144**	**1,567**	**1,488**	**875**	**1,092**	**1,092**	**(269)**	**(475)**	**(396)**
Current service cost	24	37	30				(24)	(37)	(30)
Past service cost	3	5	8				(3)	(5)	(8)
(Gains) / losses from plan settlements	(3)	(2)	(3)				3	2	3
Net interest	61	62	66	48	44	49	(13)	(18)	(17)
Net actuarial (gain) loss	365	(153)	834				(365)	153	(834)
of which due to changes in financial assumptions	*348*	*(146)*	*829*				*(348)*	*146*	*(829)*
of which due to changes in demographic assumptions	*-*	*-*	*-*				*-*	*-*	*-*
of which due to experience adjustments	*17*	*(7)*	*5*				*(17)*	*7*	*(5)*
Return on plan assets excluding amounts recognized as interest income				92	(66)	159	92	(66)	159
Employer contributions				89	33	30	89	33	30
Employee contributions	6	6	6	6	6	6	-	-	-
Payments due to plan settlements	(3)	(1)	(1)	(3)	(1)	(1)	-	-	-
Benefits paid out of plan assets	(15)	(16)	(17)	(15)	(16)	(17)	-	-	-
Benefits paid by the company	(15)	(17)	(19)				15	17	19
December 31	**1,567**	**1,488**	**2,392**	**1,092**	**1,092**	**1,318**	**(475)**	**(396)**	**(1,074)**
Other countries									
January 1	**798**	**829**	**707**	**473**	**508**	**497**	**(325)**	**(321)**	**(210)**
Current service cost	14	18	11				(14)	(18)	(11)
Past service cost	(13)	-	-				13	-	-
(Gains) / losses from plan settlements	(4)	-	-				4	-	-
Net interest	40	36	37	26	23	27	(14)	(13)	(10)
Net actuarial (gain) loss	54	(93)	107				(54)	93	(107)
of which due to changes in financial assumptions	*75*	*(83)*	*74*				*(75)*	*83*	*(74)*
of which due to changes in demographic assumptions	*(10)*	*(4)*	*42*				*10*	*4*	*(42)*
of which due to experience adjustments	*(11)*	*(6)*	*(9)*				*11*	*6*	*9*
Return on plan assets excluding amounts recognized as interest income				42	6	29	42	6	29
Employer contributions				15	19	15	15	19	15
Employee contributions	-	-	1	-	-	1	-	-	-
Payments due to plan settlements	-	2	(16)	-	-	(16)	-	(2)	-
Benefits paid out of plan assets	(41)	(26)	(26)	(41)	(26)	(26)	-	-	-
Benefits paid by the company	(6)	(7)	(5)				6	7	5
Exchange differences	(13)	(52)	74	(7)	(33)	49	6	19	(25)
December 31	**829**	**707**	**890**	**508**	**497**	**576**	**(321)**	**(210)**	**(314)**
of which other post-employment benefits	*163*	*132*	*163*	*2*	*1*	*1*	*(161)*	*(131)*	*(162)*
Total December 31	**2,396**	**2,195**	**3,282**	**1,600**	**1,589**	**1,894**	**(796)**	**(606)**	**(1,388)**

The pension obligations pertained mainly to Germany (73%; 2013: 68%; 2012: 65%) and the United States (21%; 2013: 23%; 2012: 25%). In Germany, current employees accounted for about 63% (2013: 58%; 2012: 60%), retirees or their surviving dependents for about 31% (2013: 36%; 2012: 34%) and former employees with vested pension rights for about 6% (2013: 6%; 2012: 6%) of entitlements under defined benefit plans. In the United States, current employees accounted for about 39% (2013: 42%; 2012: 44%), retirees or their surviving dependents for about 54% (2013: 52%; 2012: 50%) and former employees with vested pension rights for about 7% (2013: 6%; 2012: 6%) of entitlements under defined benefit plans.

The amounts reflected for plan settlements mainly relate to employee transfers to or from Bayer Group companies outside the Covestro Group.

In 2012, all former employees of U.S. companies in the Covestro Group who had not yet reached retirement age were offered a lump-sum payment. This resulted in a plan settlement loss of €3 million and a plan curtailment gain of €1 million. The defined benefit obligation was reduced by a total of €4 million.

In 2014, employees in Brazil were given the option of switching from a defined benefit plan to a defined contribution plan. This resulted in a plan settlement loss of €3 million and a plan curtailment gain of €2 million. The defined benefit obligation was reduced by a total of €12 million and plan assets by €13 million.

The actual return on the assets of defined benefit plans for pensions or other post-employment benefits amounted to €264 million (2013: €7 million; 2012: €205 million) and €0 million (2013: €0 million; 2012: €3 million), respectively.

The following table shows the defined benefit obligations for pensions and other post-employment benefits along with the funded status of the funded obligations.

Defined Benefit Obligation and Funded Status (Table 1.62)

		Pension obligation			Other post-employment benefit obligation				Total
	2012	2013	2014	2012	2013	2014	2012	2013	2014
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Defined benefit obligation	**2,233**	**2,063**	**3,119**	**163**	**132**	**163**	**2,396**	**2,195**	**3,282**
of which unfunded	37	36	46	161	131	162	198	167	208
of which funded	2,196	2,027	3,073	2	1	1	2,198	2,028	3,074
Funded status of funded obligations									
Overfunding	2	15	6	–	1	1	2	16	7
Underfunding	600	454	1,186	–	–	–	600	454	1,186

Pension and other post-employment benefit obligations

The companies in the Covestro Group provide retirement benefits for most of their employees, either directly or by contributing to privately or publicly administered funds. The way these benefits are provided varies according to the legal, fiscal and economic conditions of each country, the benefits generally being based on employee compensation and years of service. The obligations relate both to existing retirees' pensions and to pension entitlements of future retirees.

Funded pension plans exist for employees in various countries. The most appropriate investment strategy is determined for each defined benefit pension plan based on the risk structure of the obligations (especially demographics, the current funded status, the structure of the expected future cash flows, interest sensitivity, biometric risks etc.), the regulatory environment and the existing level of risk tolerance or risk capacity. A strategic target investment portfolio is then developed in line with the plan's risk structure, taking capital market factors into consideration. Further determinants are risk diversification, portfolio efficiency and the need for both a country-specific and a global risk / return profile centered on ensuring the payment of all future benefits. As the capital investment strategy for each pension plan is developed individually in light of the plan-specific conditions listed above, the investment strategies for different pension plans may vary considerably. For example, the proportion of plan assets invested in equities is greater with the non-German pension plans than with the plans domiciled in Germany. The investment strategies are generally aligned less toward maximizing absolute returns and more toward the reasonable assurance of financing pension commitments over the long term. For plan assets, stress scenarios are simulated and other risk analyses (such as value at risk) undertaken with the aid of risk management systems.

Bayer-Pensionskasse VVaG, Leverkusen, Germany (referred to in the following as "Bayer-Pensionskasse"), is by far the most significant of the pension plans. It constitutes a defined benefit pension plan and as such is accounted for according to IAS 19R. Bayer-Pensionskasse was closed to new members effective January 1, 2005. This legally independent fund is regarded as a life insurance company and is therefore subject to the German Insurance Supervision Act. The benefit obligations covered by Bayer-Pensionskasse comprise retirement, surviving dependents' and disability pensions. It is a multi-employer plan to which the active members and their employers contribute. The company contribution is a certain percentage of the employee contribution. This percentage is the same for all participating employers, including those outside the Bayer Group, and is set by agreement between the plan's executive committee and supervisory board, acting on a proposal from the responsible actuary. It takes into account the differences between the actuarial estimates and the actual values for the factors used to determine liabilities and contributions. Bayer Group may also adjust the company contribution in agreement with the plan's executive committee and supervisory board, acting on a proposal from the responsible actuary. The plan's liability is governed by Section 1, Paragraph 1, Sentence 3 of the German Law on the Improvement of Occupational Pensions. This means that if the pension plan exercises its right under the articles of association to reduce benefits, each participating employer has to make up the resulting difference. The Covestro Group is not liable for the obligations of participating employers outside the Group, even if they cease to participate in the plan.

Pension entitlements for people who joined the Covestro Group in Germany on or after January 1, 2005 are granted via Rheinische Pensionskasse VVaG, Leverkusen. Future pension payments from this plan are based on contributions and the return on plan assets; a guaranteed interest rate applies.

Another important pension provision vehicle is Bayer Pension Trust e.V. (BPT). This covers further retirement provision arrangements, such as deferred compensation and components of other direct commitments.

The defined benefit pension plans in the United States have been frozen for some years, and no significant new entitlements can be earned under these plans. The assets of all the U.S. pension plans are held by a master trust for reasons of efficiency. The applicable regulatory framework is based on the Employee Retirement Income Security Act (ERISA), which includes a statutory 80% minimum funding requirement to avoid benefit reductions. The actuarial risks, such as investment risk, interest-rate risk and longevity risk, remain with the company.

The other post-employment benefit obligations outside Germany mainly comprise health care benefit payments for retirees in the United States.

The fair value of the plan assets to cover pensions and other post-employment benefit obligations was as follows:

Fair Value of Plan Assets as of December 31 (Table 1.63)

					Pension obligations			Other post-employment obligations	
	Germany			other countries			other countries		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Plan assets based on quoted prices in active markets									
Real estate and special real estate funds	–	–	–	3	20	24	–	–	–
Equities and equity funds	164	201	233	144	123	143	–	–	–
Non-callable debt instruments	–	–	–	78	165	120	–	–	–
Bond funds	195	251	304	70	11	104	–	–	–
Derivatives	5	1	5	8	1	–	–	–	–
Cash and cash equivalents	83	43	38	5	11	9	1	1	1
Other	–	–	–	104	84	77	–	–	–
	447	**496**	**580**	**412**	**415**	**477**	**1**	**1**	**1**
Plan assets for which quoted prices in active markets are not available									
Real estate and special real estate funds	87	89	99	14	–	–	–	–	–
Equities and equity funds	8	9	13	1	1	–1	–	–	–
Callable debt instruments	211	197	257	1	1	1	–	–	–
Non-callable debt instruments	308	274	342	–	–	–	–	–	–
Bond funds	–	–	–	1	1	–	–	–	–
Other	31	27	27	77	78	98	1	–	–
	645	**596**	**738**	**94**	**81**	**98**	**1**	**–**	**–**
Total plan assets	**1,092**	**1,092**	**1,318**	**506**	**496**	**575**	**2**	**1**	**1**

The fair value of plan assets in Germany did not include any real estate leased by Covestro Group companies. Plan assets in Germany included Bayer AG shares and bonds held through investment funds, recognized at their fair value of €5 million (2013: €4 million; 2012: €4 million) and €1 million (2013: €0 million; 2012: €0 million), respectively. The other plan assets comprise mortgage loans granted, other receivables and qualified insurance policies.

Risks

The risks from defined benefit plans arise partly from the defined benefit obligations and partly from the investment in plan assets. The risks lie in the possibility that higher direct pension payments will have to be made to the beneficiaries and/or that additional contributions will have to be made to plan assets in order to meet current and future pension obligations.

Demographic / biometric risks

Since a large proportion of the defined benefit obligations comprises lifelong pensions or surviving dependents' pensions, longer claim periods or earlier claims may result in higher benefit obligations, higher benefit expense and / or higher pension payments than previously anticipated.

Investment risks

If the actual return on plan assets were below the return anticipated on the basis of the discount rate, the net defined benefit liability would increase, assuming there were no changes in other parameters. This could happen as a result of a drop in share prices, increases in market rates of interest, default of individual debtors or the purchase of low-risk but low-interest bonds, for example.

Interest-rate risk

A decline in capital market interest rates, especially for high-quality corporate bonds, would increase the defined benefit obligation. This effect would be at least partially offset by the ensuing increase in the market values of the debt instruments held.

Measurement parameters and their sensitivities

The following weighted parameters were used to measure the pension obligations as of December 31 and the expense for pensions and other post-employment benefits in the respective year:

Parameters for Benefit Obligations (Table 1.64)

	Germany			Other countries					**Total**
	2012	2013	2014	2012	2013	2014	2012	2013	2014
	%	%	%	%	%	%	%	%	%
Pension obligations									
Discount rate	4.00	4.50	2.30	4.40	5.20	4.20	4.10	4.70	2.75
Projected future salary increases	3.00	3.00	3.00	4.70	6.60	5.25	3.50	4.00	3.50
Projected future benefit increases	1.75	1.75	1.75	4.90	5.15	5.40	2.70	2.70	2.60
Other post-employment benefit obligations									
Discount rate	–	–	–	4.75	5.70	4.80	4.75	5.70	4.80

In Germany the Heubeck 2005 G mortality tables were used, in the United States as of 2014 the RP-2014 Combined Healthy Mortality Tables, and in the United States in the preceding years the RP-2000 Combined Healthy Mortality Tables.

Parameters for Benefit Expense (Table 1.65)

	Germany			Other countries					**Total**
	2012	2013	2014	2012	2013	2014	2012	2013	2014
	%	%	%	%	%	%	%	%	%
Pension obligations									
Discount rate	5.40	4.00	4.50	5.35	4.40	5.20	5.40	4.10	4.70
Projected future salary increases	3.00	3.00	3.00	3.15	4.70	6.60	3.10	3.50	4.00
Projected future benefit increases	1.75	1.75	1.75	1.80	4.90	5.15	1.80	2.70	2.70
Other post-employment benefit obligations									
Discount rate	–	–	–	6.60	4.75	5.70	6.60	4.75	5.70

The parameter sensitivities were computed by expert actuaries based on a detailed evaluation similar to that performed to obtain the data presented in Table 1.61. Altering individual parameters by 0.5 percentage points (mortality by 10 percent per beneficiary) while leaving the other parameters unchanged would have impacted pension and other post-employment benefit obligations as of year end 2014 as follows:

Sensitivity of Benefit Obligations (Table 1.66)

	Germany		Other countries		**Total**	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
	€ million	€ million	€ million	€ million	€ million	€ million
Pension obligations						
0.5%-pt. change in discount rate	–241	281	–42	47	–283	328
0.5%-pt. change in projected future salary increases	29	–27	5	–5	34	–32
0.5%-pt. change in projected future benefit increases	148	–134	2	–1	150	–135
10% change in mortality	–67	75	–15	24	–82	99
Other post-employment benefit obligations						
0.5%-pt. change in discount rate	–	–	–10	11	–10	11
10% change in mortality	–	–	–4	4	–4	4

Provisions are also set up for the obligations, mainly of U.S. subsidiaries, to provide post-employment benefits in the form of health care cost payments for retirees. The valuation of health care costs was based on the assumption that they will increase at a rate of 7.0 % (assumption in 2013: 7.5%; assumption in 2012: 8.0%), which should gradually decline to 5.0% (2013: 5.0%; 2012: 5.0%) by 2018. The following table shows the impact as of December 31, 2014, on other post-employment benefit obligations and total benefit expense of a one-percentage-point change in the assumed cost increase rates:

Sensitivity to Health Care Cost Increases (Table 1.67)

	Increase of one percentage point	Decrease of one percentage point
	€ million	€ million
Impact on other post-employment benefit obligations	18	(15)
Impact on benefit expense	1	(1)

Payments made and expected future payments

The following payments correspond to the employer contributions made or expected to be made to funded benefit plans:

Employer Contributions Paid or Expected (Table 1.68)

	Germany				Other countries			
	2012	2013	2014	2015 expected	2012	2013	2014	2015 expected
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Pension obligations	89	33	30	30	15	19	15	16
Other post-employment benefit obligations	–	–	–	–	–	–	–	–
Total	**89**	**33**	**30**	**30**	**15**	**19**	**15**	**16**

In 2012, certain benefit obligations in Germany were switched from unfunded to funded pension plans. For the Covestro Group a pro-rated volume of €53 million in short-term securities was transferred to Bayer Pension Trust e.V. (BPT).

Pensions and other post-employment benefits payable in the future from funded and unfunded plans are estimated as follows:

Future Benefit Payments (Table 1.69)

Payments	Out of plan assets				By the company			
	Pensions		Other post-employment benefits		Pensions		Other post-employment benefits	
	Germany	Other countries	Other countries	Total	Germany	Other countries	Other countries	Total
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
2015	19	29	-	48	21	4	-	25
2016	21	31	-	52	22	4	-	26
2017	22	33	-	55	24	4	-	28
2018	23	35	-	58	25	4	-	29
2019	25	37	-	62	27	4	-	31
2020-2024	160	212	1	373	164	27	-	191

The weighted average term of the pension obligations is 22.0 years (2013: 20.0 years; 2012: 21.0 years) in Germany and 12.6 years (2013: 12.0 years; 2012: 12.6 years) in other countries. The weighted average term of the obligations for other post-employment benefits in other countries is 11.8 years (2013: 11.2 years; 2012: 11.8 years) .

24. Other provisions

Changes in the various provision categories in 2014, 2013 and 2012 were as follows:

Changes in Other Provisions (Table 1.70)

	Taxes	Environ-mental protec-tion	Restruc-turing	Trade-related commit-ments	Litigations	Personnel commit-ments	Miscella-neous	**Total**
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
December 31, 2011	**7**	**47**	**7**	**50**	**52**	**272**	**15**	**450**
Additions	34	5	22	78	1	194	16	350
Utilization	(19)	(6)	(4)	(58)	(42)	(158)	-6	(293)
Reversal	(3)	(2)	-	(24)	(2)	(9)	-5	(45)
Interest cost	-	-	-	-	-	11	-	11
Exchange differences	(1)	(2)	-	(1)	(1)	(1)	-	(6)
December 31, 2012	**18**	**42**	**25**	**45**	**8**	**309**	**20**	**467**
Additions	27	8	1	82	2	221	20	361
Utilization	(29)	(6)	(15)	(49)	(3)	(206)	-14	(322)
Reversal	(2)	(3)	(1)	(32)	(1)	(43)	-4	(86)
Interest cost	-	-	-	-	-	-	1	1
Exchange differences	-	(1)	-	(1)	-	(6)	-3	(11)
December 31, 2013	**14**	**40**	**10**	**45**	**6**	**275**	**20**	**410**
Additions	31	2	18	84	4	260	21	420
Utilization	(23)	(4)	(9)	(79)	2	(176)	-19	(308)
Reversal	(6)	(1)	(1)	(8)	(1)	(19)	-6	(42)
Interest cost	-	-	-	-	-	10	-	10
Exchange differences	1	4	-	2	-	11	1	19
December 31, 2014	**17**	**41**	**18**	**44**	**11**	**361**	**17**	**509**

The provisions recognized in the statement of financial position as of December 31, 2014 were expected to be utilized as follows:

Expected Utilization of Other Provisions (Table 1.71)

	Taxes	Environ-mental protection	Restruc-turing	Trade-related commit-ments	Litigations	Personnel commit-ments	Miscella-neous	**Total**
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
2015	16	9	12	43	5	227	10	322
2016	-	3	2	1	-	34	2	42
2017	-	2	1	-	-	26	2	31
2018	1	1	1	-	-	20	1	24
2019	-	3	1	-	-	14	1	19
2020 or later	-	23	1	-	6	40	1	71
Total	**17**	**41**	**18**	**44**	**11**	**361**	**17**	**509**

The provisions were partly offset by claims for refunds in the amount of €6 million (2013: €1 million; 2012: €1 million), which were recognized as receivables. These claims related to environmental protection measures and product liability cases.

24.1 Taxes

Provisions for taxes comprised provisions for income taxes amounting to €15 million (2013: €9 million; 2012: €11 million) and provisions for other types of taxes amounting to €2 million (2013: €5 million; 2012: €7 million).

Further income tax commitments according to IAS 12 (Income Taxes) existed at year end in the amount of €3 million (2013: €3 million; 2012: €2 million), recognized in the statement of financial position as income tax liabilities.

24.2 Environmental protection

Provisions for environmental protection mainly related to the rehabilitation of contaminated land in the United States (particularly at Hicksville, New York; New Martinsville, West Virginia; and Baytown, Texas) and Spain (Zona Franca, Barcelona) and to redevelopment and water protection measures at these locations.

24.3 Restructuring

Provisions for restructuring included €17 million (2013: €9 million; 2012: €17 million) for severance payments and €1 million (2013: €1 million; 2012: €8 million) for other restructuring expenses.

Provisions for restructuring measures in 2014 pertained largely to the global consolidation of the business with sheet made from the high-tech plastic polycarbonate. Consolidating the sheet business was necessary to safeguard these activities for the long term and maintain their competitiveness. Provisions of €14 million were established for the closure of the production site in Darmstadt, Germany. Of this amount, severance payments accounted for €13 million and other restructuring expenses for €1 million. The Darmstadt facilities were consolidated into the site at Nera Montoro, Italy.

Provisions for restructuring in 2013 and 2012 mainly related to the optimization of certain sites in the United States to improve cost efficiency. This included personnel adjustments at the site in Pittsburgh, Pennsylvania. A further focus of restructuring was the realignment of the polyurethane systems house business in Europe. The realignment also involved the consolidation of production facilities. Major individual measures were carried out in Italy, Greece and the Czech Republic.

24.4 Trade-related commitments

Provisions for trade-related commitments comprised provisions for rebates, outstanding invoices, pending losses and onerous contracts.

24.5 Litigations

The legal risks currently considered to be material, and their development, are described in note (31).

24.6 Personnel commitments

Provisions for personnel commitments mainly include those for variable one-time payments under short-term incentive programs, credit balances on long-term accounts, service awards, early retirements, pre-retirement part-time working arrangements and other personnel costs. Also reflected here are the obligations under the stock-

based compensation programs. Provisions for severance payments resulting from restructuring are reflected in provisions for restructuring.

Stock-based compensation programs

The Bayer Group offers stock-based compensation programs collectively to different groups of employees. As required by IFRS 2 (Share-based Payment) for compensation systems involving cash settlement, awards to be made under the stock-based programs are covered by provisions in the amount of the fair value of the obligations existing as of the date of the financial statements vis-à-vis the respective employee group. All resulting valuation adjustments are recognized in combined profit or loss.

The following table shows the changes in provisions for the various programs:

Changes in Provisions for Stock-Based Compensation Programs (Table 1.72)

	Stock Incentive Program	Stock Participation Program	Aspire I Three-Year Program	Aspire II Three-Year Program	Aspire I Four-Year Program	Aspire II Four-Year Program	**Total**
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
December 31, 2011	**0**	**1**	**5**	**4**	**1**	**1**	**12**
Additions	-	1	2	2	5	8	**18**
Utilization	-	(1)	(4)	(4)	-	-	**(9)**
Reversal	-	-	-	-	-	-	**-**
Exchange differences	-	-	(1)	-	-	**-**	**(1)**
December 31, 2012	**0**	**1**	**2**	**2**	**6**	**9**	**20**
Additions	-	-	-	-	12	20	**32**
Utilization	-	(1)	(2)	(2)	-	-	**(5)**
Reversal	-	-	-	-	(2)	(1)	**(3)**
Exchange differences	-	1	-	-	-	**(2)**	**(1)**
December 31, 2013	**0**	**1**	**0**	**0**	**16**	**26**	**43**
Additions	-	-	-	-	10	20	**30**
Utilization	-	(1)	-	-	(6)	(7)	**(14)**
Reversal	-	-	-	-	(2)	(4)	**(6)**
Exchange differences	-	-	-	-	1	**3**	**4**
December 31, 2014	**0**	**0**	**0**	**0**	**19**	**38**	**57**

The value of the Aspire tranches that were fully earned at the end of 2014, resulting in payments at the beginning of the following year, was €17 million (2013: €13 million; 2012: €4 million).

Total expense for all stock-based compensation programs in 2014 was €32 million (2013: €33 million; 2012: €19 million), including €1 million (2013: €1 million; 2012: €1 million) for the BayShare stock participation program and €1 million (2013: €0 million; 2012: €0 million) for grants of virtual Bayer AG shares forming a component of long-term compensation.

The fair value of obligations under the standard stock-based compensation programs was calculated using the Monte Carlo simulation method based on the following key parameters:

Parameters for Monte Carlo Simulation (Table 1.73)

	2012	2013	2014
Dividend yield	2.66%	2.14%	1.89%
Risk-free interest rate for the three-year program	0.004%	-	-
Risk-free interest rate for the four-year program	0.155%	0.644%	(0.079%)
Volatility of Bayer AG stock	27.40%	27.06%	23.39%
Volatility of the EURO STOXX 50	24.54%	22.54%	18.11%
Correlation between Bayer AG stock price and the EURO STOXX 50	0.75	0.77	0.76

Long-term incentive program for senior executives (Aspire I)

Since 2005, senior executives have been entitled to participate in Aspire I on the condition that they purchase a certain number of Bayer AG shares – determined for each individual according to specific guidelines – and retain them for the full term of the program. A percentage of the executive's annual base salary – based on his/her position – is defined as a target for variable payments (Aspire target opportunity). Depending on the performance of Bayer AG stock, both in absolute terms and relative to the EURO STOXX 50 benchmark index during a three-year performance period (or, starting with the regular 2010 tranche, a four-year performance period), participants are granted an award of up to 300% of their individual Aspire target opportunity for four-year tranches, or 200% for three-year tranches, at the end of the program. The final tranche with a three-year performance period was issued in 2010. Payment of the maximum amounts (200% and 300%, respectively) resulting from the three- and four-year tranches issued in 2009 and 2010 was made in the years 2012 through 2014.

Long-term incentive program for middle management (Aspire II)

Also since 2005, other senior managers and middle managers have been offered Aspire II, which is similar to Aspire I but does not require a personal investment in Bayer AG shares. This program was extended to further managerial employees in 2012. The amount of the award is based entirely on the absolute performance of Bayer AG stock. The maximum award is 250% of each manager's Aspire target opportunity for four-year tranches, or 150% for three-year tranches. As with Aspire I, the final tranche with a three-year performance period was issued in 2010. Payment of the maximum amounts (150 % and 250 %, respectively) resulting from the three- and four-year tranches issued in 2009 and 2010 was made in the years 2012 through 2014.

BayShare

All management levels and non-managerial employees are offered an annual stock participation program known as BayShare, under which Bayer AG subsidizes their personal investments in the company's stock. The discount under this program is newly determined each year. In all three reporting periods it was 20% of the subscription amount. Employees stated a fixed amount that they wished to invest in shares. The maximum subscription amount in Germany was set at €2,500 or €5,000 depending on the employee's position. The shares thus acquired must be retained until December 31 of the year following the year of purchase, irrespective of continued employment with the Covestro Group.

In 2014, employees purchased a total of about 35,400 shares (2013: 42,200 shares; 2012: 54,800 shares) under the BayShare program.

Stock-based compensation programs 2002 - 2004

The stock-based compensation programs offered to the different employee groups in 2002 through 2004 had similar basic structures. Changes in the obligations under these programs were reflected in the financial state-

ments at fair value through combined profit or loss. Entitlements to awards under these programs are conditioned on retention of the Bayer AG shares for a 10-year period. The tranches issued in 2002, 2003 and 2004 expired in 2012, 2013 and 2014, respectively.

Stock Incentive Program

A Stock Incentive Program was offered to middle management until 2004. Participants receive a cash payment equivalent to a defined number of Bayer AG shares on certain dates during the ten-year duration of the program. For every ten shares held in a special account (personal investment), they receive two shares after two years, and a further four shares after six and ten years, respectively. To qualify for these payments, they must still hold the personal investment on the incentive payment dates and the percentage rise in the price of Bayer AG stock by the payment date must be above the performance of the EURO STOXX 50 since the start of the program. Participants may sell their shares during the term of the program. However, the shares sold do not qualify for incentive payments on subsequent distribution dates. The number of shares that each employee could transfer to the program was equivalent to half of his or her performance-related bonus for the preceding fiscal year.

Stock Participation Program

The structure of this program, which was offered to the other employee groups until 2004, is similar to the Stock Incentive Program. However, the incentive payments are based exclusively on the period for which employees hold their personal investment in Bayer AG shares. Incentive payments are half those allocated under the Stock Incentive Program. For every ten shares held, participants receive the equivalent of one share after two years and the equivalent of a further two shares after six and ten years, respectively.

Long-term variable cash compensation based on virtual Bayer shares

A long-term variable cash compensation component based on virtual Bayer AG shares exists for one member of the Board of Management. Both the number of virtual shares granted and the amount of the payment at the end of a three-year retention period are based on the average official closing price of Bayer AG shares over the last 30 trading days of the respective year in the Xetra system of the Frankfurt Stock Exchange. A cash payment with respect to the number of virtual shares held is made at the end of the retention period according to the market price of Bayer AG shares at that time. An amount equal to the total dividends paid on the equivalent number of real shares during the retention period is granted in addition. The total payment is capped at 200% of the amount converted into virtual shares at the beginning of the three-year retention period.

25. Financial liabilities

Financial liabilities were comprised as follows:

Financial Liabilities (Table 1.74)

	Dec. 31, 2012		Dec. 31, 2013		Dec. 31, 2014	
	Total	Of which current	Total	Of which current	Total	Of which current
	€ million	€ million	€ million	€ million	€ million	€ million
Liabilities to banks	818	251	569	131	516	214
Liabilities under finance leases	406	203	252	25	307	28
Liabilities from derivatives	3	3	2	2	5	5
Other financial liabilities	3,520	3,463	3,730	3,568	3,894	3,696
Total	**4,747**	**3,920**	**4,553**	**3,726**	**4,722**	**3,943**

The other financial liabilities included €3,864 million (2013: €3,703 million; 2012: €3,471 million) in loan and cash pool liabilities to the Bayer Group.

A breakdown of financial liabilities by contractual maturity is given below:

Maturities of Financial Liabilities (Table 1.75)

Maturity	Dec. 31, 2012
	€ million
2013	3,920
2014	154
2015	208
2016	122
2017	76
2018 or later	267
Total	**4,747**

Maturity	Dec. 31, 2013
	€ million
2014	3,726
2015	207
2016	229
2017	76
2018	114
2019 or later	201
Total	**4,553**

Maturity	Dec. 31, 2014
	€ million
2015	3,943
2016	323
2017	88
2018	117
2019	73
2020 or later	178
Total	**4,722**

The financial liabilities of the Covestro Group are of equal rank. The loan agreements for loans in China are guaranteed by Bayer AG in the amount of €466 million (2013: €547 million; 2012: €686 million). The loan agreements for loans in India are guaranteed by Bayer AG in the amount of €0 million (2013: €41 million; 2012: €48 million).

Leasing liabilities

Lease payments totaling €415 million (2013: €359 million; 2012: €482 million), including €108 million (2013: €107 million; 2012: €76 million) in interest, are to be made under finance leases to the respective lessors in future years.

The liabilities under finance leases mature as follows:

Leasing Liabilities (Table 1.76)

Maturity	Lease payments	Interest component	Liabilities under finance leases	Maturity	Lease payments	Interest component	Liabilities under finance leases	Maturity	Lease payments	Interest component	Liabilities under finance leases
	€ million	€ million	€ million		€ million	€ million	€ million		€ million	€ million	€ million
2013	221	18	203	2014	42	17	25	2015	46	19	28
2014	33	11	22	2015	38	16	23	2016	45	17	28
2015	32	10	22	2016	37	14	22	2017	43	16	27
2016	31	10	22	2017	34	12	22	2018	41	13	28
2017	28	8	21	2018	33	11	22	2019	41	11	29
2018 or later	137	19	116	2019 or later	175	37	138	2020 or later	199	32	167
Total	**482**	**76**	**406**	**Total**	**359**	**107**	**252**	**Total**	**415**	**108**	**307**

Other information

Further information on the accounting for liabilities from derivatives is given in note (29.3).

26. Trade accounts payable

Trade accounts payable comprise €1,521 million (2013: €1,329 million; 2012: €1,373 million) due within one year and €1 million (2013: €0 million; 2012: €5 million) due after one year.

27. Other liabilities

Other liabilities comprised:

Other Liabilities (Table 1.77)

	Dec. 31, 2012		Dec. 31, 2013		Dec. 31, 2014	
	Total	Of which current	Total	Of which current	Total	Of which current
	€ million	€ million	€ million	€ million	€ million	€ million
Other tax liabilities	116	111	92	92	111	111
Deferred income	33	18	27	14	25	12
Liabilities to employees	25	23	26	24	21	21
Liabilities for social expenses	16	13	15	12	14	11
Accrued interest on liabilities	22	22	13	13	14	14
Miscellaneous liabilities	146	135	71	62	93	79
Total	**358**	**322**	**244**	**217**	**278**	**248**

The deferred income included €12 million (2013: €13 million; 2012: €15 million) in grants and subsidies received from governments, of which €2 million (2013: €2 million; 2012: €5 million) was reversed and recognized in combined profit or loss.

The miscellaneous liabilities included €14 million (2013: €11 million; 2012: €9 million) from derivatives. Also reflected in this item are income tax liabilities for tax allocations in the amount of €56 million (2013: €35 million; 2012: €107 million), primarily in the United States, where they constitute liabilities to Bayer Corporation on the basis of the existing tax group and tax sharing agreement.

28. Financial opportunities and risks

The Covestro Group has financial opportunities at its disposal in the form of the market prices it can command for its products, and is exposed to financial risks in the form of liquidity, credit and market price risks, as well as risks resulting from pension obligations.

The following paragraphs provide details of these and other financial opportunities and risks and how they are managed.

The management of financial opportunities and risks takes place using established, documented processes. One component is financial planning, which serves as the basis for determining the liquidity risk and the future foreign currency and interest-rate risks and covers all Group companies that are relevant from a cash-flow perspective. Financial planning comprises a planning horizon of 12 months and is regularly updated. In the reporting periods for the combined financial statements, the financing activities of the Covestro Group were managed by Bayer AG.

Liquidity risk

Liquidity risk is defined as the risk of being unable to meet current or future payment obligations due to a lack of cash or cash equivalents. The liquidity risk is determined and managed centrally by the finance department of Bayer AG as part of that company's same-day and medium-term liquidity planning.

With the exception of the syndicated loans in China, the Covestro Group is largely financed by the Bayer Group and invests excess liquidity with Bayer AG or its subsidiaries using the Bayer Group's cash pooling and cash management system. The Bayer Group holds sufficient liquidity to ensure the fulfillment of all planned payment obligations of the Covestro Group at maturity. In addition, the Bayer Group maintains a reserve for unbudgeted shortfalls in cash receipts or unexpected disbursements. The amount of this liquidity reserve is regularly reviewed and adjusted as necessary according to circumstances.

The Bayer Group holds liquid assets mainly in the form of overnight and term deposits.

Payment obligations from financial instruments are explained according to their maturity in note (29.2).

Credit risks

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

To manage credit risks from trade receivables, the respective invoicing companies appoint credit managers who regularly analyze customers' creditworthiness. Some of these receivables are collateralized, and the collateral - mainly in the form of letters of credit - is used according to local conditions. Reservation of title is generally agreed with the customers. Credit limits are set for all customers. All credit limits for debtors where total exposure is €10 million or more are evaluated by Covestro credit management at the local level and submitted to the Bayer Group's Central Financial Risk Committee.

In the reporting periods for the combined financial statements, the Covestro Group's credit risks from financial transactions were managed centrally by the finance department of Bayer AG. To minimize risks, financial transactions are only conducted within predefined exposure limits and with banks and other partners that preferably have investment-grade ratings. All risk limits are based on methodical models. Adherence to the risk limits is continuously monitored.

Opportunities and risks resulting from market price changes

In the reporting periods for the combined financial statements, the Covestro Group's opportunities and risks resulting from changes in market currency and interest rates were managed centrally by the finance department of Bayer AG. Risks were eliminated or mitigated through the use of derivative financial instruments. Further details on derivatives are given in note (29.3).

The type and level of currency and interest-rate risks are explained in the following paragraphs using sensitivity analyses based on hypothetical changes in risk variables (such as interest curves) to determine the potential effects of market price fluctuations on equity and earnings. The assumptions used in the sensitivity analyses reflect the corporate view of the changes in currency exchange and interest rates that are reasonably possible over a one-year period. These assumptions are regularly reviewed.

Foreign currencies

Foreign currency opportunities and risks for the Covestro Group result from changes in exchange rates and the related changes in the value of financial instruments (including receivables and payables) and of anticipated payment receipts and disbursements in non-functional currencies.

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

Anticipated exposure from planned payment receipts and disbursements in the future is hedged according to the rules agreed between the Bayer AG Management Board, the finance department of Bayer AG and the operating units of the Covestro Group. Hedging takes place through forward exchange contracts and currency options.

Sensitivities were determined based on a hypothetical adverse scenario in which the euro depreciated by 10% against all other currencies compared with the year-end exchange rates. Under this scenario, the estimated hypothetical loss of cash flows from derivative and non-derivative financial instruments would have reduced earnings and equity (other comprehensive income) as of December 31, 2014 by €3 million (2013: €11 million; 2012: €35 million). Of this amount, €0.5 million (2013: €10.3 million; 2012: €30.1 million) relates to the U.S. dollar, €1.7 million (2013: €1.5 million; 2012: €1.6 million) to the British pound and €1.2 million (2013: €1.0 million; 2012: €1.4 million) to the Australian dollar. Currency effects on anticipated exposure were not taken into account.

Derivatives used to hedge anticipated currency exposure that are designated for hedge accounting would have reduced other comprehensive income as of December 31, 2014, by €4.5 million (2013: €17 million; 2012: €41 million).

Derivatives employed to reduce the Covestro Group's currency exposure are explained in note (29.3).

Interest rates

Interest-rate opportunities and risks for the Covestro Group arise from changes in capital market interest rates, which in turn could lead to changes in the fair value of fixed-rate financial instruments and changes in interest payments in the case of floating-rate instruments.

Interest-rate opportunities and risks are managed over a target duration established by Bayer AG management for Bayer Group debt. This target duration is subject to regular review. Interest-rate swaps are concluded to achieve the targeted structure for Bayer Group debt.

The Covestro Group was largely financed by the Bayer Group in the 2014, 2013 and 2012 reporting periods with the exception of the syndicated loans in China, and interest-rate risk was managed by Bayer AG. It was therefore not necessary for the Covestro Group to hedge against interest-rate risk itself using derivatives.

A sensitivity analysis based on the net floating-rate receivables and payables position of the Covestro Group, taking into account the interest rates relevant for these receivables and payables in all principal currencies, produced the following result: a hypothetical increase of 100 basis points, or 1 percentage point, in these interest rates (assuming constant currency exchange rates) as of January 1, 2014 would have raised the interest expense for the year ended December 31, 2014 by €5 million (2013: €5 million; 2012: €7 million).

Other price risks (especially commodity price risks)

The Covestro Group requires significant quantities of petrochemical feedstocks and energy for its various production processes. The prices of these inputs may fluctuate considerably depending on market conditions. As in the past, there may be times when it is not possible to pass increased raw material costs along to customers through price adjustments. The Covestro Group has addressed this risk by concluding long-term contracts with multiple suppliers. The procurement department is responsible for managing commodity price risks on the basis of centrally set requirements and limits. The operation of production facilities requires large amounts of energy, mainly in the form of electricity and steam. To minimize exposure to energy price fluctuations, the Covestro Group aims for a balanced diversification of fuels for steam production and a mix of external procurement and captive production for power generation.

Risk to pension obligations from capital market developments

The Covestro Group has obligations to active and former employees related to pensions and other post-employment benefits. Changes in relevant valuation parameters such as interest rates, mortality and rates of increases in compensation may raise the present value of pension obligations. This may lead to increased costs for pension plans or diminish equity due to actuarial losses being recognized outside combined profit or loss in the combined statements of comprehensive income. The pension and other post-employment benefit obligations are partially covered by plan assets, which include fixed-income securities, shares, real estate and other investments. Declining or even negative returns on these investments may adversely affect the future fair value of plan assets. Both these effects may negatively impact the development of equity and/or earnings and/or may necessitate additional payments by the Covestro Group. Further details are given in note (23).

29. Financial instruments

29.1 Financial instruments by category

The following table shows the carrying amounts and fair values of financial assets and liabilities by category of financial instrument and a reconciliation to the corresponding line item in the statements of financial position. Since the line items “Other receivables”, “Trade accounts payable” and “Other liabilities” contain both financial instruments and non-financial assets or liabilities (such as other tax receivables or advance payments for services to be received in the future), the reconciliation is shown in the column headed “Non-financial assets/liabilities”.

Carrying Amounts and Fair Values of Financial Instruments (Table 1.78)

Dec.31, 2014

	Carried at amortized cost				Carried at fair value	Non-financial assets/ liabilities	
			Based on quoted prices in active markets (Level 1)	Based on observable market data (Level 2)	Based on unobservable inputs (Level 3)		
	Carrying amount Dec. 31, 2014	Fair value (for information)	Carrying amount	Carrying amount	Carrying amount	Carrying amount	Carrying amount in the statement of financial position
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Trade accounts receivable	1,561						1,561
Loans and receivables	1,561	1,561					1,561
Other financial assets	433		1	13	23		470
Loans and receivables	428	428					428
Available-for-sale financial assets	5		1				6
Derivatives that qualify for hedge accounting				7			7
Derivatives that do not qualify for hedge accounting				6	23		29
Other receivables	94					257	351
Loans and receivables	94	94					94
Non-financial assets						257	257
Cash and cash equivalents	201						201
Loans and receivables	201	201					201
Total financial assets	**2,289**		**1**	**13**	**23**		**2,326**
of which loans and receivables	2,284						2,284
Financial liabilities	4,717			5			4,722
Carried at amortized cost	4,717	4,729					4,717
Derivatives that qualify for hedge accounting							
Derivatives that do not qualify for hedge accounting				5			5
Trade accounts payable	1,498					24	1,522
Carried at amortized cost	1,498	1,498					1,498
Non-financial liabilities						24	24
Other liabilities	114			6	8	150	278
Carried at amortized cost	114	114					114
Derivatives that qualify for hedge accounting				3			3
Derivatives that do not qualify for hedge accounting				3	8		11
Non-financial liabilities						150	150
Total financial liabilities	**6,329**			**11**	**8**		**6,348**
of which carried at amortized cost	6,329						6,329
of which derivatives that qualify for hedge accounting				3			3
of which derivatives that do not qualify for hedge accounting				8	8		16

Carrying Amounts and Fair Values of Financial Instruments (Table 1.79)

Dec. 31, 2013

	Carried at amortized cost				Carried at fair value	Non-financial assets/ liabilities	
			Based on quoted prices in active markets (Level 1)	Based on observable market data (Level 2)	Based on unobservable inputs (Level 3)		
	Carrying amount Dec. 31, 2013	Fair value (for information)	Carrying amount	Carrying amount	Carrying amount	Carrying amount	Carrying amount in the statement of financial position
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Trade accounts receivable	1,363						1,363
Loans and receivables	1,363	1,363					1,363
Other financial assets	1,533		1	16	17		1,567
Loans and receivables	1,527	1,527					1,527
Available-for-sale financial assets	6		1				7
Derivatives that qualify for hedge accounting				10			10
Derivatives that do not qualify for hedge accounting				6	17		23
Other receivables	85					250	335
Loans and receivables	85	85					85
Non-financial assets						250	250
Cash and cash equivalents	37						37
Loans and receivables	37	37					37
Total financial assets	**3,018**		**1**	**16**	**17**		**3,052**
of which loans and receivables	3,012						3,012
Financial liabilities	4,551			2			4,553
Carried at amortized cost	4,551	4,562					4,551
Derivatives that qualify for hedge accounting							
Derivatives that do not qualify for hedge accounting				2			2
Trade accounts payable	1,318					11	1,329
Carried at amortized cost	1,318	1,318					1,318
Non-financial liabilities						11	11
Other liabilities	100			5	6	133	244
Carried at amortized cost	100	100					100
Derivatives that qualify for hedge accounting				1			1
Derivatives that do not qualify for hedge accounting				4	6		10
Non-financial liabilities						133	133
Total financial liabilities	**5,969**			**7**	**6**		**5,982**
of which carried at amortized cost	5,969						5,969
of which derivatives that qualify for hedge accounting				1			1
of which derivatives that do not qualify for hedge accounting				6	6		12

Carrying Amounts and Fair Values of Financial Instruments (Table 1.80)

Dec. 31, 2012

	Carried at amortized cost		Carried at fair value			Non-financial assets/ liabilities	
			Based on quoted prices in active markets (Level 1)	Based on observable market data (Level 2)	Based on unobservable inputs (Level 3)		
	Carrying amount Dec. 31, 2012	Fair value (for information)	Carrying amount	Carrying amount	Carrying amount	Carrying amount	Carrying amount in the statement of financial position
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Trade accounts receivable	1,428						1,428
Loans and receivables	1,428	1,428					1,428
Other financial assets	1,334		1	18	19		1,372
Loans and receivables	1,327	1,327					1,327
Available-for-sale financial assets	7		1				8
Derivatives that qualify for hedge accounting				15			15
Derivatives that do not qualify for hedge accounting				3	19		22
Other receivables	108					215	323
Loans and receivables	108	108					108
Non-financial assets						215	215
Cash and cash equivalents	44						44
Loans and receivables	44	44					44
Total financial assets	**2,914**		**1**	**18**	**19**		**2,952**
of which loans and receivables	2,907						2,907
Financial liabilities	4,744			3			4,747
Carried at amortized cost	4,744	4,772					4,744
Derivatives that qualify for hedge accounting							
Derivatives that do not qualify for hedge accounting				3			3
Trade accounts payable	1,363					15	1,378
Carried at amortized cost	1,363	1,363					1,363
Non-financial liabilities						15	15
Other liabilities	183			3	6	166	358
Carried at amortized cost	183	183					183
Derivatives that qualify for hedge accounting				2			2
Derivatives that do not qualify for hedge accounting				1	6		7
Non-financial liabilities						166	166
Total financial liabilities	**6,290**			**6**	**6**		**6,302**
of which carried at amortized cost	6,290						6,290
of which derivatives that qualify for hedge accounting				2			2
of which derivatives that do not qualify for hedge accounting				4	6		10

The loans and receivables reflected in other financial assets and the liabilities measured at amortized cost also include receivables and liabilities under finance leases in which the Covestro Group is the lessor or lessee and which therefore are accounted for according to IAS 17.

Because of the short maturities of most trade accounts receivable and payable, other receivables and liabilities, and cash and cash equivalents, their carrying amounts at the closing dates did not significantly differ from the fair values.

The fair value stated for noncurrent receivables, loans and non-derivative financial liabilities (Level 2) is the present value of the respective future cash flows. This was determined by discounting the cash flows at a closing-date interest rate that takes into account the term of the assets or liabilities and the creditworthiness of the counterparty. Where a market price was available, however, this was deemed to be the fair value.

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

The fair values of derivatives for which no publicly quoted market prices existed were determined using valuation techniques based on observable market data as of the end of the reporting periods (Level 2). In applying valuation techniques, credit value adjustments were determined to allow for the contracting party's credit risk.

Financial instruments are measured by first calculating the cash flows and then discounting them and, where necessary, translating them into the reporting currency at closing rates of exchange. To measure currency options, the Black-Scholes model is used in addition. Counterparty credit risk is determined at the portfolio level and taken into account in the measurement.

Fair values measured using unobservable inputs are categorized within Level 3 of the fair value hierarchy. This applies to the fair values of embedded derivatives, which are separated from their respective host contracts. Such host contracts 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 (Level 3). These included planned sales and purchase volumes in addition to prices derived from market data. Regular monitoring is carried out based on these fair values.

Income, expense, gains and losses on financial instruments can be assigned to the following categories:

Income, Expense, Gains and Losses on Financial Instruments (Table 1.81)

					2014
	Loans and receivables	Available-for-sale financial assets	Held for trading	Liabilities carried at amortized cost	Total
	€ million	€ million	€ million	€ million	€ million
Interest income	30	-	-	-	30
Interest expense	-	-	-	(104)	(104)
Income / (expenses) from affiliated companies	-	-	-	-	-
Changes in fair value	-	-	4	-	4
Impairment losses	(9)	-	-	-	(9)
Impairment loss reversals	2	-	-	-	2
Exchange gains / (losses)	42	-	(17)	(35)	(10)
Other financial income / (expenses)	-	-	-	-	-
Net result	**65**	**-**	**(13)**	**(139)**	**(87)**

Income, Expense, Gains and Losses on Financial Instruments (Previous Year) (Table 1.82)

2013

	Loans and receivables	Available-for-sale financial assets	Held for trading	Liabilities carried at amortized cost	Total
	€ million	€ million	€ million	€ million	€ million
Interest income	31	-	-	-	31
Interest expense	-	-	-	(126)	(126)
Income / (expenses) from affiliated companies	-	1	-	-	1
Changes in fair value	-	-	(2)	-	(2)
Impairment losses	(13)	-	-	-	(13)
Impairment loss reversals	6	-	-	-	6
Exchange gains / (losses)	(16)	-	8	10	2
Other financial income / (expenses)	-	-	-	(2)	(2)
Net result	**8**	**1**	**6**	**(118)**	**(103)**

Income, Expense, Gains and Losses on Financial Instruments (Previous Year) (Table 1.83)

2012

	Loans and receivables	Available-for-sale financial assets	Held for trading	Liabilities carried at amortized cost	Total
	€ million	€ million	€ million	€ million	€ million
Interest income	31	-	-	-	31
Interest expense	-	-	-	(151)	(151)
Income / (expenses) from affiliated companies	-	1	-	-	1
Changes in fair value	-	-	(12)	-	(12)
Impairment losses	(13)	-	-	-	(13)
Impairment loss reversals	4	-	-	-	4
Exchange gains / (losses)	(17)	(1)	8	6	(4)
Other financial income / (expenses)	-	-	-	(6)	(6)
Net result	**5**	**-**	**(4)**	**(151)**	**(150)**

The interest income and expense pertained entirely to non-derivative receivables and liabilities. The changes in fair values of financial assets held for trading related mainly to embedded derivatives.

The changes in the net amount of financial assets and liabilities recognized at fair value based on individual unobservable inputs (Level 3) were as follows:

Changes in the Net Amount of Financial Assets and Liabilities Recognized at Fair Value Based on Individual Unobservable Inputs (Table 1.84)

	2012	2013	2014
	€ million	€ million	€ million
Net carrying amounts, January 1	25	13	11
Gains (losses) recognized in combined profit or loss	(12)	(2)	4
of which related to assets/liabilities still recognized in the statements of financial positions	(12)	(2)	4
Net carrying amounts, December 31	**13**	**11**	**15**

The changes recognized in combined profit or loss were included in other operating income or expenses.

29.2 Maturity analysis

The liquidity risks to which the Covestro Group was exposed from its financial instruments at the ends of the reporting periods comprised obligations for future interest and repayment installments on financial liabilities and the liquidity risk arising from derivatives.

Maturity Analysis of Financial Instruments (2014) (Table 1.85)

	Dec. 31, 2014	Cash flows 2015	Cash flows 2016	Cash flows 2017	Cash flows 2018	Cash flows 2019	Cashflows after 2019
	Carrying amount	Interest and repayment	Interest and repayment	Interest and repayment	Interest and repayment	Interest and repayment	Interest and repayment
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Financial liabilities							
Liabilities to banks	516	231	117	67	93	45	-
Remaining liabilities	4,201	3,758	231	43	41	41	210
Trade accounts payable	1,498	1,499	-	1	-	-	-
Other liabilities							
Accrued interest on liabilities	14	14	-	-	-	-	-
Remaining liabilities	100	93	-	-	-	-	7
Liabilities from derivatives							
Derivatives that qualify for hedge accounting	3	3	-	-	-	-	-
Derivatives that do not qualify for hedge accounting	16	9	1	1	1	1	3
Receivables from derivatives							
Derivatives that qualify for hedge accounting	7	4	-	3	-	-	-
Derivatives that do not qualify for hedge accounting	29	9	3	10	2	1	4

Maturity Analysis of Financial Instruments (2013) (Table 1.86)

	Dec. 31, 2013	Cash flows 2014	Cash flows 2015	Cash flows 2016	Cash flows 2017	Cash flows 2018	Cash flows after 2018
	Carrying amount	Interest and repayment	Interest and repayment	Interest and repayment	Interest and repayment	Interest and repayment	Interest and repayment
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Financial liabilities							
Liabilities to banks	569	157	185	109	63	85	41
Remaining liabilities	3,982	3,646	58	146	34	45	198
Trade accounts payable	1,318	1,318	-	-	-	-	-
Other liabilities							
Accrued interest on liabilities	13	13	-	-	-	-	-
Remaining liabilities	87	80	2	-	-	-	5
Liabilities from derivatives							
Derivatives that qualify for hedge accounting	1	1	-	-	-	-	-
Derivatives that do not qualify for hedge accounting	12	6	1	1	1	1	2
Receivables from derivatives							
Derivatives that qualify for hedge accounting	10	10	-	-	-	-	-
Derivatives that do not qualify for hedge accounting	23	9	5	2	1	1	5

Maturity Analysis of Financial Instruments (2012) (Table 1.87)

	Dec. 31, 2012	Cash flows 2013	Cash flows 2014	Cash flows 2015	Cash flows 2016	Cash flows 2017	Cash flows after 2017
	Carrying amount	Interest and repayment	Interest and repayment	Interest and repayment	Interest and repayment	Interest and repayment	Interest and repayment
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Financial liabilities							
Liabilities to banks	818	277	139	182	108	62	125
Remaining liabilities	3,926	3,739	46	52	31	29	166
Trade accounts payable	1,363	1,358	5	-	-	-	-
Other liabilities							
Accrued interest on liabilities	22	22	-	-	-	-	-
Remaining liabilities	161	153	2	-	-	-	6
Liabilities from derivatives							
Derivatives that qualify for hedge accounting	2	2	-	-	-	-	-
Derivatives that do not qualify for hedge accounting	10	5	1	1	1	1	2
Receivables from derivatives							
Derivatives that qualify for hedge accounting	15	13	2	-	-	-	-
Derivatives that do not qualify for hedge accounting	22	4	7	2	2	1	6

29.3 Information on derivatives

Asset and liability fair values and future cash flows are exposed to currency, interest-rate and commodity price risks. Derivatives are used to reduce certain risks. In some cases they are designated as hedging instruments in a hedge accounting relationship.

Currency risks

Foreign currency receivables and liabilities are hedged using foreign exchange derivatives without the existence of a hedge accounting relationship.

Fluctuations in future cash flows resulting from forecasted foreign currency transactions are avoided partly through derivatives contracts, most of which are designated as cash flow hedges.

Hedging of obligations under stock-based employee compensation programs

A portion of the obligations to make variable payments to employees under stock-based compensation programs (Aspire) is hedged against fluctuations in the share price using derivatives contracts that are designated as cash flow hedges.

Further information on cash flow hedges

Accumulated other comprehensive income from cash flow hedges in 2014 decreased by €1 million (2013: increased by €12 million; 2012: increased by €10 million) due to changes in the fair values of derivatives net of tax. In 2014, gains of €8 million (2013: gains of €17 million; 2012: losses of €25 million) from fair-value changes – originally recognized in accumulated other comprehensive income – of derivatives designated as cash flow hedges were reclassified to combined profit or loss. The respective pro-rated deferred tax expense of €2 million (2013: expense of €4 million; 2012: income of €7 million) was likewise reclassified to combined profit or loss.

No material ineffective portions of hedges required recognition in combined profit or loss in 2014, 2013 or 2012.

The income and expense from cash flow hedges recognized in accumulated other comprehensive income mainly comprised gains of €5 million (2013: €10 million; 2012: €15 million) and losses of €3 million (2013: €1 million; 2012: €2 million) from the hedging of forecasted transactions in foreign currencies. The major portion of these gains and losses will be reclassifiable to combined profit or loss within one year.

The fair values of existing contracts in the major categories at the ends of the reporting periods are indicated in the following table together with the included volumes of cash flow hedges.

Fair Values of Derivatives (Table 1.88)

	Dec. 31, 2012			Dec. 31, 2013			**Dec. 31, 2014**		
	Notional amount[1]	Positive fair value	Negative fair value	Notional amount[1]	Positive fair value	Negative fair value	Notional amount[1]	Positive fair value	Negative fair value
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Currency hedging of recorded transactions	**511**	**1**	**(3)**	**377**	**2**	**(2)**	**630**	**3**	**(5)**
Forward exchange contracts	511	1	(3)	377	2	(2)	630	3	(5)
Currency options	-	-	-	-	-	-	-	-	-
Currency hedging of forecasted transactions	**752**	**17**	**(3)**	**473**	**14**	**(5)**	**161**	**8**	**(6)**
Forward exchange contracts	554	16	(3)	323	13	(4)	121	7	(5)
of which cash flow hedges	509	15	(2)	206	10	(1)	71	5	(3)
Currency options	198	1	-	150	1	(1)	40	1	(1)
of which cash flow hedges	-	-	-	15	-	-	-	-	-
Hedging of Aspire programs	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**2**	**-**
Share price options	-	-	-	-	-	-	3	2	-
of which cash flow hedges	-	-	-	-	-	-	3	2	-
Total	**1,263**	**18**	**(6)**	**850**	**16**	**(7)**	**794**	**13**	**(11)**
of which current derivatives	1,185	15	(6)	850	16	(6)	772	10	(11)
for currency hedging	1,185	15	(6)	850	16	(6)	772	10	(11)
for hedging of Aspire programs	-	-	-	-	-	-	-	-	-

[1] The notional amount is reported as gross volume, which also contains economically closed hedges.

30. Contingent liabilities and other financial commitments

Contingent liabilities

The following warranty contracts and other contingent liabilities existed at the end of the reporting periods:

Contingent Liabilities (Table 1.89)

	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2014
	€ million	€ million	€ million
Warranties	1	–	1
Other contingent liabilities	6	188	18
Total	**7**	**188**	**19**

The potential claims for €172 million in back-payments related to the partial exemption from the surcharge levied under the German Renewable Energy Act, which were reflected in other contingent liabilities in 2013, no longer existed following the conclusion of the E.U. state-aid proceedings in 2014.

Other financial commitments

The other financial commitments were as follows:

Other Financial Commitments (Table 1.90)

	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2014
	€ million	€ million	€ million
Operating leases	195	158	155
Orders already placed under purchase agreements	264	202	156
Total	**459**	**360**	**311**

The non-discounted future minimum lease payments relating to operating leases totaled €155 million (2013: €158 million; 2012: €195 million). The maturities of the respective payment obligations were as follows:

Operating Leases (Table 1.91)

Maturing in	Dec. 31, 2012		Dec. 31, 2013		Dec. 31, 2014
	€ million		€ million		€ million
2013	50	2014	41	2015	40
2014	67	2015	52	2016	38
2015	30	2016	18	2017	19
2016	15	2017	14	2018	14
2017	11	2018	11	2019	11
2018 or later	22	2019 or later	22	2020 or later	33
Total	**195**	**Total**	**158**	**Total**	**155**

In cases where pension obligations allocable to the Covestro Group either remain with Bayer Group or are funded through pension institutions for which Bayer Group is liable, it is generally contractually ensured that the Covestro Group's share of all payments made to reduce or eliminate current or future funding shortfalls corresponds to its

share of the respective obligation. This also applies to funding and/or financing measures for pension institutions that serve to ensure adequate funding status and/or solvency capital.

31. Legal risks

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

Legal proceedings considered to involve material risks in the fiscal years 2012 to 2014 are outlined below. The legal proceedings referred to do not represent an exhaustive list.

Antitrust proceedings in connection with rubber products:

Companies in the Covestro Group had civil damage claims pending against them in Europe based on alleged violations of antitrust law concerning various rubber products. The underlying facts were under investigation by various antitrust authorities, but most of these investigations have now been closed. Starting in 2008, a group of plaintiffs who were primarily producers of tires brought actions for damages before the High Court of Justice in London against the Covestro Group and other producers of butadiene rubber and emulsion styrene butadiene rubber. In March 2012, the Covestro Group reached an agreement under which the proceedings before the High Court of Justice in London were settled against a payment of €41.5 million by the Covestro Group to the plaintiffs. The Covestro Group also agreed with the former co-defendants to mutually waive any equalization claims that might arise from the above-mentioned court or other proceedings. In view of the settlement and the waiver of potential equalization claims by the former co-defendants, this entire litigation complex is considered finally resolved and thus no longer material.

Defects in metal-coated composite panels allegedly caused by the product Baymer® 30HB88N:

In 2012, customers of the Covestro Group asserted claims concerning blistering on metal-coated composite sheets manufactured by them for roofs and walls. The customers alleged that the blistering was caused by the product Baymer® 30HB88N not having been produced to specifications. The Covestro Group investigated the reasons for possible blistering and endeavored to reach an agreement with the affected customers. The responsible insurer declared this a case of serial damage. The Covestro Group subsequently reached agreement with the affected customers on a procedure for settlement of their claims and in 2013 and 2014 settled nearly all the material claims that have so far arisen. Claims in a low-single-digit million euro amount remain pending from one customer in Greece and one in Belgium. In view of the limited scope of the remaining claims and the existing insurance coverage, the case has no longer been material for the Covestro Group since 2014.

Carbon monoxide pipeline from Dormagen to Uerdingen:

The carbon monoxide pipeline is intended to connect the chemical production sites at Dormagen and Krefeld-Uerdingen and complement the network already existing between Dormagen and Leverkusen. The aim is to ensure a safe and reliable supply of carbon monoxide to and across all sites. Although the pipeline was almost completed by the end of 2009, it cannot currently be put into operation because of court proceedings and an ongoing planning amendment procedure. Following confirmation by the Düsseldorf Administrative Court in 2011 that there were no grounds to challenge the material aspects of the planning permission decision, in particular the safety of the materials used and the legal conformity of the relevant pipeline act, the plaintiffs and the regional government against which legal proceedings had been instituted lodged appeals before the Higher Administrative

Court in Münster. In 2014, the Münster Higher Administrative Court raised no objections to the safety and routing of the pipeline, but questioned the constitutionality of the pipeline act ("Rohrleitungsgesetz"), which forms the legal basis for the project. The decision on the constitutionality of the pipeline act is now a matter for the German Federal Constitutional Court. The Covestro Group does not share the doubts of the Münster Higher Administrative Court as to the constitutionality of the pipeline act and believes there are good prospects for putting the pipeline into operation.

Carbon monoxide pipeline from Dormagen to Leverkusen:

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

Partial exemption from the surcharge under the Renewable Energy Act:

Under the German Renewable Energy Act (Erneuerbare-Energien-Gesetz, EEG), all consumers of electricity generally have to pay a surcharge which is used to promote the development of renewable energy sources in Germany ("EEG surcharge"). Some energy-intensive companies were granted partial exemptions from this surcharge. In 2013, the E.U. Commission launched a formal investigation under state-aid law into the partial exemptions granted under the 2012 version of the EEG. In November 2014, this investigation was completed. The E.U. Commission determined that while the EEG surcharge as introduced in 2012 is basically compatible with E.U. law, the partial exemptions were too extensive. The German authorities therefore demanded back-payments from the companies concerned in respect of exemptions granted. This resulted in a claim being asserted against the Covestro Group in a low-single-digit million euro amount. The Covestro Group has appealed against the claim for back-payments. The risks remaining in this matter were no longer deemed material in 2014.

Reimbursement of CO_2 certificates by Lyondell Bayer Manufacturing Maasvlakte:

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

Notes to the Combined Statements of Cash Flows

The statement of cash flows shows how cash inflows and outflows during each reporting year affected the cash and cash equivalents of the Covestro Group. Cash flows are classified by operating, investing and financing activities in accordance with IAS 7 (Statement of Cash Flows). Effects of changes in the scope of combination are stated separately.

The cash flows reported by Covestro companies and operations outside the eurozone are translated at average annual exchange rates. However, cash and cash equivalents are translated at closing rates. The “Change in cash and cash equivalents due to exchange rate movements” is reported in a separate line item.

32. Net cash provided by (used in) operating activities

The gross cash flow of €1,016 million (2013: €941 million; 2012: €1,006 million) is the surplus from operating activities before any changes in working capital.

The net cash of €925 million (2013: €998 million; 2012: €814 million) provided by operating activities (net cash flow) also takes into account the changes in working capital and other non-cash transactions.

An income-tax-related net cash outflow of €72 million is included in the net cash flow for 2014 (2013: €65 million; 2012: €132 million). The changes in income tax liabilities, income tax provisions and claims for reimbursement of income taxes are included in the line item “Changes in other working capital, other non-cash items”.

Under the "separate tax return approach" described above, payments of current taxes actually made by Bayer Group were treated as non-cash contributions or withdrawals (note (13)).

33. Net cash provided by (used in) investing activities

Net cash outflow for investing activities amounted to €585 million in 2014 (2013: €542 million; 2012: €691 million).

Additions to property, plant and equipment and intangible assets in 2014 resulted in a cash outflow of €612 million in 2014 (2013: €583 million; 2012: €633 million).

In 2014 there was a net cash inflow of €12 million for noncurrent financial assets (2013: €21 million outflow; 2012: €21 million outflow).

34. Net cash provided by (used in) financing activities

There was a net cash outflow of €192 million for financing activities in 2014 (2013: €461 million; 2012: €196 million). Net loan repayments amounted to €157 million (2013: €286 million; 2012: net borrowings of €1 million).

External debt primarily relates to China. The remaining financing activities took place mainly through Bayer Group.

The financing relationship with Bayer Group resulted in an outflow of €2 million (2013: outflow of €132 million; 2012: outflow of €145 million). Interest payments decreased to €32 million (2013: €41 million; 2012: €51 million).

Other Information

35. Related parties

35.1 Related entities

Related entities as defined in IAS 24 (Related Party Disclosures) are companies that are able to exert influence on the Covestro Group or individual combined companies or over which the Covestro Group or individual combined companies exercise control or joint control or have a significant influence.

These include, in particular, companies in the Bayer Group (Bayer AG and its direct and indirect interests – without Covestro operations), since the Covestro Group is controlled by Bayer AG. Related entities also include non-consolidated Covestro subsidiaries, joint ventures and associates as well as post-employment benefit plans.

Transactions with related entities are carried out on an arm's-length basis.

The following table shows the volume of transactions with related entities:

Related Parties (Table 1.92)

	2012						2013						2014					
	Sales of goods and services	Purchases of goods and services	Receivables	*Of which financing*	Liabilities	*Of which financing*	Sales of goods and services	Purchases of goods and services	Receivables	*Of which financing*	Liabilities	*Of which financing*	Sales of goods and services	Purchases of goods and services	Receivables	*Of which financing*	Liabilities	*Of which financing*
	€ million	€ million	€ million	*€ million*	€ million	*€ million*	€ million	€ million	€ million	*€ million*	€ million	*€ million*	€ million	€ million	€ million	*€ million*	€ million	*€ million*
Bayer AG	28	45	317	*298*	113	*104*	43	48	493	*471*	63	*56*	18	46	374	*345*	108	*99*
Bayer Group companies	89	1,074	1,064	*1,025*	3,813	*3,557*	98	1,052	1,084	*1,051*	3,837	*3,657*	98	1,065	113	*70*	4,005	*3,795*
Non-consolidated subsidiaries	3	–	2	–	–	–	1	–	1	–	–	–	23	–	2	–	5	–
Joint ventures	13	–	2	–	–	–	14	–	3	–	–	–	15	–	2	–	–	–
Associates	10	674	4	–	–	–	8	703	3	–	–	–	10	737	4	–	–	–

The goods and services received mainly comprise operational goods and service transactions; services provided by the service companies Bayer Business Services, Bayer Technology Services and Currenta; services procured from the Bayer Group Platform; insurance services procured from Pallas Versicherung AG; allocated holding company costs and leasing and financing services.

The receivables and liabilities pertaining to related entities include the separately described financing measures along with balances on current goods, service transactions and other transactions.

The financing services mainly include loan transactions, current cash pooling activities, finance lease transactions and other financing activities between the Covestro Group and Bayer AG or other Bayer Group companies

Goods and services transactions

Agreements governing goods and services transactions exist between the Covestro Group and the Bayer Group. The Covestro Group procures goods and services but is at the same time a supplier to the Bayer Group.

Services

The Bayer Group has provided services to the Covestro Group, mainly through service companies. The Bayer Technology Services companies principally furnish engineering and process-related services, mainly in the areas of process technology, materials technology, logistics, plant engineering and construction, and process analysis. The Bayer Business Services companies provide services in the areas of information technology, accounting and personnel management to the Covestro Group. Currenta GmbH & Co. OHG ("Currenta"), Leverkusen, operates chemical parks that are used both by the Covestro Group and by other Bayer Group companies. The services furnished by Currenta include, in particular, the supply of energy, maintenance services, environmental services, logistics and infrastructure services – such as the basic chemical park infrastructure, electricity networks, pipeline systems, rail networks, port structures, waste water treatment facilities and (site) security.

The cost of services provided in the 2014 fiscal year by companies in the Bayer Group to the Covestro Group totaled €989 million (2013: €959 million; 2012: €958 million).

The services provided to the Covestro Group by the service companies in the reporting periods have only limited comparability because some of the employees working for the service companies (the cost of whose work was charged on to the Covestro Group) transferred from the Covestro Group to the service companies during the reporting periods. The increase in the services obtained from the service companies also resulted partly from the further expansion of the Shared Service Center setup within the Bayer Group.

Insurance

The Covestro Group has various insurance policies, in particular for liability and property insurance, with the wholly owned Bayer Group subsidiary Pallas Versicherungs AG, Leverkusen.

Financing

The Covestro Group is integrated into the Group-wide cash pooling and cash management system of the Bayer Group. Cash pool balances are denominated in local currencies, with interest rates depending on local short-term base rates (mainly one-month EURIBOR in the reporting periods). The agreement governing cash pooling will be terminated.

In addition, financing receivables exist against companies in the Bayer Group. As of December 31, 2014, these amounted to €416 million (2013: €1,522 million; 2012: €1,323 million). The reduction mainly results from dividend payments and from a capital reduction at Bayer MaterialScience LLC, Pittsburgh, Pennsylvania, United States. Interest income from Bayer Group companies in 2014 amounted to €28 million (2013: €29 million; 2012: €28 million).

The Bayer Group also finances the Covestro Group through loans. As of December 31, 2014, these loans amounted to €3,894 million (2013: €3,714 million; 2012: €3,661 million).

The loans are largely denominated in euros and have a maximum remaining term of ten months. The interest rate on the principal loans outstanding as of December 31, 2014 is between 0.4% and 6.9% (2013: 0.8% – 6.2%; 2012: 1.5% – 2.7%). Interest expense to Bayer Group companies in 2014 amounted to €71 million (2013: €85 million; 2012: €101 million).

Hedging transactions

Hedging transactions for the Covestro Group are mainly concluded by Bayer AG. The corresponding receivables are reflected in other financial assets, and the liabilities are reflected in financial liabilities or other liabilities.

Leasing

The Covestro Group has concluded leasing agreements with the Bayer Group. Various finance and operating leases exist.

Miscellaneous

Furthermore, there are profit-and-loss transfer agreements as well as tax groups with Bayer Group companies. The related transactions are shown as contributions and withdrawals for purposes of the combined financial statements of the Covestro Group.

Guarantees

The Bayer Group has issued guarantees in favor of the Covestro Group. As of December 31, 2014, these issued guarantees amounted to €513 million (2013: €632 million; 2012: €779 million).

Transactions with pension funds

In the past, most Covestro Group employees have been members of Bayer Group pension plans. The way the benefits are provided varies according to the legal, tax and economic framework of each country, the benefits generally being based on employee compensation and years of service.

Transactions with non-consolidated subsidiaries, associates and joint ventures

Goods and services in the amount of €737 million (2013: €703 million; 2012: €674 million) were purchased from the associate PO JV, LP, Wilmington, United States, mainly in the course of day-to-day business operations.

Impairments of receivables from related entities

No impairment losses were recognized on receivables from related entities in any of the reporting periods.

Stock-based compensation

Employees of the Covestro Group participate in Bayer AG's stock-based compensation programs. Bayer AG confers the relevant entitlements on behalf and for the account of the Covestro Group (see note (24.6)) for further information).

35.2 Related persons

Related persons as defined by IAS 24 are persons who, by virtue of the positions they hold in the Covestro Group and in the interests of Bayer AG, are globally responsible for the operational business of Covestro. These are the members of the Board of Management and Supervisory Board of BMS AG.

The table below shows the Board of Management compensation in thousand euros:

Board of Management Compensation according to IFRS (Table 1.93)

	2012	2013	2014
	€ thousand	€ thousand	€ thousand
Total short-term compensation	3,986	3,180	4,195
Total stock-based compensation (long-term incentive)	1,458	2,286	2,654
Service cost and intra-group charges for pension entitlements earned	435	451	388
Aggregate compensation (IFRS)	**5,879**	**5,917**	**7,237**

In addition to the provisions of €1,974 thousand (2013: €1,229 thousand; 2012: €2,100 thousand) for short-term variable cash compensation, an amount of €1,026 thousand (2013: €126 thousand; 2012: €0 thousand) is recognized for future payments of long-term stock-based cash compensation based on virtual Bayer AG shares to the members of the Board of Management serving as of December 31, 2014.

An amount of €3,453 thousand (2013: €3,431 thousand; 2012: €1,763 thousand) is recognized for future payments of long-term stock-based cash compensation based on the Aspire program to the members of the Board of Management serving as of December 31, 2014.

The present value of the defined benefit pension obligation for the members of the Board of Management serving as of December 31, 2014 was €3,255 thousand (2013: €5,090 thousand; 2012: €5,021 thousand). The pension obligation for a former member of the Board of Management, totaling €4,738 thousand, was transferred to Bayer AG as of December 31, 2014. An amount of €32 thousand was charged by Bayer AG to the Covestro Group in 2014 (2013: €36 thousand; 2012: €75 thousand) with respect to pension entitlements of members of the Board of Management derived from Group employment contracts with Bayer AG. The service cost amounted to €356 thousand (2013: €415 thousand; 2012: €360 thousand). In 2014, the short-term compensation of the Supervisory Board of BMS AG totaled €119 thousand (2013: €120 thousand; 2012: €120 thousand).

In addition to their compensation as members of the Supervisory Board, those employee representatives who are employees of Bayer Group companies receive compensation unrelated to their service on the Supervisory Board BMS AG. The total amount of such compensation in 2014 was €430 thousand (2013: €408 thousand; 2012: €366 thousand). Pension obligations for employee representatives on the Supervisory Board in 2014 amounted to €2,190 thousand (2013: €1,292 thousand; 2012: €1.337 thousand).

36. Events after the end of 2014

Legal restructuring of the Covestro Group

In the course of the legal restructuring, all companies that were not yet controlled by BMS AG, but by the Bayer Group, in the reporting period for the combined financial statements and are allocated to the Covestro Group by virtue of their business activities, have been or will be legally transferred from the Bayer Group to the Covestro Group.

In the context of the reorganization, the following significant Covestro companies and operations have been transferred since January 1, 2015 and are now direct or indirect subsidiaries of BMS AG:

- 100% of the shares in Bayer Polyurethanes B.V., Mijdrecht, Netherlands, were acquired from Bayer B.V., Mijdrecht, Netherlands, for a purchase price of €202 million,
- 100% of the shares in Bayer MaterialScience B.V., Foxhol, Netherlands, were acquired from Bayer B.V., Mijdrecht, Netherlands, for a purchase price of €37 million,
- 100% of the shares in Bayer MaterialScience LLC, Pittsburgh, USA, which were transferred as contribution in kind to Bayer MaterialScience B.V., Foxhol, Netherlands,
- 100% of the shares in Bayer MaterialScience A/S, Oterrup, Denmark, were acquired from Bayer A/S, Copenhagen, Denmark, for a purchase price of €39 million,
- 95.6% of the shares in Bayer MaterialScience Taiwan Limited, Taipei, Taiwan, were acquired from Bayer B.V., Mijdrecht, Netherlands, for a purchase price of €70 million,
- 100% of the shares in Covestro Antwerpen NV, Antwerp, Belgium, were acquired from Bayer Antwerpen NV, Antwerp, Belgium, for a purchase price of €564 million,
- 100% of the shares in Bayer MaterialScience S.r.l., Milan, Italy, were acquired from Bayer S.p.A., Milan, Italy, for a purchase price of €107 million,
- 99% of the shares in Bayer MaterialScience S.p.A., Milan, Italy, were acquired from Bayer S.p.A., Milan, Italy, for a purchase price of €6 million.

With effective date July 1, 2015, the Covestro business of Bayer S.A., São Paulo, Brazil, has been transferred to the Covestro Group, while certain assets and liabilities and in particular the restructuring provisions as well as any future payment obligations related to the closing of the production site in Belford Roxo remained with the Bayer Group. Furthermore, 99.30% of the shares in Bayer MaterialScience Private Limited, Thane, India, were transferred as contribution in kind from Bayer AG, Germany, on June 15, 2015. The aforementioned considerations paid are recognized as a debit to equity and a credit to financial assets.

Restructuring of the Covestro business in Brazil

The Covestro Group has announced in March 2015, to close down the production site in Belford Roxo in 2015. The impairment of the production facilities amounted to €22 million and the set-up of restructuring provisions amounted to €53 million. Both items were recognized in the condensed combined interim financial statements for the six-month period ended June 30, 2015, and are mainly attributable to the PUR segment.

Capital increase

The capital increase of €116 million in Bayer MaterialScience (China) Company Limited, Shanghai, China was contributed by Bayer (China) Limited, Shanghai, China.

Acquisition

On March 2, 2015, the Covestro Group successfully completed the acquisition of Thermoplast Composite GmbH, Germany, a technology leader specializing in the production of thermoplastic fiber composites. The aim of the acquisition is to expand the range of polycarbonate materials for major industries to include composites made from continuous fiber-reinforced thermoplastics. A purchase price of €18 million was agreed. This includes a variable component of €4 million. The purchase price pertained mainly to patents and goodwill. The goodwill of €7 million results from future business potential that is expected to be made available through the acquisition.

Leverkusen, August 12, 2015

Bayer MaterialScience AG

The Board of Management

Patrick Thomas	Frank H. Lutz	Michael Bernhardt

Independent Auditor's Report

To Bayer MaterialScience AG, Leverkusen

We have audited the accompanying combined financial statements, which comprise the combined statements of financial positions as at December 31, 2014, 2013 and 2012, the combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows for the years then ended and the notes to the combined financial statements, prepared by Bayer MaterialScience AG, Leverkusen, (the "Company") for the Bayer MaterialScience business of Bayer AG Group as described in Note 2 (the "Covestro Group").

Management's Responsibility for the Combined Financial Statements

Company's management is responsible for the preparation and fair presentation of these combined financial statements in accordance with International Financial Reporting Standards, as adopted by the EU, as well as for such internal control as management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements present fairly, in all material respects, the financial position of the Covestro Group as at December 31, 2014, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards, as adopted by the EU.

Emphasis of Matter

Without modifying our opinion, we draw attention to the fact that, as described in Note 2 the Covestro Group has not operated as a separate group of entities. These combined financial statements are, therefore, not necessarily indicative of results that would have occurred if the Covestro Group had been a separate stand-alone group of entities during the years presented or of future results of the Covestro Group.

Essen, 13. August 2015
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Eckhard Sprinkmeier Wirtschaftsprüfer	ppa. Christian Renzelmann Wirtschaftsprüfer

Opening Statement of Financial Position of Covestro AG
(prepared in accordance with IFRS)
as of August 21, 2015
(audited)

Opening Statement of Financial Position of Covestro AG i.G., Leverkusen, according to IFRS

	Aug. 21, 2015
	€ thousand
Noncurrent assets	
Deferred taxes	9
Current assets	
Cash and cash equivalents	140,000
Total assets	**140,009**
Equity	
Capital stock of Covestro AG i.G.	140,000
Capital reserves	(18)
	139,982
Current liabilities	
Trade accounts payable	27
Total equity and liabilities	**140,009**

Notes to the Opening Statement of Financial Position of Covestro AG i.G., Leverkusen

1. General information

The opening statement of financial position of Covestro AG i.G. as of August 21, 2015, was prepared according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), London, and the interpretations of the IFRS Interpretations Committee (IFRS IC), both as endorsed by the European Union and in effect at the date of the opening statement of financial position. This is the companies opening statement financial position prepared in accordance with IFRS 1 (First-time Adoption of International Financial Reporting Standards).

Covestro AG i.G. will be the issuer of the shares and the future parent company of the Covestro Group.

Assets and liabilities are classified by maturity. They are regarded as current if they mature within one year.

This opening statement of financial position is presented in euros. Amounts are stated in thousands of euros except where otherwise indicated, which may lead to rounding discrepancies. Deferred tax assets are consistently presented as noncurrent in the opening statement of financial position.

Covestro AG i.G. is a subsidiary of Bayer AG, Leverkusen (ultimate parent) and will be included in its consolidated financial statements. The registered office of Bayer AG is at Kaiser-Wilhelm-Allee 1, 51368 Leverkusen.

The articles of association of the Covestro AG i.G. were notarized on August 20, 2015. With cash contribution relating to the establishment of Covestro AG i.G. on August 21, 2015, the opening statement of financial position was prepared by the Board of Management of Covestro AG i.G., Kaiser-Wilhelm-Allee 60, 51368 Leverkusen, Germany.

2. Basic principles, methods and critical accounting estimates

This opening statement of financial position of the Covestro AG i.G. is based on the principle of the historical cost.

In preparing the opening statement of financial position, the management had to make certain assumptions and estimates that may substantially impact the presentation of the Covestro AG i.G.'s financial position.

Significant estimates and assumptions that may affect reporting in the various item categories of the opening statement of financial position are described in the following sections of this note. Estimates are based on assumptions that are considered reasonable under given circumstances. They will be continually reviewed but may vary from the actual values.

Income taxes

The income taxes recognized are reflected at the amounts likely to be payable under the statutory regulations in force, or already enacted in relation to future periods, as of the date of the opening statement of financial position.

In compliance with IAS 12 (Income Taxes), deferred taxes are recognized for tax deductible formation costs that occurred in the period from August 20 to August 21, 2015 that are likely to be usable.

Deferred tax assets relating to tax deductible formation costs are recognized where it is sufficiently probable that taxable income will be available to the Covestro AG i.G. in the future to enable them to be used. Deferred taxes are calculated at the rate which – on the basis of the statutory regulations in force, or already enacted in relation to future periods, as of the closing date – is expected to apply at the time of realization.

The probability that deferred tax assets resulting from tax deductible formation costs can be utilized in the future is the subject of forecasts by Covestro AG i.G. regarding the future earnings situation and other parameters.

Cash and cash equivalents

Cash and cash equivalents comprise cash in banks.

Trade accounts payable

Trade accounts payable comprise accruals for outstanding invoices.

3. Taxes

Deferred tax assets of €9 thousand were recognized as of August 21, 2015 for the amount of tax deductible formation costs expected to be usable and has been credited to the capital reserves.

The total tax deductible formation costs amounting to €27 thousand are expected to be usable within a reasonable period.

The effective tax rate as of August 21, 2015 was 31.74%.

4. Cash and cash equivalents

Cash and cash equivalents comprises cash in banks amounting to €140,000 thousand and result from the cash contribution by Bayer AG relating to the establishment of Covestro AG i.G. The amount is paid in as capital stock.

5. Equity

Capital stock of Covestro AG i.G.

The capital stock of Covestro AG i.G. amounts to €140,000 thousand and was fully paid in. The capital stock of the corporation is divided into 140 million non-par value bearer shares. The par value of each share is €1. Each share grants one voting right and is entitled to dividend.

Capital reserves

The capital reserves amounts to €-18 thousand. Of this amount €27 thousand relates to tax deductible costs to incorporate the Covestro AG i.G. that occurred in the period from August 20 to August 21, 2015 and €9 thousand relates to deferred taxes.

Capital management

Capital management for the Covestro AG i.G. is performed by Bayer AG. The legal requirements regarding equity and liquidity are taken into account in light of the needs of the Bayer Group.

6. Trade accounts payable

Trade accounts payable amounting to €27 thousand comprise costs to incorporate the Covestro AG i.G. These costs include in particular notary costs. The remaining term of trade accounts payable is less than one year.

7. Related parties

Related parties as defined in IAS 24 (Related Party Disclosures) are those legal entities and natural persons that are able to exert influence on Covestro AG i.G. or over which the Covestro AG i.G. exercise control or joint control or have a significant influence.

They include, in particular, companies in the Bayer Group (Bayer AG and its direct and indirect interests – including Covestro operations), since Covestro AG i.G. is controlled by Bayer AG. Related parties also include non-consolidated Bayer AG subsidiaries, joint ventures, associates, post-employment benefit plans as well as the Board of Management and Supervisory Board of Covestro AG i.G.

Transactions with related entities are carried out on an arm's-length basis.

In the course of the establishment of the Covestro AG i.G., Bayer AG has contributed €140,000 thousand to the Covestro AG i.G. as of August 21, 2015.

Leverkusen, August 21, 2015

Covestro AG i.G.
- Board of Management -

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

Independent auditor's report

To Bayer MaterialScience Aktiengesellschaft, Leverkusen

We have audited the accompanying opening statement of financial position of Covestro AG i.G., Leverkusen, as at 21 August 2015 and the notes to the opening statement of financial position (together the 'balance sheet').

Management's responsibility for the balance sheet

Management of Covestro AG i.G. is responsible for the preparation and fair presentation of this balance sheet in accordance with those requirements of International Financial Reporting Standards, as adopted by the European Union, relevant to preparing such a financial statement, and for such internal control as management determines is necessary to enable the preparation of a balance sheet that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the balance sheet based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the balance sheet. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the balance sheet, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the balance sheet in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the balance sheet.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the balance sheet presents fairly, in all material respects, the financial position of Covestro AG i.G. as at 21 August 2015, in accordance with those requirements of International Financial Reporting Standards, as adopted by the European Union, relevant to preparing such a financial statement.

Essen, den 21. August 2015

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Eckhard Sprinkmeier	ppa. Oliver Köster
Wirtschaftsprüfer	Wirtschaftsprüfer

Opening Statement of Financial Position of Covestro AG
(prepared in accordance with German Commercial Code (HGB))
as of August 21, 2015
(audited)

Opening Statement of Financial Position of Covestro AG i.G., Leverkusen, according to the German Commercial Code (HGB)*

		Aug. 21, 2015
		€ thousand
A.	**Current assets**	
I.	Cash in banks	140,000
Total assets		**140,000**
A.	**Equity**	
I.	Capital stock of Covestro AG i.G.	140,000
II.	Net loss	(27)
		139,973
B.	**Provisions**	
I.	Other provisions	27
Total equity and liabilities		**140,000**

* *The opening statement of financial position of Covestro AG i.G. was compiled and audited in German language. This version is a translation of the audited opening statement of financial position of Covestro AG i.G.*

Notes to the Opening Statement of Financial Position of Covestro AG i.G., Leverkusen

1. General information

The opening statement of financial position of the Covestro AG i.G. has been prepared in accordance with the regulations of the German Commercial Code (*Handelsgesetzbuch*, “HGB”) as well as the additional requirements of the German Stock Corporation Act (*Aktiengesetz*, “AktG”).

The company is classified as a small corporation by means of article 267 (1) HGB.

The opening statement of financial position of the Covestro AG i.G. is presented in euros. Amounts are stated in thousands of euros, except where otherwise indicated, which may lead to rounding discrepancies.

The articles of association of the Covestro AG i.G. were notarized on August 20, 2015. With cash contribution relating to the establishment of Covestro AG i.G on August 21, 2015 the opening statement of financial position was prepared by the Board of Management of Covestro AG i.G., Kaiser-Wilhelm-Allee 60, 51368 Leverkusen, Germany.

2. Accounting policies

The **accounting policies** used in preparing the opening statement of financial position as of August 21, 2015 are in accordance with the provisions of articles 242 to 256a and 264 to 288 HGB and the additional legal-form specific provisions (e.g. articles 150 to 160 AktG).

Cash in banks

Cash in banks is accounted for at the nominal value at the date of the opening statement of financial position.

Equity

The capital stock of Covestro AG i.G. is accounted for at the nominal value at the date of the opening statement of financial position.

Provisions

Provisions consider all identifiable risks and uncertain liabilities and are measured at their settlement amounts by using reasonable business judgment. Discounting of provisions according to article 253 (2) HGB was not required.

3. Cash in banks

Cash in banks amounting to €140,000 thousand result from the contribution in cash by Bayer AG, Leverkusen, relating to the establishment of Covestro AG i.G. The amount is paid in as capital stock.

4. Deferred tax assets

The option to recognize deferred tax assets for tax deductible cost of foundation amounting to €9 thousand was not selected, according to article 274 (1) S. 2 HGB. The calculation of deferred tax assets is based on a tax rate of 31.74 %.

5. Equity

Capital stock of Covestro AG i.G.

The capital stock of Covestro AG i.G. amounts to €140,000 thousand and was fully paid in. The capital stock of the corporation is divided into 140 million non-par value bearer shares. The par value of each share is €1. Each share grants one voting right and is entitled to dividend.

Net loss

The net loss of €27 thousand accounts solely for the costs to incorporate the Covestro AG i.G.

6. Provisions

Other provisions amounting to €27 thousand comprise costs to incorporate the Covestro AG i.G. These costs include in particular notary costs. The remaining term of provisions is less than one year.

7. Members of the Board of Management

The Board of Management consists of the following members as of August 21, 2015:

Name	**Function**
Patrick Thomas (Chairman)	Chief Executive Officer, appointed in August 2015
Frank H. Lutz	Chief Financial Officer, appointed in August 2015
Dr. Klaus Schäfer	Chief Production and Technology Officer, appointed in August 2015
Dr. Markus Steilemann	Chief Innovation Officer, appointed in August 2015

8. Members of the Supervisory Board

The Supervisory Board consists of the following members as of August 21, 2015:

Name	**Function**
Dr. Richard Pott (Chairman)	Physicist, former Chief Human Resource Officer of Bayer AG, appointed in August 2015
Johannes Dietsch (Deputy Chairman)	Member of the Board of Management and Chief Financial Officer of Bayer AG, appointed in August 2015
Prof. Dr. Rolf Nonnenmacher	Auditor (*Wirtschaftsprüfer*), appointed in August 2015

9. Employees

The corporation employs no employees as of August 21, 2015. The recruitment of employees will take place subsequent to the date of the opening statement of financial position.

10. Disclosure pursuant to § 160 (1) No. 8 AktG

At the date of the opening statement of financial position, Bayer AG, Leverkusen, holds an investment in the common stock of the corporation for which a notification pursuant to § 20 (1), (3) and (4) AktG was received.

The content of the notification published under § 20 (6) AktG, is as follows:

Bayer AG with its registered office in Leverkusen has notified us pursuant to § 20 (1), (3) and (4) AktG that it holds directly a majority investment in our company and that, at the same time, — even without consideration of shares pursuant to § 20 (2) AktG—it holds more than one fourth of the shares in our company.

11. Group affiliation

Covestro AG i.G. is a subsidiary of Bayer AG, Leverkusen, and will be included in its consolidated financial statements. Bayer AG holds 100 percent of the bearer shares of Covestro AG i.G. as of August 21, 2015.

The consolidated financial statements and the consolidated management report (*Konzernlageberich*t) of Bayer AG for the fiscal year 2015 will be filed electronically with the operator of the electronic German Federal Gazette (*Bundesanzeiger*) and will be published in the electronic German Federal Gazette after filing under register number HRB 48248, accessible at www.bundesanzeiger.de.

Leverkusen, August 21, 2015

Covestro AG i.G.
- Board of Management -

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

Independent auditor's report

To Bayer MaterialSience Aktiengesellschaft, Leverkusen

We have audited the accompanying opening statement of financial position of Covestro AG i.G., Leverkusen, as at 21 August 2015 and the notes to the opening statement of financial position (together the 'balance sheet').

Management's responsibility for the balance sheet

Management of Covestro AG i.G. is responsible for the preparation and fair presentation of this balance sheet in accordance with those requirements of accounting principles generally accepted in Germany relevant to preparing such a financial statement, and for such internal control as management determines is necessary to enable the preparation of a balance sheet that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the balance sheet based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the balance sheet. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the balance sheet, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the balance sheet in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the balance sheet.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the balance sheet presents fairly, in all material respects, the financial position of Covestro AG i.G. as at 21 August 2015, in accordance with those requirements of accounting principles generally accepted in Germany relevant to preparing such a financial statement.

Essen, den 21. August 2015

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Eckhard Sprinkmeier Wirtschaftsprüfer	ppa. Oliver Köster Wirtschaftsprüfer

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26. DEFINITIONS

The following terms used in the Prospectus have the meanings assigned to them below, unless the context otherwise requires:

€, **EUR** or **Euro**	The single currency of the participating member states in the third stage of the European Economic Union pursuant to the Treaty Establishing the European Community.
Aarhus Convention	The United Nations Economic Commission for Europe (UNECE) Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters, which was adopted on June 25, 1998 in Aarhus, Denmark at the Fourth Ministerial Conference as part of the ''Environment for Europe'' process, and entered into force on October 30, 2001.
Adjusted EBIT	Earnings before financial result and taxes plus special items, which comprise effects that the Group regards as non-recurring or that do not regularly recur or attain similar magnitudes.
Adjusted EBITDA	EBITDA before special items, which comprise effects that the Group regards as non-recurring or that do not regularly recur or attain similar magnitudes.
Amendment I	The extraordinary shareholders' meeting of Covestro AG on September 1, 2015 amending the Articles of Association regarding the Supervisory Board consisting of 12 shareholder representatives.
Amendment II	The extraordinary shareholders' meeting of Covestro AG on September 1, 2015 amending the Articles of Association regarding the Supervisory Board insofar as the Supervisory Board consisting of 12 members (six shareholder representatives and six employee representatives).
APAC	Asia and the Pacific.
Articles of Association	The articles of association (*Satzung*) of the Company.
ATTB	U.S. Alcohol and Tobacco Tax and Trade Bureau.
Bayer Group	Bayer AG and its consolidated subsidiaries.
Bayer Polyurethanes B.V.	Bayer Polyurethanes B.V., a subsidiary of Covestro Deutschland AG, a limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated under the laws of the Netherlands.
BNP PARIBAS	BNP Paribas, Paris, France.
BofA Merrill Lynch	Merrill Lynch International, London, United Kingdom.
CAGR	Compound Annual Growth Rate.
CASe	Coatings, adhesives and sealants.
CASE	Coatings, adhesives, sealants and elastomers.
Capital Contribution	A cash contribution made by the Existing Shareholder in an amount of €715 million into the unrestricted capital reserves of the Company (*ungebundene Kapitalrücklage*), (section 272 paragraph 2 number 4 of the German Commercial Code (*Handelsgesetzbuch (HGB)*) to increase the Company's equity before completion of the Offering.
CERCLA	U.S. Comprehensive Environmental Response, Compensation and Liability Act.

CFATS	U.S. Chemical Facility Anti-Terrorism Standards.
Citigroup	Citigroup Global Markets Limited, London, United Kingdom.
Clean Air Act	U.S. Clean Air Act, as amended.
CLP Regulation	Regulation (EC) No. 1272/2008 of the European Parliament and of the council of 16 December 2008 on classification, labelling and packaging of substances and mixtures.
Co-Lead Managers	BNP PARIBAS and UniCredit Bank AG.
Company	Covestro AG, Leverkusen, Germany.
Covestro Group	For purposes of the combined financial statements and combined financial information included in the Prospectus, the Bayer MaterialScience business.
Credit Suisse	Credit Suisse Securities (Europe) Limited, London, United Kingdom.
CSA	U.S. Controlled Substances Act, as amended.
CSSF	Commission de Surveillance du Secteur in Luxembourg.
Currenta	Currenta GmbH & Co OHG.
CWA	U.S. Federal Water Pollution Control Act, as amended by the U.S. Clean Water Act of 1977.
CWC	Chemical Weapons Convention.
DBP	DIC Bayer Polymer Ltd.
DDTC	U.S. Department of State's Directorate of Defense Trade Controls.
Deutsche Bank	Deutsche Bank AG, Frankfurt am Main, Germany.
DHS	U.S. Department of Homeland Security.
DIC	Dainippon Ink and Chemicals, Inc.
DIC Joint Venture Agreement	Joint venture agreement between Bayer AG, Bayer Ltd., DIC and Bayer Kasei Kabushiki Kaisha.
Directors	Persons holding managerial responsibilities under section 15 (a) of the German Securities Trading Act (*Wertpapierhandelsgesetz*).
Dividend Paying Agent	A domestic securities trading company (*inländisches Wertpapierhandelsunternehmen*) or the domestic securities trading bank (*inländische Wertpapierhandelsbank*), which *inter alia* keeps or administers the shares and disburses or credits the dividends or disburses the dividends to a foreign agent, or a central securities depository (*Wertpapiersammelbank*) to which the shares were entrusted for collective custody if the dividends are disbursed to a foreign agent by such central securities depository (*Wertpapiersammelbank*).
DKK	The legal currency of Denmark.
Domestic Paying Agent	A domestic credit institution, a domestic financial services institution, a domestic securities trading company or a domestic securities trading bank, including domestic branches of foreign credit institutions or financial service institutions, or if such an office executes the disposal of the shares and pays out or credits the capital gains, which *inter alia* holds or administers the shares.

Dow . . . . Dow Group.

EAP . . . . Emergency Action Plan.

EAR . . . . U.S. Export Administration Regulations.

EBIT . . . . Earnings before financial results and taxes.

EBITDA . . . . EBIT plus depreciation and impairment losses on property, plant and equipment, plus amortization and impairment losses on intangible assets and minus impairment loss reversals on intangible assets and property, plant and equipment.

ECHA . . . . European Chemicals Agency.

ECJ . . . . European Court of Justice.

EEA . . . . The European Economic Area.

EEG . . . . The German Renewable Energies Act (*Erneuerbare-Energien-Gesetz*).

EHS . . . . Environmental, health and safety.

EMLA . . . . Europe, the Middle East, Africa and Latin America excluding Mexico.

EPA . . . . U.S. Environmental Protection Agency.

EPCRA . . . . Emergency Planning and Community Right-to-Know Act.

EU . . . . The European Union.

EU Short Selling Regulations . . . . Regulation (EU) No 236/2012 of European Parliament and of the Council of March 14, 2012 on short selling and certain aspects of credit default swaps.

EU Stabilization Regulation . . . . . . Commission Regulation (EC) No. 2273/2003 of December 22, 2003.

Existing Shareholder . . . . Bayer AG.

Facilities Agreement . . . . The syndicated multicurrency term and revolving credit facilities agreement entered into by Covestro AG, dated September 4, 2015.

FDA . . . . U.S. Food and Drug Administration.

FD&C Act . . . . U.S. Federal Food, Drug and Cosmetic Act.

FSMA . . . . Financial Services and Markets Act 2000.

Fiscal Year . . . . Fiscal year ending December 31.

GDP . . . . Gross domestic product.

German GAAP . . . . German Generally Accepted Accounting Principles.

Group . . . . Covestro AG and its direct and indirect subsidiaries.

HAZWOPER Rule . . . . U.S. OSHA’s hazardous waste operations and emergency response rules.

HDA . . . . Hexamethylenediamine.

HDI . . . . hexamethylene diisocyanate.

$H_{12}MDI$ . . . . Methylene dicyclohexyl diisocyanate.

HMTA . . . . U.S. Hazardous Materials Transportation Act of 1975, as amended.

IAS . . . . International Accounting Standards.

IED Directive	The Directive No. 2010/75/EU of the European Parliament and of the Council of November 24, 2010 on industrial emissions (integrated pollution prevention and control).
IFRS	International Financial Reporting Standards as adopted by the European Union.
IMPACT	IMPACT technology refers to catalyst process for polyether polyols synthesis.
Industry Report	Industry report ''Analyses of Certain Aspects of the Polymer Industry'' of Nexant Inc. and Orr & Boss Ltd. dated July 2015 and the related databook.
Inter-Group Debt Repayment I	Use of the proceeds from the Capital Contribution by the Company to repay inter-group debt owed to Bayer Antwerpen NV, a subsidiary of the Existing Shareholder.
Inter-Group Debt Repayment II . . .	Use of the proceeds from the issuance of the New Shares by the Company to repay inter-group debt owed to Bayer Antwerpen NV, a subsidiary of the Existing Shareholder.
Inter-Group Debt Repayments	Inter-Group Debt Repayment I together with Inter-Group Debt Repayment II.
IPDI	Isophorone diisocyanate.
IPO Capital Increase	Capital increase against contributions in cash relating to the Offering.
ISIN	International Securities Identification Number.
ITAR	U.S. International Traffic in Arms Regulations.
J.P. Morgan	J.P. Morgan Securities plc, London, United Kingdom.
Joint Bookrunners	BofA Merrill Lynch, Citigroup, Credit Suisse, J.P. Morgan and UBS Investment Bank.
Joint Global Coordinators	Deutsche Bank AG and Morgan Stanley & Co. International plc.
LyondellBasell	LyondellBasell Industries N.V.
Lyondell European Joint Venture .	Joint venture between Lyondell's affiliate, Lyondell PO-11 C.V., a limited partnership (*commanditaire vennootschap*) formed under the laws of the Netherlands, and Bayer's affiliate, Covestro Polyurethanes B.V., a limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated under the laws of the Netherlands for the production and supply of propylene oxide in Europe.
Lyondell Technology Joint Venture	Technology JV, LP., a joint venture between Bayer's affiliate, Covestro PO LLC, and Lyondell's affiliates, Lyondell POTech GP, Inc. and Lyondell POTech LP, Inc. for the joint development of technology relating to the production process of propylene oxide.
Lyondell US Joint Venture	Joint venture between Bayer's affiliate, Covestro PO LLC, and Lyondell's affiliate, PO Offtake LP, for the production and supply of propylene oxide in the United States.
Management Board	Management board (*Vorstand*) of the Company.

Master Agreement	The master agreement between Bayer AG and Covestro Deutschland AG, which governs the entire separation of the MaterialScience business from the other Bayer business subgroups, and in which the parties agreed on a number of overarching rules and principles that apply to all asset and share transfers.
MaterialScience business	The Bayer MaterialScience business, consisting of the activities in the area of polymer materials and certain inorganic basic chemicals.
MDI	Diphenylmethane diisocyanate.
Morgan Stanley	Morgan Stanley & Co. International plc, London, United Kingdom.
MTSA	U.S. Maritime Transportation Security Act.
NAFTA	The United States, Canada and Mexico.
Nameplate production capacity . . .	Refers to the intended full-load sustained output of a production facility or group of production facilities at 8,000 hours of continuous production a year.
NDI	Naphthalene diisocanate.
New Shares	94,339,622 newly issued ordinary bearer shares with no par value (*Stückaktien*), each such share representing a notional value of €1.00 and full dividend rights since inception from a capital increase against contributions in cash to be resolved by an extraordinary shareholders' meeting of the Company expected to take place on September 30, 2015.
NJTSR	New Jersey Trade Secret Registry.
NWT	Luxembourg Net Wealth Tax (*impôt sur la fortune*).
OFAC	U.S. Department of Treasury, Office of Foreign Asset Control.
Offer Period	The offer period during which investors will have the opportunity to submit offers to purchase New Shares, commencing on September 21, 2015, and expected to end on October 1, 2015.
OSHA	U.S. Occupational Safety and Health Administration.
OSH Act	U.S. Occupational Safety and Health Act of 1970, as amended.
Parent-Subsidiary Directive	Council Directive 2011/96/EU of November 30, 2011.
PDI	Pentamethylene diisocyanate.
Penalty Claims	Damage claims of third parties, including payment of criminal sanctions, third-party claims for the transfer of surplus proceeds or advantages arising out of the violation of antitrust, embargo, foreign trade, anti-corruption or similar laws, as provided for under the Master Agreement.
Price Range	The price range within which offers to purchase New Shares may be submitted is €26.50 to €35.50.
Prospectus Directive	The Directive 2003/71/EC of the European Parliament and the Council of November 4, 2003.
PUD	Polyurethane dispersions.
Put Option	A put option to sell up to 10% of the New Shares to the extent such shares have been acquired in the market by the Stabilization Manager in connection with such measures at the aggregate price at which it acquired such shares.

RCRA	U.S. Resources Conversation and Recovery Act of 1976, as amended.
REACH	Regulation (EC) 1909/2006/EC on the Registration, Evaluation, Authorization and Restriction of Chemicals.
Regulation S	Regulation S under the U.S. Securities Act of 1933.
Relevant Member State	EEA member state which has implemented the Prospectus Directive.
RQ	Reportable quantity of hazardous substances as required to be reported pursuant to CERCLA.
Rule 144A	Rule 144A under the U.S. Securities Act of 1933.
SBU	Sumika Bayer Urethane Co., Ltd.
SDSs	Safety Data Sheets.
Separation Date	Date of the separation of Covestro Deutschland AG from Bayer AG (August 31, 2015).
Seveso III	The Directive 2012/18/EU of the European Parliament and of the Council of July 4, 2012 on the control of major-accident hazards involving dangerous substances, amending and subsequently repealing Council Directive 96/82/EC.
Shares	Shares of the Company.
SPCC	U.S. Spill Prevention, Control and Countermeasure.
Stabilization Manager	Deutsche Bank is acting as the stabilization manager.
Stabilization Measures	Measures to support the market price of the Shares in the Company and hereby counteract any selling pressure.
Sumitomo	Sumitomo Chemical Co. Ltd.
Supervisory Board	Supervisory board (*Aufsichtsrat*) of the Company.
Tax Sharing Agreement	The tax sharing agreement between Bayer AG, Bayer US Holding LP, Bayer Corporation, Covestro LLC, Covestro Deutschland AG, and the Company dated December 31, 2014 as amended by an amendment agreement dated September 16, 2015.
TDA	Toluene diamine.
TDI	Toluene diisocyanate.
TPU	Thermoplastic polyurethanes.
TSA	Transitional service agreements entered into or to be entered into between companies of the Group and of the Bayer Group for transitional services rendered in Germany and abroad.
TSCA	U.S. Toxic Substances Control Act.
TSDF	Treatment, storage and disposal facility.
UBS Investment Bank	UBS Limited London, United Kingdom.
Underwriters	Deutsche Bank, Morgan Stanley, BofA Merrill Lynch, Citigroup, Credit Suisse, J.P. Morgan, UBS Investment Bank, BNP PARIBAS and UniCredit Bank AG.
Underwriting Agreement	Underwriting agreement between the Company, Bayer AG and the Underwriters, dated September 18, 2015.
UniCredit Bank AG	UniCredit Bank AG, Munich, Germany.

VOC . . . . Volatile organic compounds.

Warranty and Product Liability Claims . . . . Claims with respect to liability for duties and obligations arising out of or in connection with defective products (within the meaning of the German Product Liability Act, German tort law and German warranty law or the laws applicable in each case) asserted by third parties as provided for under the Master Agreement.

WKN . . . . German Securities Code (*Wertpapierkennnummer*).

XDI . . . . Xylylene diisocyanate.

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27. RECENT DEVELOPMENTS AND OUTLOOK

27.1 RECENT DEVELOPMENTS SINCE JUNE 30, 2015

Covestro AG as the parent company of the Group was established as a German stock corporation (*Aktiengesellschaft*) on August 20, 2015 with a share capital of €140,000,000 which was created by a formation against contribution in cash and registered with the commercial register of the local court of Cologne (*Amtsgericht Köln*) on August 24, 2015 under docket number 85281. The MaterialScience business was carved out of the Bayer Group and Bayer AG contributed all shares of Covestro Deutschland AG (formerly Bayer MaterialScience Aktiengesellschaft) to unrestricted capital reserves (*ungebundene Kapitalrücklage*) of the Company. Upon incorporation of Covestro AG, Dr. Richard Pott (chairman), Johannes Dietsch and Prof. Dr. Rolf Nonnenmacher were appointed members of the Supervisory Board and Patrick Thomas (chairman), Frank H. Lutz, Dr. Klaus Schäfer and Dr. Markus Steilemann members of the Management Board.

The domination and profit and loss transfer agreement (*Beherrschungs- und Gewinnabführungsvertrag*) between Covestro Deutschland AG and Bayer AG dated March 11, 2003 was terminated effective August 31, 2015. The Company and Covestro Deutschland AG have entered into a profit and loss transfer agreement (*Ergebnisabführungsvertrag*) effective as of September 1, 2015. Bayer AG and Covestro Deutschland AG entered into a Master Agreement, dated August 24, 2015, pursuant to which both parties intend to, among other things, conclusively determine the apportionment of certain liabilities between themselves, in particular in the areas of environmental contamination, product liability, violations of law, taxes, allocation of rights and obligations in relation with third parties arising under agreements made prior to the separation and the workforce. In addition, significant pieces of real property have been sold from companies of the Bayer Group to companies of the Group. The Group and the Bayer Group also entered into transitional service agreements and other agreements to facilitate the provision of certain services and enable the Company to function as a separately listed company. In connection with the separation, inter-group debt in an amount of €5.2 billion and pension liabilities in an amount of approximately €1.5 billion, each as of September 1, 2015, were transferred from the Bayer Group to the Group.

On September 4, 2015, the Company entered into a syndicated multicurrency term and revolving credit facilities agreement with a syndicate of banks including certain of the underwriters, consisting of revolving credit facility in an amount of €1.5 billion and a term loan facility in an amount of €1.2 billion.

In connection with the Offering, the Existing Shareholder will make a Capital Contribution of €715 million by no later than September 29, 2015 to increase the Company's equity prior to the completion of the Offering. The Company will use the proceeds of the Capital Contribution to repay certain inter-group debt owed by the Group to Bayer Antwerpen NV, a subsidiary of the Existing Shareholder (referred to as the Inter-Group Debt Repayment I). The Company aims to further reduce the Bayer inter-group debt owed to Bayer Antwerpen NV, in an amount of €2,375 million, and to apply the net proceeds from the Offering of approximately €2,468 million from the sale of the New Shares mainly to the Inter-Group Repayment II to enable the Company to achieve a target capital structure of net financial debt together with pension liabilities to Adjusted EBITDA for Fiscal Year 2015 of 2.5x - 3.0x, which will provide a basis for an investment grade rating of the Company following completion of the Offering. The Company anticipates that, immediately following completion of the Offering and implementation of the Inter-Group Debt Repayments, its net financial debt together with pension liabilities will amount to approximately €4.0 billion.

Subject to the final number of New Shares being issued, Bayer AG will hold a shareholding between 59.7% and 66.5% in the Company after the completion of the Offering (assuming that no market stabilization measures have occurred).

27.2 OUTLOOK

27.2.1 The Group

The Group expects an increase in net sales and a significant increase in its Adjusted EBITDA margin for Fiscal Year 2015 compared to Fiscal Year 2014, which was confirmed by the significant increases in the six months ended June 30, 2015. However, while the Group expects an increase in net sales and that the Adjusted EBITDA margin for the nine months ended September 30, 2015 and the full Fiscal Year 2015 will be above the margin experienced in Fiscal Year 2014, it also expects that the net sales growth and the Adjusted EBITDA margin for the nine months ended September 30, 2015 and the Fiscal Year 2015 will be

below the net sales growth of 9.5% and Adjusted EBITDA margin of 14.6% in the first half of Fiscal Year 2015. The lower expected net sales growth rate and Adjusted EBITDA margin in the second half of Fiscal Year 2015 are primarily the result of temporary decreases in supply in the sector in the first half of Fiscal Year 2015 due to production outages of other market participants in the industry, which favorably affected the Group's financial performance. The Group anticipates that these production outages of other market participants have been or will be resolved in the second half of Fiscal Year 2015. Additionally, the lower expected net sales growth rate and Adjusted EBITDA margin in the second half of Fiscal Year 2015 are driven by a scheduled production outage at the Shanghai, China, production facility of the Group, decelerating economic growth in China as well as seasonality effects. In the fourth quarter of Fiscal Year 2015, the Group's production facilities in Shanghai, China, will be shut down to allow for scheduled and routine maintenance work, with an expected impact for all units for a period of up to six weeks. The main reasons for this scheduled turnaround are legal inspections, tie-in of new plants and replacement of catalysts. Due to expected delays in connection with the governmental approval of the Group's planned capacity expansion of polycarbonates and HDI at the production facility in Shanghai, China, the Group anticipates that a separate turnaround at the production facility in Shanghai, China, is likely to be necessary to tie-in the new production facilities. In addition, decelerating economic growth in China and concerns regarding the extent of such deceleration and the impact it may have on the global economic outlook have recently increased the volatility in the Group's industry and have negatively impacted demand for some of the Group's products and related margins since July 2015, in particular in the Group's Polyurethanes business unit, and may adversely affect the Group's net sales and results of operations in the second half of Fiscal Year 2015 and beyond.

The Group's mid-term target is to increase both net sales and Adjusted EBITDA in absolute Euro-terms. The Group expects to grow into its expanded MDI capacity and ramp-up additional polycarbonate and HDI capacity at its production facility in Shanghai, China, by 2016/2017 and 2016, respectively. The Group is restructuring its TDI operations, and exploring how some of its existing MDI operations could be restructured, to better capture industry growth and achieve higher utilization rates. The Group aims to increase its net sales by capturing growth in the industry and increasing the utilization rates of its production facilities.

While it is the Group's mid-term target to significantly reduce special items across all segments, the Group expects that its special items will increase significantly in Fiscal Year 2015, primarily due to the Offering and the associated separation from the Bayer Group as well as the restructuring of some of its production operations, e.g. the closure of the MDI production facility in Belford Roxo, Brazil.

The Covestro Group's effective tax rate was 29.8% in Fiscal Year 2013, 27.3% in Fiscal Year 2014 and 29.5% for the six months ended June 30, 2015. The Group expects that it will be approximately 30% in Fiscal Year 2015 and in the medium term.

Net working capital as a percentage of sales is expected to remain stable for the Fiscal Year 2015 and to slightly decline in the mid-term.

27.2.2 Business units

Polyurethanes and Polycarbonates business units

For the Fiscal Year 2015 and the mid-term, the Group expects core sales volumes and Adjusted EBITDA for its Polyurethanes and Polycarbonates business units to develop as follows:

Outlook 2015

For the Fiscal Year 2015, the Group targets core sales volume growth in its Polyurethanes business unit but expects that it will grow at a lower rate than in the first half of Fiscal Year 2015. The Group's ability to grow its core sales volume in the Polyurethanes business unit will be primarily driven by end market growth and increased product availability. The Group also targets an increase of Adjusted EBITDA in its Polyurethanes business unit in Fiscal Year 2015, compared to Fiscal Year 2014, driven by higher fixed cost absorption, currency development as well as expected higher earnings from sales of styrene. The Group's ability to grow its core sales volume and increase its Adjusted EBITDA in its Polyurethanes business unit will also be driven by the impact of the decelerating economic growth in China.

The Group expects that the core sales volume growth in its Polycarbonates business unit in the second half of Fiscal Year 2015 will continue but at a lower rate than in the first half of Fiscal Year 2015. Core

sales volume growth in the Polycarbonates business unit is driven primarily by continued attractive market conditions with respect to demand and limited capacity additions in the industry.

Adjusted EBITDA in the Polycarbonates business unit is envisaged to be significantly above Fiscal Year 2014 owing to materially improving supply / demand dynamics.

Mid-term outlook

Based on volatile industry growth, higher utilization rates and recent capacity additions, the Polyurethanes business unit is expected to grow core sales volumes.

The expected significant core sales volumes growth in the Polycarbonates business unit is driven by above GDP growth in the automotive, electrical, electronics and construction industries as well as by the ramp-up of the new capacity in Shanghai.

For the Polyurethanes business unit, the Group targets an increase of its Adjusted EBITDA on the back of increased utilization rates leading to a higher fixed cost absorption, asset and cost optimization and continued cost discipline.

Polycarbonates' Adjusted EBITDA is expected to significantly increase due to the recovery of utilization rates leading to a higher fixed cost absorption, the focus on diversified applications and end markets as well as cost optimizations.

Coatings, Adhesives and Specialties business unit

For the Fiscal Year 2015 and the mid-term the Group expects sales and Adjusted EBITDA margin for its Coatings, Adhesives and Specialties business unit to develop as follows:

Outlook 2015

The Coatings, Adhesives and Specialties business unit is expected to experience further sales growth in Fiscal Year 2015 compared to Fiscal Year 2014 based on the current demand development. Adjusted EBITDA margin is expected to slightly increase in Fiscal Year 2015 compared to Fiscal Year 2014.

Mid-term outlook

In the mid-term, the Coatings, Adhesives and Specialties business unit expects to grow sales through demand from end-markets with above GDP growth, substitution of chemistries based on innovations and increased quality requirements for coatings and adhesives products from customers in all regions. It continues to focus on higher value industry segments and innovations to maintain its historically high and stable Adjusted EBITDA margins.

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28. SIGNATURE PAGE

Leverkusen, Frankfurt am Main, London, Munich and Paris, September 18, 2015

Covestro AG

Signed by: Patrick Thomas
(Chief Executive Officer)

Signed by: Frank H. Lutz
(Chief Financial Officer)

Deutsche Bank AG

Signed by: Josef Ritter

Signed by: Malte Hopp

Morgan Stanley & Co. International plc

Signed by: Adam Pickard

Signed by: Thomas Thurner

Merrill Lynch International

Signed by: Malte Hopp
(on behalf of Merrill Lynch International)

Citigroup Global Markets Limited

Signed by: Malte Hopp
(on behalf of Citigroup Global Markets Limited)

Credit Suisse Securities (Europe) Limited

Signed by: Thomas Thurner
(on behalf of Credit Suisse Securities (Europe) Limited)

J.P. Morgan Securities plc

Signed by: Thomas Thurner
(on behalf of J.P. Morgan Securities plc)

UBS Limited

Signed by: Malte Hopp
(on behalf of UBS Limited)

BNP Paribas

Signed by: Thomas Thurner
(on behalf of BNP Paribas)

UniCredit Bank AG

Signed by: Malte Hopp
(on behalf of UniCredit Bank AG)

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Covestro AG
51365 Leverkusen, Germany
covestro.com