

FINANCIAL STATEMENTS 2015



Financial Statements of Covestro AG, Leverkusen,
Germany, for the abbreviated fiscal year from
August 21, 2015 to December 31, 2015



The management report of Covestro AG is combined with the management report of the Covestro Group. The Combined Management Report is published in Covestro's Annual Report for 2015. The financial statements and the Combined Management Report of the Covestro Group and Covestro AG for fiscal 2015 have been submitted to the operator of the electronic Federal Gazette in Germany and are accessible via the Company Register website.

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

Assets	Aug. 21, 2015	Dec. 31, 2015
	€ thousand	€ thousand
Noncurrent assets		
Intangible assets	0	0
Property, plant and equipment	0	84
Financial assets	0	1,766,024
	0	1,766,108
Current assets		
Inventories		
Work in progress	0	3
Receivables and other assets		
Trade accounts receivables	0	7,107
<i>of which from related parties</i>	0	7,102
Receivables from related parties	0	3,569,877
Other assets	0	17,865
	0	3,594,849
Cash and cash equivalents	140,000	0
	140,000	3,594,852
Deferred charges	0	11,257
Surplus from offsetting	0	1,511
	140,000	5,373,728

Equity and Liabilities	Aug. 21, 2015	Dec. 31, 2015
	€ thousand	€ thousand
Equity		
Capital stock	140,000	202,500
Capital reserves	0	4,918,524
Other retained earnings	0	39,161
Distributable profit	(27)	141,750
	139,973	5,301,935
Provisions		
Provisions for pensions	0	11,424
Provisions for taxes	0	21,332
Other provisions	27	12,003
	27	44,759
Liabilities		
Trade accounts payable	0	9,109
<i>of which from related parties</i>	0	5,858
Payables to related parties	0	15,620
Other liabilities	0	2,305
<i>of which taxes</i>	0	1,038
	0	27,034
	140,000	5,373,728

Income Statements of Covestro AG for the abbreviated fiscal year from August 21, 2015 to December 31, 2015

	2015
	€ thousand
Income from investments in affiliated companies – net	231,711
Income from investments in affiliated companies	231,711
Other interest and similar income	3,999
<i>of which from related parties</i>	3,999
Interest and similar expenses	(3,320)
<i>of which from related parties</i>	0
<i>of which expenses from interest rollup</i>	(3,314)
Interest result	679
Other financial income	4
<i>of which from currency translation</i>	4
Other financial expenses	(16,529)
<i>of which from currency translation</i>	(9)
Other financial income and expenses	(16,525)
Financial results	215,865
Net sales	9,635
Cost of services provided	(9,312)
General administration expenses	(10,340)
Other operating income	1
<i>of which from currency translation</i>	0
Other operating expenses	(7,380)
<i>of which from currency translation</i>	0
Operating results	(17,396)
Income before income taxes	198,469
Income taxes	(17,531)
Net income	180,938
Allocation to retained earnings	(39,161)
Retained earnings brought forward from prior year	(27)
Distributable profit	141,750

NOTES

Basic Principles

The annual financial statements of Covestro AG, Leverkusen, (Covestro AG) are prepared in accordance with the provisions of the German Commercial Code (HGB) and German Stock Corporation Act (AktG). The annual financial statements cover the abbreviated fiscal year from August 21, 2015, to December 31, 2015, for Covestro AG.

Covestro AG was founded on August 20, 2015, as a fully owned subsidiary of Bayer AG, Leverkusen, (Bayer AG). Bayer AG contributed €140 million in capital stock in connection with the company's formation. The capital stock was deposited in full into the account of Covestro AG. The company was entered into the relevant commercial register on August 24, 2015.

There are no financial or income statement figures for prior years because the company was formed in 2015. In the reference year column, the figures reported are for the opening balance as of August 21, 2015. Consequently, there is a lack of comparability.

In accordance with the contribution agreement of August 27, 2015, Bayer AG contributed all shares in Covestro First Real Estate GmbH, Monheim am Rhein, to the capital reserves of Covestro AG. The value of the contribution was equivalent to the carrying value of the shares recorded in the Bayer AG commercial financial statements.

In accordance with the contribution agreement of August 31, 2015, Bayer AG contributed its shares in Covestro Deutschland AG (formerly Bayer MaterialScience AG), Leverkusen, (Covestro Deutschland AG) to the capital reserves of Covestro AG. The value of the contribution was equivalent to the carrying value of the shares of Covestro Deutschland AG recorded in the Bayer AG commercial financial statements. Effective September 1, 2015, a control and profit and loss transfer agreement was concluded between Covestro AG and Covestro Deutschland AG.

The legal restructuring involved consolidating the key business functions of finance, taxes, portfolio and project management, legal, patent administration, compliance and corporate office. In this connection, the company acquired the assets and liabilities of Covestro Deutschland AG as of September 15, 2015. The employees assigned to these functions also transferred to Covestro AG as of the same date.

On October 2, 2015, the Annual Stockholders' Meeting of Covestro AG approved a capital increase of €62.5

million against a cash contributions to €202.5 million through the issue of 62,500,000 new no-par value shares. The portion of capital stock corresponding to one no-par value share equals €1.

Since October 6, 2015, the shares of Covestro AG have been listed on the regulated market of the Frankfurt Stock Exchange (Prime Standard). At €26, the opening price was exactly €2 above the issue price of €24 set by the company in accordance with the capital increase. Since then, around 31% of the 202,500,000 ordinary shares of no-par value have been in free float. Bayer AG holds around 69% of the shares.

The income statement has been prepared according to the cost-of-sales method. The breakdown of these financial statements differs from that prescribed in Section 275, Paragraph 3, of the German Commercial Code (HGB) in that the summarized items of the financial result are presented first to emphasize the holding character of Covestro AG. In addition, financial income and expenses whose disclosure is not covered by a legally stipulated item are reported under other financial income and expenses.

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

Covestro AG is included in the consolidated financial statements of Bayer AG. The consolidated financial statements of Bayer AG represent the largest group of consolidated companies. The consolidated financial statements of Covestro AG represent the smallest group of consolidated companies.

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

Rounding differences between individual line items may arise as the figures in this report are stated in thousands of euros.

Recognition and Valuation Principles

Acquired intangible assets are recognized at cost and amortized on a straight-line basis over their estimated useful lives. Internally generated intangible assets are not capitalized. Expected permanent impairments are accounted for through impairment losses.

Property, plant and equipment is carried at the cost of acquisition or construction less depreciation of assets that are subject to wear and tear. The straight-line method of depreciation is normally used in this case. Depreciation is based on the following useful lives:

Useful Life

Operating and business equipment	2 to 15 years
Information technology	2 to 15 years
Transportation	2 to 12 years

Movable noncurrent assets that can be utilized separately and that are subject to wear and tear are depreciated in full in the year of acquisition if their cost does not exceed €410. Expected permanent impairments that exceed the use-related depletion reflected through depreciation are accounted for through impairment losses.

Investments in subsidiaries and affiliated companies are recognized at cost or at the lower fair value in the case of permanent impairments.

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

Receivables and other assets are stated at their nominal value, less any necessary valuation adjustments. The valuation adjustments are based on the probable risk of default. Lump-sum allowances of 2% are made for general credit risk. Non-interest-bearing or low-interest receivables that are due in more than one year are discounted to their present value.

In order to meet various obligations related to pension plans and work-time credits, corresponding funds are generally invested in liquid international bonds, shares, real estate, alternative investments and near-money-market products through separate pension-provision investment vehicles. These funds are held in trust and protected from access by other creditors in the event that the employer declare insolvency. The investments are measured at fair value, which is derived from stock prices and market interest rates. The assets held in trust are offset against the underlying obligations. If there is an excess obligation, a provision is recorded. If the value of the securities exceeds the obligations, the difference

is recorded in the statement of financial position under assets as a "surplus from offsetting." In the income statement, income from the trust assets is offset against the interest expense from obligations and changes in actuarial interest rates in a corresponding manner.

Deferred charges and deferred income include expenses and income prior to the reporting date, which represent expenses and income for a specific period after that date and are recognized at their nominal value.

Deferred taxes are assessed for temporary differences between the assets, liabilities, deferred charges and deferred income in the accounting statements and those in the tax statements. For Covestro AG, this not only includes the differences from its own balance sheet items but also those relating to tax group subsidiaries and partnerships in which it holds an equity interest. In addition to the temporary accounting differences, tax loss carryforwards are also taken into account. Deferred taxes are calculated on the basis of the combined income tax rate for the tax group of Covestro AG, which is currently 31.98%. The combined income tax rate includes corporate income tax, trade tax and the solidarity surcharge. In contrast, deferred taxes relating to temporary differences with regard to long-term equity investments in affiliated companies are calculated based on a combined income tax rate including only corporate income tax and the solidarity surcharge; this currently amounts to 15.825%. Any resulting overall tax burden would be recognized as a deferred tax liability in the statement of financial position. In the event of tax relief, use would not be made of the corresponding capitalization option. In the fiscal year, there was a total of one unrecognized deferred tax asset.

Provisions for pensions and similar obligations are calculated according to the projected unit credit method on the basis of biometric probability using the Heubeck 2005 G reference tables. Expected future salary and pension increases are taken into account in the calculation of obligations. Annual increases of 3% are assumed for the salaries. Annual pension increases of 1.75% are also expected. Nevertheless, for pension commitments granted as of January 1, 2000, an annual pension increase of 1% applies in line with what was promised to the employees. The actuarial interest rate for the discounting of pension obligations used as of December 31, 2015, was 3.89%. This is the average market interest rate calculated and published by the Deutsche Bundesbank for December 2015, which has been observed for the past seven years for instruments with an assumed remaining term of 15 years.

The other provisions take into consideration all foreseeable risks and uncertainties. The measurement is based

on a required settlement value deemed appropriate according to reasonable commercial judgment. Future price and cost increases are taken into account as long as there are sufficient objective indications that they will occur. Provisions with a remaining term of more than one year are discounted using the average market interest rate of the past seven years corresponding to their remaining maturities. For longer-term personnel-related provisions, such as those for long-term service awards, a rate of 3.89% is used for an assumed period of 15 years. Personnel-related provisions for obligations under early retirement and age-related semi-retirement agreements are discounted using a rate corresponding to their term. The term in 2015 was three years and the discount rate 2.34%. In each case, it constitutes the interest rates expected for December 2015 at the time the personnel-related provisions are determined.

Liabilities are recognized at the settlement value. If this relates to pension obligations, they are stated at their present value using an average market interest rate of the past seven years corresponding to their maturity.

Receivables and liabilities in foreign currencies are valued using the respective spot rates as of the reporting date.

Cash and cash equivalents are recognized at their nominal value. Cash and cash equivalents balances in foreign currencies are translated at the mean rate of exchange from reporting date.

The contingent liabilities shown from sureties and debt guarantees for third-party liabilities represent loan draw-downs and obligations of beneficiaries as of the reporting date.

Notes to the Income Statement

1. Income from Investments in Affiliated Companies

Income from investments in affiliated companies of €231,711 thousand is attributable to income from the control and profit and loss transfer agreement with Covestro Deutschland AG.

2. Interest Result

The interest result includes interest income for a loan granted to Covestro Deutschland AG in the amount of €3,999 thousand.

Expenses from interest rollup include the expenses related to the interest on pension provisions in the amount of €3,237 thousand. Also included here are losses resulting from the investment with Metzler Trust e.V., Frankfurt am Main, in addition to the expenses from interest rollup and from changes in the actuarial interest rate.

The assets invested with Metzler Trust e.V., Frankfurt am Main, are to be used solely for meeting obligations for pensions and work-time credits; other creditors do not have access to them.

3. Other Financial Income and Expenses

Other financial income and expenses include underwriting fees in the amount of €15,000 thousand in connection with the initial public offering (IPO) of Covestro AG and other bank fees of €1,520 thousand as well as income and expenses from foreign currency translation.

4. Net Sales

Net sales include income from services rendered by the Corporate Center divisions of Covestro AG for Covestro Group companies. Of €9,635 thousand, the sales generated with foreign Group companies accounted for a total of €200 thousand (2%). Expenses incurred for providing the services are shown under cost of services provided.

5. Other Operating Expenses

Other operating expenses mainly include real estate transfer tax of €3,800 thousand incurred in the course of the legal separation of the Covestro Group.

6. Income Taxes

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

Tax expense does not include deferred taxes. As of December 31, 2015, Covestro AG expected a future tax relief of €110,380 thousand from temporary accounting differences with regard to itself as well as those of the companies within the tax group and the affiliated companies.

Deferred tax liabilities are mainly a result of the difference between the higher valuation of noncurrent assets and cover assets invested with Metzler Trust e.V., Frankfurt am Main, primarily to hedge pension commitments shown in the statement of financial position and the valuation in the corresponding tax statement. Deferred tax assets are mainly a result of the higher valuation of pension obligations in the financial statements in accordance with German commercial law compared to the tax valuation. Overall, deferred tax liabilities were more than offset by deferred tax assets. In exercising the option in Section 274, Paragraph 1, Sentence 2, of the German Commercial Code (HGB), no deferred tax assets were recognized for the surplus of deferred tax assets.

7. Other Taxes

Provided that other taxes could be allocated to general administration, they are listed there. Otherwise they are recorded under other operating expenses. They came to a total of €3,800 thousand.

8. Personnel Expenses/Employees

Personnel Expenses

	2015
	€ thousand
Wages and salaries	11,570
Social expenses and expenses for pensions and other benefits	805
<i>of which pension expenses</i>	559
	12,375

Amounts resulting from interest accrued on personnel provisions, especially provisions for pensions, are not recorded as personnel expenses. They are shown in the interest result.

The annual average number of employees at Covestro AG was 159, broken down according to the following groups:

Employees

	2015	
	Women	Men
Senior executives and senior managers	20	61
Junior managers and nonmanagerial employees	38	40
	58	101

These figures include part-time employees according to their level of employment.

Notes to the Statements of Financial Position

9. Property, Plant and Equipment

Property, Plant and Equipment

	Furniture, fixtures and other equipment	Prepayments and construction in progress	Total
	€ thousand	€ thousand	€ thousand
Gross value, August 21, 2015	0	0	0
Additions	96	3	99
Gross values, December 31, 2015	96	3	99
Accumulated depreciation and impairment losses, August 21, 2015	0	0	0
Depreciation and impairment losses in 2015	15	0	15
Accumulated depreciation and impairment losses, December 31, 2015	15	0	15
Net values, December 31, 2015	81	3	84
Net value, August 21, 2015	0	0	0

10. Investments

Financial Assets

	Investments in subsidiaries
	€ thousand
Gross carrying amounts, Aug. 21, 2015	0
Additions	1,766,024
Retirements	0
Gross carrying amounts, Dec. 31, 2015	1,766,024
Accumulated write-downs, Aug. 21, 2015	0
Write-downs 2015	0
Accumulated write-downs, Dec. 31, 2015	0
Net carrying amounts, Dec. 31, 2015	1,766,024
Net carrying amounts, Aug. 21, 2015	0

11. Surplus from Offsetting

Obligations arising from work-time accounts as well as pension commitments are partially hedged by assets invested within separate pension-provision investment vehicles in trust (security assets). The invested assets may only be used for the purpose of meeting obligations under specifically defined plans and are protected from other creditors in the event that the employer become insolvent. They were offset against the underlying obligations. This resulted in a surplus of €1,511 thousand,

which is attributable to obligations arising from work-time accounts in the amount €78 thousand and pension obligations for senior management of €1,433 thousand.

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

Surplus from Offsetting

	Dec. 31, 2015
	€ thousand
Settlement value of obligations relating to credit balances on employees' long-term work-time accounts	372
Fair value of assets invested	450
Differences between assets and obligations relating to long-term work-time accounts (surplus from offsetting)	78
Acquisition cost of assets invested	455
	Dec. 31, 2015
	€ thousand
Settlement value of pension commitments for the senior management	4,173
Fair value of assets invested	5,606
Differences between assets and obligations relating to pension commitments for the senior management (surplus from offsetting)	1,433
Acquisition cost of assets invested	5,685

The security assets are measured at fair value. These came to €12,481 thousand as of December 31, 2015. Offsetting of the security assets in the amount of €6,056 thousand against the underlying obligations resulted in

overfunding; the remaining excess obligation came to €6,425 thousand. This was reported either as a "surplus from offsetting" or under pension provisions accordingly.

12. Equity

Equity in the abbreviated fiscal year developed as follows:

Equity

	Aug. 21, 2015	Capital increases	Net income	Dec. 31, 2015
	€ thousand	€ thousand	€ thousand	€ thousand
Capital stock	140,000	62,500	-	202,500
Capital reserve	-	4,918,524	-	4,918,524
Other retained earnings	-	-	39,161	39,161
Distributable profit	(27)	-	141,777	141,750
	139,973	4,981,024	180,938	5,301,935

The capital stock of Covestro AG came to €202,500 thousand and is divided into 202,500,000 no-par value shares, each of which corresponds to a one-euro portion of the capital stock, and is fully paid in. Each share confers one voting right.

The increase in capital stock of €140,000 thousand to €202,500 thousand against a cash contribution was carried out on October 2, 2015, by means of a corresponding resolution of the Annual Stockholders' Meeting.

The transfers to the capital reserves of the company of €1,766,024 thousand are attributable to the contribution of the shares in Covestro Deutschland AG and Covestro First Real Estate GmbH, Monheim am Rhein, by Bayer AG. Another €1,715,000 thousand are attributable to cash contributions by Bayer AG. An amount of €1,437,500 thousand was transferred to capital reserves as a result of Covestro AG going public. An amount of €39,161 thousand was transferred to other retained earnings from the net income for the abbreviated fiscal year.

At the Annual Stockholders' Meeting of October 2, 2015, authorized capital in the amount of €101,250,000 was approved through October 2, 2020. This may be used to increase capital stock through the issue of new no-par value shares against cash contributions and/or contributions in kind. The stockholders are entitled to subscription rights. However, the Board of Management is authorized, with approval of the Supervisory Board, to exclude fractions resulting from the subscription ratios and to exclude these rights to the extent necessary to ensure that the bearers and creditors of bonds (including participation rights) issued by the company or its Group companies, who have conversion or option rights or a conversion obligation, be granted subscription rights for new shares to the extent that they would be entitled if they exercised their conversion or option rights or upon fulfillment of the conversion obligation. The Board of Management is further authorized, with the consent of the Supervisory Board, to exclude stockholders' subscription rights if the capital increase is carried out against

contributions in kind as well as to implement what is known as a scrip dividend, in which the stockholders are given the option of contributing their dividend rights to the company either in whole or in part as contributions in kind in exchange for the issuance of new shares from authorized capital. The stockholders' subscription rights may also be excluded if the new shares are issued at a price that is not significantly below the stock market price and if the issued shares, for which subscriptions rights are excluded according to Section 186, Paragraph 3, Sentence 4, of the German Stock Corporation Act (AktG), do not exceed 10% of the capital stock either on the date such authorization becomes effective or the date it is exercised. The sale of own shares shall count towards this limit provided they are sold during the term of this authorization under exclusion of the subscription rights according to Section 71, Paragraph 1, No. 8, Sentence 5, of the German Stock Corporation Act (AktG) in conjunction with Section 186, Paragraph 3, Sentence 4, AktG. Moreover, shares issued or to be issued to service bonds (including participation rights) with conversion or option rights or a conversion obligation shall also count towards this limit provided that the bond or participation rights were issued during the term of this authorization under exclusion of the stockholders' subscription rights in line with the appropriate application of Section 186, Paragraph 3, Sentence 4, of the German Stock Corporation Act (AktG).

Use of the authorized capital granted until October 2, 2020, has not been made to date.

The Board of Management, subject to the consent of the Supervisory Board, decides on the content of the share rights as well as the other terms and conditions of the share issue, including the issue amount.

The Annual Stockholders' Meeting of September 1, 2015, authorized the increase of capital stock by up to €70,000,000 by issuing up to 70,000,000 new no-par value shares, each of which corresponds to a one-euro portion of the capital stock. The conditional capital in-

crease shall only be carried out to the extent that the bearers of conversion or option rights arising from bonds (including participation rights), issued or guaranteed by the company or its Group companies up to August 31, 2020, as authorized at the Annual Stockholders' Meeting of September 1, 2015, exercise their conversion or option rights, perform their conversion or option obligations from such bonds and to the extent that such option rights or conversion obligations are not serviced by own shares, shares issued out of the authorized capital or other forms of settlement.

The issue of the new shares shall be carried out at the conversion or option prices to be determined in accordance with the aforementioned resolution on the authorization. The new shares shall participate in the profit from the beginning of the fiscal year in which they come into existence. However, the Board of Management, with the consent of the Supervisory Board, may decide that the new shares shall participate in the profit from the beginning of the fiscal year for which, at the time when the option or conversion rights are exercised or the option or conversion obligations are met, the Annual Stockholders' Meeting has not yet adopted a resolution on the use of the distributable profit. The Board of Management is authorized, with the consent of the Supervisory Board, to determine the details of the implementation of the conditional capital increase.

In the case of a capital increase, the profit participation may be determined in derogation from Section 60 of the German Stock Corporation Act (AktG).

Use of the conditional capital has not been made to date.

Notifications of stockholdings pursuant to Section 21, Paragraph 1, of the German Securities Trading Act (WpHG)

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

- On November 26, 2015, BlackRock Luxembourg Holdco S.à r.l., Luxembourg, Luxembourg, notified us pursuant to Section 21, Paragraph 1, of the German Securities Trading Act (WpHG) that its voting share in Covestro AG fell below the 3% threshold of the voting rights on November 24, 2015, and on that date amounted to 2.98% (corresponding to 6,039,615 voting rights). 2.98% of the voting rights (corresponding to 6,039,615 voting rights) are attributable to the company pursuant to Section 22, Paragraph 1, Sentence 1, No. 6, of the German Securities Trading Act (WpHG) in conjunction with Sentence 2 WpHG. Please note that the total amounts stated do not necessarily correspond to the total voting shares attributable to the companies. This is due to the multiple attribution of voting shares within the BlackRock corporate structure.
- On November 26, 2015, BLACKROCK (Luxembourg) S.A., Luxembourg, Luxembourg, notified us pursuant to Section 21, Paragraph 1, of the German Securities Trading Act (WpHG) that its voting share in Covestro AG fell below the 3% threshold of the voting rights on November 24, 2015, and on that date amounted to 2.98% (corresponding to 6,039,615 voting rights). 2.98% of the voting rights (corresponding to 6,039,615 voting rights) are attributable to the company pursuant to Section 22, Paragraph 1, Sentence 1, No. 6, of the German Securities Trading Act (WpHG).
- On November 26, 2015, BlackRock Global Funds, Luxembourg, Luxembourg, notified us pursuant to Section 21, Paragraph 1, of the German Securities Trading Act (WpHG) that its voting share in Covestro AG fell below the 3% threshold of the voting rights on November 24, 2015, and on that date amounted to 2.96% (corresponding to 5,984,212 voting rights).
- On October 9, 2015, BlackRock Investment Management (UK) Limited, London, England and Wales, notified us pursuant to Section 21, Paragraph 1, of the German Securities Trading Act (WpHG) that its voting share in Covestro AG exceeded the 3% threshold of the voting rights on October 7, 2015, and on that date amounted to 3.68% (corresponding to 7,444,261 voting rights). 3.68% of the voting rights (corresponding to 7,444,261 voting rights) are attributable to the company pursuant to Section 22, Paragraph 1, Sentence 1, No. 6, of the German Securities Trading Act (WpHG). 0.57% of the voting rights (corresponding to 1,163,432 voting rights) are attributable to the company pursuant to Section 22, Paragraph 1, Sentence 1, No. 6, of the German Securities Trading Act (WpHG) in conjunction with Sentence 2 WpHG.
- On October 9, 2015, BlackRock Group Limited, London, England and Wales, notified us pursuant to Section 21, Paragraph 1, of the German Securities Trading Act (WpHG) that its voting share in Covestro AG exceeded the 3% threshold of the voting rights on October 7, 2015 and on that date amounted to 3.80% (corresponding to 7,689,383 voting rights). 3.80% of the voting rights (corresponding to 7,689,383 voting rights) are attributable to the company pursuant to Section 22, Paragraph 1, Sentence 1, No. 6, of the German Securities Trading Act (WpHG) in conjunction with Sentence 2 WpHG.
- On October 9, 2015, BR Jersey International Holdings L.P., St. Helier, Jersey, Jersey, notified us pursuant to Section 21, Paragraph 1, of the German Securities Trading Act (WpHG) that its voting share in Covestro AG exceeded the 3% threshold of the shares on October 7, 2015, and on that date amounted to 3.80% (corresponding to 7,691,608 voting rights). 0.001% of the voting rights (corresponding to 2,225 voting rights) are attributable to the company pursuant to Section 22, Paragraph 1, Sentence 1, No. 1, of the German Securities Trading Act (WpHG). 3.80% of the voting rights (corresponding to 7,689,383 voting rights) are attributable to the company pursuant to Section 22, Para-

graph 1, Sentence 1, No. 6, of the German Securities Trading Act (WpHG) in conjunction with Sentence 2 WpHG.

- On October 9, 2015, BlackRock International Holdings, Inc. Wilmington, DE, USA, notified us pursuant to Section 21, Paragraph 1, of the German Securities Trading Act (WpHG) that its voting share in Covestro AG exceeded the 3% threshold of the voting rights on October 7, 2015, and on that date amounted to 3.80% (corresponding to 7,691,608 voting rights). 0.001% of the voting rights (corresponding to 2,225 voting rights) are attributable to the company pursuant to Section 22, Paragraph 1, Sentence 1, No. 1, of the German Securities Trading Act (WpHG). 3.80% of the voting rights (corresponding to 7,689,383 voting rights) are attributable to the company pursuant to Section 22, Paragraph 1, Sentence 1, No. 6, of the German Securities Trading Act (WpHG) in conjunction with Sentence 2 WpHG.
- On October 9, 2015, BlackRock Financial Management, Inc., Wilmington, DE, USA, notified us pursuant to Section 21, Paragraph 1, of the German Securities Trading Act (WpHG) that its voting share in Covestro AG exceeded the 3% threshold of the voting rights on October 7, 2015, and on that date amounted to 3.85% (corresponding to 7,802,680 voting rights). 0.04% of the voting rights (corresponding to 85,472 voting rights) are attributable to the company pursuant to Section 22, Paragraph 1, Sentence 1, No. 1, of the German Securities Trading Act (WpHG). 0.03% of the voting rights (corresponding to 57,362 voting rights) are attributable to the company pursuant to Section 22, Paragraph 1, Sentence 1, No. 6, of the German Securities Trading Act (WpHG). 3.80% of the voting rights (corresponding to 7,691,608 voting rights) are attributable to the company pursuant to Section 22, Paragraph 1, Sentence 1, No. 6, of the German Securities Trading Act (WpHG) in conjunction with Sentence 2 WpHG.
- On October 9, 2015, BlackRock Holdco 2, Inc., Wilmington, DE, USA, notified us pursuant to Section 21, Paragraph 1, of the German Securities Trading Act (WpHG) that its voting share in Covestro AG exceeded the 3% threshold of the voting rights on October 7, 2015, and on that date amounted to 3.85% (corresponding to 7,802,680 voting rights). 0.04% of the voting rights (corresponding to 85,472 voting rights) are attributable to the company pursuant to Section 22, Paragraph 1, Sentence 1, No. 1, of the German Securities Trading Act (WpHG). 3.81% of the voting rights (corresponding to 7,719,433 voting rights) are attributable to the company pursuant to Section 22, Paragraph 1, Sentence 1, No. 6, of the German Securities Trading Act (WpHG) in conjunction with Sentence 2 WpHG.
- On October 9, 2015, BlackRock Inc., Wilmington, DE, USA, notified us pursuant to Section 21, Paragraph 1, of the German Securities Trading Act (WpHG) that its voting share in Covestro AG exceeded the 3% threshold

of the voting rights on October 7, 2015, and on that date amounted to 3.85% (corresponding to 7,802,680 voting rights). 0.04% of the voting rights (corresponding to 85,472 voting rights) are attributable to the company pursuant to Section 22, Paragraph 1, Sentence 1, No. 1, of the German Securities Trading Act (WpHG). 3.81% of the voting rights (corresponding to 7,719,433 voting rights) are attributable to the company pursuant to Section 22, Paragraph 1, Sentence 1, No. 6, of the German Securities Trading Act (WpHG) in conjunction with Sentence 2 WpHG.

- On October 12, 2015, Deutsche Bank Aktiengesellschaft, Frankfurt am Main, Germany, notified us pursuant to Section 21, Paragraph 1, of the German Securities Trading Act (WpHG) that its voting share in Covestro AG fell below the 30%, 25%, 20%, 15%, 10%, 5% and 3% threshold of the voting rights on October 7, 2015, and on that date amounted to 0% (corresponding to 0 voting rights).
- On October 6, 2015, Bayer AG notified us pursuant to Section 21, Paragraph 1a, of the German Securities Trading Act (WpHG) that its voting share in Covestro AG (ISIN: DE0006062144) came to 69.14% on October 5, 2015, (140,000,000 voting rights), the date the shares were initially admitted to trading on an organized market (the Prime Standard segment of the Frankfurt Stock Exchange regulated market). All 140,000,000 voting rights are directly held by Bayer Aktiengesellschaft.

13. Provisions for Pensions

Provisions for pensions include the obligations for current and past employees. It also includes obligations from early retirement arrangements.

Obligations arising from pension commitments are fully or partially hedged by assets invested within separate pension-provision investment vehicles in trust (security assets). The invested assets may only be used for the purpose of meeting the pension obligations and are protected from access by other creditors. They were offset against the underlying obligations.

Provisions for Pensions

	2015
	€ thousand
Settlement value of pension commitments	17,849
Fair value of assets invested	6,425
Net value of pension commitments	11,424
Acquisition cost of assets invested	6,516

14. Other Provisions

Other provisions are mainly for personnel-related obligations (€10,394 thousand). Provisions for uncertain liabilities are also included (€1,609 thousand) under this line item.

15. Further Information on Liabilities

Liabilities are broken down according to maturity date as follows:

Maturity Structure of Liabilities

	Maturing in 2016	Maturing in 2017 – 2020	Maturing after 2020
	€ thousand	€ thousand	€ thousand
Trade accounts payable	9,109	0	0
Payables to subsidiaries	15,620	0	0
Other liabilities	2,305	0	0
	27,034	0	0

Other Explanatory Notes

16. Contingent Liabilities

Liabilities arising from warranties and guarantees totaled €2,085,000 thousand. They were issued in favor of Group companies without exception. To our knowledge, all of companies concerned are able to meet the underlying obligations; utilization of this is not expected.

Debt Guarantees and Sureties

	Nominal amount
	€ thousand
Guarantees for Group companies	2,060,000
Covestro Deutschland AG, Leverkusen, Germany	
• Loans from Bayer Antwerp NV, Diegem, Belgium, maturing in March 2016	1,250,000
• Loans from Bayer Antwerp NV, Diegem, Belgium, maturing in June 2016	810,000
Sureties for Group companies	25,000
	2,085,000

In connection with the contribution, indemnification and post-formation agreement between Bayer AG and Covestro AG, provisions were made to settle any possible tax claims, which may result in corresponding liabilities.

17. Other Financial Commitments

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

Effective September 1, 2015, Bayer-Pensionskasse VVaG, Leverkusen, and Covestro AG agreed to include Covestro AG as an additional guarantor in the initial fund previously agreed with Bayer AG. The purpose of the initial fund is to provide Bayer-Pensionskasse with repayable, interest-bearing loans if necessary. Covestro AG undertakes to provide a maximum of €208,000 thousand in connection with the initial fund. As of the reporting date, Covestro AG had not yet made any payments.

18. Related Parties

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

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

19. Total Compensation of the Board of Management and the Supervisory Board as well as Advances and Loans Granted

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

Board Member Compensation

	Sep. 1. to Dec. 31, 2015
	€ thousand
Fixed salaries	910
Compensation in kind and other benefits	368
Short-term variable cash compensation	2,002
Aggregate compensation	3,280
Pension service cost ¹	312

¹ Including company contribution to Bayer-Pensionskasse VVaG and Rheinische Pensionskasse VVaG respectively

Based on the average total annual compensation of a Member of the Board of Management for 100% achievement of targets, the compensation structure of the Covestro Group is composed of the following compensation components: 30% fixed salary, 30% short-term variable cash compensation and 40% long-term variable cash compensation (excluding compensation in kind, other benefits and pension benefits).

The compensation that is unrelated to performance comprises the fixed annual salary as well as compensation in kind and other benefits. The performance-related components of the remuneration include the variable compensation, which depends on the achievement of the company's performance goals.

The individual performance-related components are limited to a maximum amount when they are granted. In accordance with the recommendation of the German Corporate Governance Code, an upper limit was also agreed for the total compensation amount (sum of annual fixed compensation and variable components). This amount is 1.8 times the respective target compensation and is set annually by the Supervisory Board when the fixed compensation is determined.

In addition, Members of the Board of Management receive pension entitlements for old age and survivor benefits.

The Members of the Board of Management continue to participate in the ongoing performance periods of Bayer's long-term stock-based compensation program "Aspire" for a total of four tranches (2012–2015, 2013–2016, 2014–2017 and 2015–2018). This stock-based compensation is based on the "Aspire" target amount, which is defined as a contractually agreed percentage of the annual fixed compensation. Depending on the absolute performance of the Bayer stock as well as its relative performance compared to the EURO STOXX 50 Index, the participants receive an amount of between 0% and 300% of the "Aspire" target amount at the end of the program. The payout/performance matrix depending on the absolute and relative development of Bayer's share price can be found online at <http://www.investor.bayer.de/de/aktie/aktienprogramme/aspire/>. In order to sepa-

rate the payout from the future performance of Bayer's share price, it was determined that the average price of Bayer's stock and the benchmark index from the closing prices of the last 30 trading days of 2015 would be used as the final price for all current tranches and the payout amount would be "frozen" accordingly. The payouts will be made in January 2016, 2017, 2018 and 2019, at the end of the respective tranches as long as an amount greater than zero has been calculated. The target value for the 2015–2018 tranche was reduced to 8/12 of the full value (on a prorated basis for the period from January to August 2015). To compensate for this, the Members of the Board of Management receive an increased target value of 4/12 for the newly established 2016 tranche of Covestro's own long-term compensation program described below.

Starting in 2016, the Members of the Board of Management may participate in the long-term stock-based compensation program "Prisma" as long as they hold an individually determined number of Covestro shares as set out in the guidelines and are employed at the Covestro Group. The program is also based on a target amount that is defined according to a contractually agreed percentage of the fixed annual compensation. Depending on the total shareholder return of the Covestro share (absolute price performance plus the dividend distributed during the four-year performance period) and the relative per-

formance compared to the DJ STOXX Europe 600 Chemicals Index, participants will be paid between 0% and 200% of the "Prisma" target amount at the end of the program. When a member enters retirement, the values of the current tranches may be reduced at this time.

Expenses for pension commitments of €312 thousand were incurred for those Members of the Board of Management who were active during the fiscal year. These included the current service costs arising from the pension commitments as well as company contributions to Bayer-Pensionskasse VVaG and Rheinische Pensionskasse. The settlement value for pension obligations as of the reporting date came to €5,175 thousand.

Total compensation for the Supervisory Board for the abbreviated fiscal year came to €506 thousand. Included in this were attendance fees of €44 thousand.

As of December 31, 2015, there were no loans outstanding to Members of the Board of Management or the Supervisory Board. No loan repayments were made during the fiscal year.

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

20. Governance Bodies

Board of Management

Name	Position	Areas of responsibility	Memberships on other supervisory boards
Patrick Thomas	Chairman of the Board of Management	<ul style="list-style-type: none"> • Sustainability • Strategy • Communications • Corporate Audit • Corporate Office • Polycarbonates • Coatings, Adhesives, Specialties • Human Resources 	<ul style="list-style-type: none"> • Member of the Supervisory Board of Bayer Technology Services GmbH (until August 31, 2015) • Non-executive director BG Group plc, United Kingdom
Frank H. Lutz	Member of the Board of Management Labor Director	<ul style="list-style-type: none"> • Finance • Taxes • Accounting • Controlling • Law, Intellectual Property Rights & Compliance • Information Technology • Portfolio and Project Management • Investor Relations 	<ul style="list-style-type: none"> • Member of the Supervisory Board of Nordex SE
Dr. Klaus Schäfer	Member of the Board of Management	<ul style="list-style-type: none"> • Production & Technology • Engineering • Investment Coordination & Analysis • Health, Safety, Environment • Procurement • Basic Chemicals 	
Dr. Markus Steilemann	Member of the Board of Management	<ul style="list-style-type: none"> • Innovation • Polyurethanes 	

Supervisory Board

Name	Function	Position	Memberships on other supervisory boards
Dr. Richard Pott	Chairman	<ul style="list-style-type: none"> Graduate physicist 	<ul style="list-style-type: none"> Chair of the Supervisory Board of Covestro Deutschland AG Member of the Supervisory Board of Freudenberg SE Member of the Supervisory Board of SCHOTT AG
Petra Kronen	Vice Chair	<ul style="list-style-type: none"> Chair of the Works Council of Covestro Deutschland AG at the Uerdingen site Employee of Covestro Deutschland AG 	<ul style="list-style-type: none"> Vice Chair of the Supervisory Board of Covestro Deutschland AG Member of the Supervisory Board of Bayer AG Member of the Supervisory Board of Bayer Beistandskasse
Ferdinando Falco Beccalli		<ul style="list-style-type: none"> Chairman of the Board of Falco Enterprises AG 	<ul style="list-style-type: none"> Member of the Supervisory Board of Covestro Deutschland AG
Dr. Christine Bortenlänger		<ul style="list-style-type: none"> Executive Member of the Board of Deutsches Aktieninstitut e.V. 	<ul style="list-style-type: none"> Member of the Supervisory Board of Covestro Deutschland AG Member of the Supervisory Board of OSRAM GmbH Member of the Supervisory Board of OSRAM Licht AG Member of the Supervisory Board of SGL Carbon SE Member of the Supervisory Board of TUV SÜD Aktiengesellschaft Member of the Supervisory Board of ERGO Versicherungsgruppe AG (until March 27, 2015)
Johannes Dietsch		<ul style="list-style-type: none"> Member of the Board of Management of Bayer AG 	<ul style="list-style-type: none"> Member of the Supervisory Board of Covestro Deutschland AG Chair of the Supervisory Board of Bayer Business Services GmbH
Dr.-Ing. Thomas Fischer		<ul style="list-style-type: none"> Chairman of the Managerial Employees' Committee of Covestro Deutschland AG Manager of Covestro Deutschland AG 	<ul style="list-style-type: none"> Member of the Supervisory Board of Covestro Deutschland AG Member of the Supervisory Board of Bayer AG Member of the Supervisory Board of Bayer-Pensionskasse VVaG
Peter Hausmann		<ul style="list-style-type: none"> Member of the Executive Committee of the German Mining, Chemical and Energy Industrial Union (IG BCE) 	<ul style="list-style-type: none"> Member of the Supervisory Board of Covestro Deutschland AG Member of the Supervisory Board of Bayer AG (until October 2015) Member of the Supervisory Board of Henkel AG & Co. KGaA Member of the Supervisory Board of Continental AG Vice Chair of the Supervisory Board of 50Hertz Transmission GmbH Vice Chair of the Supervisory Board of Vivawest GmbH Vice Chair of the Supervisory Board of Vivawest Wohnen GmbH
Irena Küstner		<ul style="list-style-type: none"> Member of the Works Council of Covestro Deutschland AG Employee of Covestro Deutschland AG 	<ul style="list-style-type: none"> Member of the Supervisory Board of Covestro Deutschland AG
Michael Mostert		<ul style="list-style-type: none"> Lawyer and Secretary of the German Mining, Chemical and Energy Industrial Union (IG BCE) 	<ul style="list-style-type: none"> Member of the Supervisory Board of Covestro Deutschland AG
Prof. Dr. Rolf Nonnenmacher		<ul style="list-style-type: none"> Certified Accountant 	<ul style="list-style-type: none"> Member of the Supervisory Board of Covestro Deutschland AG Member of the Supervisory Board of Continental AG Member of the Supervisory Board of ProSiebenSat.1 Media SE
Regine Stachelhaus		<ul style="list-style-type: none"> Lawyer 	<ul style="list-style-type: none"> Member of the Supervisory Board of Covestro Deutschland AG Member of the Supervisory Board of SPIE GmbH Director of SPIE SA, France Non-executive director of ComputaCenter plc, United Kingdom
Sabine Wirtz		<ul style="list-style-type: none"> Substitute Member of the Works Council of Covestro Deutschland AG Employee of Covestro Deutschland AG 	<ul style="list-style-type: none"> Member of the Supervisory Board of Covestro Deutschland AG

21. List of Shareholdings

The following list of companies are those in which Covestro AG directly or indirectly holds at least 20% of the shares (disclosures pursuant to Section 285, No. 11, of the German Commercial Code [HGB]). The values sta-

ted for equity and net income or loss for the year relate to the values from the financial statements prepared in accordance with the law of the respective country as of December 31, 2015; all amounts are rounded.

Overview of interests

Company name	Place of business	Covestro's interest	Equity	Net income/loss	Footnotes
		%	€ thousand	€ thousand	
Bayer Pearl Polyurethane Systems FZCO	Dubai, United Arab Emirates	51.0	19,723	4,828	2
Bayer Pearl Polyurethane Systems L.L.C	Dubai, United Arab Emirates	49.0	163	28	2
CleanTech NRW GmbH	Leverkusen, Germany	100.0	57	10	2
Covestro (France) S.N.C.	Fos-sur-Mer, France	100.0	47,551	1,595	2
Covestro (Hong Kong) Limited	Hong Kong, China	100.0	82,228	(1,504)	2
Covestro (India) Private Limited	Thane, India	100.0	35,004	8,649	3
Covestro (Shanghai) Management Co., Ltd.	Shanghai, China	100.0	14,218	3,107	2
Covestro (Taiwan) Ltd.	Kaohsiung City, Taiwan	95.5	31,436	6,364	2
Covestro (Thailand) Co., Ltd.	Bangkok, Thailand	100.0	106,698	19,878	2
Covestro (Tiel) NV	Tielt, Belgium	100.0	31,389	3,244	2
Covestro (Vietnam) Company Limited	Ho-Chi-Minh City, Vietnam	100.0	211	(57)	2
Covestro A/S	Otterup, Denmark	100.0	8,876	4,789	2
Covestro B.V.	Foxhol, Netherlands	100.0	89,777	2,960	2
Covestro Brunsbüttel Energie GmbH	Brunsbüttel, Germany	100.0	39	2,802	1, 2
Covestro Darmstadt GmbH	Darmstadt, Germany	100.0	89,859	6,523	1, 2
Covestro Deutschland AG	Leverkusen, Germany	100.0	1,782,685	231,712	1, 4
Covestro Elastomers S.A.S.	Romans-sur-Isère, France	100.0	59,321	3,393	2
Covestro Far East (Hong Kong) Limited	Hong Kong, China	100.0	23,685	21,428	2
Covestro First Real Estate GmbH	Monheim, Germany	100.0	3,107	3,083	2
Covestro GmbH	Leverkusen, Germany	100.0	5,325	(2,176)	1, 2
Covestro Indústria e Comércio de Polímeros Ltda.	São Paulo, Brazil	100.0	8,343	(2,243)	2
Covestro International SA	Fribourg, Switzerland	100.0	232,802	70,943	2
Covestro Japan Ltd.	Tokio, Japan	100.0	1,647	476	2
Covestro Korea Corporation	Seoul, South Korea	100.0	2,707	(9,111)	2
Covestro LLC	Pittsburgh, United States	100.0	1,158,945	291,246	2
Covestro NV	Antwerp, Belgium	100.0	181,269	30,219	2
Covestro Oldenburg GmbH & Co. KG	Oldenburg, Germany	100.0	9,594	3,315	2
Covestro PO LLC	New Martinsville, United States	100.0	325,574	51,418	2
Covestro Polimer Anonim Sirketi	Istanbul, Turkey	100.0	99	89	2

¹ Before profit / loss transfer

² Provisional result

³ Net income as of March, 31 2015

⁴ Financial year from Sep. 1, to Dec. 31, 2015

Overview of interests

Company name	Place of business	Covestro's interest	Equity	Net income/loss	Footnotes
		%	€ thousand	€ thousand	
Covestro Polymers (China) Co., Ltd.	Shanghai, China	100.0	909,351	(167,632)	2
Covestro Polymers (Qingdao) Co., Ltd.	Qingdao, China	100.0	7,984	1,106	2
Covestro Polymers (Shenzhen) Co., Ltd.	Shenzhen, China	100.0	15,446	202	2
Covestro Polymers (Tianjin) Co., Ltd.	Tianjin, China	100.0	2,789	92	2
Covestro Polyurethanes B.V.	Nieuwegein, Netherlands	100.0	36,524	17,957	2
Covestro Pty Ltd	Cheltenham, Australia	100.0	382	3,761	2
Covestro S.A. de C.V.	Mexico-City, Mexico	100.0	60,950	(1,632)	2
Covestro S.p.A.	Milan, Italy	99.0	7,525	1,078	2
Covestro S.r.l.	Milan, Italy	100.0	63,524	9,987	2
Covestro, S.L.	Barcelona, Spain	100.0	32,235	(64,747)	2
Covestro Second Real Estate GmbH	Monheim, Germany	100.0	3,422	3,398	2
Covestro UK Limited	Cheadle, United Kingdom	100.0	5,049	1,259	2
Covestro Verwaltungs GmbH Oldenburg	Oldenburg, Germany	100.0	35	2	2
DIC Covestro Polymer Ltd.	Tokio, Japan	50.0	16,213	3,902	2
Epurex Films Geschäftsführungs-GmbH	Bomlitz, Germany	100.0	81	6	2
Epurex Films GmbH & Co. KG	Bomlitz, Germany	100.0	14,465	6,657	1, 2
Guangzhou Covestro Polymers Co., Ltd.	Guangzhou, China	100.0	19,440	(1,322)	2
LyondellBasell Covestro Manufacturing Maasvlakte V.O.F	Rotterdam, Netherlands	50.0	26,104	(3,225)	2
MS Global AG	Köniz, Switzerland	100.0	2,286	374	2
MS Holding B.V.	Nieuwegein, Netherlands	100.0	1,109,496	116	2
OOO Covestro	Moscow, Russia	100.0	4,164	(952)	2
Paltough Industries (1998) Ltd.	Kibbutz Ramat Yochanan, Israel	25.0	87,324	5,190	2
PO JV, LP	Wilmington, United States	39.4	474,981	(55,641)	2
PT Covestro Polymers Indonesia	Jakarta, Indonesia	99.9	40,840	12,182	2
Shanghai Baulé Polyurethane Technology Co., Ltd.	Shanghai, China	100.0	592	375	2
Sumika Covestro Urethane Company, Ltd.	Amagasaki, Japan	60.0	3,029	14,679	2
Technology JV, L.P.	Wilmington, United States	50.0	285,946	1	2
Thermoplast Composite GmbH	Markt Bibart, Germany	100.0	15,708	(2,432)	2

¹ Before profit / loss transfer

² Provisional result

Proposal for the Use of the Distributable Profit

The financial statements of Covestro AG show a net profit of €141,750 thousand. We recommend that this profit be used to pay a dividend of €0.70 per no-par value share

(202,500,000 shares) on the capital stock of €202.5 million eligible for dividends for 2015.

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Covestro Group, and the group management report, which has been combined with the management

report of Covestro AG, includes a fair review of the development and performance of the business and the position of the Covestro Group and Covestro AG, together with a description of the principal opportunities and risks associated with the expected development of the Covestro Group and Covestro AG.

Leverkusen, Germany, February 17, 2016
Covestro AG
The Board of Management



Patrick Thomas
(Chairman)



Frank H. Lutz



Dr. Klaus Schäfer



Dr. Markus Steilemann

Audit Opinion

We have audited the annual financial statements of Covestro AG, comprising the statement of financial position and the income statement, including the accounting practices and management report, together with the combined management report of the Group, for the abbreviated fiscal year from August 21 to December 31, 2015. The accounting records and preparation of the annual financial statements and combined management report in accordance with the requirements of German commercial law and the supplementary provisions of the articles of incorporation are the responsibility of the company's Board of Management. Our responsibility is to express an opinion on the annual financial statements, including the accounting practices and on the combined management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 of the German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and conduct the audit such that misstatements or irregularities materially affecting the presentation of the net assets, financial position and financial performance in the annual financial statements and combined management report in accordance with the principles of generally accepted reporting practices are detected with reasonable assurance.

Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible errors are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the accounting, annual financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Board of Management as well as the overall presentation of the annual financial statements and combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the statutory requirements and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and financial performance of the company in accordance with the principles of generally accepted accounting practices. The combined management report is consistent with the annual financial statements and as a whole provides an accurate view of the company's position as well as the opportunities and risks of future development.

Düsseldorf, Germany, February 18, 2016
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Petra Justenhoven
Wirtschaftsprüferin

Dietmar Prümm
Wirtschaftsprüfer

Report of the Supervisory Board

Dear Stockholders,

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

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

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

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

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

Principal topics discussed by the Supervisory Board

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

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

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

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

At its meeting on December 4, 2015, the Supervisory Board discussed the objectives of the composition of the Supervisory Board, the efficiency audit of its work, the declaration concerning the German Corporate Governance Code and the reports from its committees. It resolved upon the variable compensation system for the Board of Management prepared by the Human Resources Committee and upon the target gender ratio for the Board of Management. Also at this meeting, the Board of Management presented its planning for the business operations, the finances and the asset and liability structure of the Covestro Group in the years 2016 through 2018. In this connection, the Supervisory Board approved the company's financing framework. Two further resolutions were

passed concerning the Polycarbonates segment (conclusion of a key supply and purchase agreement) and the Polyurethanes segment (concerning the planned shutdown of MDI production at the site in Tarragona, Spain).

Committees of the Supervisory Board

The Supervisory Board has a Presidial Committee, an Audit Committee, a Human Resources Committee and a Nominations Committee. The tasks and responsibilities of the committees are described in "Corporate Governance" and "Committees of the Supervisory Board." The current membership of the committees is shown in the "Further Information" section under "Governance Bodies."¹

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

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

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

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

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

Financial Statements and Audits

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

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

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

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

Related Parties Report for Fiscal 2015

Bayer AG still holds around 69% of the shares of Covestro AG. There is no control and / or profit and loss transfer agreement between these two companies. For this reason, the Board of Management of Covestro AG prepared a report for the reporting period from August 20 to December 31, 2015 on the company's relationships with related companies pursuant to Section 312 of the German Stock Corporation Act (related parties report). This report was audited by the company's external auditors which raised no objections and issued the following report in accordance with Section 313, Paragraph 3 of the German Stock Corporation Act: "In accordance with our mandate, we have audited the report by the Board of Management pursuant to Section 312 of the German Stock Corporation Act in

¹ The above-mentioned chapters are included in Covestro's Annual Report.

respect of the relationships with related companies in accordance with Section 313 of the German Stock Corporation Act for the period from August 20 to December 31, 2015. Since the definitive result of our audit led to no reservations, we hereby issue the following report in accordance with Section 313, Paragraph 3, Sentence 1 of the German Stock Corporation Act. After due consideration and assessment, we confirm that 1) the actual information in the report is correct and 2) the consideration to the company in the legal transactions described in the report was not inappropriately high.

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

Membership of the Board of Management and Supervisory Board

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

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

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

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

Leverkusen, Germany, February 22, 2016

For the Supervisory Board



Dr. Richard Pott
Chairman

Masthead

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