

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