INTERIM REPORT

Financial Report as of September 30, 2016

Third Quarter 2016

Covestro Group Key Data

	3rd quarter 2015	3rd quarter 2016	Change	1st nine months 2015	1st nine months 2016	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth[1,2]	**–0.6%**	**+9.1%**		**+2.5%**	**+8.4%**	
Sales	**3,020**	**3,022**	**+0.1**	**9,284**	**8,887**	**–4.3**
Change in sales						
Volume	–0.6%	+6.3%		+2.9%	+5.3%	
Price	–7.4%	–5.1%		–6.1%	–8.1%	
Currency	+6.6%	–1.1%		+8.9%	–1.5%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
Sales by region						
EMLA[3]	1,352	1,288	–4.7	4,140	3,929	–5.1
NAFTA[4]	852	816	–4.2	2,571	2,385	–7.2
APAC[5]	816	918	+12.5	2,573	2,573	0.0
EBITDA[6]	**455**	**574**	**+26.2**	**1,287**	**1,624**	**+26.2**
Adjusted EBITDA[7]	**471**	**574**	**+21.9**	**1,385**	**1,624**	**+17.3**
EBIT[8]	**287**	**406**	**+41.5**	**760**	**1,110**	**+46.1**
Adjusted EBIT[9]	**305**	**406**	**+33.1**	**883**	**1,110**	**+25.7**
Financial result	**(56)**	**(41)**	**+26.8**	**(143)**	**(164)**	**–14.7**
Net income[10]	**160**	**259**	**+61.9**	**427**	**671**	**+57.1**
Operating cash flow[11]	**379**	**736**	**+94.2**	**923**	**1,176**	**+27.4**
Cash outflows for additions to property, plant and equipment and intangible assets	**128**	**90**	**–29.7**	**352**	**216**	**–38.6**
Free operating cash flow[12]	**251**	**646**	**>100**	**571**	**960**	**+68.1**

1 Core volume growth refers to the core products in the Polyurethanes, Polycarbonates and Coatings, Adhesives, Specialties segments. It is calculated as the percentage change in externally sold volumes in thousand tons compared with the prior year. Covestro also takes advantage of business opportunities outside its core business, for example the sale of raw materials and by-products such as hydrochloric acid, sodium hydroxide solution and styrene. These transactions are not included in core volume growth.
2 Reference values calculated based on the definition of the core business effective March 31, 2016
3 EMLA: Europe, Middle East, Africa and Latin America (excl. Mexico) region
4 NAFTA: United States, Canada and Mexico region
5 APAC: Asia and Pacific region
6 EBITDA: EBIT plus depreciation and amortization
7 Adjusted EBITDA: EBITDA before special items
8 EBIT: income after income taxes plus financial result and income taxes
9 Adjusted EBIT: EBIT before special items
10 Net income: income after income taxes attributable to the stockholders of Covestro AG
11 Operating cash flow: cash flow from operating activities according to IAS 7
12 Free operating cash flow: operating cash flow less cash outflows for additions to property, plant, equipment and intangible assets

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About This Report

Reporting Principles

The consolidated interim report of Covestro AG meets the requirements for a quarterly financial report pursuant to the applicable provisions of the German Securities Trading Act (WpHG) and in accordance with Section 37w of the German Securities Trading Act comprises condensed consolidated interim financial statements and an interim Group management report. This consolidated interim report should be read alongside the annual report for fiscal 2015 and the additional information about the company contained therein.

Forward-Looking Statements

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

Rounding

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

Percentage Deviations

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

Reference Period

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

Alternative Performance Measures

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

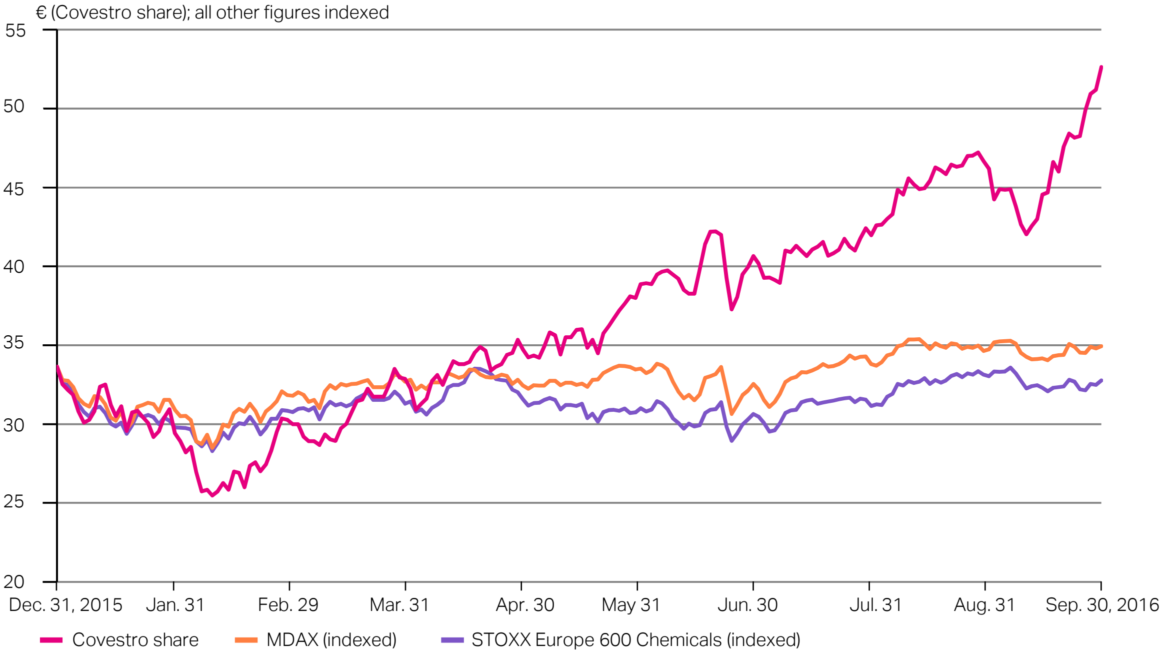
Abbreviations

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

This Interim Report was published in German and English on October 25, 2016. Only the German version is binding.

Covestro on the Capital Market

Performance of Covestro Stock Versus the Market in the First Nine Months of 2016



Covestro closing price Xetra®; source: Bloomberg

Stock price more than doubled

At the start of the third quarter, capital markets around the world continued to be held in the grip of uncertainty surrounding the exact process to be followed for Brexit and its economic effects. Nonetheless, nearly all major stock indices, including the EURO STOXX 50 and the German benchmark DAX Index, settled and stabilized over the past three months and posted gains.

The MDAX and STOXX Europe 600 Chemicals indices relevant for Covestro added approximately 8% in the third quarter. By the end of September, the MDAX was up 3.9% compared with the beginning of the year, while the STOXX Europe 600 Chemicals Index shed 2.6% during the same period.

Covestro's stock significantly outperformed the aforementioned relevant indices and finished the third quarter at a Xetra closing price of €52.63, a gain of 31.8%, making it one of the MDAX's top stocks. The stock price has therefore more than doubled from the issuing price of €24 on October 6, 2015. Since the start of 2016, Covestro's share price has increased 56.5%.

Buy recommendations from nine analysts

An additional analyst has been covering Covestro since the third quarter of 2016, for a total of 18 investment firms covering the company's stock at the end of the quarter. A buy recommendation was issued by nine analysts, five gave neutral assessments, and four advised investors to sell. The median stock price target was €46.

Active investor relations program

We continued to pursue our active IR program in the third quarter. In the past three months, Covestro participated in five investor conferences and two road shows. At these events, management and the IR team could personally discuss the company with more than 140 institutional investors since the beginning of the year.

Covestro Share at a Glance

		3rd quarter 2016	1st nine months 2016
Average daily turnover	million shares	0.4	0.5
High	€	52.63	52.63
Low	€	38.95	25.48
Closing prices (closing date)	€	52.63	52.63
Outstanding shares (closing date)	million shares	202.5	202.5
Market capitalization (closing date)	€ million	10,658	10,658

Covestro closing prices Xetra®; source: Bloomberg

Interim Group Management Report

as of September 30, 2016

- Strong core volume growth continued in third quarter in Polyurethanes and Polycarbonates
- FOCF in all segments up by a total of 140%
- Forecast for 2016 raised slightly

1. Business Development

Third quarter 2016

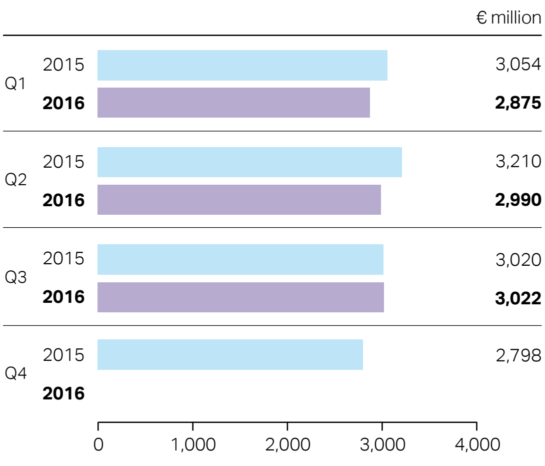
In the third quarter of 2016, the Covestro Group's core volumes (in kilotons) were up by 9.1% over the volume sold in the prior-year quarter. This was mainly attributable to the Polycarbonates and Polyurethanes segments, which saw strong growth rates of 11.6% and 9.0%, respectively. The Coatings, Adhesives, Specialties segment saw its core volumes increase by 3.5% over the previous year.

Group sales of €3,022 million were stable as against the prior-year quarter. The total volumes sold boosted sales by 6.3% in the third quarter thanks especially to the growth in the Polycarbonates and Polyurethanes segments. In contrast, a decline in selling prices adversely affected sales, particularly in Polyurethanes and Polycarbonates. This price drop is chiefly due to lower raw material prices. Moreover, exchange rate movements had a slightly negative effect on Group sales.

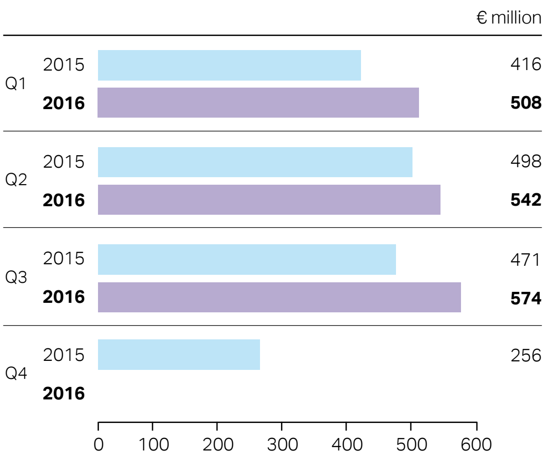
The difference between the effect of volumes on sales of 6.3% and the core volume growth of 9.1% was attributable to factors including lower volumes outside of the Polyurethanes core business.

The Polyurethanes segment reported mostly stable sales of €1,503 million in the third quarter (previous year: €1,512 million). In the Polycarbonates segment, sales climbed to €848 million (previous year: €819 million). Sales of Coatings, Adhesives, Specialties were almost unchanged from the prior-year quarter at €515 million (previous year: €519 million).

Covestro Group
Quarterly Sales



Covestro Group
Quarterly Adjusted EBITDA



The Group's adjusted EBITDA jumped 21.9% over the same figure in the prior-year quarter, growing from €471 million to €574 million in the third quarter of 2016. There were no special items which necessitated adjustments in the past quarter (previous year: minus €16 million). An increase in volumes and higher margins were the primary reason for the improvement in earnings. Exchange rate movements had a negative effect on earnings of around €8 million.

In the Polyurethanes segment, adjusted EBITDA grew substantially by 50.3% to €263 million (previous year: €175 million). The Polycarbonates segment saw a strong upturn in adjusted EBITDA of 13.5% to €194 million (previous year: €171 million). At €136 million, adjusted EBITDA in the Coatings, Adhesives, Specialties segment remained at the level of the prior-year period (previous year: €137 million).

In the third quarter, the Covestro Group improved EBIT by 41.5% to €406 million (previous year: €287 million). No items of income or expense were recognized as special items in the third quarter (previous year: minus €18 million).

In the third quarter, research and development expenses increased, by 6.3%, to €67 million (previous year: €63 million).

Taking into account a financial result of minus €41 million (previous year: minus €56 million), income before income taxes increased over the prior-year quarter to €365 million (previous year: €231 million). After tax expense of €104 million (previous year: €70 million), income after income taxes was €261 million (previous year: €161 million). After non-controlling interests, net income amounted to €259 million (previous year: €160 million).

In the third quarter, operating cash flow nearly doubled to €736 million (previous year: €379 million). The key reason for the boost was a significant improvement in EBITDA and an increase in funds released from other working capital.

In the third quarter, free operating cash flow rose to €646 million (previous year: €251 million) due to improved operating cash flow and lower cash outflows for additions to property, plant, equipment and intangible assets.

First nine months 2016

The Group's core volumes (in kilotons) in the first nine months of 2016 rose over the prior-year period, by 8.4%. This was mainly the result of increases in Polycarbonates and Polyurethanes, which reported robust growth rates of 9.6% and 9.4%, respectively. In the Coatings, Adhesives, Specialties segment, core volumes remained at the previous year's level despite the contractual termination of trading activities as expected.

In the first nine months, Group sales dropped by 4.3% compared with the prior-year period to €8,887 million (previous year: €9,284 million). The decline in sales was chiefly the result of a 8.1% total decrease of the selling price level in all three reportable operating segments. In the Polyurethanes segment in particular, selling prices fell substantially below those of the prior-year period. Moreover, exchange rate movements had a slightly negative effect on Group sales.

The total volumes sold boosted sales by 5.3% in the nine-month period, mainly because of growth in the Polycarbonates and Polyurethanes segments. Total volumes in Coatings, Adhesives, Specialties remained stable at the level of the prior-year period. The difference between the effect of volumes on sales of 5.3% and the core volume growth of 8.4% was attributable to factors including lower volumes outside of the Polyurethanes core business.

All told, sales in the Polyurethanes segment were down 6.7% to €4,387 million in the first nine months (previous year: €4,703 million). In the Polycarbonates segment, sales climbed by 2.2% to €2,465 million (previous year: €2,413 million). Sales of Coatings, Adhesives, Specialties declined by 3.5% to €1,559 million (previous year: €1,616 million).

The Group's adjusted EBITDA was up 17.3% to €1,624 million in the first nine months of the year compared with €1,385 million in the prior-year period. There were no special items which necessitated adjustments in the nine-month period (previous year: minus €98 million).

In the first nine months, the Covestro Group improved EBIT by 46.1% to €1,110 million (previous year: €760 million). No items of income or expense were recognized as special items during this period (previous year: minus €123 million).

Research and development expenses for the first nine months of 2016 increased slightly by 2.1% to €192 million (previous year: €188 million).

Taking into account a financial result of minus €164 million (previous year: minus €143 million), income before income taxes increased over the prior-year period to €946 million (previous year: €617 million). After tax expense of €268 million (previous year: €184 million), income after income taxes was €678 million (previous year: €433 million). After non-controlling interests, net income amounted to €671 million (previous year: €427 million).

In the nine-month period, operating cash flow was up 27.4% to €1,176 million (previous year: €923 million).

Free operating cash flow grew to €960 million during this period (previous year: €571 million).

Calculation of EBIT(DA)

Alongside the key indicators of core volume growth, return on capital employed (ROCE) and free operating cash flow (FOCF), Covestro also determines EBIT and EBITDA. In order to facilitate a more accurate assessment of business operations, EBIT and EBITDA for the reference period are adjusted for special items (see table). The special items comprise effects that are nonrecurring or do not regularly recur or attain similar magnitudes. EBITDA, EBIT, adjusted EBITDA and adjusted EBIT are not defined in the International Financial Reporting Standards and should therefore be regarded only as supplementary information. EBITDA allows the comparison of operating performance over time since it is not affected by depreciation, amortization, impairment losses or impairment loss reversals.

Depreciation, amortization and impairments for the first nine months of 2016 decreased by 2.5% to €514 million (previous year: €527 million). They comprised €479 million (previous year: €495 million) in depreciation and impairments of property, plant and equipment and €35 million (previous year: €32 million) in amortization and impairments of intangible assets. No impairment loss reversals were recognized in either the reporting or reference period. Whereas in the first nine months of 2015, €25 million in impairment losses were recognized as special items, no special items were recognized in the first nine months of 2016.

Special Items Reconciliation

	EBIT 3rd quarter 2015	EBIT 3rd quarter 2016	EBIT 1st nine months 2015	EBIT 1st nine months 2016	EBITDA 3rd quarter 2015	EBITDA 3rd quarter 2016	EBITDA 1st nine months 2015	EBITDA 1st nine months 2016
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Before special items	**305**	**406**	**883**	**1,110**	**471**	**574**	**1,385**	**1,624**
Polyurethanes	(12)	–	(73)	–	(14)	–	(52)	–
Polycarbonates	(1)	–	(2)	–	–	–	(1)	–
Coatings, Adhesives, Specialties	(5)	–	(9)	–	(2)	–	(6)	–
Others/Consolidation	–	–	(39)	–	–	–	(39)	–
Total special items	**(18)**	**–**	**(123)**	**–**	**(16)**	**–**	**(98)**	**–**
of which cost of goods sold	(16)	–	(99)	–	(13)	–	(73)	–
of which selling expenses	–	–	(1)	–	–	–	(1)	–
of which research and development expenses	–	–	(1)	–	–	–	(1)	–
of which general administration expenses	(57)	–	(93)	–	(58)	–	(94)	–
of which other operating income/expenses	55	–	71	–	55	–	71	–
After special items	**287**	**406**	**760**	**1,110**	**455**	**574**	**1,287**	**1,624**

2. Business Development by Segment

2.1 Polyurethanes

Polyurethanes Key Data

	3rd quarter 2015	3rd quarter 2016	Change	1st nine months 2015	1st nine months 2016	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth[1]	**–2.7%**	**+9.0%**		**+0.9%**	**+9.4%**	
Sales	**1,512**	**1,503**	**–0.6**	**4,703**	**4,387**	**–6.7**
Change in sales						
Volume	–2.2%	+6.7%		+2.0%	+6.6%	
Price	–12.1%	–6.2%		–9.9%	–11.7%	
Currency	+5.8%	–1.1%		+8.2%	–1.6%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
Sales by region						
EMLA	667	633	–5.1	2,048	1,901	–7.2
NAFTA	496	472	–4.8	1,503	1,368	–9.0
APAC	349	398	+14.0	1,152	1,118	–3.0
EBITDA	**161**	**263**	**+63.4**	**509**	**705**	**+38.5**
Adjusted EBITDA	**175**	**263**	**+50.3**	**561**	**705**	**+25.7**
EBIT	**60**	**168**	**>100**	**183**	**409**	**>100**
Adjusted EBIT	**72**	**168**	**>100**	**256**	**409**	**+59.8**
Operating cash flow	**151**	**288**	**+90.7**	**456**	**439**	**–3.7**
Cash outflows for additions to property, plant, equipment and intangible assets	**47**	**45**	**–5.1**	**129**	**115**	**–11.1**
Free operating cash flow	**104**	**243**	**>100**	**327**	**324**	**–0.8**

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

Third quarter 2016

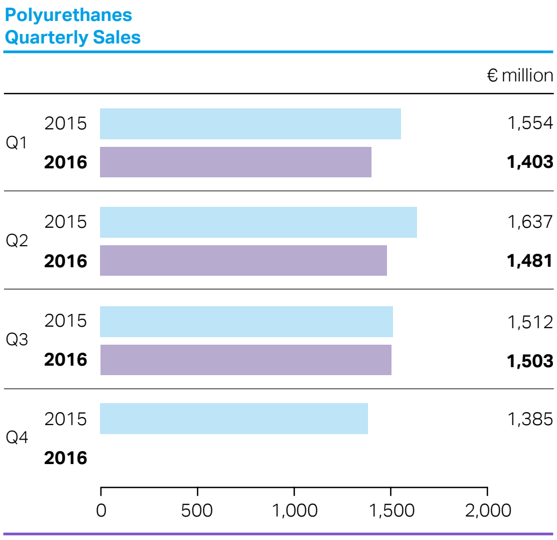
In the third quarter of 2016, core volumes in Polyurethanes rose by 9.0% over the prior-year quarter. All product groups, particularly MDI, contributed to this increase.

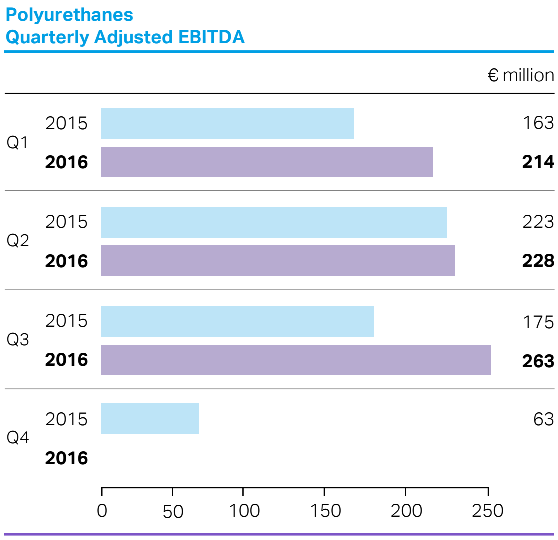
Polyurethanes sales of €1,503 million were mostly stable as against the prior-year quarter.

The development of total volumes sold had a positive effect of 6.7% on sales. Sales volumes grew in all regions. The difference between the effect on sales and the core volume growth of 9.0% was the result of factors including lower volumes outside of the core business.

Selling prices of Polyurethanes came in 6.2% lower than in the prior-year quarter. In contrast, the TDI product group was able to command considerably higher selling prices than in the prior-year quarter.

The EMLA region's sales decreased to €633 million, principally because of lower selling prices despite higher volumes. Sales in the NAFTA region fell to €472 million. The increase in sales resulting from higher volumes could not offset a sharp drop in selling prices and the effects of exchange rate fluctuations. The APAC region's sales rose by a substantial 14.0% to €398 million due to much higher sales volumes and increased selling prices.





Adjusted EBITDA was up 50.3% over the prior-year quarter to €263 million in the third quarter of 2016 (previous year: €175 million). There were no special items which necessitated adjustments in the past quarter (previous year: minus €14 million). Higher margins and increased volumes contributed to the improvement in earnings.

EBIT rose by 180.0% to €168 million (previous year: €60 million). No items of income or expense were recognized as special items in the third quarter (previous year: minus €12 million).

Free operating cash flow grew substantially by 134.6% to €243 million (previous year: €104 million). Key reasons for this were a significant improvement in EBITDA and the increase in cash released from other working capital.

First nine months 2016

In the first nine months of 2016, core volumes in Polyurethanes rose by 9.4% over the prior-year period. The strong growth in MDI and TDI was instrumental in this development.

Sales of Polyurethanes fell off compared with the prior-year period, down 6.7% to €4,387 million in the first nine months of 2016.

The development of total volumes sold had a positive effect of 6.6% on sales. The difference between this figure and the core volume growth of 9.4% was due in part to lower volumes outside of the core business. Selling prices declined by 11.7% mainly due to the drop in raw material prices in all three regions compared with the levels in the prior-year period.

Adjusted EBITDA increased 25.7% over the prior-year period, growing to €705 million (previous year: €561 million). There were no special items which necessitated adjustments in the first nine months of 2016 (previous year: minus €52 million).

EBIT improved by 123.5% to €409 million (previous year: €183 million). No items of income or expense were recognized as special items in the first nine months of 2016 (previous year: minus €73 million).

Free operating cash flow totaled €324 million, nearly unchanged from the prior-year period (previous year: €327 million).

2.2 Polycarbonates

Polycarbonates Key Data

	3rd quarter 2015	3rd quarter 2016	Change	1st nine months 2015	1st nine months 2016	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth[1]	**+5.4%**	**+11.6%**		**+6.6%**	**+9.6%**	
Sales	**819**	**848**	**+3.5**	**2,413**	**2,465**	**+2.2**
Change in sales						
Volume	+4.1%	+10.3%		+6.4%	+9.1%	
Price	–0.8%	–5.0%		–2.2%	–4.9%	
Currency	+9.7%	–1.8%		+11.8%	–2.0%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
Sales by region						
EMLA	296	282	–4.7	866	867	+0.1
NAFTA	200	196	–2.0	580	581	+0.2
APAC	323	370	+14.6	967	1,017	+5.2
EBITDA	**171**	**194**	**+13.5**	**436**	**562**	**+28.9**
Adjusted EBITDA	**171**	**194**	**+13.5**	**437**	**562**	**+28.6**
EBIT	**127**	**145**	**+14.2**	**304**	**414**	**+36.2**
Adjusted EBIT	**128**	**145**	**+13.3**	**306**	**414**	**+35.3**
Operating cash flow	**50**	**209**	**>300**	**149**	**392**	**>100**
Cash outflows for additions to property, plant and equipment and intangible assets	**49**	**27**	**–44.7**	**151**	**58**	**–61.5**
Free operating cash flow	**1**	**182**	**.**	**(2)**	**334**	**.**

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

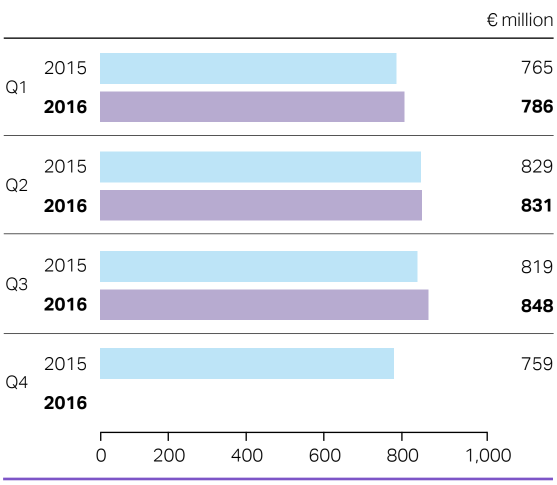
Third quarter 2016

In the third quarter of 2016, core volumes in the Polycarbonates segment were up significantly by 11.6% over the prior-year quarter. All three regions contributed to the rise in volume, particularly APAC, where the considerable volume growth resulted from increases in nearly all customer industries.

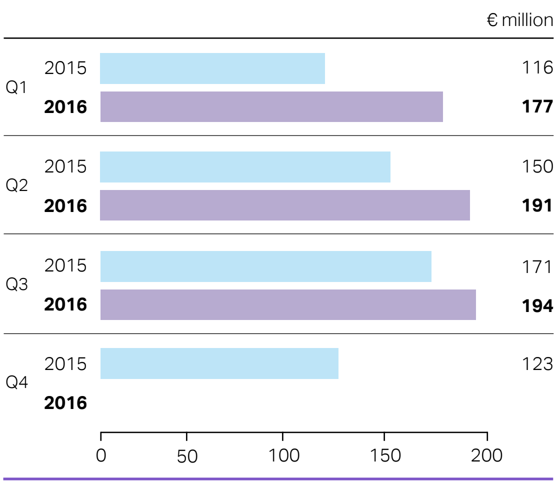
Sales of Polycarbonates rose by 3.5% over the prior-year quarter to €848 million. The increase in total volumes sold had a positive effect of 10.3% on sales, and the substantial volume increases in the APAC region were a major contributor to this trend. Selling prices were down 5.0% overall with all regions experiencing declines. Exchange rate developments also had a slightly negative impact on sales.

All told, sales decreased to €282 million in the EMLA region because of lower selling prices. Sales in the NAFTA region dropped somewhat to €196 million. Lower selling prices offset the increase in sales due to higher volumes, and exchange rate developments had a negative impact on sales. The APAC region's sales rose substantially to €370 million. A sharp increase in sales volumes more than balanced out the effects of lower selling prices and downward pressure from exchange rate movements.

**Polycarbonates
Quarterly Sales**



**Polycarbonates
Quarterly Adjusted EBITDA**



In the third quarter, adjusted EBITDA in the Polycarbonates segment increased 13.5% over the prior-year quarter to €194 million (previous year: €171 million). No special items necessitated adjustments in the past quarter or in the prior-year quarter. Larger sales volumes had a positive effect on earnings.

EBIT was up 14.2% to €145 million (previous year: €127 million). No items of income or expense were recognized as special items in the past quarter (previous year: minus €1 million).

Free operating cash flow grew sharply to €182 million (previous year: €1 million). The improvement was largely attributable to higher EBITDA, an increase in funds released from working capital, and lower cash outflows for additions to property, plant, equipment and intangible assets, as planned.

First nine months 2016

In the first nine months of 2016, core volumes in the Polycarbonates segment were up considerably by 9.6% over the prior-year period. All regions contributed to this increase, particularly APAC.

In the Polycarbonates segment, sales climbed by 2.2% to €2,465 million in the first nine months of 2016. The increase in total volumes sold had a positive effect of 9.1% on sales. Selling prices were 4.9% under those of the prior-year period. The decline in prices in the APAC and NAFTA regions is mainly attributable to lower raw material prices. In contrast, selling prices in the EMLA region were only slightly below the level of the prior-year period. Exchange rate developments had a slightly negative impact on sales.

In the nine-month period, adjusted EBITDA in the Polycarbonates segment increased 28.6% over the prior-year period to €562 million (previous year: €437 million). There were no special items which necessitated adjustments in the first nine months (previous year: minus €1 million).

EBIT rose by 36.2% to €414 million (previous year: €304 million). No items of income or expense were recognized as special items in the nine-month period (previous year: minus €2 million).

Free operating cash flow improved markedly to €334 million (previous year: minus €2 million).

2.3 Coatings, Adhesives, Specialties

Coatings, Adhesives, Specialties Key Data

	3rd quarter 2015	3rd quarter 2016	Change	1st nine months 2015	1st nine months 2016	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth[1]	**–2.4%**	**+3.5%**		**+3.4%**	**–0.4%**	
Sales	**519**	**515**	**–0.8**	**1,616**	**1,559**	**–3.5**
Change in sales						
Volume	–2.5%	+2.5%		+2.7%	+0.1%	
Price	–1.4%	–2.7%		–0.8%	–2.6%	
Currency	+6.5%	–0.6%		+8.5%	–1.0%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
Sales by region						
EMLA	260	255	–1.9	814	789	–3.1
NAFTA	121	116	–4.1	374	347	–7.2
APAC	138	144	+4.3	428	423	–1.2
EBITDA	**135**	**136**	**+0.7**	**401**	**417**	**+4.0**
Adjusted EBITDA	**137**	**136**	**–0.7**	**407**	**417**	**+2.5**
EBIT	**113**	**114**	**+0.9**	**337**	**352**	**+4.5**
Adjusted EBIT	**118**	**114**	**–3.4**	**346**	**352**	**+1.7**
Operating cash flow	**105**	**168**	**+60.0**	**271**	**294**	**+8.5**
Cash outflows for additions to property, plant and equipment and intangible assets	**31**	**18**	**–41.6**	**69**	**43**	**–37.5**
Free operating cash flow	**74**	**150**	**>100**	**202**	**251**	**+24.1**

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

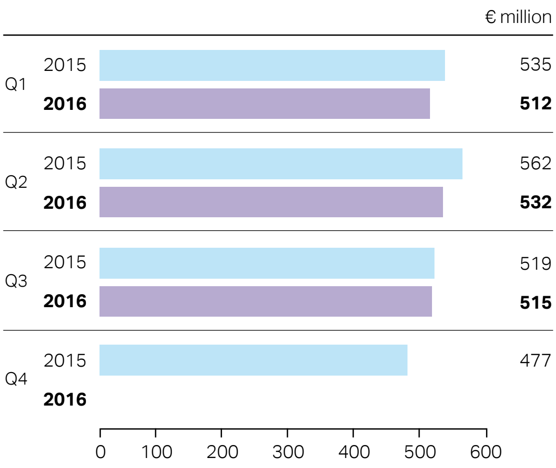
Third quarter 2016

In the third quarter of 2016, the core volumes in the Coatings, Adhesives, Specialties segment grew 3.5% from the prior-year quarter. This increase was achieved despite the contractual termination of trading activities as planned.

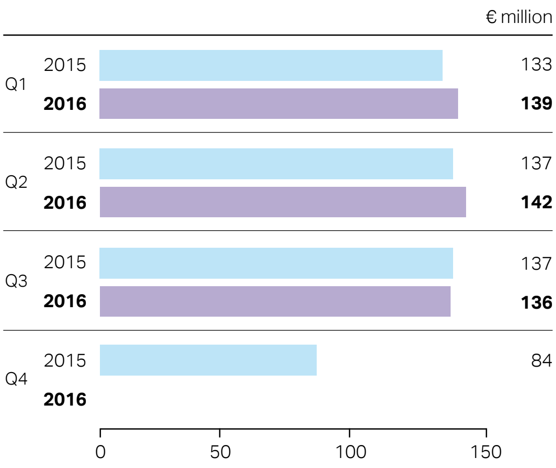
Sales of Coatings, Adhesives, Specialties were almost unchanged from the prior-year quarter at €515 million (previous year: €519 million). Selling prices were 2.7% lower on average than in the same quarter of the previous year. This was primarily due to lower prices in EMLA and APAC, whereas in the NAFTA countries, selling prices were stable for the most part. Total volumes sold boosted sales by 2.5%.

In the EMLA region, sales decreased by 1.9% to €255 million, mainly because of lower average selling prices despite a slight increase in sales volumes. The key factors leading to a 4.1% decline in sales to €116 million in the NAFTA region were reduced volumes and exchange rate fluctuations. The APAC region saw sales increase by 4.3% to €144 million. The growth in total volumes sold had a positive effect on sales. Selling prices were lower on average than in the same quarter of the previous year.

Coatings, Adhesives, Specialties
Quarterly Sales



Coatings, Adhesives, Specialties
Quarterly Adjusted EBITDA



Adjusted EBITDA in Coatings, Adhesives, Specialties was €136 million in the third quarter, nearly unchanged from the prior-year quarter. There were no special items which necessitated adjustments in the past quarter (previous year: minus €2 million). Lower selling prices were mostly balanced out by higher sales volumes. A decline in raw material prices had a positive impact on EBITDA.

EBIT remained mostly unchanged at €114 million (previous year: €113 million). There were no special items in the past quarter (previous year: minus €5 million).

At €150 million, free operating cash flow in the third quarter of 2016 more than doubled from the prior-year quarter (previous year: €74 million). This was chiefly due to an increase in funds released from working capital and lower cash outflows for additions to property, plant, equipment and intangible assets.

First nine months 2016

In the first nine months of 2016, core volumes in the Coatings, Adhesives, Specialties segment remained stable despite the contractual termination of trading activities as expected.

Sales fell 3.5% from the figure in the prior-year period to €1,559 million. Selling prices were 2.6% lower on average than in the same period of the previous year. Exchange rate movements had a negative effect of 1.0% on sales. Total volumes sold remained almost unchanged at the prior-year level.

Adjusted EBITDA increased 2.5% in comparison with the prior-year period, growing to €417 million (previous year: €407 million). There were no special items which necessitated adjustments in the first nine months (previous year: minus €6 million).

EBIT was up 4.5% to €352 million (previous year: €337 million). No items of income or expense were recognized as special items in the nine-month period (previous year: minus €9 million).

Free operating cash flow increased by 24.1% to €251 million (previous year: €202 million).

3. Asset and Financial Position of the Covestro Group

Covestro Group Summary Statement of Cash Flows [1]

	3rd quarter 2015	3rd quarter 2016	1st nine months 2015	1st nine months 2016
	€ million	€ million	€ million	€ million
EBITDA	**455**	**574**	**1,287**	**1,624**
Income taxes paid	(63)	(58)	(143)	(259)
Changes in pension provisions	(31)	(1)	(25)	(3)
(Gains) losses on retirements of noncurrent assets	2	1	(16)	1
Changes in working capital/other noncash items	16	220	(180)	(187)
Net cash provided by (used in) operating activities	**379**	**736**	**923**	**1,176**
Cash outflows for additions to property, plant, equipment and intangible assets	(128)	(90)	(352)	(216)
Free operating cash flow	**251**	**646**	**571**	**960**
Net cash provided by (used in) investing activities	**213**	**(559)**	**(164)**	**(669)**
Net cash provided by (used in) financing activities	**(218)**	**(149)**	**(498)**	**(971)**
Change in cash and cash equivalents due to business activities	**374**	**28**	**261**	**(464)**
Cash and cash equivalents at beginning of period	**106**	**151**	**201**	**642**
Change in cash and cash equivalents due to exchange rate movements	(56)	(4)	(38)	(3)
Cash and cash equivalents at end of period	**424**	**175**	**424**	**175**

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

Net cash provided by (used in) operating activities

In the third quarter of 2016, operating cash flow amounted to €736 million, up from €379 million in the previous year. The improvement was largely attributable to a marked rise in EBITDA and an increase in funds released from other working capital. After cash outflows for additions to property, plant, equipment and intangible assets, free operating cash flow totaled €646 million (previous year: €251 million).

At €1,176 million, operating cash flow in the first nine months of 2016 was up from the previous year's figure of €923 million. After cash outflows for additions to property, plant, equipment and intangible assets, free operating cash flow for this period totaled €960 million (previous year: €571 million).

Net cash provided by (used in) investing activities

Net cash outflow for investing activities in the third quarter of 2016 amounted to €559 million (previous year: net cash inflow of €213 million). In September 2016, euro-denominated government bonds with remaining maturities up to January 2017 were acquired in the amount of €450 million. Cash outflows for additions to property, plant, equipment and intangible assets decreased to €90 million (previous year: €128 million).

Net cash outflow for investing activities in the first nine months of 2016 totaled €669 million (previous year: €164 million). The increased expenditure was mainly the result of the acquisition of €450 million in bonds in September 2016. Cash outflows for additions to property, plant, equipment and intangible assets of €216 million (previous year: €352 million) decreased as expected.

Net cash provided by (used in) financing activities

Net cash outflow for the Covestro Group's financing activities in the third quarter of 2016 amounted to €149 million (previous year: €218 million). Most of this figure was attributable to the repayment of liabilities to banks.

Net cash outflow for the Covestro Group's financing activities in the first nine months of 2016 amounted to €971 million (previous year: €498 million), with borrowings of €1,769 million partly offsetting repaid debt of €2,559 million.

Net Financial Debt[1]

	Dec. 31, 2015	June 30, 2016	Sep. 30, 2016
	€ million	€ million	€ million
Bonds	–	1,493	1,493
Liabilities to banks	482	398	265
Liabilities under finance leases	298	273	268
Liabilities from derivatives	31	39	14
Other financial liabilities	2,070	6	6
Positive fair values of hedges of recorded transactions	(27)	(20)	(12)
Financial liabilites	**2,854**	**2,189**	**2,034**
Cash and cash equivalents	(642)	(151)	(175)
Current financial assets	(1)	(1)	(451)
Net financial debt	**2,211**	**2,037**	**1,408**

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

The Covestro Group's net financial debt totaled €1,408 million as of September 30, 2016, decreasing by €629 million from June 30, 2016. Cash inflows from operations were invested in short-maturity government bonds and used to further repay liabilities to banks.

Covestro Group Summary Statement of Financial Position

	Dec. 31, 2015	Sep. 30, 2016
	€ million	€ million
Noncurrent assets	6,294	6,005
Current assets	4,237	4,414
Total assets	**10,531**	**10,419**
Equity	**3,612**	**3,618**
Noncurrent liabilities	2,355	4,464
Current liabilities	4,564	2,337
Liabilities	**6,919**	**6,801**
Total equity and liabilities	**10,531**	**10,419**

Total assets declined slightly by €112 million compared with December 31, 2015, to €10,419 million as of September 30, 2016.

Noncurrent assets decreased by €289 million to €6,005 million as of September 30, 2016. The change is attributable primarily to the reduction in property, plant, equipment by €407 million to €4,527 million. This stands in contrast to a €174 million increase in deferred taxes to €814 million, which stemmed mainly from the recognition directly in equity of the remeasurement of provisions for pensions. Current assets were up €177 million to €4,414 million. Cash and cash equivalents decreased, while other financial assets and trade accounts receivable increased.

At €3,618 million, equity remained stable compared with December 31, 2015. Income after income taxes increased in contrast to the remeasurement of provisions for pensions due to a lower interest rate and the dividend distribution, which had the effect of reducing equity.

Liabilities were down slightly by €118 million to €6,801 million as of September 30, 2016. Provisions for pensions and other post-employment benefits increased by €709 million. Noncurrent financial liabilities rose €1,440 million to €1,814 million, largely due to Covestro issuing bonds for the first time. Current financial liabilities decreased by €2,275 million to €232 million. This change is attributable mostly to the repayment in full of the loans from Bayer Antwerpen NV, Diegem, Belgium, totaling €2,060 million.

Net Defined Benefit Liability for Post-Employment Benefits

	Dec. 31, 2015	Sep. 30, 2016
	€ million	€ million
Provisions for pensions and other post-employment benefits	1,462	2,171
Net defined benefit asset	–	–
Net defined benefit liability for post-employment benefits	**1,462**	**2,171**

The net defined benefit liability for post-employment benefits increased by €709 million as compared with December 31, 2015, to €2,171 million as of September 30, 2016. This was due to the drop in long-term capital market interest rates for blue-chip corporate bonds.

4. Economic Outlook

Economic Outlook

	Growth[1] 2015	Growth[1] forecast 2016 (Annual Report 2015)	Growth[1] forecast 2016
	%	%	%
World	**2.7**	**2.8**	**2.4**
European Union	2.1	1.9	1.8
of which Germany	1.5	2.0	1.8
United States	2.6	2.7	1.4
Asia	4.7	4.6	4.7
of which China	6.9	6.3	6.6

[1] Real growth of gross domestic product, source: IHS (Global Insight), Growth 2015 and Growth 2016 Outlook, as of October 2016.

In 2016, the global economy is expected to grow at a pace of 2.4%, slower on the whole than in the previous year (Annual Report 2015 forecast: 2.8%). We now believe the United States economy will expand much less robustly than projected in the Annual Report 2015. This development stems mostly from weak growth of 1.1% in the first half of 2016. In the second half, growth of 2.5 to 3.0% is anticipated for the United States. China's economic outlook has improved slightly over the estimate in the Annual Report. Economic growth in China is being encouraged mainly by the government's stimulus package with investments in infrastructure and debt restructuring at state-owned enterprises.

In Europe, growth will also be slower than expected in the Annual Report 2015 due to lower consumer and government spending. The reasons for this lie in political and economic uncertainty. In contrast, the effects of Great Britain's possible exit from the European Union are likely to be more moderate than projected back in June.

As in the previous quarter, we expect somewhat less robust performance in our key customer industries than forecasted in the Annual Report 2015. This is attributable to slightly weakened expectations concerning the performance of the automotive and furniture industries. We now anticipate growth to total around 3% in the aforementioned sectors. No significant changes from the forecast are expected for the global construction and electrical / electronics industries.

5. Report on Future Perspectives

We have elected to increase the forecasts for the current fiscal year from our Half-Year Financial Report 2016 based on the business performance described in this report and taking into account the potential risks and opportunities.

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

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

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

6. Employees

As of September 30, 2016, the Covestro Group had 15,659 employees worldwide (December 31, 2015: 15,761). Personnel expenses rose by €313 million to €1,422 million in the first nine months of 2016 (previous year: €1,109 million). The increase in personnel expenses stems mainly from the transfer of employees to the Covestro Group as of September 1, 2015, in the course of Covestro's legal separation from the Bayer Group. As a result, these were not included in the first eight months of fiscal 2015.

Employees by Corporate Function[2]

	Dec. 31, 2015	Sep. 30, 2016
Production	9,988	9,892
Marketing and distribution	3,528	3,474
Research and development	1,005	1,016
General administration	1,240	1,277
Total	**15,761**	**15,659**

[2] The number of employees on either permanent or temporary contracts is stated in full-time equivalents, with part-time employees included on a pro-rated basis in line with their contractual working hours.

[1] ROCE: The return on capital employed is calculated as the ratio of adjusted EBIT after taxes to capital employed. The capital employed is the capital used by the company. It is the sum of noncurrent and current assets less noninterest-bearing liabilities such as trade accounts payable.

7. Opportunities and Risks

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

The Covestro Group regards opportunity and risk management as an integral part of corporate governance. Our opportunity and risk management system and the opportunity and risk situation are outlined in detail in section 21 of the Covestro Annual Report 2015.

There have been no material changes since December 31, 2015. At the time this interim financial report was prepared, the Group faced no risks that could endanger its continued existence.

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

Consolidated Interim Financial Statements

as of September 30, 2016

Covestro Group Consolidated Income Statement

	3rd quarter 2015	3rd quarter 2016	1st nine months 2015	1st nine months 2016
	€ million	€ million	€ million	€ million
Sales	**3,020**	**3,022**	**9,284**	**8,887**
Cost of goods sold	(2,273)	(2,136)	(7,105)	(6,356)
Gross profit	**747**	**886**	**2,179**	**2,531**
Selling expenses	(304)	(330)	(936)	(988)
Research and development expenses	(63)	(67)	(188)	(192)
General administration expenses	(139)	(103)	(348)	(317)
Other operating income	73	29	124	114
Other operating expenses	(27)	(9)	(71)	(38)
EBIT[1]	**287**	**406**	**760**	**1,110**
Equity-method income (loss)	(4)	(3)	(4)	(13)
Interest income	1	1	3	4
Interest expense	(24)	(12)	(76)	(41)
Other financial result	(29)	(27)	(66)	(114)
Financial result	**(56)**	**(41)**	**(143)**	**(164)**
Income before income taxes	**231**	**365**	**617**	**946**
Income taxes	(70)	(104)	(184)	(268)
Income after income taxes	**161**	**261**	**433**	**678**
of which attributable to noncontrolling interest	1	2	6	7
of which attributable to Covestro AG stockholders (net income)	160	259	427	671
	€	€	€	€
Basic earnings per share[2]	**1.14**	**1.28**	**3.05**	**3.31**
Diluted earnings per share[2]	**1.14**	**1.28**	**3.05**	**3.31**

[1] EBIT = income after income taxes plus financial result and income taxes
[2] Weighted average number of ordinary shares in issue: 202,500,000 (previous year: 140,000,000)

Covestro Group Consolidated Statement of Comprehensive Income

	3rd quarter 2015	3rd quarter 2016	1st nine months 2015	1st nine months 2016
	€ million	€ million	€ million	€ million
Income after income taxes	**161**	**261**	**433**	**678**
Remeasurements of the net defined benefit liability for post-employment benefit plans	(103)	(65)	(62)	(688)
Income taxes	40	19	28	221
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans	**(63)**	**(46)**	**(34)**	**(467)**
Other comprehensive income that will not be reclassified subsequently to profit or loss	**(63)**	**(46)**	**(34)**	**(467)**
Changes in fair values of derivatives designated as cash flow hedges	–	–	(4)	–
Reclassified to profit or loss	–	–	3	–
Income taxes	–	–	–	–
Other comprehensive income from cash flow hedges	**–**	**–**	**(1)**	**–**
Changes in fair values of available-for-sale financial assets	–	–	–	–
Reclassified to profit or loss	–	–	–	–
Income taxes	–	–	–	–
Other comprehensive income from available-for-sale financial assets	**–**	**–**	**–**	**–**
Changes in exchange differences recognized on translation of operations outside the eurozone	(93)	(8)	83	(62)
Reclassified to profit or loss	–	–	–	–
Other comprehensive income from exchange differences	**(93)**	**(8)**	**83**	**(62)**
Other comprehensive income that may be reclassified subsequently to profit or loss	**(93)**	**(8)**	**82**	**(62)**
Effects of changes in scope of consolidation	**30**	**–**	**20**	**–**
Total other comprehensive income[1]	**(126)**	**(54)**	**68**	**(529)**
of which attributable to noncontrolling interest	–	–	(1)	1
of which attributable to Covestro AG stockholders	(126)	(54)	69	(530)
Total comprehensive income	**35**	**207**	**501**	**149**
of which attributable to noncontrolling interest	1	2	5	8
of which attributable to Covestro AG stockholders	34	205	496	141

[1] Total changes recognized outside profit or loss

Covestro Group Consolidated Statement of Financial Position

	Sep. 30, 2015	Sep. 30, 2016	Dec. 31, 2015
	€ million	€ million	€ million
Noncurrent assets			
Goodwill	258	258	261
Other intangible assets	138	101	132
Property, plant and equipment	4,922	4,527	4,934
Investments accounted for using the equity method	225	221	227
Other financial assets	43	36	40
Other receivables	65	48	60
Deferred taxes	629	814	640
	6,280	6,005	6,294
Current assets			
Inventories	1,912	1,712	1,783
Trade accounts receivable	1,740	1,710	1,486
Other financial assets	14	468	33
Other receivables	447	316	277
Claims for income tax refunds	8	33	16
Cash and cash equivalents	424	175	642
	4,545	4,414	4,237
Total assets	**10,825**	**10,419**	**10,531**
Equity			
Capital stock of Covestro AG	140	203	203
Capital reserves of Covestro AG	2,481	4,908	4,908
Other reserves	(1,517)	(1,516)	(1,515)
Equity attributable to Covestro AG stockholders	**1,104**	**3,595**	**3,596**
Equity attributable to noncontrolling interest	12	23	16
	1,116	3,618	3,612
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	1,564	2,171	1,462
Other provisions	196	302	309
Financial liabilities	416	1,814	374
Other liabilities	27	26	29
Deferred taxes	153	151	181
	2,356	4,464	2,355
Current liabilities			
Other provisions	405	519	429
Financial liabilities	5,013	232	2,507
Trade accounts payable	1,459	1,339	1,403
Income tax liabilities	81	73	56
Other liabilities	395	174	169
	7,353	2,337	4,564
Total equity and liabilities	**10,825**	**10,419**	**10,531**

Covestro Group Consolidated Statement of Cash Flows

	3rd quarter 2015	3rd quarter 2016	1st nine months 2015	1st nine months 2016
	€ million	€ million	€ million	€ million
Income after income taxes	161	261	433	678
Income taxes	70	104	184	268
Financial result	56	41	143	164
Income taxes paid[1]	(63)	(58)	(143)	(259)
Depreciation, amortization and impairments	168	168	527	514
Change in pension provisions	(31)	(1)	(25)	(3)
(Gains) losses on retirements of noncurrent assets	2	1	(16)	1
Decrease (increase) in inventories	(27)	(31)	53	45
Decrease (increase) in trade accounts receivable	83	60	(80)	(242)
(Decrease) increase in trade accounts payable	5	78	(180)	(53)
Changes in other working capital, other noncash items[1]	(45)	113	27	63
Net cash provided by (used in) operating activities	**379**	**736**	**923**	**1,176**
Cash outflows for additions to property, plant, equipment and intangible assets	(128)	(90)	(352)	(216)
Cash inflows from sales of property, plant, equipment and other assets	24	1	45	4
Cash outflows for noncurrent financial assets[1]	(1)	(7)	(95)	(14)
Cash inflows from noncurrent financial assets[1]	144	1	171	3
Cash outflows for acquisitions less acquired cash	1	–	(13)	–
Interest and dividends received	1	1	3	6
Cash inflows from (outflows for) other current financial assets[1]	172	(465)	77	(452)
Net cash provided by (used in) investing activities	**213**	**(559)**	**(164)**	**(669)**
Capital contribution from Bayer AG	855	–	855	–
Financial transactions with the Bayer Group	(1,411)	–	(1,797)	–
(Cash outflows for) inflows from profit transfer to Bayer AG	–	–	(155)	–
Dividends paid	(1)	–	(11)	(143)
Issuances of debt	3,245	29	4,079	1,769
Retirements of debt	(2,877)	(167)	(3,386)	(2,559)
Interest paid	(29)	(11)	(83)	(38)
Net cash provided by (used in) financing activities	**(218)**	**(149)**	**(498)**	**(971)**
Change in cash and cash equivalents due to business activities	**374**	**28**	**261**	**(464)**
Cash and cash equivalents at beginning of year	**106**	**151**	**201**	**642**
Change in cash and cash equivalents due to exchange rate movements	(56)	(4)	(38)	(3)
Cash and cash equivalents at end of year	**424**	**175**	**424**	**175**

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

Covestro Group Consolidated Statement of Changes in Equity

				Accumulated other comprehensive income						
	Capital stock of Covestro AG	Capital reserves of Covestro AG	Retained earnings incl. total income	Currency translation	Fair value measurement of securities	Cash flow hedges	Revaluation surplus	Equity attributable to Covestro AG stockholders	Equity attributable to noncontrolling interest	Equity
	€ million	€ million	€ million	€ million		€ million	€ million	€ million	€ million	€ million
Dec. 31, 2014			**1,427**	**340**	**–**	**2**	**1**	**1,770**	**17**	**1,787**
Contribution to capital stock from Bayer AG	140							140		140
Cash contribution from Bayer AG		715						715		715
Contribution in kind of shares of Covestro Deutschland AG from Bayer AG		1,766	(1,766)					–		–
(Profit) loss transfer to Bayer AG			(5)					(5)		(5)
Dividend payments			(7)					(7)	(6)	(13)
Other changes			(2,005)				–	(2,005)	(4)	(3,775)
Income after income taxes			427					427	6	433
Other comprehensive income			(13)	83	–	(1)		69	(1)	68
Total comprehensive income			414	83	–	(1)		496	5	501
Sep. 30, 2015	**140**	**2,481**	**(1,942)**	**423**	**–**	**1**	**1**	**1,104**	**12**	**1,116**
Dec. 31, 2015	**203**	**4,908**	**(1,999)**	**484**	**–**	**–**	**–**	**3,596**	**16**	**3,612**
Dividend payments			(142)					(142)	(1)	(143)
Other changes			-				–	–	–	–
Income after income taxes			671					671	7	678
Other comprehensive income			(467)	(63)	–	–		(530)	1	(529)
Total comprehensive income			204	(63)	–	–		141	8	149
Sep. 30, 2016	**203**	**4,908**	**(1,937)**	**421**	**–**	**–**	**–**	**3,595**	**23**	**3,618**

NOTES

to the Consolidated Interim Financial Statements

1. General Information

Information on the consolidated interim financial statements

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

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

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

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

Exchange rates

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

Closing Rates for Major Currencies

		Closing rate		
€1 /		Sep. 30, 2015	Dec. 31, 2015	Sep. 30, 2016
BRL	Brazil	4.48	4.31	3.62
CNY	China	7.12	7.06	7.45
HKD	Hong Kong	8.68	8.44	8.65
INR	India	73.48	72.02	74.37
JPY	Japan	134.69	131.07	113.09
MXN	Mexico	18.98	18.91	21.74
USD	United States	1.12	1.09	1.12

Average Rates for Major Currencies

		Average rate	
€1 /		1st nine months 2015	1st nine months 2016
BRL	Brazil	3.48	3.94
CNY	China	6.96	7.35
HKD	Hong Kong	8.64	8.66
INR	India	70.78	74.87
JPY	Japan	134.73	120.85
MXN	Mexico	17.31	20.38
USD	United States	1.11	1.12

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

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

2. Effects of New Financial Reporting Standards

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

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

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

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

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

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

Furthermore, 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" in December 2014. Among other things, these clarify which subsidiaries an investment entity must consolidate and which must be recognized at fair value through profit or loss. They also address the equity method rules regarding the inclusion of investment entities in the consolidated financial statements of a company that is not an investment entity. These amendments have no material impact on the presentation of the Covestro Group's net assets, financial position or results of operations.

"IFRS 14 (Regulatory Deferral Accounts)" published by the IASB in January 2014 was to have been applied for the first time from January 1, 2016. As it has not yet been endorsed by the European Union, the standard has not been applied to date. The changes are not expected to have an impact on the presentation of the Covestro Group's net assets, financial position or results of operations.

3. Segment and Regional Reporting

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

As of September 30, 2016, the Covestro Group comprises three reportable segments with the following activities.

Polyurethanes

The Polyurethanes segment develops, produces and markets high-quality precursors for polyurethanes. These precursors are isocyanates (TDI, MDI) and polyether polyols. Flexible polyurethane foam is used primarily in the furniture and automotive industries (e.g., cushions, mattresses, automobile seats); rigid foam is used in particular as insulating material in the construction industry and in refrigeration chains. The segment operates production facilities worldwide as well as systems houses for formulating and supplying customized polyurethane systems.

Polycarbonates

The Polycarbonates segment develops, produces and markets the engineering plastic polycarbonate in the form of granules and semifinished products (sheets). The material is used primarily in the automotive industry (e.g., in the passenger compartment and for vehicle lighting) and in the construction industry (e.g., for roof structures). It is also used in the electrical and electronics industry (e.g., for connector housings, computer cases and DVDs), the medical technology sector and the lighting industry (e.g., for LED components). The Covestro Group produces polycarbonate all around the world and processes it at compounding centers to meet specific customer requirements.

Coatings, Adhesives, Specialties

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

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

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

The segment data are calculated as follows.

- EBITDA is the EBIT as reported in the income statement plus amortization and impairment losses on intangible assets and depreciation and impairment losses on property, plant and equipment, less impairment loss reversals.

- EBIT, EBITDA, adjusted EBIT and adjusted EBITDA are not defined in the International Financial Reporting Standards. The special items comprise effects that are nonrecurring or do not regularly recur or attain similar magnitudes. Adjusted EBIT and adjusted EBITDA are intended to give a clear picture of the results of operations and ensure their comparability over time. Adjusted EBITDA is used to assess the profitability of the reportable segments. There were no special items in the first nine months of fiscal 2016 so adjusted EBIT and adjusted EBITDA in this period are equivalent to EBIT and EBITDA, respectively.

- Working capital comprises inventories plus trade accounts receivable and less trade accounts payable.

The following tables show the segment reporting data for the third quarter and for the first nine months or as of September 30, respectively.

Segment Reporting 3rd Quarter[1]

				Other / Consolidation		
	Polyurethanes	Polycarbonates	Coatings, Adhesives, Specialties	All other segments	Corporate Center and reconciliation	Covestro Group
	€ million	€ million	€ million	€ million	€ million	€ million
3rd quarter 2016						
Sales	1,503	848	515	156	–	3,022
(Adjusted) EBITDA	263	194	136	–	(19)	574
(Adjusted) EBIT	168	145	114	(2)	(19)	406
3rd quarter 2015						
Sales	1,512	819	519	170	–	3,020
Adjusted EBITDA	175	171	137	(4)	(8)	471
Adjusted EBIT	72	128	118	(5)	(8)	305

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

Segment Reporting 1st Nine Months[1]

				Other / Consolidation		
	Polyurethanes	Polycarbonates	Coatings, Adhesives, Specialties	All other segments	Corporate Center and reconciliation	Covestro Group
	€ million	€ million	€ million	€ million	€ million	€ million
1st nine months 2016						
Sales	4,387	2,465	1,559	476	–	8,887
(Adjusted) EBITDA	705	562	417	(2)	(58)	1,624
(Adjusted) EBIT	409	414	352	(7)	(58)	1,110
1st nine months 2015						
Sales	4,703	2,413	1,616	552	–	9,284
Adjusted EBITDA	561	437	407	16	(36)	1,385
Adjusted EBIT	256	306	346	11	(36)	883

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

Working Capital by Segment

	Dec. 31, 2015	Sep. 30, 2016
	€ million	€ million
Polyurethanes	918	1,092
Polycarbonates	494	528
Coatings, Adhesives, Specialties	373	406
All other segments	86	60
Corporate Center	(5)	(3)
Working capital	**1,866**	**2,083**

Information on geographical areas

The following tables show information for geographical areas. The EMLA region consists of Europe, the Middle East, Africa and Latin America except Mexico, which together with the United States and Canada forms the NAFTA region. The APAC region includes Asia and the Pacific region. The "Consolidation" column shows the elimination of interregional sales.

The following tables show the regional reporting data for the third quarter and for the first nine months.

Regional Reporting 3rd Quarter

	EMLA	NAFTA	APAC	Consolidation	Total
	€ million	€ million	€ million	€ million	€ million
3rd quarter 2016					
Net sales (external) by market	1,288	816	918	–	3,022
Net sales (external) by point of origin	1,282	830	910	–	3,022
Interregional sales	173	132	45	(350)	–
3rd quarter 2015					
Net sales (external) by market	1,352	852	816	–	3,020
Net sales (external) by point of origin	1,350	864	806	–	3,020
Interregional sales	155	125	33	(313)	–

Regional Reporting 1st Nine Months

	EMLA	NAFTA	APAC	Consolidation	Total
	€ million	€ million	€ million	€ million	€ million
1st nine months 2016					
Net sales (external) by market	3,929	2,385	2,573	–	8,887
Net sales (external) by point of origin	3,914	2,425	2,548	–	8,887
Interregional sales	524	401	106	(1,031)	–
1st nine months 2015					
Net sales (external) by market	4,140	2,571	2,573	–	9,284
Net sales (external) by point of origin	4,127	2,612	2,545	–	9,284
Interregional sales	548	424	101	(1,073)	–

Reconciliation

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

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

	3rd quarter 2015	3rd quarter 2016	1st nine months 2015	1st nine months 2016
	€ million	€ million	€ million	€ million
(Adjusted) EBITDA of segments	479	593	1,421	1,682
(Adjusted) EBITDA of Corporate Center	(8)	(19)	(36)	(58)
(Adjusted) EBITDA	**471**	**574**	**1,385**	**1,624**
(Adjusted) depreciation, amortization and impairment losses of segments	(166)	(168)	(502)	(514)
(Adjusted) depreciation, amortization and impairment losses of Corporate Center	–	–	–	–
(Adjusted) depreciation, amortization and impairment losses	**(166)**	**(168)**	**(502)**	**(514)**
(Adjusted) EBIT of segments	313	425	919	1,168
(Adjusted) EBIT of Corporate Center	(8)	(19)	(36)	(58)
(Adjusted) EBIT	**305**	**406**	**883**	**1,110**
Special items of segments	(16)	–	(84)	–
Special items of Corporate Center	(2)	–	(39)	–
Special items	**(18)**	**–**	**(123)**	**–**
EBIT of segments	297	425	835	1,168
EBIT of Corporate Center	(10)	(19)	(75)	(58)
EBIT	**287**	**406**	**760**	**1,110**
Financial result	(56)	(41)	(143)	(164)
Income before income taxes	**231**	**365**	**617**	**946**

4. Scope of Consolidation

4.1 Changes in the Scope of Consolidation

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

4.2 Acquisitions and Divestitures

No reportable acquisitions or divestitures were made in the first nine months of 2016.

5. Earnings per Share

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

Earnings per Share

	1st nine months 2015	1st nine months 2016
	€ million	€ million
Income after income taxes	433	678
of which attributable to noncontrolling interest	6	7
of which attributable to Covestro AG stockholders (net income)	427	671
	Shares	Shares
Weighted average number of ordinary shares in issue	140,000,000	202,500,000
	€	€
Basic earnings per share	3.05	3.31
Diluted earnings per share	3.05	3.31

6. Provisions for Pensions and Other Post-employment Benefits

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

Discount Rate for Pension Obligations

	Dec. 31, 2015	Sep. 30, 2016
	%	%
Germany	2.60	1.50
United States	4.00	3.30

7. Stock Programs

Stock-based compensation program

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

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

The fair value of the obligation under the Prisma stock-based compensation program was €10 million as of September 30, 2016, and was calculated using the Monte Carlo simulation method on the basis of parameters pertaining to the reporting date.

Covestment stock participation program 2016

Employees of Covestro AG and participating Group companies were offered a stock participation program for the first time in 2016, known as "Covestment". Under the program, employees can invest a fixed amount of their compensation in Covestro shares, which are subsidized by Covestro and can be subscribed for at a discount. The discount granted to employees in 2016 is 30% of the total value of the shares acquired and is set every year. The total amount is capped at €1,800 or €3,600, depending on the employee's position; a maximum of €1,200 applies to employees in vocational training. These shares are subject to a lock-up period until December 31 in the following year.

8. Financing

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

Under the program, Covestro AG successfully placed its first bonds with a total volume of €1,500 million on March 3, 2016. The bonds comprise two fixed-rate tranches with terms until October 2021 (a coupon of 1.00% and a volume of €500 million) and September 2024 (a coupon of 1.75% and a volume of €500 million) and a variable-rate tranche with a volume of €500 million, a term until March 2018 and a coupon of 0.60 percentage points above the three-month Euribor. All three bonds received a Baa2 rating from Moody’s Investors Service, London, United Kingdom.

The liquidity acquired in this way was used particularly to refinance the loans from Bayer Antwerpen NV, Diegem, Belgium. The remaining loan amount of €2,060 million was repaid in full during the first half of 2016. In September 2015, Covestro AG concluded a syndicated multicurrency term and revolving credit facilities agreement (facilities agreement) for €2,700 million with a consortium of banks. In the course of the successful bond placement in March 2016, Covestro AG dissolved the term loan facility of €1,200 million that was part of this facilities agreement, as planned. The multicurrency revolving credit facility of €1,500 million with a term until September 2021 remains in place. No loans had been drawn against this syndicated credit facility as of September 30, 2016.

9. Financial Instruments

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

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

					Sep. 30, 2016
		Valuation according to IAS 39			
	Carrying amount	Carried at amortized cost	Fair value recognized outside profit or loss	Fair value recognized in profit or loss	Fair value
	€ million	€ million	€ million	€ million	€ million
Assets					
Trade accounts receivable	1,710				
Loans and receivables	1,710	1,710			1,710
Other financial assets	504				
Loans and receivables	15	15			15
Available-for-sale financial assets	457	5	452		457
Derivatives that do not qualify for hedge accounting	25			25	25
Receivables under finance lease agreements[1]	7				18
Other receivables	364				
Loans and receivables	63	63			63
Nonfinancial assets	301				
Cash and cash equivalents	175				
Loans and receivables	175	175			175
Liabilities					
Financial liabilities	2,046				
Carried at amortized cost	1,764	1,764			1,854
Derivatives that do not qualify for hedge accounting	14			14	14
Liabilities under finance lease agreements[1]	268				329
Trade accounts payable	1,339				
Carried at amortized cost	1,319	1,319			1,319
Nonfinancial liabilities	20				
Other liabilities	200				
Carried at amortized cost	30	30			30
Carried at fair value (nonderivative)	–				
Derivatives that do not qualify for hedge accounting	6			6	6
Nonfinancial liabilities	164				

[1] Valuation in accordance with IAS 17

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

	Dec. 31, 2015				
		Valuation according to IAS 39			
	Carrying amount	Carried at amortized cost	Fair value recognized outside profit or loss	Fair value recognized in profit or loss	Fair value
	€ million	€ million	€ million	€ million	€ million
Assets					
Trade accounts receivable	1,486				
Loans and receivables	1,486	1,486			1,486
Other financial assets	73				
Loans and receivables	16	16			17
Available-for-sale financial assets	6	5	1		6
Derivatives that do not qualify for hedge accounting	44			44	44
Receivables under finance lease agreements[1]	7				18
Other receivables	337				
Loans and receivables	65	65			65
Nonfinancial assets	272				
Cash and cash equivalents	642				
Loans and receivables	642	642			642
Liabilities					
Financial liabilities	2,881				
Carried at amortized cost	2,552	2,552			2,573
Derivatives that do not qualify for hedge accounting	31			31	31
Liabilities under finance lease agreements[1]	298				364
Trade accounts payable	1,403				
Carried at amortized cost	1,386	1,386			1,386
Nonfinancial liabilities	17				
Other liabilities	198				
Carried at amortized cost	45	45			45
Carried at fair value (nonderivative)	4			4	4
Derivatives that do not qualify for hedge accounting	8			8	8
Nonfinancial liabilities	141				

[1] Valuation in accordance with IAS 17

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

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

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

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

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

Fair Value Hierarchy of Financial Instruments

	Fair value Dec. 31, 2015	Level 1	Level 2	Level 3	Fair value Sep. 30, 2016	Level 1	Level 2	Level 3
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Financial assets carried at fair value								
Available-for-sale financial assets	1	1			452	452		
Derivatives that do not qualify for hedge accounting	44		27	17	25		12	13
Financial assets not carried at fair value								
Receivables under leasing agreements	18			18	18			18
Financial liabilities carried at fair value								
Derivatives that do not qualify for hedge accounting	39		31	8	20		14	6
Other liabilities carried at fair value (nonderivative)	4			4	–			
Financial liabilities not carried at fair value								
Bonds	–				1,575	1,575		
Other financial liabilities	2,937		2,937		608		608	

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

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

In September 2016, Covestro Deutschland AG, Leverkusen, invested surplus liquidity in euro-denominated government bonds maturing in January 2017 to diversify credit risk. The bonds have a nominal volume of €450 million. The bonds acquired are categorized as available-for-sale financial assets.

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

The fair value of the bonds issued by Covestro AG (see Note 8) is based on quoted, unadjusted prices in active markets and therefore assigned to Level 1 of the fair value hierarchy.

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

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

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

The financial assets and liabilities recognized at fair value based on individual unobservable inputs (Level 3) solely comprise embedded derivatives. These are separated from their respective host contracts, which are generally sales or purchase agreements relating to the operational business. The embedded derivatives cause the cash flows from the contracts to vary with fluctuations in exchange rates, commodity prices or other prices, for example. The internal measurement of embedded derivatives is mainly performed using the discounted cash flow method, which is based on unobservable inputs. These include planned sales and purchase volumes, and prices or price indices derived from market data.

The table below shows the reconciliation of Level 3 financial instruments for the first nine months of 2016.

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

	2016
	€ million
Net carrying amounts, Jan. 1,	**5**
Gains (losses) recognized in profit or loss	(3)
of which related to assets / liabilities recognized in the statement of financial position	(2)
Gains (losses) recognized outside profit or loss	–
Additions of assets (liabilities)	–
Settlements of (assets) liabilities	5
Reclassifications	–
Net carrying amounts, Sep. 30,	**7**

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

10. Legal Risks

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

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

Carbon monoxide pipeline from Dormagen to Leverkusen

In 2014, an action was brought against the Cologne Regional Administration before the Administrative Court in Cologne in which the individual plaintiff demanded that approval for operation of the carbon monoxide pipeline between Dormagen and Leverkusen be revoked. The plaintiff feared acute danger to nearby residents on account of alleged safety deficiencies. The Covestro Group pointed out that the safety of the pipeline had been demonstrated by an expert opinion of the German Technical Inspection Association (TÜV). The action has since been finally dismissed as inadmissible.

Reimbursement of the costs of CO_2 (carbon dioxide) certificates obtained by LyondellBasell Covestro Manufacturing Maasvlakte V.O.F, Rotterdam, Netherlands

In 2013, following unsuccessful negotiations, the company Utility Centre Maasvlakte Leftbank, Rotterdam, Netherlands, (UCML), a Uniper Group company, asserted a claim for reimbursement against the joint venture LyondellBasell Covestro Manufacturing Maasvlakte V.O.F, Rotterdam, Netherlands (LCMM). UCML was claiming the cost of CO_2 certificates that UCML had to purchase under the EU emissions trading system in order to perform its supply agreement with LCMM. The Covestro Group, as a partner in the joint venture, would have borne 50% of any liability for potential reimbursement claims against LCMM. The parties have since terminated the arbitration proceedings by mutual agreement in the second quarter of 2016.

The proceedings on the carbon monoxide pipeline from Dormagen to Uerdingen, which are likewise presented in Note 28 to the consolidated financial statements as of December 31, 2015, and the procedural status of which is unchanged, and the new legal proceedings from the current fiscal year that are described in the following are both currently considered to involve material risks to the Covestro Group. This does not necessarily represent an exhaustive list.

Legal dispute in California

On September 14, 2016, Covestro LLC, Pittsburgh, United States – amongst three other defendants – was served with a lawsuit filed by a law firm in California Federal Court. The aim of the lawsuit is to recover financial damages in the form of statutory fines allegedly owed by the defendants to the United States Environmental Protection Agency for the companies' failure to disclose health risk information associated with the manufacture and handling of TDI, MDI and PMDI. Under the pertinent statute, the U.S. government was afforded an opportunity to intervene and prosecute the claims, but it has declined to do so. Accordingly, the law firm is prosecuting the claims on the government's behalf. Violations of the Toxic Substances Control Act ("TSCA") and False Claims Act are asserted. Covestro will defend itself vigorously and regards the claims asserted against the company as meritless.

11. Related Companies and Persons

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

Receivables from and Liabilities to Related Parties

	Dec. 31, 2015		Sep. 30, 2016	
	Receivables	Liabilities	Receivables	Liabilities
	€ million	€ million	€ million	€ million
Bayer AG	2	14	1	3
Bayer Group companies	51	2,243	29	136
Nonconsolidated subsidiaries and associates	1	4	1	4
Joint ventures	1	–	1	–
Associates	4	–	4	–

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

	1st nine months 2015		1st nine months 2016	
	Sales of goods and services	Purchases of goods and services	Sales of goods and services	Purchases of goods and services
	€ million	€ million	€ million	€ million
Bayer AG	11	34	14	10
Bayer Group companies	58	694	56	380
Nonconsolidated subsidiaries and associates	29	2	25	3
Joint ventures	6	–	3	–
Associates	9	791	8	378

Transactions with Bayer AG and its subsidiaries

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

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

Receivables from and payables to related parties mainly comprise leasing and financing matters, trade in goods and services and other transactions. The reduction in liabilities to Bayer Group companies to €136 million as of September 30, 2016 (December 31, 2015: €2,243 million) was primarily the result of the repayment of loans described in Note 8.

12. Events After the End of the Reporting Period

Due to an unforeseeable loss of production at a supplier for nitric acid, Covestro can currently only operate its European production facilities for the isocyanates MDI and TDI (including by-products) at reduced capacity and therefore declared force majeure in October. The resulting effects on the net assets, financial position or results of operations cannot yet be reliably estimated at the present time.

Beyond this, no other events have occurred that we expect to materially affect the net assets, financial position or results of operations of the Covestro Group since October 1, 2016.

Leverkusen, October 24, 2016
Covestro AG

The Board of Management

Further Information

Segment and Quarterly Overview

Segment Information 3rd Quarter

	Polyurethanes		Polycarbonates		Coatings, Adhesives, Specialties		Others/Consolidation		Covestro Group	
	3rd quarter 2015	3rd quarter 2016	3rd quarter 2015	3rd quarter 2016	3rd quarter 2015	3rd quarter 2016	3rd quarter 2015	3rd quarter 2016	3rd quarter 2015	3rd quarter 2016
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales	**1,512**	**1,503**	**819**	**848**	**519**	**515**	**170**	**156**	**3,020**	**3,022**
Change in sales										
Volume	–2.2%	+6.7%	+4.1%	+10.3%	–2.5%	+2.5%	0.0%	–4.9%	–0.6%	+6.3%
Price	–12.1%	–6.2%	–0.8%	–5.0%	–1.4%	–2.7%	–7.8%	–3.0%	–7.4%	–5.1%
Currency	+5.8%	–1.1%	+9.7%	–1.8%	+6.5%	–0.6%	+2.8%	–0.3%	+6.6%	–1.1%
Portfolio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Core volume growth[1]	**–2.7%**	**+9.0%**	**+5.4%**	**+11.6%**	**–2.4%**	**+ 3.5%**			**–0.6%**	**+9.1%**
Sales by region										
EMLA	667	633	296	282	260	255	129	118	1,352	1,288
NAFTA	496	472	200	196	121	116	35	32	852	816
APAC	349	398	323	370	138	144	6	6	816	918
EBITDA	**161**	**263**	**171**	**194**	**135**	**136**	**(12)**	**(19)**	**455**	**574**
Adjusted EBITDA	**175**	**263**	**171**	**194**	**137**	**136**	**(12)**	**(19)**	**471**	**574**
EBIT	**60**	**168**	**127**	**145**	**113**	**114**	**(13)**	**(21)**	**287**	**406**
Adjusted EBIT	**72**	**168**	**128**	**145**	**118**	**114**	**(13)**	**(21)**	**305**	**406**
Depreciation, amortization, impairment losses and impairment loss reversals	**101**	**95**	**44**	**49**	**22**	**22**	**1**	**2**	**168**	**168**
Operating cash flow	**151**	**288**	**50**	**209**	**105**	**168**	**73**	**71**	**379**	**736**
Cash outflows for additions to property, plant, equipment and other intangible assets	**47**	**45**	**49**	**27**	**31**	**18**	**1**	**0**	**128**	**90**
Free operating cash flow	**104**	**243**	**1**	**182**	**74**	**150**	**72**	**71**	**251**	**646**

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

Segment Information 1st Nine Month

	Polyurethanes		Polycarbonates		Coatings, Adhesives, Specialties		Others/Consolidation		Covestro Group	
	1st nine months 2015	1st nine months 2016	1st nine months 2015	1st nine months 2016	1st nine months 2015	1st nine months 2016	1st nine months 2015	1st nine months 2016	1st nine months 2015	1st nine months 2016
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales	**4,703**	**4,387**	**2,413**	**2,465**	**1,616**	**1,559**	**552**	**476**	**9,284**	**8,887**
Change in sales										
Volume	+2.0%	+6.6%	+6.4%	+9.1%	+2.7%	+0.1%	–0.6%	–6.1%	+2.9%	+5.3%
Price	–9.9%	–11.7%	–2.2%	–4.9%	–0.8%	–2.6%	–2.7%	–7.4%	–6.1%	–8.1%
Currency	+8.2%	–1.6%	+11.8%	–2.0%	+8.5%	–1.0%	+4.0%	–0.3%	+8.9%	–1.5%
Portfolio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Core volume growth[1]	**+0.9%**	**+9.4%**	**+6.6%**	**+9.6%**	**+3.4%**	**–0.4%**			**+2.5%**	**+8.4%**
Sales by region										
EMLA	2,048	1,901	866	867	814	789	412	372	4,140	3,929
NAFTA	1,503	1,368	580	581	374	347	114	89	2,571	2,385
APAC	1,152	1,118	967	1,017	428	423	26	15	2,573	2,573
EBITDA	**509**	**705**	**436**	**562**	**401**	**417**	**(59)**	**(60)**	**1,287**	**1,624**
Adjusted EBITDA	**561**	**705**	**437**	**562**	**407**	**417**	**(20)**	**(60)**	**1,385**	**1,624**
EBIT	**183**	**409**	**304**	**414**	**337**	**352**	**(64)**	**(65)**	**760**	**1,110**
Adjusted EBIT	**256**	**409**	**306**	**414**	**346**	**352**	**(25)**	**(65)**	**883**	**1,110**
Depreciation, amortization, impairment losses and impairment loss reversals	**326**	**296**	**132**	**148**	**64**	**65**	**5**	**5**	**527**	**514**
Operating cash flow	**456**	**439**	**149**	**392**	**271**	**294**	**47**	**51**	**923**	**1,176**
Cash outflows for additions to property, plant, equipment and other intangible assets	**129**	**115**	**151**	**58**	**69**	**43**	**3**	**0**	**352**	**216**
Free operating cash flow	**327**	**324**	**(2)**	**334**	**202**	**251**	**44**	**51**	**571**	**960**

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

Quarterly Overview

	1st quarter 2015	2nd quarter 2015	3rd quarter 2015	4th quarter 2015	1st quarter 2016	2nd quarter 2016	3rd quarter 2016
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales	**3,054**	**3,210**	**3,020**	**2,798**	**2,875**	**2,990**	**3,022**
Polyurethanes	1,554	1,637	1,512	1,385	1,403	1,481	1,503
Polycarbonates	765	829	819	759	786	831	848
Coatings, Adhesives, Specialties	535	562	519	477	512	532	515
Core volume growth[1]	**+1.7%**	**+6.7%**	**-0.6%**	**+3.0%**	**+8.5%**	**+7.7%**	**+9.1%**
EBITDA	**393**	**439**	**455**	**132**	**508**	**542**	**574**
Polyurethanes	153	195	161	(22)	214	228	263
Polycarbonates	116	149	171	122	177	191	194
Coatings, Adhesives, Specialties	131	135	135	83	139	142	136
Adjusted EBITDA	**416**	**498**	**471**	**256**	**508**	**542**	**574**
Polyurethanes	163	223	175	63	214	228	263
Polycarbonates	116	150	171	123	177	191	194
Coatings, Adhesives, Specialties	133	137	137	84	139	142	136
EBIT	**206**	**267**	**287**	**(80)**	**340**	**364**	**406**
Polyurethanes	31	92	60	(157)	117	124	168
Polycarbonates	73	104	127	70	127	142	145
Coatings, Adhesives, Specialties	111	113	113	60	119	119	114
Adjusted EBIT	**251**	**327**	**305**	**59**	**340**	**364**	**406**
Polyurethanes	63	121	72	(55)	117	124	168
Polycarbonates	73	105	128	70	127	142	145
Coatings, Adhesives, Specialties	113	115	118	60	119	119	114
Financial result	**(41)**	**(46)**	**(56)**	**(32)**	**(78)**	**(45)**	**(41)**
Income before income taxes	**165**	**221**	**231**	**(112)**	**262**	**319**	**365**
Income after taxes	**118**	**154**	**161**	**(81)**	**184**	**233**	**261**
Net income	**115**	**152**	**160**	**(84)**	**182**	**230**	**259**
Operating cash flow	**184**	**360**	**379**	**550**	**124**	**316**	**736**
Cash outflows for additions to property, plant and equipment and intangible assets	**94**	**130**	**128**	**157**	**47**	**79**	**90**
Free operating cash flow	**90**	**230**	**251**	**393**	**77**	**237**	**646**

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

Financial Calendar

Annual Report 2016	**February 20, 2017**
Q1 2017 Interim Report	**April 25, 2017**
Annual Stockholders' Meeting 2017	**May 3, 2017**
Half-Year Financial Report 2017	**July 25, 2017**

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