INTERIM REPORT

covestro

Financial Report as of June 30, 2017

Half-Year Financial Report

Covestro Group Key Data

	2nd quarter 2016	2nd quarter 2017	Change	1st half 2016	1st half 2017	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth[1, 2]	**+7.7%**	**–1.6%**		**+8.1%**	**+3.5%**	
Sales	**2,990**	**3,498**	**+17.0**	**5,865**	**7,084**	**+20.8**
Change in sales						
Volume	+4.5%	+0.6%		+4.9%	+5.2%	
Price	–8.7%	+15.3%		–9.6%	+14.4%	
Currency	–2.7%	+1.1%		–1.7%	+1.2%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
Sales by region						
EMLA[3]	1,340	1,496	+11.6	2,641	3,022	+14.4
NAFTA[4]	787	878	+11.6	1,569	1,761	+12.2
APAC[5]	863	1,124	+30.2	1,655	2,301	+39.0
EBITDA[6, 7]	**542**	**848**	**+56.5**	**1,050**	**1,694**	**+61.3**
EBIT[8, 9]	**364**	**687**	**+88.7**	**704**	**1,375**	**+95.3**
Financial result	**(45)**	**(34)**	**–24.4**	**(123)**	**(88)**	**–28.5**
Net income[10]	**230**	**484**	**>100**	**412**	**952**	**>100**
Operating cash flows[11]	**316**	**411**	**+30.1**	**440**	**696**	**+58.2**
Cash outflows for additions to property, plant, equipment, and intangible assets	**79**	**92**	**+16.5**	**126**	**166**	**+31.7**
Free operating cash flow[12]	**237**	**319**	**+34.6**	**314**	**530**	**+68.8**

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, 2017
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 is not reported because no income or expense items were recognized as special items either in the reporting period or in the corresponding prior-year period.
8 EBIT: Income after income taxes plus financial result and income taxes
9 Adjusted EBIT is not reported because no income or expense items were recognized as special items either in the reporting period or in the corresponding prior-year period.
10 Net income: income after income taxes, attributable to the stockholders of Covestro AG
11 Operating cash flows: cash flows from operating activities according to IAS 7
12 Free operating cash flow: operating cash flows 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 half-yearly 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, an interim Group management report, and a responsibility statement. The consolidated interim financial statements were prepared in accordance with IAS 34 according to the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB) as endorsed by the European Union (EU) and in effect at the closing date, as well as their Interpretations. This consolidated interim report should be read alongside the annual report for fiscal 2016 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.

Alternative Performance Measures

Covestro uses alternative performance measures (APMs) 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 flows 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.

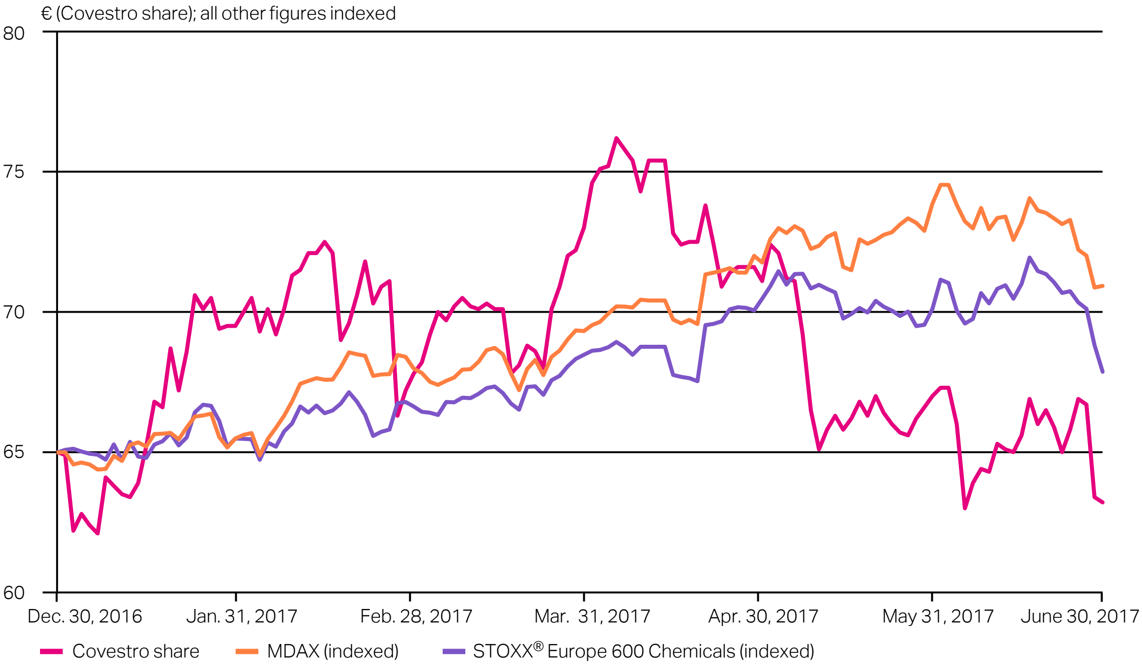
Abbreviations

The abbreviations used in this report are explained in the glossary of the Covestro Annual Report 2016.

This Interim Report was published in German and English on July 25, 2017. Only the German version is binding.

Covestro on the Capital Market

Performance of the Covestro Stock Versus the Market in the First Half of 2017



Covestro closing price Xetra®; source: Bloomberg

Successful second Capital Markets Day

On June 29, 2017, Covestro held its second Capital Markets Day. This year, the event took place in London (United Kingdom). Patrick Thomas (Chief Executive Officer) presented Covestro's corporate strategy along with key financials and targets. Dr. Markus Steilemann (Chief Commercial Officer) explained Covestro's innovative capability as a company and outlined important growth segments. Subsequently, the approximately 60 investors and financial analysts in attendance joined the segment managers to discuss the business strategies.

Covestro stock in a stable environment

The major indices such as the EURO STOXX 50® and the German benchmark DAX Index saw positive performance in the first half of 2017. At the end of June, the MDAX, which is relevant for Covestro, posted gains of 9.1% over its value at year-end 2016, whereas the STOXX® Europe 600 Chemicals Index was up 4.4% during the same period.

Covestro stock finished the second quarter at a Xetra® closing price of €63.21 – a slight drop of 2.7% compared with the end of 2016. The low for the first six months was a closing price of €62.07 on January 9, 2017, and the high for this period was €76.22 on April 7, 2017.

Free float at around 59%

On March 1, 2017, Bayer AG reduced its majority interest in Covestro from 64.2% to 53.3%. The 22 million offered shares were sold to institutional investors. On June 7, 2017, Bayer AG sold off another 17.25 million Covestro shares from its holdings to institutional investors and additionally transferred 8 million shares to Bayer Pension Trust e.V. Bayer AG's directly held interest in Covestro therefore declined to roughly 41%. As a result, some 59% of Covestro shares are in free float as of the end of the second quarter.

Dividend of €1.35 per share paid

At this year's Annual Stockholders' Meeting on May 3, 2017, which took place at the World Conference Center in Bonn (Germany), stockholders approved the dividend of €1.35 per share proposed by the Board of Management and the Supervisory Board of Covestro AG for 2016, the company's first complete fiscal year. The materials manufacturer therefore paid a 2016 dividend amounting to nearly double the dividend of €0.70 per share for the 2015 abbreviated fiscal year when Covestro became a listed company. The dividend was paid on May 8, 2017.

Buy recommendations from seven analysts

In the first half of the year, another two analysts initiated coverage of Covestro, for a total of 21 investment firms covering the company's stock as of the end of June 2017. Overall, the recommendations were balanced: seven analysts issued a buy recommendation, eight gave a neutral assessment, and six advised investors to sell. The median share price target was €73.

Moody's confirms Baa2 issuer rating

On June 23, 2017, Moody's Investors Service in London confirmed Covestro's long-term issuer rating of Baa2 with stable outlook in the course of a regular review. Covestro's ranking as investment grade means that Covestro has good prospects for obtaining corporate financing, particularly on the international debt market.

Covestro Shares at a Glance

		2nd quarter 2016	2nd quarter 2017	1st half 2016	1st half 2017
Average daily turnover	million shares	0.7	0.6	0.5	0.6
High	€	42.21	76.22	42.21	76.22
Low	€	30.91	62.98	25.48	62.07
Closing price (closing date)	€	39.95	63.21	39.95	63.21
Outstanding shares (closing date)	million shares	202.5	202.5	202.5	202.5
Market capitalization (closing date)	€ million	8,089	12,800	8,089	12,800

Covestro Xetra® closing prices; source: Bloomberg

Interim Group Management Report

as of June 30, 2017

1. Business Development

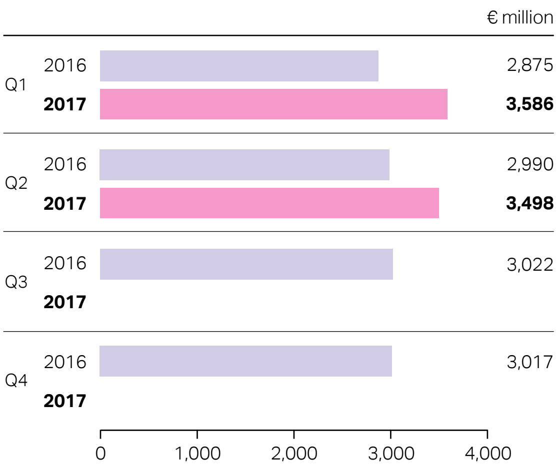
Second quarter 2017

In the second quarter of 2017, the Group's core volumes (in kilotons) decreased from the prior-year quarter, by 1.6%. Whereas core volumes in the Polycarbonates segment increased 0.7%, the Polyurethanes and Coatings, Adhesives, Specialties segments saw declines of 2.3% and 3.0%, respectively, compared with the prior-year period.

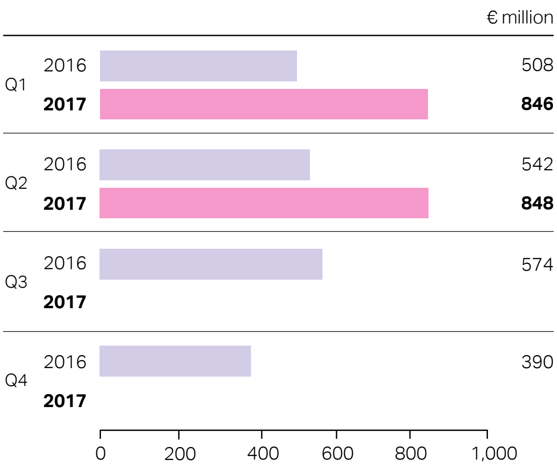
Group sales amounted to €3,498 million, rising 17.0% over the prior-year quarter. This is mainly due to higher selling prices, which had a positive effect of 15.3% on sales. Total volumes sold were at the previous year's level. Moreover, exchange rate movements had a positive effect of 1.1% on Group sales.

The increase in sales in the second quarter of 2017 was attributable primarily to the Polyurethanes and Polycarbonates segments. Sales in the Polyurethanes segment climbed to €1,889 million (previous year: €1,481 million). In the Polycarbonates segment, sales grew to €911 million (previous year: €831 million). Coatings, Adhesives, Specialties saw its sales figure of €533 million remain around the level of the prior-year quarter (previous year: €532 million).

Covestro Group Quarterly Sales



Covestro Group Quarterly EBITDA



The Group's EBITDA increased by 56.5% in the second quarter of 2017, from €542 million in the prior-year quarter to €848 million. The improvement in earnings was driven primarily by higher margins in the Polyurethanes segment.

In the Polyurethanes segment, EBITDA more than doubled compared with the prior-year quarter, jumping to €556 million (previous year: €228 million). The Polycarbonates segment's EBITDA increased by 3.1% to €197 million (previous year: €191 million). At €114 million, EBITDA in the Coatings, Adhesives, Specialties segment was down 19.7% on the prior-year quarter (previous year: €142 million).

In the second quarter, the Covestro Group improved EBIT by 88.7% to €687 million (previous year: €364 million).

Taking into account a financial result of minus €34 million (previous year: minus €45 million), income before income taxes rose to €653 million, compared with €319 million in the prior-year quarter. After tax expense of €167 million (previous year: €86 million), which increased in line with earnings, income after income taxes was €486 million (previous year: €233 million). After noncontrolling interests, net income amounted to €484 million (previous year: €230 million).

Operating cash flows increased to €411 million (previous year: €316 million). The significant improvement in EBITDA was pulled back by a larger amount of cash tied up in working capital, driven mainly by a decrease in trade accounts payable. In the second quarter of 2017 the higher share of income tax expense that did not yet lead to a cash outflow also had a positive effect.

Driven by the improved operating cash flows, free operating cash flow increased by 34.6% in the second quarter of 2017 to €319 million (previous year: €237 million). Cash outflows for additions to property, plant, equipment, and intangible assets increased to €92 million (previous year: €79 million).

First half of 2017

The Group's core volumes (in kilotons) in the first half of 2017 rose by 3.5% over the prior-year period due to continued robust demand. This increase was attributable to all three segments, but especially the Polycarbonates segment, which posted a growth rate of 7.5%.

In the first six months, Group sales increased by 20.8% compared with the prior-year period to €7,084 million (previous year: €5,865 million). The sales growth resulted chiefly from a higher level of selling prices in all segments, which increased by 14.4% overall. In the Polyurethanes segment in particular, selling prices were well above those of the prior-year period. Total volumes had a positive effect of 5.2% on sales in the first half of the year. Exchange rate movements also had a positive effect of 1.2%.

All three segments were able to increase their sales in the first six months. Sales in the Polyurethanes segment jumped by 31.2% to €3,783 million during this period (previous year: €2,884 million). In the Polycarbonates segment, sales were up 15.3% to €1,865 million (previous year: €1,617 million). Coatings, Adhesives, Specialties expanded sales by 5.1% to €1,097 million (previous year: €1,044 million).

The Group's EBITDA increased by 61.3% year-on-year in the first six months, from €1,050 million to €1,694 million, driven in particular by increased earnings in the Polyurethanes segment.

In the first half of 2017, the Covestro Group improved EBIT by 95.3% to €1,375 million (previous year: €704 million).

Taking into account a financial result of minus €88 million (previous year: minus €123 million), income before income taxes rose to €653 million compared with the previous year (previous year: €581 million). After tax expense of €332 million (previous year: €164 million), income after income taxes was €955 million (previous year: €417 million). After noncontrolling interests, net income amounted to €952 million (previous year: €412 million).

Operating cash flows rose to €696 million in the first six months of 2017 (previous year: €440 million).

Free operating cash flow improved by 68.8% to €530 million in the first half of 2017 (previous year: €314 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 EBITDA and EBIT. EBITDA and EBIT are not defined in the International Financial Reporting Standards. They should therefore only be viewed as supplemental 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 in the first half of 2017 decreased by 7.8% to €319 million (previous year: €346 million). They comprised €306 million (previous year: €319 million) in depreciation and impairments of property, plant, and equipment and €13 million (previous year: €27 million) in amortization and impairments of intangible assets. Depreciation, amortization, and impairments also included impairment loss reversals of €12 million (previous year: €0 million).

2. Business Development by Segment

2.1 Polyurethanes

Polyurethanes Key Data

	2nd quarter 2016	2nd quarter 2017	Change	1st half 2016	1st half 2017	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth[1]	**+9.0%**	**–2.3%**		**+9.7%**	**+2.1%**	
Sales	**1,481**	**1,889**	**+27.5**	**2,884**	**3,783**	**+31.2**
Change in sales						
Volume	+6.4%	–0.8%		+6.7%	+3.4%	
Price	–13.1%	+27.0%		–14.4%	+26.4%	
Currency	–2.8%	+1.3%		–1.9%	+1.4%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
Sales by region						
EMLA	653	798	+22.2	1,268	1,597	+25.9
NAFTA	450	500	+11.1	896	990	+10.5
APAC	378	591	+56.3	720	1,196	+66.1
EBITDA	**228**	**556**	**>100**	**442**	**1,038**	**>100**
EBIT	**124**	**460**	**>200**	**241**	**856**	**>200**
Operating cash flows	**135**	**219**	**+62.2**	**151**	**249**	**+64.9**
Cash outflows for additions to property, plant, equipment, and intangible assets	**46**	**51**	**+10.9**	**70**	**92**	**+31.4**
Free operating cash flow	**89**	**168**	**+88.8**	**81**	**157**	**+93.8**

[1] Reference values calculated based on the definition of the core business effective March 31, 2017

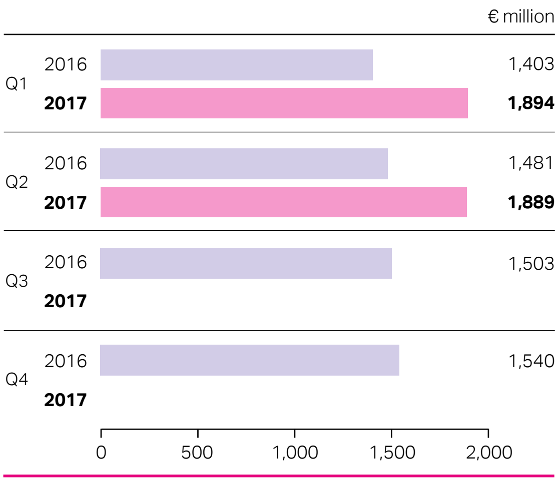
Second quarter 2017

In the second quarter of 2017, core volumes in Polyurethanes decreased by 2.3% from the prior-year quarter. The decline was attributable primarily to the polyether polyols product group. Furthermore, limited product availability in the MDI and TDI product groups contributed to this development.

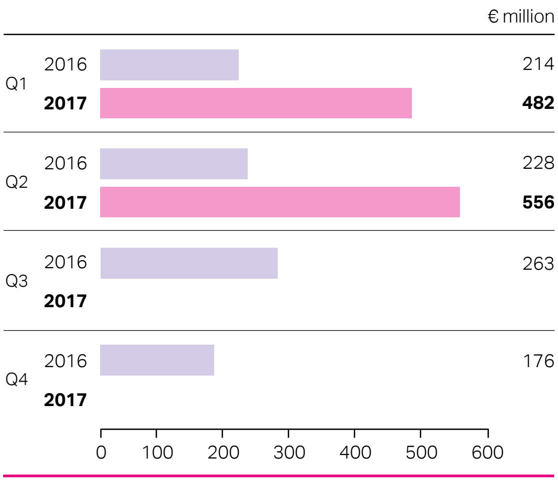
Sales of Polyurethanes amounted to €1,889 million, rising 27.5% over the prior-year quarter. Total volumes sold remained at the level of the prior-year quarter, while selling prices in the Polyurethanes segment, which increased by 27.0%, were the main driver of sales growth in the second quarter. Selling prices rose in the MDI and TDI product groups especially. Exchange rate movements also had a slightly positive effect on sales.

In all regions, sales increased principally because of the large jump in selling prices. Sales rose by 22.2% to €798 million in the EMLA region, by 11.1% to €500 million in the NAFTA region, and by 56.3% to €591 million in the APAC region. In the APAC region, total volumes sold had a mildly positive effect on sales, while total sales volumes dropped slightly in the EMLA and NAFTA regions.

**Polyurethanes
Quarterly Sales**



**Polyurethanes
Quarterly EBITDA**



In the second quarter of 2017, EBITDA in the Polyurethanes segment grew by 143.9% over the prior-year quarter to €556 million (previous year: €228 million), largely due to improved margins. Another positive effect on earnings stemmed from the gain on the sale of a North American systems business at the beginning of the second quarter of 2017 in the amount of €39 million and an insurance reimbursement for a loss in the previous year of €35 million.

EBIT rose to €460 million (previous year: €124 million).

Free operating cash flow increased by 88.8% to €168 million (previous year: €89 million). A significant improvement in EBITDA, which stood in contrast to a substantially larger amount of cash tied up in working capital due to a decrease in trade accounts payable, was the primary reason for the increase.

First half of 2017

In the first half of 2017, core volumes in Polyurethanes rose by 2.1% over the prior-year period, especially in the TDI and MDI product groups.

Sales of Polyurethanes rose by 31.2% to €3,783 million in the first six months of 2017 compared with the prior-year period. The change in total volumes sold had a positive effect of 3.4% on sales. Selling prices were up by a total of 26.4% over the figures in the prior-year period. In the APAC and EMLA regions in particular, selling prices rose sharply. Exchange rate changes also had a positive effect.

EBITDA amounted to €1,038 million (previous year: €442 million), more than doubling as compared with the prior-year period, largely due to improved margins.

EBIT was increased more than threefold to €856 million (previous year: €241 million).

Free operating cash flow was up by 93.8% to €157 million (previous year: €81 million).

2.2 Polycarbonates

Polycarbonates Key Data

	2nd quarter 2016	2nd quarter 2017	Change	1st half 2016	1st half 2017	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth[1]	**+8.5%**	**+0.7%**		**+8.5%**	**+7.5%**	
Sales	**831**	**911**	**+9.6**	**1,617**	**1,865**	**+15.3**
Change in sales						
Volume	+7.9%	+2.5%		+8.3%	+9.5%	
Price	–4.3%	+6.1%		–4.8%	+4.6%	
Currency	–3.4%	+1.0%		–2.1%	+1.2%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
Sales by region						
EMLA	300	305	+1.7	585	627	+7.2
NAFTA	193	225	+16.6	385	456	+18.4
APAC	338	381	+12.7	647	782	+20.9
EBITDA	**191**	**197**	**+3.1**	**368**	**429**	**+16.6**
EBIT	**142**	**152**	**+7.0**	**269**	**336**	**+24.9**
Operating cash flows	**89**	**1**	**–98.9**	**183**	**61**	**–66.7**
Cash outflows for additions to property, plant, equipment, and intangible assets	**19**	**26**	**+36.8**	**31**	**45**	**+45.2**
Free operating cash flow	**70**	**(25)**	**.**	**152**	**16**	**–89.5**

[1] Reference values calculated based on the definition of the core business effective March 31, 2017

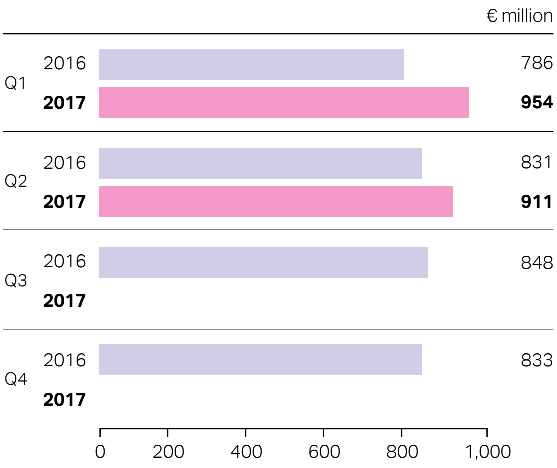
Second quarter 2017

In the second quarter of 2017, core volumes in the Polycarbonates segment were up 0.7% over the prior-year quarter. As expected, the growth rate was below that of previous quarters. This lower growth rate resulted from, among other factors, the limited volumes available in EMLA and the capacity expansion at the Shanghai site, from which we have benefited since the second quarter of 2016.

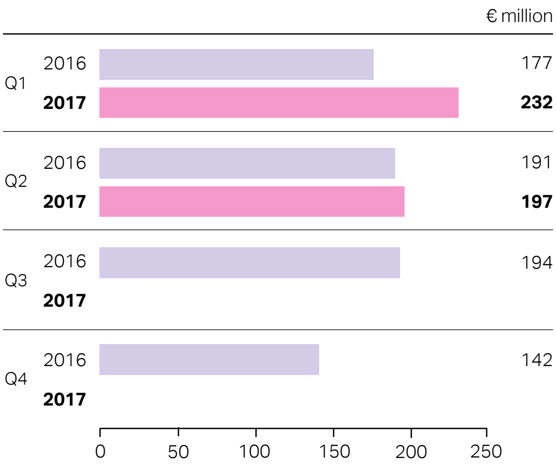
Sales in the Polycarbonates segment rose by 9.6% to €911 million. The increase in total volumes sold had a positive effect of 2.5% on sales. Selling prices were up in all regions, particularly APAC. The overall effect of higher selling prices increased sales by 6.1%. Exchange rate developments also had a slightly positive impact on sales.

In the EMLA region, sales grew by 1.7% to €305 million. Slightly higher selling prices crowded out the effect of lower volumes sold. Sales in the NAFTA region rose by 16.6% to €225 million, buoyed by a sharp increase in volumes. An upturn in selling prices and exchange rate changes also had a mildly positive effect on sales. Sales were bumped up 12.7% to €381 million in the APAC region, a change attributable to a significant increase in selling prices and slightly higher volumes.

Polycarbonates Quarterly Sales



Polycarbonates Quarterly EBITDA



In the second quarter, EBITDA in the Polycarbonates segment increased 3.1% over the prior-year quarter, growing to €197 million (previous year: €191 million). Although higher sales volumes had a positive effect on earnings, higher raw material prices could only be partially compensated by an overall positive development in selling prices.

EBIT rose by 7.0% to €152 million (previous year: €142 million).

Free operating cash flow dropped to minus €25 million (previous year: €70 million). EBITDA increased slightly in contrast to a significantly larger amount of cash tied up in working capital, which was caused by a reduction in trade accounts payable in the second quarter as well as a build-up of inventories.

First half of 2017

In the first half of 2017, core volumes in the Polycarbonates segment were up 7.5% over the prior-year period. All regions contributed to the increase, most of all NAFTA and APAC.

Sales in the Polycarbonates segment rose by 15.3% to €1,865 million in the first half of 2017. The expansion of total volumes sold had a positive effect of 9.5% on sales. The APAC and NAFTA regions were the main drivers of this development. Selling prices were 4.6% higher than in the prior-year period. Exchange rate developments also had a slightly positive impact on sales.

In the first six months, EBITDA in the Polycarbonates segment increased 16.6% over the prior-year period, growing to €429 million (previous year: €368 million), largely due to higher sales volumes.

EBIT rose by 24.9% to €336 million (previous year: €269 million).

Free operating cash flow was down 89.5% to €16 million (previous year: €152 million).

2.3 Coatings, Adhesives, Specialties

Coatings, Adhesives, Specialties Key Data

	2nd quarter 2016	2nd quarter 2017	Change	1st half 2016	1st half 2017	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth[1]	**–1.8%**	**–3.0%**		**–2.3%**	**+2.3%**	
Sales	**532**	**533**	**+0.2**	**1,044**	**1,097**	**+5.1**
Change in sales						
Volume	–0.6%	–1.2%		–1.1%	+3.8%	
Price	–2.7%	+0.6%		–2.5%	+0.2%	
Currency	–2.0%	+0.8%		–1.2%	+1.1%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
Sales by region						
EMLA	272	265	–2.6	534	538	+0.7
NAFTA	117	120	+2.6	231	245	+6.1
APAC	143	148	+3.5	279	314	+12.5
EBITDA	**142**	**114**	**–19.7**	**281**	**260**	**–7.5**
EBIT	**119**	**95**	**–20.2**	**238**	**218**	**–8.4**
Operating cash flows	**72**	**41**	**–43.1**	**126**	**81**	**–35.7**
Cash outflows for additions to property, plant, equipment, and intangible assets	**14**	**15**	**+7.1**	**25**	**28**	**+12.0**
Free operating cash flow	**58**	**26**	**–55.2**	**101**	**53**	**–47.5**

[1] Reference values calculated based on the definition of the core business effective March 31, 2017

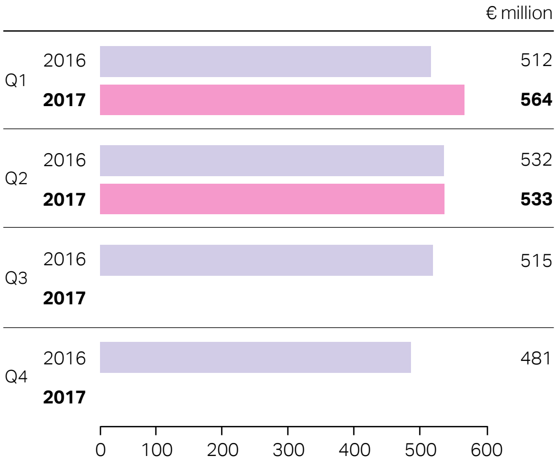
Second quarter 2017

In the second quarter of 2017, core volumes in the Coatings, Adhesives, Specialties segment declined 3.0% from the prior-year quarter, mainly due to volume shifts within the first half of 2017.

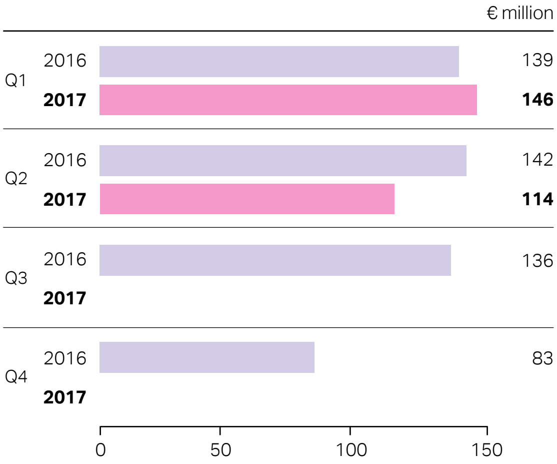
Sales in the segment amounted to €533 million, remaining around the level of the prior-year quarter (previous year: €532 million). Whereas total volumes sold had a downturn effect of 1.2% on sales, average selling prices hovered around those of the prior-year quarter.

In the EMLA region, sales decreased by 2.6% to €265 million. Somewhat lower volumes sold could not be balanced out by slightly higher average selling prices. Sales grew by 2.6% to €120 million in the NAFTA region, with volumes remaining stable. Exchange rate changes outweighed the effect from somewhat lower selling prices. In the APAC region, moderately higher volumes and selling prices led to sales growth of 3.5% to €148 million.

**Coatings, Adhesives, Specialties
Quarterly Sales**



**Coatings, Adhesives, Specialties
Quarterly EBITDA**



EBITDA in Coatings, Adhesives, Specialties was down by 19.7% to €114 million in the second quarter (previous year: €142 million). Particularly the higher raw material prices and lower sales volumes negatively affected EBITDA during this period.

EBIT decreased by 20.2% to €95 million (previous year: €119 million).

At €26 million, free operating cash flow was 55.2% below the previous year's figure (€58 million) in the second quarter of 2017, mainly because of a decline in EBITDA compared with the prior-year quarter and a larger amount of cash tied up in working capital.

First half of 2017

In the first half of 2017, core volumes in the Coatings, Adhesives, Specialties segment were up 2.3% over the prior-year period.

During the same period, sales of Coatings, Adhesives, Specialties rose 5.1% to €1,097 million. The main driver was higher sales volumes, which led to a 3.8% increase in sales, while selling prices remained stable. Exchange rate changes also had a positive effect of 1.1% on sales.

EBITDA decreased 7.5% over the prior-year period, declining to €260 million (previous year: €281 million), due to a weaker second quarter.

EBIT dropped by 8.4% to €218 million (previous year: €238 million).

Free operating cash flow was down 47.5% to €53 million (previous year: €101 million).

3. Net Assets and Financial Position of the Covestro Group

Covestro Group Summary Statement of Cash Flows

	2nd quarter 2016	2nd quarter 2017	1st half 2016	1st half 2017
	€ million	€ million	€ million	€ million
EBITDA	**542**	**848**	**1,050**	**1,694**
Income taxes paid	(121)	(33)	(201)	(62)
Change in pension provisions	(6)	16	(2)	26
(Gains)/losses on retirements of noncurrent assets	–	(38)	–	(45)
Changes in working capital/other noncash items	(99)	(382)	(407)	(917)
Cash flows from operating activities	**316**	**411**	**440**	**696**
Cash outflows for additions to property, plant, equipment, and intangible assets	(79)	(92)	(126)	(166)
Free operating cash flow	**237**	**319**	**314**	**530**
Cash flows from investing activities[1]	**(58)**	**(250)**	**(74)**	**(377)**
Cash flows from financing activities[1]	**(1,137)**	**(289)**	**(858)**	**(280)**
Change in cash and cash equivalents due to business activities	**(879)**	**(128)**	**(492)**	**39**
Cash and cash equivalents at beginning of period	**1,030**	**434**	**642**	**267**
Changes in cash and cash equivalents due to exchange rate movements	–	(6)	1	(6)
Cash and cash equivalents at end of period	**151**	**300**	**151**	**300**

[1] The previous year's figures were adjusted retroactively to reflect the change in the accounting treatment of forward exchange contracts. See Note 3 to the Consolidated Interim Financial Statements "Change in Accounting for Forward Exchange Contracts" for additional information

Cash flows from operating activities

In the second quarter of 2017, cash flows from operating activities totaled €411 million, exceeding the previous year's figure of €316 million. Improved EBITDA was the main factor in the increase, while a larger amount of cash was tied up in working capital. The higher share of income tax expense that did not yet lead to a cash outflow in the second quarter of 2017 also had a positive effect. After deduction of cash outflows for additions to property, plant, equipment, and intangible assets, free operating cash flow totaled €319 million (previous year: €237 million).

In the first half of 2017, cash flows from operating activities amounted to €696 million, up from the previous year's figure of €440 million. After deduction of cash outflows for additions to property, plant, equipment, and intangible assets, free operating cash flow was €530 million (previous year: €314 million).

Cash flows from investing activities

Cash outflows from investing activities in the second quarter of 2017 totaled €250 million (previous year: €58 million). These outflows were mainly the result of an investment of liquid funds to acquire government bonds with a par value of €250 million and maturities extending to October 2017. Moreover, cash outflows for additions to property, plant, equipment, and intangible assets amounted to €92 million, while divestitures provided cash totaling €47 million.

In the first half of 2017, cash flows from investing activities stood at a total of €377 million (previous year: €74 million), chiefly due to the aforementioned investment in government bonds. Cash outflows for additions to property, plant, equipment, and intangible assets increased to €166 million (previous year: €126 million).

Cash flows from financing activities

Cash outflows for financing activities for the Covestro Group in the second quarter of 2017 amounted to €289 million (previous year: €1,137 million). This figure was mainly attributable to Covestro AG's dividend distribution of €273 million. In addition, borrowings of €81 million stood in contrast to repaid debt of €64 million and interest paid of €32 million.

In the first six months of 2017, the Covestro Group's cash outflows for financing activities totaled €280 million (previous year: €858 million).

Net Financial Debt[1]

	Dec. 31, 2016	June 30, 2017
	€ million	€ million
Bonds	1,494	1,494
Liabilities to banks	133	201
Liabilities under finance leases	265	240
Liabilities from derivatives	33	11
Other financial liabilities	6	–
Positive fair values of hedges of recorded transactions	(15)	(39)
Financial liabilities	**1,916**	**1,907**
Cash and cash equivalents	(267)	(300)
Current financial assets	(150)	(421)
Net financial debt	**1,499**	**1,186**

[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 declined by €313 million from December 31, 2016, to €1,186 million as of June 30, 2017. This decrease is chiefly the result of higher cash inflows from operations. A part of these cash inflows was invested in government bonds with maturities extending to October 2017, as described above. In addition, liabilities to banks increased by €68 million to €201 million due to borrowings.

Covestro Group Summary Statement of Financial Position

	Dec. 31, 2016	June 30, 2017
	€ million	€ million
Noncurrent assets	5,966	5,593
Current assets	4,268	4,927
Total assets	**10,234**	**10,520**
Equity	**4,216**	**4,746**
Noncurrent liabilities	3,544	2,920
Current liabilities	2,474	2,854
Liabilities	**6,018**	**5,774**
Total equity and liabilities	**10,234**	**10,520**

Total assets were up €286 million as compared with December 31, 2016, to €10,520 million as of June 30, 2017.

Noncurrent assets decreased by €373 million during this period to €5,593 million. The change is attributable primarily to the reduction in property, plant, and equipment by €328 million to €4,327 million. Current assets increased by €656 million to €4,927 million. This rise was primarily due to an increase in trade accounts receivable, inventories, and other financial assets. In contrast, claims for income tax refunds were down.

Equity grew by €530 million as compared with December 31, 2016, to €4,746 million. Income after income taxes rose, while the dividend distribution and translation of operations outside the eurozone had the effect of reducing equity.

Liabilities were down €244 million to €5,774 million as of June 30, 2017. Noncurrent financial liabilities decreased by €551 million to €1,245 million. Current financial liabilities increased by €566 million to €701 million. In addition, income tax liabilities were up €203 million to €276 million due to higher earnings.

4. Economic Outlook

Economic Outlook

	Growth[1] 2016	Growth[1] forecast 2017 (Annual Report 2016)	Growth[1] forecast 2017
	%	%	%
World	**+2.5**	**+2.8**	**+3.0**
European Union	+1.9	+1.6	+2.0
of which Germany	+1.8	+1.9	+2.0
United States	+1.6	+2.3	+2.3
Asia	+4.6	+4.7	+4.8
of which China	+6.7	+6.5	+6.6

[1] Real growth of gross domestic product, source: IHS (Global Insight), Growth 2016 and Growth forecast 2017, as of July 2017

In 2017, we expect the global economy to grow at a pace of 3.0%, still faster overall than in the previous year. Our current assessment of the macroeconomic environment and developments in the individual regions is therefore slightly improved over our outlook in the Annual Report 2016.

As for the performance of our main customer industries, we see only a minor change, or none at all, as compared with our expectations in the Annual Report 2016. In fiscal 2017, we expect the global automotive industry to expand much more slowly, by just over 2% than in the previous year. For the global construction industry, we project slightly higher growth of around 3% than in the previous year. Our forecasts also indicate a modest increase in growth for the global electrical and electronics industry of approximately 4%. In the global furniture industry, we also expect marginally higher growth of 3% worldwide.

5. Report on Future Perspectives

Based on the business performance described in this report along with our consideration of the potential associated risks and opportunities, we confirm the forecast from the Interim Statement as of March 31, 2017, for the rest of the 2017 fiscal year.

We continue to expect core volume growth in the low-to-mid-single-digit-percentage range. This projection applies to the Covestro Group as well as the Polyurethanes, Polycarbonates, and Coatings, Adhesives, Specialties segments. The Polycarbonates segment is expected to perform somewhat better than the other two segments.

As described in the Interim Statement as of March 31, 2017, we now anticipate free operating cash flow compared to our forecast in the Annual Report 2016 to be not slightly but significantly above the average of the last three years. In the Polycarbonates and Polyurethanes segments, we expect free operating cash flow significantly above the average of the last three years. The Polycarbonates segment is expected to slightly outperform the Polyurethanes segment (forecast in the Annual Report 2016: Polycarbonates above and Polyurethanes around the average of the last three years). For the Coatings, Adhesives, Specialties segment, we still expect free operating cash flow at the level of the average of the last three years.

Moreover, we still expect ROCE[1] in fiscal 2017 to be significantly above the 2016 level, as reported in the Interim Statement as of March 31, 2017, (forecast in the Annual Report 2016: to slightly exceed the 2016 level).

6. 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 "Opportunities and Risks Report" of the Covestro Annual Report 2016.

There have been no material changes since December 31, 2016. 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 2016 (Note 26 to the Consolidated Financial Statements) are described in Note 9 to the Consolidated Interim Financial Statements.

[1] ROCE: The return on capital employed is calculated as the ratio of 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 non-interest-bearing liabilities such as trade accounts payable.

Consolidated Interim Financial Statements

as of June 30, 2017

Covestro Group Consolidated Income Statement

	2nd quarter 2016	2nd quarter 2017	1st half 2016	1st half 2017
	€ million	€ million	€ million	€ million
Sales	**2,990**	**3,498**	**5,865**	**7,084**
Cost of goods sold	(2,143)	(2,358)	(4,220)	(4,746)
Gross profit	**847**	**1,140**	**1,645**	**2,338**
Selling expenses	(344)	(344)	(658)	(690)
Research and development expenses	(62)	(68)	(125)	(132)
General administration expenses	(100)	(114)	(214)	(227)
Other operating income	35	87	85	111
Other operating expenses	(12)	(14)	(29)	(25)
EBIT[1]	**364**	**687**	**704**	**1,375**
Equity-method loss	(5)	(6)	(10)	(12)
Interest income[2]	2	8	5	11
Interest expense[2]	(30)	(30)	(81)	(71)
Other financial result[2]	(12)	(6)	(37)	(16)
Financial result	**(45)**	**(34)**	**(123)**	**(88)**
Income before income taxes	**319**	**653**	**581**	**1,287**
Income taxes	(86)	(167)	(164)	(332)
Income after income taxes	**233**	**486**	**417**	**955**
of which attributable to noncontrolling interest	3	2	5	3
of which attributable to Covestro AG stockholders (net income)	230	484	412	952
	€	€	€	€
Basic earnings per share[3]	**1.13**	**2.39**	**2.03**	**4.70**
Diluted earnings per share[3]	**1.13**	**2.39**	**2.03**	**4.70**

[1] EBIT: income after income taxes plus financial result and income tax expense

[2] The previous year's figures were adjusted retroactively to reflect the change in the accounting treatment of forward exchange contracts. See Note 3 "Change in Accounting for Forward Exchange Contracts" for additional information

[3] Weighted average number of no-par voting shares of Covestro AG in issue: 202,500,000

Covestro Group Consolidated Statement of Comprehensive Income

	2nd quarter 2016	2nd quarter 2017	1st half 2016	1st half 2017
	€ million	€ million	€ million	€ million
Income after income taxes	**233**	**486**	**417**	**955**
Remeasurements of the net defined benefit liability for post-employment benefit plans	(208)	(18)	(623)	61
Income taxes	68	6	202	(21)
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans	**(140)**	**(12)**	**(421)**	**40**
Other comprehensive income that will not be reclassified subsequently to profit or loss	**(140)**	**(12)**	**(421)**	**40**
Changes in exchange differences recognized on translation of operations outside the eurozone	31	(175)	(54)	(191)
Reclassified to profit or loss	–	–	–	–
Other comprehensive income from exchange differences	**31**	**(175)**	**(54)**	**(191)**
Other comprehensive income that may be reclassified subsequently to profit or loss	**31**	**(175)**	**(54)**	**(191)**
Total other comprehensive income[1]	**(109)**	**(187)**	**(475)**	**(151)**
of which attributable to noncontrolling interest	2	(1)	1	(1)
of which attributable to Covestro AG stockholders	(111)	(186)	(476)	(150)
Total comprehensive income	**124**	**299**	**(58)**	**804**
of which attributable to noncontrolling interest	5	1	6	2
of which attributable to Covestro AG stockholders	119	298	(64)	802

[1] Total changes recognized outside profit or loss

Covestro Group Consolidated Statement of Financial Position

	June 30, 2016	June 30, 2017	Dec. 31, 2016
	€ million	€ million	€ million
Noncurrent assets			
Goodwill	259	258	264
Other intangible assets	108	85	97
Property, plant, and equipment	4,614	4,327	4,655
Investments accounted for using the equity method	217	216	230
Other financial assets	37	31	31
Other receivables	69	40	41
Deferred taxes	831	636	648
	6,135	**5,593**	**5,966**
Current assets			
Inventories	1,685	1,842	1,721
Trade accounts receivable	1,776	1,982	1,674
Other financial assets	26	465	171
Other receivables	288	282	316
Claims for income tax refunds	48	53	119
Cash and cash equivalents	151	300	267
Assets held for sale	–	3	–
	3,974	**4,927**	**4,268**
Total assets	**10,109**	**10,520**	**10,234**
Equity			
Capital stock of Covestro AG	203	203	203
Capital reserves of Covestro AG	4,908	4,908	4,908
Other reserves	(1,721)	(393)	(922)
Equity attributable to Covestro AG stockholders	**3,390**	**4,718**	**4,189**
Equity attributable to noncontrolling interest	21	28	27
	3,411	**4,746**	**4,216**
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	2,098	1,167	1,209
Other provisions	312	287	319
Financial liabilities	1,820	1,245	1,796
Income tax liabilities	–	40	36
Other liabilities	27	18	26
Deferred taxes	171	163	158
	4,428	**2,920**	**3,544**
Current liabilities			
Other provisions	385	384	569
Financial liabilities	389	701	135
Trade accounts payable	1,262	1,358	1,536
Income tax liabilities	58	236	37
Other liabilities	176	175	197
	2,270	**2,854**	**2,474**
Total equity and liabilities	**10,109**	**10,520**	**10,234**

Covestro Group Consolidated Statement of Cash Flows

	2nd quarter 2016	2nd quarter 2017	1st half 2016	1st half 2017
	€ million	€ million	€ million	€ million
Income after income taxes	233	486	417	955
Income taxes	86	167	164	332
Financial result	45	34	123	88
Income taxes paid	(121)	(33)	(201)	(62)
Depreciation, amortization, and impairments	178	161	346	319
Change in pension provisions	(6)	16	(2)	26
(Gains)/losses on retirements of noncurrent assets	–	(38)	–	(45)
Decrease/(increase) in inventories	46	(43)	76	(200)
Decrease/(increase) in trade accounts receivable	(110)	(54)	(302)	(382)
(Decrease)/increase in trade accounts payable	11	(172)	(131)	(128)
Changes in other working capital, other noncash items	(46)	(113)	(50)	(207)
Cash flows from operating activities	**316**	**411**	**440**	**696**
Cash outflows for additions to property, plant, equipment, and intangible assets	(79)	(92)	(126)	(166)
Cash inflows from sales of property, plant, equipment, and other assets	–	–	3	12
Cash inflows from divestitures	–	47	–	47
Cash outflows for noncurrent financial assets	(6)	(4)	(7)	(17)
Cash inflows from noncurrent financial assets	–	1	2	1
Cash outflows for acquisitions less acquired cash	–	(4)	–	(4)
Interest and dividends received[1]	2	9	9	18
Cash inflows from/(outflows for) other current financial assets[1]	25	(207)	45	(268)
Cash flows from investing activities[1]	**(58)**	**(250)**	**(74)**	**(377)**
Dividend payments and withholding tax on dividends	(143)	(274)	(143)	(274)
Issuances of debt	42	81	1,740	156
Retirements of debt	(1,007)	(64)	(2,392)	(99)
Interest paid[1]	(29)	(32)	(63)	(63)
Cash flows from financing activities[1]	**(1,137)**	**(289)**	**(858)**	**(280)**
Change in cash and cash equivalents due to business activities	**(879)**	**(128)**	**(492)**	**39**
Cash and cash equivalents at beginning of period	**1,030**	**434**	**642**	**267**
Change in cash and cash equivalents due to exchange rate movements	–	(6)	1	(6)
Cash and cash equivalents at end of period	**151**	**300**	**151**	**300**

[1] The previous year's figures were adjusted retroactively to reflect the change in the accounting treatment of forward exchange contracts. See Note 3 "Change in Accounting for Forward Exchange Contracts" for additional information

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. net income	Currency translation	Revaluation surplus	Equity attributable to Covestro AG stockholders	Equity attributable to noncontrolling interest	Equity
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
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			412			412	5	417
Other comprehensive income			(421)	(55)		(476)	1	(475)
Total comprehensive income			**(9)**	**(55)**		**(64)**	**6**	**(58)**
June 30, 2016	**203**	**4,908**	**(2,150)**	**429**	**–**	**3,390**	**21**	**3,411**
Dec. 31, 2016	**203**	**4,908**	**(1,441)**	**519**	**–**	**4,189**	**27**	**4,216**
Dividend payments			(273)			(273)	(1)	(274)
Other changes			–		–	–	–	–
Income after income taxes			952			952	3	955
Other comprehensive income			40	(190)		(150)	(1)	(151)
Total comprehensive income			**992**	**(190)**		**802**	**2**	**804**
June 30, 2017	**203**	**4,908**	**(722)**	**329**	**–**	**4,718**	**28**	**4,746**

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 (Germany), (Covestro AG) as of June 30, 2017, have been prepared according to the International Financial Reporting Standards (IFRS) – including IAS 34 (Interim Financial Reporting) – of the International Accounting Standards Board (IASB), London (United Kingdom), the Interpretations (IFRICs) of the IFRS Interpretations Committee (IFRS IC), and the interpretations published by the Standing Interpretations Committee (SIC), endorsed by the European Union and in effect at the closing date.

The accounting policies and valuation principles described in the consolidated financial statements as of December 31, 2016, were applied unchanged in preparing the consolidated interim financial statements as of June 30, 2017, subject to the effects of financial reporting standards adopted for the first time in the current fiscal year as described in Note 2.

Events and transactions that affected the net assets, financial position, and results of operations since the end of the last annual reporting period are explained in the interim Group management report as well as in the notes to the consolidated interim financial statements.

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 rates		
€1/		June 30, 2016	Dec. 31, 2016	June 30, 2017
BRL	Brazil	3.59	3.43	3.76
CNY	China	7.40	7.35	7.74
HKD	Hong Kong	8.61	8.18	8.91
INR	India	74.96	71.59	73.74
JPY	Japan	114.05	123.40	127.75
MXN	Mexico	20.63	21.77	20.58
USD	United States	1.11	1.05	1.14

Average Rates for Major Currencies

		Average rates	
€1/		1st half 2016	1st half 2017
BRL	Brazil	4.13	3.43
CNY	China	7.30	7.42
HKD	Hong Kong	8.66	8.41
INR	India	74.93	71.09
JPY	Japan	124.50	121.61
MXN	Mexico	20.12	20.99
USD	United States	1.12	1.08

2. Effects of New Financial Reporting Standards

2.1 Financial Reporting Standards Applied for the First Time in the Reporting Period

No new financial reporting standards were applied for the first time during the reporting period. The following pronouncements would have had to be applied as of January 1, 2017, but as they have not yet been endorsed by the European Union, they have not been applied to date.

IFRS Pronouncement (published on)	Title	Effective for annual periods beginning on or after
Amendments to IAS 12 (January 19, 2016)	Recognition of Deferred Tax Assets for Unrealised Losses	January 1, 2017
Amendments to IAS 7 (January 29, 2016)	Disclosure Initiative	January 1, 2017
Annual Improvements to IFRS Standards (December 8, 2016)	2014–2016 Cycle	January 1, 2017/January 1, 2018

The initial application of these pronouncements is not expected to materially affect the presentation of Covestro's net assets, financial position, and results of operations.

2.2 Published Financial Reporting Standards That Have Not Yet Been Applied

The following information supplements the disclosure presented in the 2016 Annual Report regarding potential effects of those published reporting standards which are not yet effective to be applied but whose application could affect the presentation of the net assets, financial position, and results of operations.

As of the reporting date of December 31, 2016, the analysis of the effects of **IFRS 15 (Revenue from Contracts with Customers)**, which was published by the IASB on May 28, 2014, on the presentation of the net assets, financial position, and results of operations had not yet been completed. Certain circumstances still require further assessment. However, it appears that certain circumstances could give rise to effects that cannot be quantified sufficiently at this time, and therefore cannot yet be assessed reliably as to their materiality. The current assumption is that revenue from certain contracts will be recognized differently from the way it is recognized today. For example, certain warehousing agreements could generate revenue as early as the date of delivery and not upon documented withdrawal, as the analysis currently stands. Moreover, an analysis is underway of the extent to which revenue for some customer-specific products would have to be recognized earlier due to the possible lack of an alternative use for Covestro where Covestro has an enforceable right to receive payment for completed performance. In addition, some revenue may also be recognized later, because services, such as transportation or freight services, are considered performed following the transfer of control over the goods sold as per the information currently available. IFRS 15 will generally affect the existing reporting processes.

The analysis to date of **IFRS 9 (Financial Instruments)**, which was published by the IASB on July 24, 2014, indicates that Covestro is generally affected by the change in classification and measurement rules for financial assets and expanded disclosures required in the notes for financial instruments. In individual cases, the reporting of financial assets may change based on the business model or characteristics of the relevant contractual cash flows. The process of recognizing expected losses on financial assets (e.g., trade accounts receivable) is still being analyzed. These amendments will affect existing reporting processes. Because Covestro does not practice formal hedge accounting, the fundamental changes in hedge accounting are not relevant at this time.

In general, IFRS 9 may materially affect the presentation of Covestro's net assets, financial position and results of operations depending on future transactions.

IFRS 16 (Leases), which was published by the IASB on January 13, 2016, will considerably change lease accounting at Covestro, particularly from the lessee perspective. For material leases, a right of use must be recognized as an asset, and a corresponding payment obligation must be carried as a lease liability. The analysis focuses mainly on the implications on data systems and processes and is still underway at present, as is the technical accounting analysis. No statement can yet be made regarding the effects on the presentation of Covestro's net assets, financial position, and results of operations.

3. Change in Accounting for Forward Exchange Contracts

Since January 1, 2017, the effect on earnings of forward exchange contracts for the purpose of hedging foreign exchange risks has been divided into an interest and a currency component to improve the transparency of presentation for the results of operations. The interest component comprises interest rate-induced changes in the fair value of forward exchange contracts and the forward element, which reflects the interest rate differences between two currency areas at the time the transaction is entered into. For this reason, the interest component is no longer reported in other financial result, but instead in interest income or expense. Net interest therefore provides a more comprehensive picture of financing costs. In addition, there will no longer be any interest rate-induced effects in the currency position included in the other financial result.

In accordance with IAS 8.22, the changes have been applied retroactively. The following table illustrates the effects of the change in accounting for forward exchange contracts:

Accounting Changes Affecting the Income Statement

	1st half 2016 pre-change	Accounting change	1st half 2016 post-change	1st half 2017 pre-change	Accounting change	1st half 2017 post-change
	€ million	€ million	€ million	€ million	€ million	€ million
Equity-method income (loss)	(10)	–	(10)	(12)	–	(12)
Interest income	3	2	5	5	6	11
Interest expense	(29)	(52)	(81)	(21)	(50)	(71)
Other financial result	(87)	50	(37)	(60)	44	(16)
Financial result	**(123)**	**–**	**(123)**	**(88)**	**–**	**(88)**

4. 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, 2016, 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 June 30, 2017, 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., in upholstered furniture, mattresses, and 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 high-performance plastic polycarbonate in the form of granules, composite materials, 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:

- EBIT and EBITDA are not defined in the International Financial Reporting Standards. EBIT is equal to income after income taxes plus financial result and income taxes expense. 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.

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

The following tables show the segment reporting data for the second quarter and for the first half year or as of June 30, respectively:

Segment Reporting 2nd Quarter

				Other/Consolidation		
	Polyurethanes	Polycarbonates	Coatings, Adhesives, Specialties	All other segments	Corporate Center and reconciliation	Covestro Group
	€ million	€ million	€ million	€ million	€ million	€ million
2nd quarter 2017						
Sales	1,889	911	533	165	–	3,498
EBITDA	556	197	114	2	(21)	848
EBIT	460	152	95	1	(21)	687
2nd quarter 2016						
Sales	1,481	831	532	146	–	2,990
EBITDA	228	191	142	(1)	(18)	542
EBIT	124	142	119	(3)	(18)	364

Segment Reporting 1st Half

				Other/Consolidation		
	Polyurethanes	Polycarbonates	Coatings, Adhesives, Specialties	All other segments	Corporate Center and reconciliation	Covestro Group
	€ million	€ million	€ million	€ million	€ million	€ million
1st half 2017						
Sales	3,783	1,865	1,097	339	–	7,084
EBITDA	1,038	429	260	9	(42)	1,694
EBIT	856	336	218	7	(42)	1,375
1st half 2016						
Sales	2,884	1,617	1,044	320	–	5,865
EBITDA	442	368	281	(2)	(39)	1,050
EBIT	241	269	238	(5)	(39)	704

Working Capital by Segment

	Dec. 31, 2016	June 30, 2017
	€ million	€ million
Polyurethanes	948	1,292
Polycarbonates	477	670
Coatings, Adhesives, Specialties	378	442
Total of reportable segments	**1,803**	**2,404**
All other segments	63	67
Corporate Center	(7)	(5)
Working capital	**1,859**	**2,466**
of which inventories	1,721	1,842
of which trade accounts receivable	1,674	1,982
of which trade accounts payable	(1,536)	(1,358)

Information on geographical areas

The following tables show information for geographical areas. The EMLA region consists of Europe, 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 second quarter and for the first half year:

Regional Reporting 2nd Quarter

	EMLA	NAFTA	APAC	Consoli-dation	Total
	€ million	€ million	€ million	€ million	€ million
2nd quarter 2017					
Net sales (external) by market	1,496	878	1,124	–	3,498
Net sales (external) by point of origin	1,488	899	1,111	–	3,498
Interregional sales	194	125	83	(402)	–
2nd quarter 2016					
Net sales (external) by market	1,340	787	863	–	2,990
Net sales (external) by point of origin	1,339	801	850	–	2,990
Interregional sales	173	126	36	(335)	–

Regional Reporting 1st Half

	EMLA	NAFTA	APAC	Consoli-dation	Total
	€ million	€ million	€ million	€ million	€ million
1st half 2017					
Net sales (external) by market	3,022	1,761	2,301	–	7,084
Net sales (external) by point of origin	3,018	1,797	2,269	–	7,084
Interregional sales	396	274	136	(806)	–
1st half 2016					
Net sales (external) by market	2,641	1,569	1,655	–	5,865
Net sales (external) by point of origin	2,632	1,595	1,638	–	5,865
Interregional sales	351	269	61	(681)	–

Reconciliation

The following table shows the reconciliation of EBITDA of the segments to income before income taxes of the Group:

Reconciliation of Segments' EBITDA to Group Income Before Income Taxes

	2nd quarter 2016	2nd quarter 2017	1st half 2016	1st half 2017
	€ million	€ million	€ million	€ million
EBITDA of segments	560	869	1,089	1,736
EBITDA of Corporate Center	(18)	(21)	(39)	(42)
EBITDA	**542**	**848**	**1,050**	**1,694**
Depreciation, amortization, and impairment losses of segments	(178)	(161)	(346)	(319)
Depreciation, amortization, and impairment losses of Corporate Center	–	–	–	–
Depreciation, amortization, and impairment losses	**(178)**	**(161)**	**(346)**	**(319)**
EBIT of segments	382	708	743	1,417
EBIT of Corporate Center	(18)	(21)	(39)	(42)
EBIT	**364**	**687**	**704**	**1,375**
Financial result	(45)	(34)	(123)	(88)
Income before income taxes	**319**	**653**	**581**	**1,287**

5. Scope of Consolidation

5.1 Changes in the Scope of Consolidation

As of June 30, 2017, the scope of consolidation comprised Covestro AG and 49 consolidated companies (December 31, 2016: 49 companies). Covestro (Slovakia) Services s.r.o., Bratislava (Slovakia), has been included in the consolidated financial statements since the first quarter 2017. Covestro Darmstadt GmbH, Darmstadt (Germany), was merged with Covestro Deutschland AG, Leverkusen (Germany), effective June 27, 2017. As in the financial statements as of December 31, 2016, one joint operation is accounted for in line with Covestro's share of its assets, liabilities, sales 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 June 30, 2017.

5.2 Acquisitions and Divestitures

Acquisitions

Effective April 1, 2017, Covestro acquired a pilot plant (technical center) in an asset deal from Bayer AG, Leverkusen (Germany), (Bayer AG) along with the employees. The new plant functions as a link between research and production and is intended to accelerate the process of manufacturing new Covestro products on an industrial scale. The consideration agreed amounts to €4 million, all paid in cash. The net assets acquired amount to €4 million. The goodwill of €2 million reflects the positive growth prospects resulting from the ability to move innovative products to industrial-scale production more quickly. This goodwill is not tax deductible.

At the time of acquisition, the aforementioned transaction had the following effects on Covestro Group's assets and liabilities in the first half of 2017 and led to the following net outflow of funds (including cash and cash equivalents acquired).

Acquired Assets and Assumed Liabilities (Fair Values at the Acquisition Date)

	Technical center
	€ million
Goodwill	2
Property, plant, and equipment	4
Deferred tax assets	1
Pension provisions	(2)
Other provisions	(1)
Net assets	**4**
Purchase price	**4**
Net cash outflow for acquisitions	**4**

A contract for hereditary building rights was also signed for the technical center property by Covestro and Bayer AG and classified as a finance lease. The property was recognized in the amount of €1 million in property, plant and equipment with a corresponding liability of €1 million in financial liabilities.

As an in-house service provider, the technical center has not contributed materially to Covestro Group's sales or income after income taxes since April 1, 2017. Likewise, including the center in the consolidated financial statements as of January 1, 2017, would not have had a material effect on the sales or income after income taxes of the Covestro Group.

Divestitures

On April 3, 2017, Covestro finalized an asset deal for the sale of the North American polyurethane spray foam systems business to Accella Polyurethane Systems LLC, Maryland Heights (USA), for a selling price of €47 million. Assets of €12 million and liabilities of €4 million were transferred to the buyer. The gain on the disposal of this business totaling €39 million was recognized in other operating result.

6. 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.

Earnings per Share

	1st half 2016	1st half 2017
	€ million	€ million
Income after income taxes	417	955
of which attributable to noncontrolling interest	5	3
of which attributable to Covestro AG stockholders (net income)	412	952
	Shares	Shares
Weighted average number of no-par voting shares of Covestro AG	202,500,000	202,500,000
	€	€
Basic earnings per share	2.03	4.70
Diluted earnings per share	2.03	4.70

7. Employees and Provisions for Pensions and Other Post-employment Benefits

As of June 30, 2017, the Covestro Group had 15,960 employees worldwide (December 31, 2016: 15,579). Personnel expenses rose by €18 million to €969 million in the first six months of 2017 (previous year: €951 million).

Employees by Corporate Function[1]

	Dec. 31, 2016	June 30, 2017
Production	9,830	10,014
Marketing and distribution	3,463	3,484
Research and development	1,016	1,036
General administration	1,270	1,426
Total	**15,579**	**15,960**

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

Provisions for pensions and other post-employment benefits decreased to €1,167 million (December 31, 2016: €1,209 million). This is mainly attributable to the increase in the discount rate in Germany as well as to exchange differences.

Discount Rate for Pension Obligations

	Dec. 31, 2016	June 30, 2017
	%	%
Germany	2.00	2.10
United States	3.70	3.60

8. 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

					June 30, 2017
		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	1,982				
Loans and receivables	1,982	1,982			1,982
Other financial assets	496				
Loans and receivables	184	184			184
Available-for-sale financial assets	257	5	252		257
Derivatives that do not qualify for hedge accounting	47			47	47
Receivables under finance lease agreements[1]	8				15
Other receivables	322				
Loans and receivables	48	48			48
Nonfinancial assets	274				
Cash and cash equivalents	300				
Loans and receivables	300	300			300
Liabilities					
Financial liabilities	1,946				
Carried at amortized cost	1,695	1,695			1,768
Derivatives that do not qualify for hedge accounting	11			11	11
Liabilities under finance lease agreements[1]	240				281
Trade accounts payable	1,358				
Carried at amortized cost	1,325	1,325			1,325
Nonfinancial liabilities	33				
Other liabilities	193				
Carried at amortized cost	37	37			37
Derivatives that do not qualify for hedge accounting	5			5	5
Nonfinancial liabilities	151				

[1] Valuation in accordance with IAS 17

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

	Dec. 31, 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	1,674				
Loans and receivables	1,674	1,674			1,674
Other financial assets	202				
Loans and receivables	164	164			164
Available-for-sale financial assets	6	5	1		6
Derivatives that do not qualify for hedge accounting	24			24	24
Receivables under finance lease agreements[1]	8				16
Other receivables	357				
Loans and receivables	52	52			52
Nonfinancial assets	305				
Cash and cash equivalents	267				
Loans and receivables	267	267			267
Liabilities					
Financial liabilities	1,931				
Carried at amortized cost	1,633	1,633			1,703
Derivatives that do not qualify for hedge accounting	33			33	33
Liabilities under finance lease agreements[1]	265				303
Trade accounts payable	1,536				
Carried at amortized cost	1,516	1,516			1,516
Nonfinancial liabilities	20				
Other liabilities	223				
Carried at amortized cost	36	36			36
Derivatives that do not qualify for hedge accounting	6			6	6
Nonfinancial liabilities	181				

[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				Fair value			
	Dec. 31, 2016	Level 1	Level 2	Level 3	June 30, 2017	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			252	252		
Derivatives that do not qualify for hedge accounting	24		15	9	47		39	8
Financial assets not carried at fair value								
Receivables under leasing agreements	16			16	15			15
Financial liabilities carried at fair value								
Derivatives that do not qualify for hedge accounting	39		33	6	16		11	5
Financial liabilities not carried at fair value								
Bonds	1,556	1,556			1,561	1,561		
Other financial liabilities	450		450		488		488	

During the first half year of 2017, 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 June 2017, Covestro Deutschland AG, Leverkusen (Germany), acquired euro-denominated government bonds with maturities up to October 2017 in the course of investing surplus liquidity for purposes of diversifying the credit risk structure. The total par value of the bonds is €250 million. The bonds acquired are measured and classified 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 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 exist 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 half year of 2017:

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

	2017
	€ million
Net carrying amounts, Jan. 1,	**3**
Gains/(losses) recognized in profit or loss	–
of which related to assets/liabilities recognized in the statement of financial position	–
Gains/(losses) recognized outside profit or loss	–
Additions of assets/(liabilities)	–
Settlements of (assets)/liabilities	–
Reclassifications	–
Net carrying amounts, June 30,	**3**

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

9. 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 26 to the consolidated financial statements as of December 31, 2016. In the current fiscal year, there have been no new significant developments in the legal proceedings described there and no new material legal proceedings are pending.

10. 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 at least significant influence on Covestro AG and its subsidiaries or over which Covestro AG or its subsidiaries exercise control or have at least significant influence. They include, in particular, Bayer AG which, as defined in IAS 24, is classified as the ultimate controlling company on account of its majority of the voting rights 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, 2016		June 30, 2017	
	Receivables	Liabilities	Receivables	Liabilities
	€ million	€ million	€ million	€ million
Bayer AG	1	4	5	5
Bayer Group companies	25	133	24	134
Nonconsolidated subsidiaries and associates	4	7	4	7
Joint ventures	1	–	1	–
Associates	4	1	10	–

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

	1st half 2016		1st half 2017	
	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	–	–	15	6
Bayer Group companies	39	257	27	263
Nonconsolidated subsidiaries and associates	17	2	20	3
Joint ventures	2	–	2	–
Associates	5	246	10	322

Transactions with Bayer AG and its subsidiaries

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

The **goods and services received** mainly comprise operational goods and service transactions with Currenta GmbH & Co. OHG, Leverkusen (Germany), (Currenta) and its subsidiaries. These transactions relate to the Chempark sites operated by Currenta, which are used jointly by Bayer and Covestro.

Receivables from and payables to related parties mainly comprise leasing and financing relationships, trade in goods and services, and other transactions.

11. Events After the End of the Reporting Period

Since July 1, 2017 no events have occurred that we expect to materially affect the net assets, financial position or results of operations of the Covestro Group.

Leverkusen, July 20, 2017
Covestro AG

The Board of Management

Responsibility Statement

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

Leverkusen, July 20, 2017
Covestro AG

The Board of Management

Review Report

To Covestro AG, Leverkusen

We have reviewed the condensed consolidated interim financial statements – comprising the statement of financial position, income statement, statement of comprehensive income, statement of cash flows, statement of changes in equity and selected explanatory notes – and the interim Group management report of Covestro AG, Leverkusen, for the period from January 1 to June 30, 2016, which are components of the half-yearly financial report pursuant to Section 37w of the German Securities Trading Act (WpHG). The company's Board of Management is responsible for the preparation of the condensed consolidated interim financial statements in accordance with the IFRSs applicable to interim reporting as adopted by the EU and the interim Group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and the interim Group management report based on our review.

We have conducted the review of the condensed consolidated interim financial statements and the interim Group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institute of Public Auditors in Germany (IDW) and additionally observed the International Standard on Review Engagements "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE 2410). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material aspects, in accordance with the IFRSs applicable to interim financial reporting as adopted by the EU, and that the interim Group management report has not been prepared, in all material aspects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRSs applicable to interim reporting as adopted by the EU, nor that the interim Group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Essen, July 20, 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Petra Justenhoven	Dietmar Prümm
Wirtschaftsprüferin	Wirtschaftsprüfer

Further Information

Segment and Quarterly Overview

Segment Information 2nd Quarter

	Polyurethanes		Polycarbonates		Coatings, Adhesives, Specialties		Others/Consolidation		Covestro Group	
	2nd quarter 2016	2nd quarter 2017	2nd quarter 2016	2nd quarter 2017	2nd quarter 2016	2nd quarter 2017	2nd quarter 2016	2nd quarter 2017	2nd quarter 2016	2nd quarter 2017
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales	**1,481**	**1,889**	**831**	**911**	**532**	**533**	**146**	**165**	**2,990**	**3,498**
Change in sales										
Volume	+6.4%	–0.8%	+7.9%	+2.5%	–0.6%	–1.2%	–10.8%	+9.8%	+4.5%	+0.6%
Price	–13.1%	+27.0%	–4.3%	+6.1%	–2.7%	+0.6%	–8.3%	+2.6%	–8.7%	+15.3%
Currency	–2.8%	+1.3%	–3.4%	+1.0%	–2.0%	+0.8%	–0.7%	+0.6%	–2.7%	+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]	**+9.0%**	**–2.3%**	**+8.5%**	**+0.7%**	**–1.8%**	**–3.0%**			**+7.7%**	**–1.6%**
Sales by region										
EMLA	653	798	300	305	272	265	115	128	1,340	1,496
NAFTA	450	500	193	225	117	120	27	33	787	878
APAC	378	591	338	381	143	148	4	4	863	1,124
EBITDA	**228**	**556**	**191**	**197**	**142**	**114**	**(19)**	**(19)**	**542**	**848**
EBIT	**124**	**460**	**142**	**152**	**119**	**95**	**(21)**	**(20)**	**364**	**687**
Depreciation, amortization, impairment losses, and impairment loss reversals	**104**	**96**	**49**	**45**	**23**	**19**	**2**	**1**	**178**	**161**
Operating cash flows	**135**	**219**	**89**	**1**	**72**	**41**	**20**	**150**	**316**	**411**
Cash outflows for additions to property, plant, equipment, and intangible assets	**46**	**51**	**19**	**26**	**14**	**15**	**–**	**–**	**79**	**92**
Free operating cash flow	**89**	**168**	**70**	**(25)**	**58**	**26**	**20**	**150**	**237**	**319**

[1] Reference values calculated based on the definition of the core business effective March 31, 2017

Segment Information 1st Half

	Polyurethanes		Polycarbonates		Coatings, Adhesives, Specialties		Others/Consolidation		Covestro Group	
	1st half 2016	1st half 2017	1st half 2016	1st half 2017	1st half 2016	1st half 2017	1st half 2016	1st half 2017	1st half 2016	1st half 2017
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales	2,884	3,783	1,617	1,865	1,044	1,097	320	339	5,865	7,084
Change in sales										
Volume	+6.7%	+3.4%	+8.3%	+9.5%	–1.1%	+3.8%	–6.5%	+3.6%	+4.9%	+5.2%
Price	–14.4%	+26.4%	–4.8%	+4.6%	–2.5%	+0.2%	–9.4%	+1.7%	–9.6%	+14.4%
Currency	–1.9%	+1.4%	–2.1%	+1.2%	–1.2%	+1.1%	–0.3%	+0.6%	–1.7%	+1.2%
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]	+9.7%	+2.1%	+8.5%	+7.5%	–2.3%	+2.3%			+8.1%	+3.5%
Sales by region										
EMLA	1,268	1,597	585	627	534	538	254	260	2,641	3,022
NAFTA	896	990	385	456	231	245	57	70	1,569	1,761
APAC	720	1,196	647	782	279	314	9	9	1,655	2,301
EBITDA	442	1,038	368	429	281	260	(41)	(33)	1,050	1,694
EBIT	241	856	269	336	238	218	(44)	(35)	704	1,375
Depreciation, amortization, impairment losses, and impairment loss reversals	201	182	99	93	43	42	3	2	346	319
Operating cash flows	151	249	183	61	126	81	(20)	305	440	696
Cash outflows for additions to property, plant, equipment, and intangible assets	70	92	31	45	25	28	–	1	126	166
Free operating cash flow	81	157	152	16	101	53	(20)	304	314	530

[1] Reference values calculated based on the definition of the core business effective March 31, 2017

Quarterly Overview

	1st quarter 2016	2nd quarter 2016	3rd quarter 2016	4th quarter 2016	1st quarter 2017	2nd quarter 2017
	€ million	€ million	€ million	€ million	€ million	€ million
Sales	**2,875**	**2,990**	**3,022**	**3,017**	**3,586**	**3,498**
Polyurethanes	1,403	1,481	1,503	1,540	1,894	1,889
Polycarbonates	786	831	848	833	954	911
Coatings, Adhesives, Specialties	512	532	515	481	564	533
Core volume growth[1]	**+8.4%**	**+7.7%**	**+9.1%**	**+4.8%**	**+9.0%**	**–1.6%**
EBITDA	**508**	**542**	**574**	**390**	**846**	**848**
Polyurethanes	214	228	263	176	482	556
Polycarbonates	177	191	194	142	232	197
Coatings, Adhesives, Specialties	139	142	136	83	146	114
EBIT	**340**	**364**	**406**	**221**	**688**	**687**
Polyurethanes	117	124	168	80	396	460
Polycarbonates	127	142	145	93	184	152
Coatings, Adhesives, Specialties	119	119	114	59	123	95
Financial result	**(78)**	**(45)**	**(41)**	**(32)**	**(54)**	**(34)**
Income before income taxes	**262**	**319**	**365**	**189**	**634**	**653**
Income after taxes	**184**	**233**	**261**	**128**	**469**	**486**
Net income	**182**	**230**	**259**	**124**	**468**	**484**
Operating cash flows	**124**	**316**	**736**	**610**	**285**	**411**
Cash outflows for additions to property, plant, equipment, and intangible assets	**47**	**79**	**90**	**203**	**74**	**92**
Free operating cash flow	**77**	**237**	**646**	**407**	**211**	**319**

[1] Reference values calculated based on the definition of the core business effective March 31, 2017

Financial Calendar

Q3 2017 Interim Report	**October 24, 2017**
Annual Report 2017	**February 20, 2018**
Annual General Meeting 2018	**April 13, 2018**
Q1 2018 Interim Report	**April 26, 2018**

Publishing Information

Published by

Covestro AG
Kaiser-Wilhelm-Allee 60
51373 Leverkusen
Germany
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www.covestro.com

Local Court of Cologne
HRB 85281
VAT No. DE815579850

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Press contact
Email: communications@covestro.com

Translation
Leinhäuser Language Services GmbH
Unterhaching, Germany

Design and layout
TERRITORY CTR GmbH
Leverkusen, Germany

Consolidated Interim Report produced with firesys