CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS OF JUNE 30, 2021

COVESTRO GROUP CONSOLIDATED INCOME STATEMENT

	2nd quarter 2020	2nd quarter 2021	1st half 2020	1st half 2021
	€ million	€ million	€ million	€ million
Sales	**2,156**	**3,956**	**4,939**	**7,263**
Cost of goods sold	(1,817)	(2,813)	(4,049)	(5,074)
Gross profit	**339**	**1,143**	**890**	**2,189**
Selling expenses	(268)	(357)	(589)	(670)
Research and development expenses	(59)	(87)	(124)	(160)
General administration expenses	(68)	(105)	(160)	(203)
Other operating income	8	40	17	52
Other operating expenses	(20)	(27)	(35)	(45)
EBIT[1]	**(68)**	**607**	**(1)**	**1,163**
Equity-method loss	(4)	(4)	(8)	(7)
Result from other affiliated companies	–	–	–	1
Interest income	7	9	15	15
Interest expense	(18)	(22)	(37)	(41)
Other financial result	(2)	(1)	(26)	(15)
Financial result	**(17)**	**(18)**	**(56)**	**(47)**
Income before income taxes	**(85)**	**589**	**(57)**	**1,116**
Income taxes	32	(139)	25	(271)
Income after income taxes	**(53)**	**450**	**(32)**	**845**
of which attributable to noncontrolling interest	(1)	1	–	3
of which attributable to Covestro AG shareholders (net income)	(52)	449	(32)	842
	€	€	€	€
Basic earnings per share[2]	**(0.28)**	**2.32**	**(0.17)**	**4.36**
Diluted earnings per share[2]	**(0.28)**	**2.32**	**(0.17)**	**4.36**

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

[2] Earnings per share: According to IAS 33 (Earnings per Share) corresponds to net income divided by the weighted average number of outstanding no-par voting shares of Covestro AG. The calculation was based on 193,160,544 no-par shares for the second quarter of 2021 (previous year: 182,864,685 no-par shares) and on 193,160,544 no-par shares for the first half of 2021 (previous year: 182,864,685).

COVESTRO GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2nd quarter 2020	2nd quarter 2021	1st half 2020	1st half 2021
	€ million	€ million	€ million	€ million
Income after income taxes	(53)	450	(32)	845
Remeasurements of the net defined benefit liability for post-employment benefit plans	(437)	113	112	484
Income taxes	136	(46)	(38)	(154)
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans	**(301)**	**67**	**74**	**330**
Other comprehensive income that will not be reclassified subsequently to profit or loss	**(301)**	**67**	**74**	**330**
Exchange differences of foreign operations	(36)	(30)	(40)	100
Reclassified to profit or loss	–	–	–	–
Other comprehensive income from exchange differences	**(36)**	**(30)**	**(40)**	**100**
Other comprehensive income that may be reclassified subsequently to profit or loss	**(36)**	**(30)**	**(40)**	**100**
Total other comprehensive income[1]	(337)	37	34	430
of which attributable to noncontrolling interest	–	–	–	–
of which attributable to Covestro AG shareholders	(337)	37	34	430
Total comprehensive income	(390)	487	2	1,275
of which attributable to noncontrolling interest	(1)	1	–	3
of which attributable to Covestro AG shareholders	(389)	486	2	1,272

[1] Total change recognized outside profit or loss

COVESTRO GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	June 30, 2020	June 30, 2021	Dec. 31, 2020
	€ million	€ million	€ million
Noncurrent assets			
Goodwill	264	739	255
Other intangible assets	109	716	109
Property, plant and equipment	5,243	5,747	5,175
Investments accounted for using the equity method	187	169	173
Other financial assets	35	31	32
Other receivables	75	88	65
Deferred taxes	861	736	925
	6,774	**8,226**	**6,734**
Current assets			
Inventories	1,922	2,363	1,663
Trade accounts receivable	1,311	2,266	1,593
Other financial assets	557	561	1,144
Other receivables	288	335	295
Claims for income tax refunds	133	93	55
Cash and cash equivalents	1,504	856	1,404
Assets held for sale	–	59	36
	5,715	**6,533**	**6,190**
Total assets	**12,489**	**14,759**	**12,924**
Equity			
Capital stock of Covestro AG	183	193	193
Capital reserves of Covestro AG	3,487	3,925	3,925
Other reserves	1,539	2,510	1,489
Equity attributable to Covestro AG shareholders	**5,209**	**6,628**	**5,607**
Equity attributable to noncontrolling interest	45	73	37
	5,254	**6,701**	**5,644**
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	1,881	1,692	2,123
Other provisions	209	211	218
Financial liabilities	2,817	2,351	2,277
Income tax liabilities	96	103	88
Other liabilities	16	31	31
Deferred taxes	196	256	179
	5,215	**4,644**	**4,916**
Current liabilities			
Other provisions	208	407	155
Financial liabilities	532	644	622
Trade accounts payable[1]	1,024	1,846	1,241
Income tax liabilities	33	223	74
Other liabilities[1]	223	280	262
Liabilities directly related to assets held for sale	–	14	10
	2,020	**3,414**	**2,364**
Total equity and liabilities	**12,489**	**14,759**	**12,924**

[1] Reference information as of June 30, 2020, was restated accordingly, see note 4.1 “Change in Presentation of Rebates Granted to Customers” in the Annual Report 2020.

COVESTRO GROUP CONSOLIDATED STATEMENT OF CASH FLOWS

	2nd quarter 2020	2nd quarter 2021	1st half 2020	1st half 2021
	€ million	€ million	€ million	€ million
Income after income taxes	(53)	450	(32)	845
Income taxes	(32)	139	(25)	271
Financial result	17	18	56	47
Income taxes paid	(12)	(126)	(102)	(176)
Depreciation, amortization and impairment losses and impairment loss reversals	193	210	380	397
Change in pension provisions	6	12	17	21
(Gains)/losses on retirements of noncurrent assets	(1)	(8)	1	(8)
Decrease/(increase) in inventories	94	(298)	(21)	(528)
Decrease/(increase) in trade accounts receivable	308	(191)	239	(446)
(Decrease)/increase in trade accounts payable[1]	(347)	255	(405)	394
Changes in other working capital, other noncash items[1]	(2)	92	(47)	164
Cash flows from operating activities	**171**	**553**	**61**	**981**
Cash outflows for additions to property, plant, equipment and intangible assets	(147)	(179)	(286)	(289)
Cash inflows from sales of property, plant, equipment and other assets	–	10	–	10
Cash inflows from divestments less divested cash	–	–	(3)	–
Cash outflows for noncurrent financial assets	(2)	(22)	(9)	(22)
Cash inflows from noncurrent financial assets	1	2	1	2
Cash outflows for acquisitions less acquired cash	–	(1,469)	–	(1,469)
Interest and dividends received	7	11	17	17
Cash inflows from/(outflows for) other current financial assets	(519)	175	(512)	606
Cash flows from investing activities	**(660)**	**(1,472)**	**(792)**	**(1,145)**
Dividend payments and withholding tax on dividends	(2)	(257)	(2)	(257)
Issuances of debt	1,011	1	1,768	2
Retirements of debt	(198)	(63)	(234)	(98)
Interest paid	(16)	(22)	(38)	(42)
Cash flows from financing activities	**795**	**(341)**	**1,494**	**(395)**
Change in cash and cash equivalents due to business activities	**306**	**(1,260)**	**763**	**(559)**
Cash and cash equivalents at beginning of period	**1,200**	**2,106**	**748**	**1,404**
Change in cash and cash equivalents due to changes in scope of consolidation	–	–	1	–
Change in cash and cash equivalents due to exchange rate movements	(2)	10	(8)	11
Cash and cash equivalents at end of period	**1,504**	**856**	**1,504**	**856**

[1] Reference information was restated accordingly, see note 4.1 “Change in Presentation of Rebates Granted to Customers” in the Annual Report 2020.

COVESTRO GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Capital stock of Covestro AG	Capital reserves of Covestro AG	Retained earnings incl. total income	Accumulated other comprehensive income	Equity attributable to Covestro AG shareholders	Equity attributable to non-controlling interest	Equity
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Dec. 31, 2019	**183**	**3,487**	**1,122**	**415**	**5,207**	**47**	**5,254**
Dividend payments			–		–	(2)	(2)
Income after income taxes			(32)		(32)	–	(32)
Other comprehensive income			74	(40)	34	–	34
Total comprehensive income			**42**	**(40)**	**2**	**–**	**2**
June 30, 2020	**183**	**3,487**	**1,164**	**375**	**5,209**	**45**	**5,254**
of which treasury shares	–	(7)			(7)		(7)
Dec. 31, 2020	**193**	**3,925**	**1,280**	**209**	**5,607**	**37**	**5,644**
Dividend payments			(251)		(251)	(6)	(257)
Other changes[1]			–		–	39	39
Income after income taxes			842		842	3	845
Other comprehensive income			330	100	430	–	430
Total comprehensive income			**1,172**	**100**	**1,272**	**3**	**1,275**
June 30, 2021	**193**	**3,925**	**2,201**	**309**	**6,628**	**73**	**6,701**
of which treasury shares	–	(2)			(2)		(2)

[1] Other changes in noncontrolling interests result from the acquisition of the Resins & Functional Materials (RFM) business from Koninklijke DSM N.V., Heerlen (Netherlands), see note 4.2 “Acquisitions and Divestitures.”

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. General Information

Information on the Consolidated Interim Financial Statements

Pursuant to Section 115, Paragraph 3 of the German Securities Trading Act (WpHG), the consolidated interim financial statements of Covestro AG, Leverkusen (Germany), as of June 30, 2021, 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), 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 measurement principles described in the consolidated financial statements as of December 31, 2020, were applied unchanged in preparing the consolidated interim financial statements as of June 30, 2021, subject to the effects of financial reporting standards adopted for the first time in the current fiscal year as described in note 2.1 "Financial Reporting Standards Applied for the First Time in the Reporting Period."

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, 2020	Dec. 31, 2020	June 30, 2021
BRL	Brazil	6.11	6.37	5.91
CNY	China	7.92	7.98	7.68
HKD	Hong Kong	8.68	9.51	9.23
INR	India	84.62	89.66	88.32
JPY	Japan	120.66	126.49	131.43
MXN	Mexico	25.95	24.42	23.58
USD	United States	1.12	1.23	1.19

Average rates for major currencies

		Average rates	
€1/		1st half 2020	1st half 2021
BRL	Brazil	5.33	6.49
CNY	China	7.76	7.80
HKD	Hong Kong	8.55	9.35
INR	India	81.60	88.38
JPY	Japan	119.22	129.76
MXN	Mexico	23.58	24.32
USD	United States	1.10	1.21

2. Effects of New Financial Reporting Standards

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

IFRS pronouncement (published on)	Title	Effective for annual periods beginning on or after
Amendments to IFRS 16 (May 28, 2020)	COVID-19-Related Rent Concessions	June 1, 2020
Amendments to IFRS 4 (June 25, 2020)	Extension of the Temporary Exemption from Applying IFRS 9	January 1, 2021
Amendments to IFRS 9, IAS 38, IFRS 7, IFRS 4 and IFRS 16 (August 27, 2020)	Interest Rate Benchmark Reform – Phase 2	January 1, 2021

Initial application of the standards listed in the table had little or no material impact on the presentation of the net assets, financial position and results of operations.

2.2 Published Financial Reporting Standards That Have Not Yet Been Applied

There were no new findings regarding the potential effects of reporting standards newly published up to the authorization for issue of the financial statements, but not yet required to be applied, whose application could affect the presentation of the net assets, financial position and results of operations that differ from the information presented in the 2020 consolidated financial statements.

"Amendments to IFRS 16 Leases: COVID-19-Related Rent Concessions beyond 30 June 2021" approved by the IASB on March 31, 2021, and "Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction" approved by the IASB on May 7, 2021, have not yet been adopted in the EU. Subject to an analysis to be completed, their initial application is not expected to (materially) affect the presentation of net assets, financial position and 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). They are based on the same accounting policies outlined in the consolidated financial statements as of December 31, 2020.

As of June 30, 2021, 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 diphenylmethane diisocyanate (MDI), toluene diisocyanate (TDI), and polyether polyols. Rigid foam based on MDI is used mainly in the construction industry as an insulating material as well as along the entire refrigeration chain. Flexible polyurethane foam based on TDI is used primarily in the furniture and automotive industries (e.g., in upholstered furniture, mattresses and car seats). The segment operates production facilities worldwide. Formulating and supplying customized polyurethane systems takes place primarily in the APAC region.

Polycarbonates

The Polycarbonates segment develops, produces and markets the high-performance plastic polycarbonate in the form of granules, composite materials and semifinished products. The material is used primarily in the automotive industry (e.g., in the vehicle interior 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 connectors and laptop cases), the medical technology industry 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 Covestro's precursors 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 precursors for the cosmetics, textiles and health care industries. On April 1, 2021, Covestro additionally completed the acquisition of the Resins & Functional Materials (RFM) business from Koninklijke DSM N.V., Heerlen (Netherlands). The Completion of this acquisition of RFM in the Coatings, Adhesives, Specialties segment makes Covestro one of the world's leading suppliers of sustainable coating resins.

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 generated mainly from by-products of chlorine production and use.

The costs of Corporate Center functions, higher or lower expenses for long-term stock-based compensation arising from fluctuations in the performance of Covestro AG stock, as well as one-time costs in the course of the LEAP transformation program are presented in the segment reporting as **"Corporate Center and reconciliation."**

The segment data is 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. EBITDA is the EBIT as reported in the income statement plus depreciation and impairment losses on property, plant and equipment, and amortization and impairment losses on intangible assets, less impairment loss reversals.
- Trade working capital includes inventories plus trade accounts receivable and contract assets, less trade accounts payable, contract liabilities and refund liabilities.

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

Segment reporting 2nd quarter

	Polyurethanes	Polycarbonates	Coatings, Adhesives, Specialties	Other/consolidation: All other segments	Other/consolidation: Corporate Center and reconciliation	Covestro Group
	€ million	€ million	€ million	€ million	€ million	€ million
2nd quarter 2021						
Net sales	1,841	1,015	926	174	–	3,956
EBITDA	452	260	134	(11)	(18)	817
EBIT	348	208	81	(12)	(18)	607
2nd quarter 2020						
Net sales	913	648	443	152	–	2,156
EBITDA	(24)	96	60	3	(10)	125
EBIT	(130)	41	28	3	(10)	(68)

Segment reporting 1st half

	Polyurethanes	Polycarbonates	Coatings, Adhesives, Specialties	Other/consolidation: All other segments	Other/consolidation: Corporate Center and reconciliation	Covestro Group
	€ million	€ million	€ million	€ million	€ million	€ million
1st half 2021						
Net sales	3,506	1,904	1,521	332	–	7,263
EBITDA	895	482	248	(24)	(41)	1,560
EBIT	688	376	166	(26)	(41)	1,163
1st half 2020						
Net sales	2,187	1,381	1,015	356	–	4,939
EBITDA	26	205	190	(20)	(22)	379
EBIT	(181)	95	128	(21)	(22)	(1)

Trade working capital by segment

	Dec. 31, 2020	June 30, 2021
	€ million	€ million
Polyurethanes	900	1,238
Polycarbonates	550	760
Coatings, Adhesives, Specialties	444	675
Total of reportable segments	**1,894**	**2,673**
All other segments	66	67
Corporate Center	(11)	(15)
Trade working capital	**1,949**	**2,725**
of which inventories	1,663	2,363
of which trade accounts receivable	1,593	2,266
of which trade accounts payable	(1,241)	(1,846)
of which IFRS 15 items[1]	(66)	(58)

[1] The item includes contract assets, contract liabilities, and refund liabilities.

Information on geographical areas

The following tables show information by geographical area. The EMLA region consists of Europe, the Middle East, Latin America except Mexico, and Africa. Mexico forms together with the United States and Canada the NA region. The APAC region includes Asia and the Pacific region.

The following tables show the regional reporting data for the second quarter and for the first half year:

Regional reporting 2nd quarter

	EMLA	NA	APAC	Total
	€ million	€ million	€ million	€ million
2nd quarter 2021				
Net sales (external) by market	1,765	844	1,347	3,956
Net sales (external) by point of origin	1,785	851	1,320	3,956
2nd quarter 2020				
Net sales (external) by market	874	508	774	2,156
Net sales (external) by point of origin	869	517	770	2,156

Regional reporting 1st half

	EMLA	NA	APAC	Total
	€ million	€ million	€ million	€ million
1st half 2021				
Net sales (external) by market	3,267	1,493	2,503	7,263
Net sales (external) by point of origin	3,273	1,515	2,475	7,263
1st half 2020				
Net sales (external) by market	2,174	1,252	1,513	4,939
Net sales (external) by point of origin	2,154	1,278	1,507	4,939

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 2020	2nd quarter 2021	1st half 2020	1st half 2021
	€ million	€ million	€ million	€ million
EBITDA of segments	135	835	401	1,601
EBITDA of Corporate Center	(10)	(18)	(22)	(41)
EBITDA	**125**	**817**	**379**	**1,560**
Depreciation, amortization and impairment losses of segments	(193)	(210)	(380)	(397)
Depreciation, amortization and impairment losses of Corporate Center	–	–	–	–
Depreciation, amortization and impairment losses	**(193)**	**(210)**	**(380)**	**(397)**
EBIT of segments	(58)	625	21	1,204
EBIT of Corporate Center	(10)	(18)	(22)	(41)
EBIT	**(68)**	**607**	**(1)**	**1,163**
Financial result	(17)	(18)	(56)	(47)
Income before income taxes	**(85)**	**589**	**(57)**	**1,116**

4. Scope of Consolidation

4.1 Changes in the Scope of Consolidation

As of June 30, 2021, the scope of consolidation comprised Covestro AG and 74 (December 31, 2020: 47) consolidated companies.

The increase in the number of consolidated companies in the first half of 2021 is attributable to the acquisition of the Resins & Functional Materials (RFM) business from Koninklijke DSM N.V., Heerlen (Netherlands). A total of 27 RFM companies were fully consolidated effective April 1, 2021, for the first time.

4.2 Acquisitions and Divestitures

Acquisitions

On April 1, 2021, Covestro successfully completed the acquisition of the Resins & Functional Materials (RFM) business from Koninklijke DSM N.V., Heerlen (Netherlands), which was included in the consolidated financial statements for the first time as of that date. The responsible authorities approved the transaction after Covestro and Koninklijke DSM N.V. reached an agreement on the purchase at the end of September 2020. The acquisition of RFM makes the Coatings, Adhesives, Specialties segment a leading supplier of sustainable coating resins. A due to the acquisition even more comprehensive and highly innovative product portfolio will offer customers clear added value. The transaction covers innovative projects such as Additive Manufacturing, Advanced Solar Coatings and Niaga.

The acquisition was accounted for as a business combination in accordance with IFRS 3 (Business Combinations). For purposes of the purchase price allocation, the acquired company's identifiable assets, the assumed liabilities and contingent liabilities, and any noncontrolling interest in the acquiree were recognized at fair value. According to IFRS 3, the purchase price allocation can be adjusted within one year of the acquisition date based on new information and findings. This can affect especially items that are based on assumptions and estimates, which mainly include provisions, contingent liabilities and deferred taxes. No assurance can be given that other items may not change.

The acquisition also includes the following shares and voting rights in four companies with noncontrolling interests that are nonetheless fully consolidated: the 50% interest (57% voting rights) in DSM Eternal Resins Kunshan Co. Ltd., Kunshan, (China); the 60% interest (60% voting rights) in Covestro Eternal Resins (Far East) Ltd., Pingtung (Taiwan); the 72% (72% voting rights) interest in Covestro Amulix V.O.F., Zwolle (Netherlands); and the 70% interest (100% voting rights) in Japan Fine Coatings Co., Ltd., Tsukuba (Japan).

Covestro and Koninklijke DSM N.V. agreed on a preliminary consideration transferred of €1,544 million, which was paid in cash. The purchase price allocation resulted in a goodwill of €481 million. This goodwill includes expected synergies arising from administrative processes and infrastructure, including cost savings in procurement, sales and general administration, and from unlocking future business opportunities with new customers. Goodwill is not tax deductible in the countries involved in the acquisition, except the United States. The share of tax deductible goodwill attributable to the United States amounts to €68 million.

The following overview shows the acquired assets and liabilities at fair value as of the acquisition date:

Fair value of acquired assets and liabilities at acquisition

	RFM
	€ million
Goodwill	481
Other intangible assets	624
Property, plant and equipment	462
Inventories	147
Trade accounts receivable	202
Other receivables	21
Cash and cash equivalents	75
Deferred tax assets	21
Provisions	(33)
Financial liabilities	(33)
Trade accounts payable	(194)
Other liabilities	(42)
Deferred tax liabilities	(148)
Net assets	**1,583**
Noncontrolling interest	(39)
Consideration transferred	**1,544**
Acquired cash and cash equivalents	(75)
Net cash outflow for acquisitions	**1,469**

The other intangible assets mainly include customer relationships in the amount of € 411 million as well as technologies relating to water-based hybrid technologies, powder coating resins and radiation curing resins in the amount of € 176 million.

The fair value of acquired receivables totaling €223 million relates mainly to trade accounts receivable. At the acquisition date, gross contractual receivables amounted to €225 million, with €2 million of this amount estimated to be unrecoverable.

Noncontrolling interests were measured according to the partial goodwill method in the course of initial consolidation. Based on the partial goodwill method, the value of the noncontrolling interests totals €39 million.

Acquisition related costs associated with the business combination of €41 million were recognized in the income statement in the amount of €37 million and in equity in the amount of €4 million. Of this amount, €38 million had already been recognized in the previous year.

The sales generated by the acquired RFM business since the acquisition date amounted to €294 million, with income after taxes amounting to €– 7 million. The income after taxes comprised expenses resulting from one-time effects and the purchase price allocation. If the aforementioned acquisition had been completed by January 1, 2021, Covestro would have reported net sales of €7,626 million. Income after taxes would have amounted to €861 million, including expenses from one-time effects and the purchase price allocation. Intercompany profits between Covestro and RFM companies were eliminated in this case.

The purchase price allocation for RFM has not yet been completed, because the preparation and audit of the underlying financial information will still take some time. Allocations of the purchase price to the individual assets and liabilities could therefore still change.

Divestitures

On January 29, 2021, RFM signed an agreement on the sale of assets (disposal group) in Taoyuan (Taiwan), which were also part of the RFM acquisition, to Evermore Chemical Industry Co. Ltd., Nantou (Taiwan). In connection with the sale, production-related assets of €12 million were classified as "held for sale" in accordance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations). Inventories, which are measured separately, are also being transferred. The transaction is scheduled to be closed up in the third quarter of 2021 at the latest.

On February 25, 2021, Covestro signed an agreement to sell the assets and liabilities (disposal group) of the systems house business in the Middle East to the current co-shareholder Pearl Industries Overseas Ltd., Dubai (United Arab Emirates). The sale of this systems house business is part of Covestro's portfolio optimization process, during the course of which Covestro sold the only North American systems house in April 2017 and the European systems house business in November 2019. The systems house business is part of the company's Polyurethanes segment and offers customer-specific polyurethane systems to the construction sector in particular. The transaction is structured as a share deal. The expected selling price was lower than the value of the net assets to be sold, which were written down accordingly. Impairment charges led to a loss totaling €16 million reported in manufacturing costs, selling expenses and general administration expenses in fiscal year 2020. In connection with this sale, current assets amounting to €30 million and liabilities of €14 million were classified as "held for sale" in accordance with IFRS 5. This transaction was expected to be closed in the third quarter of 2021 and was subject to approval by regulators. The transaction was completed on July 26, 2021.

See note 11 "Events after the End of the Reporting Period" in the Consolidated Interim Financial Statements.

5. Net Sales

Net sales are categorized according to "geographical regions and key countries" and mainly comprise sales from contracts with customers and an insignificant amount of rental and leasing sales. The table also contains a breakdown of net sales by reportable segments.

Disaggregation of sales

				Other/consolidation		
	Polyurethanes	Polycarbonates	Coatings, Adhesives, Specialties	All other segments	Corporate Center and reconciliation	Covestro Group
	€ million	€ million	€ million	€ million	€ million	€ million
1st half 2021						
EMLA	1,678	602	702	285	–	3,267
of which Germany	328	140	269	192	–	929
NA	814	313	325	41	–	1,493
of which United States	644	256	295	41	–	1,236
APAC	1,014	989	494	6	–	2,503
of which China	663	662	267	2	–	1,594
1st half 2020						
EMLA	948	459	467	300	–	2,174
of which Germany	186	99	202	171	–	658
NA	661	302	240	49	–	1,252
of which United States	539	255	219	49	–	1,062
APAC	578	620	308	7	–	1,513
of which China	351	422	157	2	–	932

6. Earnings per Share

Earnings per share are calculated according to IAS 33 (Earnings per Share) as the relationship of the Group's income after income taxes (net income) for the reporting period to the weighted average number of outstanding no-par voting shares of Covestro AG. In the first half of 2021, a weighted average number of outstanding no-par voting shares of 193,160,544 was used to calculate earnings per share, while in the first half of 2020, these shares amounted to 182,864,685. There were no dilution effects to consider.

Earnings per Share

	1st half 2020	1st half 2021
	€ million	€ million
Income after income taxes	(32)	845
of which attributable to noncontrolling interest	–	3
of which attributable to Covestro AG shareholders (net income)	(32)	842
	Shares	Shares
Weighted average number of no-par voting shares of Covestro AG	182,864,685	193,160,544
	€	€
Basic earnings per share	(0.17)	4.36
Diluted earnings per share	(0.17)	4.36

7. Employees and Pension Obligations

As of June 30, 2021, the Covestro Group had 18,039 employees worldwide (December 31, 2020: 16,501). The increase resulted mainly from the acquisition of the Resins & Functional Materials (RFM) business. In the first half of 2021, personnel expenses rose by €233 million to €1,146 million (previous year: €913 million), largely due to higher expenses for provisions for short-term variable compensation.

Employees by division[1]

	Dec. 31, 2020	June 30, 2021
Production	10,753	11,607
Marketing and distribution	3,101	3,360
Research and development	1,205	1,489
General administration	1,442	1,583
Total	**16,501**	**18,039**

[1] The number of employees on either permanent or temporary contracts is stated in full-time equivalents (FTEs). Part-time employees are included on a pro-rated basis in line with their contractual working hours. Employees in vocational training are not included.

Provisions for pensions and other post-employment benefits decreased to €1,692 million (December 31, 2020: €2,123 million), mainly on account of lower obligations due to higher discount rates.

Discount rate for pension obligations

	Dec. 31, 2020	June 30, 2021
	%	%
Germany	0.70	1.20
United States	2.10	2.50

8. Financial Instruments

The following tables show the carrying amounts and fair values of financial assets and liabilities based on IFRS 9:

Carrying amounts of financial instruments and their fair values as of June 30, 2021

		Measurement according to IFRS 9				
	Carrying amount	Carried at amortized cost	Fair value recognized in other comprehensive income	Fair value recognized in profit or loss	Measurement according to IFRS 16	Fair value
	€ million	€ million	€ million	€ million	€ million	€ million
Financial assets						
Trade accounts receivable	2,266	2,266				2,266
Other financial assets	592					
Money market funds	502	–	–	502		502
Loans and bank deposits	50	45	–	5		50
Other investments	13		13	–		13
Receivables under lease agreements	8				8	25
Derivatives that do not qualify for hedge accounting	19			19		19
Other receivables[1]	37	29	–	8		37
Cash and cash equivalents	856	856	–	–		856
Financial liabilities						
Financial debts	2,995					
Bonds	1,991	1,991		–		2,090
Lease liabilities	757				757	
Liabilities to banks	225	225		–		231
Derivatives that do not qualify for hedge accounting	21			21		21
Other financial liabilities	1	1		–		1
Trade accounts payable	1,846	1,846		–		1,846
Other liabilities[2]	129					
Derivatives that do not qualify for hedge accounting	3			3		3
Refund liabilities	77	77		–		77
Miscellaneous other liabilities	49	49		–		49

[1] The other receivables recognized in the consolidated statement of financial position also include nonfinancial assets totaling €386 million.
[2] The other liabilities recognized in the consolidated statement of financial position also include nonfinancial liabilities totaling €182 million .

Carrying amounts of financial instruments and their fair values as of December 31, 2020

		Measurement according to IFRS 9				
	Carrying amount	Carried at amortized cost	Fair value recognized in other comprehensive income	Fair value recognized in profit or loss	Measurement according to IFRS 16	Fair value
	€ million	€ million	€ million	€ million	€ million	€ million
Financial assets						
Trade accounts receivable	1,593	1,593	–	–		1,593
Other financial assets	1,176					
Money market funds	771	–	–	771		771
Loans and bank deposits	365	360	–	5		365
Other investments	14		14	–		14
Receivables under lease agreements	8				8	21
Derivatives that do not qualify for hedge accounting	18			18		18
Other receivables[1]	31	25	–	6		31
Cash and cash equivalents	1,404	1,404	–	–		1,404
Financial liabilities						
Financial debts	2,899					
Bonds	1,990	1,990		–		2,107
Lease liabilities	672				672	
Liabilities to banks	227	227		–		234
Derivatives that do not qualify for hedge accounting	9			9		9
Other financial liabilities	1	1		–		1
Trade accounts payable	1,241	1,241		–		1,241
Other liabilities[2]	150					
Derivatives that do not qualify for hedge accounting	3			3		3
Refund liabilities	87	87		–		87
Miscellaneous other liabilities	60	60		–		60

[1] The other receivables recognized in the consolidated statement of financial position also include nonfinancial assets totaling €329 million.
[2] The other liabilities recognized in the consolidated statement of financial position also include nonfinancial liabilities totaling €143 million.

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 quoted, unadjusted prices that exist in active markets.

Level 2 comprises fair values determined on the basis of parameters that 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, 2020	Level 1	Level 2	Level 3	Fair value June 30, 2021	Level 1	Level 2	Level 3
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Financial assets carried at fair value								
Money market funds	771	–	771	–	502	–	502	–
Loans	5	–	–	5	5	–	–	5
Other investments	14	5	–	9	13	4	–	9
Derivatives that do not qualify for hedge accounting	18	–	13	5	19	–	13	6
Other receivables	6	–	–	6	8	–	–	8
Financial assets not carried at fair value								
Receivables under lease agreements	21	–	–	21	25	–	–	25
Financial liabilities carried at fair value								
Derivatives that do not qualify for hedge accounting	12	–	9	3	24	–	21	3
Financial liabilities not carried at fair value								
Bonds	2,107	2,107	–	–	2,090	2,090	–	–
Liabilities to banks	234	–	234	–	231	–	231	–
Other financial liabilities	1	–	1	–	1	–	1	–

Reallocation between the different levels of the fair value hierarchy takes place at the end of the reporting period in which the change occurred. During the first half of 2021, no transfers were made between the levels of the fair value hierarchy.

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

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 value of some of the other investments is also based on quoted prices in active markets (Level 1).

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 reporting-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 money market funds correspond to the quoted prices of the funds in accordance with Article 29 in conjunction with Article 33 of EU Regulation 2017/1131 on money market funds (Level 2).

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 reporting date (Level 2). Credit value adjustments and debt value adjustments are determined to allow for both the contracting party's credit risk and Covestro's own credit risk. The currency forward contracts are measured individually at their forward rates or forward prices as of the reporting 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 receivables under lease agreements are reported 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.

Covestro works with and invests in start-ups under the auspices of the Covestro Venture Capital (COVeC) approach, which was newly developed during the 2020 fiscal year. Debt instruments associated with COVeC activities are recognized at fair value through profit and loss. The fair value is calculated as the present value of the future cash flows estimated based on available performance indicators. The cash flows are discounted at the current interest rate for the appropriate term on the reporting date and reflecting the creditworthiness of the venture capital company. The main input factors are not based on observable market data (Level 3). The estimated fair value of the debt instruments classified in Level 3 would rise (fall) if the expected cash inflows were to be higher (lower) or if the risk-adjusted discount rate were to be lower (higher).

Other financial investments are recognized at fair value directly in equity because they are held for the long term for strategic reasons. The fair value of some of the other investments is based on quoted prices in active markets (Level 1). Where there are no quoted, unadjusted prices in an active market for identical or similar instruments, and there is no suitable valuation method where all major input factors are based on observable market data, the fair value of the other investments is determined using a market price-oriented valuation method where the main input factors are not based on observable market data (Level 3). The valuation of certain other investments is based on available performance indicators as well as on market valuation multipliers. The estimated fair value of the equity instruments categorized within Level 3 would rise (fall) if the multiple applied were to be greater (smaller).

Further, the fair values of embedded derivatives are determined on the basis of unobservable input factors (Level 3). They are separated from their respective host contracts, which are purchase agreements relating to the operational business. The embedded derivatives cause the cash flows from the contracts to vary with fluctuations in exchange rates, or regional and industry-specific price indices, 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 prices or price indices derived from market data. The estimated fair value of the embedded derivative would rise (fall) if the expected payment flows were to be higher (lower) as a result of fluctuations in exchange rates or prices.

Other receivables include a contingent purchase price receivable from divestments. The fair value of the receivable is measured as the present value of the future cash inflows. The basis is the expected EBITDA of the business unit sold for fiscal year 2021. The cash flows are discounted at the current interest rate for the appropriate term on the reporting date and reflecting the creditworthiness of the buyer. The contingent purchase price receivable is assigned to Level 3 of the fair value hierarchy. The estimated fair value would rise (fall) if the expected cash inflows were to be higher (lower) or if the risk-adjusted discount rate were to be lower (higher).

The table below shows the reconciliation of Level 3 financial instruments:

Changes in the net amount of financial assets and liabilities recognized at fair value based on unobservable inputs (level 3)

	2020	2021
	€ million	€ million
Net carrying amounts, Jan. 1	**21**	**22**
Gains (losses) recognized in profit or loss	(4)	3
of which related to assets / liabilities recognized in the statement of financial position	(4)	3
Gains (losses) recognized outside profit or loss	1	–
Additions of assets (liabilities)	5	–
Net carrying amounts, June 30	**23**	**25**

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

9. Legal Risks

As a company with international operations, 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 "Legal Risks" to the Consolidated Financial Statements as of December 31, 2020. In the current fiscal year, there have been no new significant developments regarding the legal proceedings described there, and no new material legal proceedings are pending.

10. Related Parties

Related parties 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, joint control or have at least significant influence. They include nonconsolidated subsidiaries, joint ventures and associated companies, post-employment benefit plans and corporate officers of Covestro AG.

Receivables from and liabilities to related parties

	Dec. 31, 2020		June 30, 2021	
	Receivables	Liabilities	Receivables	Liabilities
	€ million	€ million	€ million	€ million
Nonconsolidated subsidiaries and associates	3	8	4	10
Associates	6	–	9	–

Sales and purchases of goods and services to/from related parties

	1st half 2020		1st half 2021	
	Sales of goods and services	Purchases of goods and services	Sales of goods and services	Purchases of goods and services
	€ million	€ million	€ million	€ million
Nonconsolidated subsidiaries and associates	15	20	22	30
Associates	6	216	12	362

The goods and services provided by associated companies mainly result from the ongoing operating business with PO JV, LP, Wilmington (United States). Covestro benefits from fixed long-term supply quotas/volumes of propylene oxide (PO) from this company's production.

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

11. Events after the End of the Reporting Period

In keeping with the first chapter of the strategy – "Become the best of who we are" – the Group restructured its organization as of July 1, 2021. The Group's three reportable segments to date (Polyurethanes, Polycarbonates, and Coatings, Adhesives, Specialties) will be replaced in the future with two new reportable segments: Performance Materials and Solutions and Specialties. The Performance Materials segment forms a separate business entity comprising Covestro's standard polycarbonates, standard urethane components and base chemicals businesses. The focus here is on reliably delivering standard products at competitive market prices. The Solutions and Specialties segment comprises six business entities: Engineering Plastics, Coatings and Adhesives, Tailored Urethanes, Thermoplastic Polyurethanes, Specialty Films and Elastomers. The focus here is on complex products with a high pace of innovation combined by Covestro with application technology services.

On July 7, 2021, the Eurobond placed in 2016 with a total volume of €500 million and maturing in October 2021 was fully repaid at par value ahead of schedule.

On July 26, 2021, Covestro successfully completed the sale of the assets and liabilities of the system house business in the Middle East to the current co-shareholder Pearl Industries Overseas Ltd., Dubai (United Arab Emirates). The sale has an expected insignificant effect on earnings due to recognition of impairment losses on the assets of the business sold in fiscal year 2020.

See note 4.2 "Acquisitions and Divestitures" in the Consolidated Interim Financial Statements.

Leverkusen (Germany), August 3, 2021

Covestro AG

The Board of Management