CONSOLIDATED INTERIM FINANCIAL STATEMENTS

COVESTRO GROUP CONSOLIDATED INCOME STATEMENT

	2nd quarter 2021	2nd quarter 2022	1st half 2021	1st half 2022
	€ million	€ million	€ million	€ million
Sales	**3,956**	**4,703**	**7,263**	**9,386**
Cost of goods sold	(2,813)	(3,783)	(5,074)	(7,280)
Gross profit	**1,143**	**920**	**2,189**	**2,106**
Selling expenses	(357)	(409)	(670)	(797)
Research and development expenses	(87)	(96)	(160)	(190)
General administration expenses	(105)	(96)	(203)	(189)
Other operating income	40	16	52	34
Other operating expenses	(27)	(28)	(45)	(68)
EBIT[1]	**607**	**307**	**1,163**	**896**
Equity-method loss	(4)	(6)	(7)	(10)
Result from other affiliated companies	–	–	1	–
Interest income	9	22	15	37
Interest expense	(22)	(34)	(41)	(57)
Other financial result	(1)	(26)	(15)	(42)
Financial result	**(18)**	**(44)**	**(47)**	**(72)**
Income before income taxes	**589**	**263**	**1,116**	**824**
Income taxes	(139)	(65)	(271)	(209)
Income after income taxes	**450**	**198**	**845**	**615**
of which attributable to noncontrolling interest	1	(1)	3	–
of which attributable to Covestro AG shareholders (net income)	449	199	842	615
	€	€	€	€
Basic earnings per share[2]	**2.32**	**1.04**	**4.36**	**3.20**
Diluted earnings per share[2]	**2.32**	**1.04**	**4.36**	**3.20**

[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 191,070, 836 no-par shares for the second quarter of 2022 (previous year: 193,160,544 no-par shares) and on 192,101,348 no-par shares for the first half of 2022 (previous year: 193,160,544).

COVESTRO GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2nd quarter 2021	2nd quarter 2022	1st half 2021	1st half 2022
	€ million	€ million	€ million	€ million
Income after income taxes	**450**	**198**	**845**	**615**
Remeasurements of the net defined benefit liability for post-employment benefit plans	113	551	484	926
Income taxes	(46)	(161)	(154)	(268)
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans	**67**	**390**	**330**	**658**
Changes in fair values of equity instruments	–	–	–	(1)
Income taxes	–	–	–	–
Other comprehensive income from equity instruments	**–**	**–**	**–**	**(1)**
Other comprehensive income that will not be reclassified subsequently to profit or loss	**67**	**390**	**330**	**657**
Exchange differences of foreign operations	(30)	160	100	266
Reclassified to profit or loss	–	–	–	–
Other comprehensive income from exchange differences	**(30)**	**160**	**100**	**266**
Other comprehensive income that may be reclassified subsequently to profit or loss	**(30)**	**160**	**100**	**266**
Total other comprehensive income	**37**	**550**	**430**	**923**
of which attributable to noncontrolling interest	–	(1)	–	(2)
of which attributable to Covestro AG shareholders	37	551	430	925
Total comprehensive income	**487**	**748**	**1,275**	**1,538**
of which attributable to noncontrolling interest	1	(2)	3	(2)
of which attributable to Covestro AG shareholders	486	750	1,272	1,540

COVESTRO GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	June 30, 2021	June 30, 2022	Dec. 31, 2021
	€ million	€ million	€ million
Noncurrent assets			
Goodwill	739	753	757
Other intangible assets	716	692	706
Property, plant and equipment	5,747	6,171	6,032
Investments accounted for using the equity method	169	181	172
Other financial assets	31	45	49
Other receivables	88	247	76
Deferred taxes	736	604	818
	8,226	**8,693**	**8,610**
Current assets			
Inventories	2,363	3,673	2,914
Trade accounts receivable	2,266	2,771	2,343
Other financial assets	561	67	493
Other receivables	335	456	434
Claims for income tax refunds	93	147	128
Cash and cash equivalents	856	315	649
Assets held for sale	59	–	–
	6,533	**7,429**	**6,961**
Total assets	**14,759**	**16,122**	**15,571**
Equity			
Capital stock of Covestro AG	193	190	193
Capital reserves of Covestro AG	3,925	3,780	3,927
Other reserves	2,510	4,473	3,576
Equity attributable to Covestro AG shareholders	**6,628**	**8,443**	**7,696**
Equity attributable to noncontrolling interest	73	51	66
	6,701	**8,494**	**7,762**
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	1,692	473	1,199
Other provisions	211	196	223
Financial liabilities	2,351	2,353	2,349
Income tax liabilities	103	113	98
Other liabilities	31	29	34
Deferred taxes	256	324	300
	4,644	**3,488**	**4,203**
Current liabilities			
Other provisions	407	338	637
Financial liabilities	644	806	192
Trade accounts payable	1,846	2,560	2,214
Income tax liabilities	223	128	239
Other liabilities	280	308	324
Liabilities directly related to assets held for sale	14	–	–
	3,414	**4,140**	**3,606**
Total equity and liabilities	**14,759**	**16,122**	**15,571**

COVESTRO GROUP CONSOLIDATED STATEMENT OF CASH FLOWS

	2nd quarter 2021	2nd quarter 2022	1st half 2021	1st half 2022
	€ million	€ million	€ million	€ million
Income after income taxes	450	198	845	615
Income taxes	139	65	271	209
Financial result	18	44	47	72
Income taxes paid	(126)	(262)	(176)	(360)
Depreciation, amortization and impairment losses and impairment loss reversals	210	240	397	457
Change in pension provisions	12	10	21	12
(Gains)/losses on retirements of noncurrent assets	(8)	–	(8)	–
Decrease/(increase) in inventories	(298)	(341)	(528)	(651)
Decrease/(increase) in trade accounts receivable	(191)	(23)	(446)	(335)
(Decrease)/increase in trade accounts payable	255	296	394	291
Changes in other working capital, other noncash items	92	(499)	164	(425)
Cash flows from operating activities	**553**	**(272)**	**981**	**(115)**
Cash outflows for additions to property, plant, equipment and intangible assets	(179)	(190)	(289)	(330)
Cash inflows from sales of property, plant, equipment and other assets	10	2	10	3
Cash inflows from divestments less divested cash	–	5	–	6
Cash outflows for noncurrent financial assets	(22)	(5)	(22)	(7)
Cash inflows from noncurrent financial assets	2	–	2	1
Cash outflows for acquisitions less acquired cash	(1,469)	–	(1,469)	–
Interest and dividends received	11	19	17	33
Cash inflows from other current financial assets	175	402	606	448
Cash flows from investing activities	**(1,472)**	**233**	**(1,145)**	**154**
Reacquisition of treasury shares	–	(102)	–	(150)
Dividend payments and withholding tax on dividends	(257)	(653)	(257)	(653)
Issuances of debt	1	565	2	579
Retirements of debt	(63)	(52)	(98)	(90)
Interest paid	(22)	(34)	(42)	(63)
Cash outflows for the purchase of additional interests in subsidiaries	–	–	–	(4)
Cash flows from financing activities	**(341)**	**(276)**	**(395)**	**(381)**
Change in cash and cash equivalents due to business activities	**(1,260)**	**(315)**	**(559)**	**(342)**
Cash and cash equivalents at beginning of period	**2,106**	**623**	**1,404**	**649**
Change in cash and cash equivalents due to exchange rate movements	10	7	11	8
Cash and cash equivalents at end of period	**856**	**315**	**856**	**315**

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, 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)
Dec. 31, 2021	**193**	**3,927**	**3,002**	**574**	**7,696**	**66**	**7,762**
Reacquisition of treasury shares	(3)	(147)			(150)		(150)
Dividend payments			(651)		(651)	(2)	(653)
Other changes[2]			8		8	(11)	(3)
Income after income taxes			615		615	–	615
Other comprehensive income			657	268	925	(2)	923
Total comprehensive income			1,272	268	1,540	(2)	1,538
June 30, 2022	**190**	**3,780**	**3,631**	**842**	**8,443**	**51**	**8,494**
of which treasury shares	(3)	(147)			(150)		(150)

[1] Other changes in fiscal 2021 in noncontrolling interests result from the acquisition of the Resins & Functional Materials (RFM) business from Koninklijke DSM N.V., Heerlen (Netherlands), see note 5.2 "Acquisitions and Divestitures" in the Annual Report 2021.

[2] Other changes in 2022 shareholders mainly include the acquisition of the remaining 30% of shares in Japan Fine Coatings Co. Ltd., Ibaraki (Japan).

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, 2022, have been prepared in accordance with 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 reporting date.

The accounting policies and measurement principles described in the consolidated financial statements as of December 31, 2021, were applied unchanged in preparing the consolidated interim financial statements as of June 30, 2022, 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) unless otherwise noted.

The Board of Management approved the Condensed Interim Consolidated Financial Statements for publication on August 1, 2022. The Interim Consolidated Financial Statements were subjected to a review by the group auditor.

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, 2021**	**Dec. 31, 2021**	**June 30, 2022**
BRL	Brazil	5.91	6.31	5.42
CNY	China	7.68	7.20	6.97
HKD	Hong Kong[1]	9.23	8.83	8.15
INR	India	88.32	84.23	82.11
JPY	Japan	131.43	130.38	141.54
MXN	Mexico	23.58	23.14	20.96
USD	United States	1.19	1.13	1.04

Average rates for major currencies

		Average rates	
€1/		**1st half 2021**	**1st half 2022**
BRL	Brazil	6.49	5.53
CNY	China	7.80	7.09
HKD	Hong Kong[1]	9.35	8.55
INR	India	88.38	83.31
JPY	Japan	129.76	134.10
MXN	Mexico	24.32	22.14
USD	United States	1.21	1.09

[1] Special Administration Region (China)

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 3 (May 14, 2020)	Reference to the Conceptual Framework	January 1, 2022
Amendments to IAS 16 (May 14, 2020)	Property, Plant and Equipment – Proceeds before Intended Use	January 1, 2022
Amendments to IAS 37 (May 14, 2020)	Onerous Contracts – Cost of Fulfilling a Contract	January 1, 2022
Annual Improvements to IFRSs (May 14, 2020)	2018–2020 Cycle	January 1, 2022

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 2021 consolidated financial statements.

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 reportable segments and assesses their performance. The reportable segments are identified, and the disclosures selected, in line with the internal management and reporting system (management approach).

The segments pursue the following activities:

Performance Materials

The Performance Materials segment focuses on developing, producing, and reliably supplying high-performance materials such as standard polyurethanes and polycarbonates, as well as base chemicals. These include diphenylmethane diisocyanate (MDI), toluene diisocyanate (TDI), long-chain polyols, and polycarbonate resins. Those materials are used in sectors such as the furniture and wood processing industry, the construction industry as well as the automotive and transportation industry. These materials are used in roof structures, insulation for buildings and refrigerators, mattresses, and car seats, among other applications.

Solutions & Specialties

The Solutions & Specialties segment consolidates Covestro's solutions and specialties businesses, and combines chemical products with application technology services. A fast pace of innovation is a key success factor since customer requirements change quickly. Covestro's Solutions & Specialties business comprises a variety of polymer products including polycarbonates, precursors for coatings and adhesives, MDI specialties and polyols, thermoplastic polyurethanes, specialty films, and elastomers. They are used in sectors such as the automotive and transportation industry; the electrical, electronics and household appliances industry; the construction industry; and the healthcare industry. These materials include composite resins for wind turbine rotor blades; precursors for coatings and adhesives; laptop cases; floodlights; and high-quality specialty films.

Business activities that cannot be allocated to any of the aforementioned segments, costs associated with central corporate functions, and higher or lower expenses resulting from more or less favorable Covestro share performance as part of long-term variable compensation are reported in **"Others/Consolidation."** External sales are generated primarily from the sale of energy, site management services, and rentals and leasing.

As a rule, the segment data is calculated in accordance with the International Financial Reporting Standards (IFRSs) listed in note 3 of the Annual Report 2021 "Accounting Policies and Valuation Principles" with the following specifics:

- Intersegment sales are based on arm's length transactions between the units that make up Covestro's segments.
- EBIT and EBITDA are not defined in the IFRSs. EBIT is equal to income after income taxes plus financial result and income taxes. EBITDA is EBIT plus amortization and impairment losses on intangible assets, and depreciation and impairment losses on property, plant and equipment, less impairment loss reversals. EBIT and EBITDA per segment include intersegment sales and, in each case, the effects of the allocation of property, plant and equipment and intangible assets, including noncurrent assets used jointly by both segments, and the associated depreciation, amortization, impairment losses, and 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[1]

	Performance Materials	Solutions & Specialties	Others/ Consolidation	Covestro Group
	€ million	€ million	€ million	€ million
2nd quarter 2022				
Sales (external)	2,461	2,165	77	4,703
Intersegment sales	524	8	(532)	–
Sales (total)	2,985	2,173	(455)	4,703
EBITDA[2]	367	213	(33)	547
EBIT[2]	204	139	(36)	307
2nd quarter 2021				
Sales (external)	1,957	1,951	48	3,956
Intersegment sales	468	6	(474)	–
Sales (total)	2,425	1,957	(426)	3,956
EBITDA[2]	644	237	(64)	817
EBIT[2]	502	170	(65)	607

1 Reference information calculated based on the organizational and reporting structure as of July 1, 2021.
2 The earnings of the Performance Materials and Solutions & Specialties reportable segments include the effect on earnings of intersegment sales.

Segment reporting 1st half[1]

	Performance Materials	Solutions & Specialties	Others/ Consolidation	Covestro Group
	€ million	€ million	€ million	€ million
1st half 2022				
Sales (external)	4,849	4,387	150	9,386
Intersegment sales	1,181	17	(1,198)	–
Sales (total)	6,030	4,404	(1,048)	9,386
EBITDA[2]	987	437	(71)	1,353
EBIT[2]	679	291	(74)	896
1st half 2021				
Sales (external)	3,697	3,480	86	7,263
Intersegment sales	951	11	(962)	–
Sales (total)	4,648	3,491	(876)	7,263
EBITDA[2]	1,274	418	(132)	1,560
EBIT[2]	991	308	(136)	1,163

1 Reference information calculated based on the organizational and reporting structure as of July 1, 2021.
2 The earnings of the Performance Materials and Solutions & Specialties reportable segments include the effect on earnings of intersegment sales.

Covestro's market capitalization fell below the carrying amount of the Group's equity in the second quarter of 2022. As a consequence of this and due to a significant rise in the risk-free interest rate, the assumptions used for impairment testing of the cash generating units in fiscal 2021 were reviewed. With regard to the Standard Polyether Polyols (SPET) cash generating unit in the Performance Materials Segment, the impairment test conducted on the basis of the available planning data identified an impairment. As of June 30, 2022, the fair value less costs of disposal was determined using a cost of capital rate of 7.14%. The measurement methodology and growth assumptions are unchanged compared with the annual impairment test conducted in fiscal 2021. In accordance with IAS 36 (Impairment of Assets), impairment losses of €18 million were recognized in EBIT, including €16 million for goodwill previously recognized by SPET and €2 million for miscellaneous noncurrent assets of this cash generating unit.

Trade working capital by segment

	Dec. 31, 2021	June 30, 2022
	€ million	€ million
Performance Materials	1,392	1,831
Solutions & Specialties	1,560	2,010
Total of reportable segments	**2,952**	**3,841**
All other segments	–	(5)
Corporate Center	–	–
Trade working capital	**2,952**	**3,836**
of which inventories	2,914	3,673
of which trade accounts receivable	2,343	2,771
of which trade accounts payable	(2,214)	(2,560)
of which IFRS 15 items[1]	(91)	(48)

[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 2022				
Sales (external) by market	2,167	1,200	1,336	4,703
Sales (external) by point of origin	2,162	1,223	1,318	4,703
2nd quarter 2021				
Sales (external) by market	1,765	844	1,347	3,956
Sales (external) by point of origin	1,785	851	1,320	3,956

Regional reporting 1st half

	EMLA	NA	APAC	Total
	€ million	€ million	€ million	€ million
1st half 2022				
Sales (external) by market	4,241	2,316	2,829	9,386
Sales (external) by point of origin	4,252	2,352	2,782	9,386
1st half 2021				
Sales (external) by market	3,267	1,493	2,503	7,263
Sales (external) by point of origin	3,273	1,515	2,475	7,263

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 2021	2nd quarter 2022	1st half 2021	1st half 2022
	€ million	€ million	€ million	€ million
EBITDA of segments	881	580	1,692	1,424
EBITDA of Others/Consolidation	(64)	(33)	(132)	(71)
EBITDA	**817**	**547**	**1,560**	**1,353**
Depreciation, amortization and impairment losses of segments	(209)	(237)	(393)	(454)
Depreciation, amortization and impairment losses of Others/Consolidation	(1)	(3)	(4)	(3)
Depreciation, amortization and impairment losses	**(210)**	**(240)**	**(397)**	**(457)**
EBIT of segments	672	343	1,299	970
EBIT of Others/Consolidation	(65)	(36)	(136)	(74)
EBIT	**607**	**307**	**1,163**	**896**
Financial result	(18)	(44)	(47)	(72)
Income before income taxes	**589**	**263**	**1,116**	**824**

4. Scope of Consolidation

4.1 Changes in the Scope of Consolidation

As of June 30, 2022, the scope of consolidation comprised Covestro AG and 60 (December 31, 2021: 66) consolidated companies.

Covestro Invest GmbH, Leverkusen (Germany), was consolidated for the first time effective April 1, 2022. This company was previously classified as an immaterial subsidiary. The purpose of Covestro Invest GmbH is to acquire, hold and manage the company's investments, provide services for third parties, especially within the scope of intragroup management of investments, in each case insofar as these does not constitute activities requiring authorization under the German Banking Act (Kreditwesengesetz), and the assumption of personal liability and management functions for commercial partnerships.

The decrease in the number of consolidated companies in the first half of 2022 is attributable to intragroup mergers of consolidated companies, which were transferred in connection with the acquisition of the Resins & Functional Materials (RFM) business from Koninklijke DSM N.V., Heerlen (Netherlands). As of June 1, 2022, Covestro Coating Resins B.V., Zwolle (Netherlands), Covestro Desotech B.V., Hoek van Holland (Netherlands), and Covestro Resins B.V., Zwolle (Netherlands) were merged into Covestro (Netherlands) B.V., Geleen (Netherlands), and Covestro Coating Resins, Inc., Wilmington, Massachusetts (USA), and Covestro Desotech Inc., Elgin, Illinois (USA), were merged into Covestro LLC, Pittsburgh, Pennsylvania (USA). In addition, Covestro Coating Resins Spain S.L., Barcelona (Spain) was merged into Covestro, S.L., Barcelona (Spain), while Covestro Resins (ROA) Ltd., Taipei City (Taiwan, Greater China), was merged into Covestro (Taiwan) Ltd., Kaohsiung City (Taiwan, Greater China).

4.2 Acquisitions and Divestitures

No reportable acquisitions or divestitures were made in the first half of 2022.

5. Sales

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 sales by reportable segments.

Disaggregation of sales

	Performance Materials	Solutions & Specialties	Others/ Consolidation	Covestro Group
	€ million	€ million	€ million	€ million
1st half 2022				
EMLA	2,397	1,724	120	4,241
of which Germany	609	506	79	1,194
NA	1,229	1,064	23	2,316
of which United States	1,029	883	22	1,934
APAC	1,223	1,599	7	2,829
of which China	792	946	1	1,739
1st half 2021[1]				
EMLA	1,845	1,355	67	3,267
of which Germany	469	422	38	929
NA	779	700	14	1,493
of which United States	658	565	13	1,236
APAC	1,073	1,425	5	2,503
of which China	706	888	–	1,594

[1] Reference information calculated based on the organizational and reporting structure as of July 1, 2021.

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 income period to the weighted average number of outstanding no-par voting shares of Covestro AG. Since March 12, 2022, Covestro AG has purchased treasury shares under a share buyback program[1]. In the first half of 2022, a weighted average number of outstanding no-par voting shares of 192,101,348 was used to calculate earnings per share, while in the first half of 2021, these shares amounted to 193,160,544. There were no dilution effects to consider.

See Covestro on the Capital Market, in the section entitled "Share Buyback Program" for further information on the share buyback program.

Earnings per share

	1st half 2021	1st half 2022
	€ million	€ million
Income after income taxes	845	615
of which attributable to noncontrolling interest	3	–
of which attributable to Covestro AG shareholders (net income)	842	615
	Shares	Shares
Weighted average number of no-par voting shares of Covestro AG	193,160,544	192,101,348
	€	€
Basic earnings per share	4.36	3.20
Diluted earnings per share	4.36	3.20

1

7. Employees and Pension Obligations

As of June 30, 2022, the Covestro Group had 17,978 employees worldwide (December 31, 2021: 17,909). In the first half of 2022, personnel expenses decreased by €32 million to €1,114 million (previous year: €1,146 million), largely due to lower expenses for short-term variable compensation.

Employees by division[1]

	Dec. 31, 2021	June 30, 2022
Production	11,618	11,751
Marketing and distribution	3,254	3,330
Research and development	1,477	1,457
General administration	1,560	1,440
Total	**17,909**	**17,978**

[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 €473 million (December 31, 2021: €1,199 million). This was mainly due to a reduction in the measurement of obligations as a result of significantly higher discount rates. The rise in projected future benefit increases in Germany to 1.9% (December 31, 2021: 1.8%) had an offsetting effect on the measurement of obligations.

Discount rate for pension obligations

	Dec. 31, 2021	June 30, 2022
	%	%
Germany	1.20	3.30
United States	2.60	4.30

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, 2022

		Measurement according to IFRS 9				
	Carrying amount	Carried at amortized cost	Fair value recognized in other comprehen-sive income	Fair value recognized in profit or loss	Measure-ment according to IFRS 16	Fair value
	€ million	€ million	€ million	€ million	€ million	€ million
Financial assets						
Trade accounts receivable	2,771	2,771	–	–		2,771
Other financial assets	112					
Money market funds	–	–	–	–		–
Loans and bank deposits	27	17	–	10		27
Other investments	26		26	–		26
Receivables under lease agreements	8				8	18
Derivatives that do not qualify for hedge accounting	51			51		51
Other receivables[1]	24	24	–	–		24
Cash and cash equivalents	315	315	–	–		315
Financial liabilities						
Financial debts	3,159					
Bonds	1,493	1,493		–		1,356
Lease liabilities	772				772	
Liabilities to banks	840	840		–		839
Derivatives that do not qualify for hedge accounting	53			53		53
Other financial liabilities	1	1		–		1
Trade accounts payable	2,560	2,560		–		2,560
Other liabilities[2]	130					
Derivatives that do not qualify for hedge accounting	3			3		3
Refund liabilities	82	82		–		82
Miscellaneous other liabilities	45	45		–		45

[1] The other receivables recognized in the consolidated statement of financial position also include nonfinancial assets totaling €679 million.
[2] The other liabilities recognized in the consolidated statement of financial position also include nonfinancial liabilities totaling €207 million.

Carrying amounts of financial instruments and their fair values as of December 31, 2021

		Measurement according to IFRS 9				
	Carrying amount	Carried at amortized cost	Fair value recognized in other comprehen-sive income	Fair value recognized in profit or loss	Measure-ment according to IFRS 16	Fair value
	€ million	€ million	€ million	€ million	€ million	€ million
Financial assets						
Trade accounts receivable	2,343	2,343	–	–		2,343
Other financial assets	542					
Money market funds	65	–	–	65		65
Loans and bank deposits	402	393	–	9		402
Other investments	27		27	–		27
Receivables under lease agreements	8				8	19
Derivatives that do not qualify for hedge accounting	40			40		40
Other receivables[1]	30	22	–	8		30
Cash and cash equivalents	649	649	–	–		649
Financial liabilities						
Financial debts	2,541	–				
Bonds	1,492	1,492		–		1,568
Lease liabilities	761	–			761	
Liabilities to banks	275	275		–		280
Derivatives that do not qualify for hedge accounting	11	–		11		11
Other financial liabilities	2	2		–		2
Trade accounts payable	2,214	2,214		–		2,214
Other liabilities[2]	172	–				
Derivatives that do not qualify for hedge accounting	3	–		3		3
Refund liabilities	116	116		–		116
Miscellaneous other liabilities	53	53		–		53

[1] The other receivables recognized in the consolidated statement of financial position also include nonfinancial assets totaling €480 million.
[2] The other liabilities recognized in the consolidated statement of financial position also include nonfinancial liabilities totaling €186 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 which exist in active markets.

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

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

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

Fair value hierarchy of financial instruments

	Fair value Dec. 31, 2021	Level 1	Level 2	Level 3	Fair value June 30, 2022	Level 1	Level 2	Level 3
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Financial assets carried at fair value								
Money market funds	65	–	65	–	–	–	–	–
Loans	9	–	–	9	10	–	–	10
Other investments	27	4	–	23	26	3	–	23
Derivatives that do not qualify for hedge accounting	40	–	34	6	51	–	46	5
Other receivables	8	–	–	8	–	–	–	–
Financial assets not carried at fair value								
Receivables under lease agreements	19	–	–	19	18	–	–	18
Financial liabilities carried at fair value								
Derivatives that do not qualify for hedge accounting	14	–	11	3	56	–	53	3
Financial liabilities not carried at fair value								
Bonds	1,568	1,568	–	–	1,356	1,356	–	–
Liabilities to banks	280	–	280	–	839	–	839	–
Other financial liabilities	2	–	2	–	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. In the first half of 2022, 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 exist 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 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 in fiscal 2020. Investments associated with COVeC activities are recognized either as debt instruments at fair value through profit and loss or as other financial investments at fair value directly in equity, depending on the contractual design. 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.

The fair value of the contingent purchase price receivable from divestments recognized in other receivables was calculated as the present value of future cash flows. The basis was the expected EBITDA of the business unit sold for fiscal year 2021. The actual EBITDA reported for 2021 was well below expectations, so no purchase price payment will be made.

The table below shows the changes in Level 3 financial instruments:

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

	2021	2022
	€ million	€ million
Net carrying amounts, Jan. 1	**22**	**43**
Gains (losses) recognized in profit or loss	3	(8)
of which related to assets / liabilities recognized in the statement of financial position	3	–
Gains (losses) recognized outside profit or loss	–	–
Net carrying amounts, June 30	**25**	**35**

The gains and losses from Level 3 financial assets and liabilities are reported as follows:

- gains and losses from embedded derivatives recognized in profit or loss are reported in other operating expenses or income;
- gains and losses from the contingent purchase price receivable from divestments and debt instruments recognized in profit or loss are reported in other financial result;
- gains and losses from other financial investments are reported in other comprehensive income from equity instruments.

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 26 "Legal Risks" to the Consolidated Financial Statements as of December 31, 2021. 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 entities as defined in IAS 24 (Related Party Disclosures) are those legal entities 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 a significant influence, or which are controlled by a related person or a close family member of such a person. They include nonconsolidated subsidiaries, joint ventures, associated companies, and other related companies and persons.

In the course of its operating business, Covestro sources materials, supplies and services from a large number of business partners worldwide, including companies in which it has a direct or indirect interest. Transactions with these companies are undertaken on an arm's length basis. The goods and services received from associated companies result from ongoing operating business with PO JV, LP, Houston, Texas (USA) and amounted to €463 million in the first half of 2022 (previous year: €362 million). Covestro benefits from fixed long-term supply quotas/volumes of propylene oxide (PO) from this company's production.

There are no further reportable business relationships with other related parties.

11. Events after the End of the Reporting Period

Covestro will sell its Additive Manufacturing business, which offers material solutions for common polymer 3D printing processes. The business to be divested, which is reported in the Solutions & Specialties segment, includes, among other things, research & development facilities, production assets and employees. The portfolio also includes products that are part of the Resins & Functional Materials business (RFM) acquired from from Koninklijke DSM N.V., Heerlen, (Netherlands), in fiscal 2021. The divestment is planned to be closed in the first quarter of 2023, subject to the finalization of contractual negotiations.

Leverkusen, August 1, 2022

Covestro AG

The Board of Management