Consolidated Interim Financial Statements

as of June 30, 2019

Covestro Group Consolidated Income Statement

	2nd quarter 2018[1]	2nd quarter 2019	1st half 2018[1]	1st half 2019
	€ million	€ million	€ million	€ million
Net sales	**3,863**	**3,211**	**7,642**	**6,386**
Cost of goods sold	(2,480)	(2,449)	(4,828)	(4,856)
Gross profit	**1,383**	**762**	**2,814**	**1,530**
Selling expenses	(364)	(346)	(708)	(690)
Research and development expenses	(68)	(68)	(136)	(136)
General administration expenses	(132)	(97)	(247)	(193)
Other operating income	11	31	23	53
Other operating expenses	(4)	(8)	(13)	(26)
EBIT[2]	**826**	**274**	**1,733**	**538**
Equity-method loss	(6)	(8)	(10)	(14)
Result from other affiliated companies	–	–	–	1
Interest income	7	9	12	19
Interest expense	(21)	(22)	(41)	(45)
Other financial result	(7)	(2)	(16)	(7)
Financial result	**(27)**	**(23)**	**(55)**	**(46)**
Income before income taxes	**799**	**251**	**1,678**	**492**
Income taxes	(193)	(61)	(426)	(122)
Income after income taxes	**606**	**190**	**1,252**	**370**
of which attributable to noncontrolling interest	2	1	4	2
of which attributable to Covestro AG stockholders (net income)	604	189	1,248	368
	€	€	€	€
Basic earnings per share[3]	**3.07**	**1.03**	**6.31**	**2.01**
Diluted earnings per share[3]	**3.07**	**1.03**	**6.31**	**2.01**

1 Reference information was not restated, see Note 2.1 "Financial Reporting Standards Applied for the First Time in the Reporting Period."
2 EBIT: Income after income taxes plus financial result and income taxes
3 The weighted average number of no-par voting shares of Covestro AG in issue amounted to 182,704,602 in both the second quarter of 2019 (previous year: 196,605,012) and the first half of 2019 (previous year: 197,746,827).

Covestro Group Consolidated Statement of Comprehensive Income

	2nd quarter 2018[1]	2nd quarter 2019	1st half 2018[1]	1st half 2019
	€ million	€ million	€ million	€ million
Income after income taxes	**606**	**190**	**1,252**	**370**
Remeasurements of the net defined benefit liability for post-employment benefit plans	6	(20)	(94)	(220)
Income taxes	(13)	2	21	74
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans	**(7)**	**(18)**	**(73)**	**(146)**
Changes in fair values of equity instruments	–	(1)	–	(1)
Income taxes	–	–	–	–
Other comprehensive income from equity instruments	**–**	**(1)**	**–**	**(1)**
Other comprehensive income that will not be reclassified subsequently to profit or loss	**(7)**	**(19)**	**(73)**	**(147)**
Changes in fair values of financial assets	–	–	–	–
Reclassified to profit or loss	1	–	–	–
Income taxes	–	–	–	–
Other comprehensive income from financial assets	**1**	**–**	**–**	**–**
Changes in exchange differences recognized on translation of operations outside the eurozone	72	(94)	64	49
Reclassified to profit or loss	–	–	–	–
Other comprehensive income from exchange differences	**72**	**(94)**	**64**	**49**
Other comprehensive income that may be reclassified subsequently to profit or loss, if certain conditions are met	**73**	**(94)**	**64**	**49**
Total other comprehensive income[2]	**66**	**(113)**	**(9)**	**(98)**
of which attributable to noncontrolling interest	–	–	1	1
of which attributable to Covestro AG stockholders	66	(113)	(10)	(99)
Total comprehensive income	**672**	**77**	**1,243**	**272**
of which attributable to noncontrolling interest	2	1	5	3
of which attributable to Covestro AG stockholders	670	76	1,238	269

[1] Reference information was not restated, see Note 2.1 "Financial Reporting Standards Applied for the First Time in the Reporting Period."
[2] Total change recognized outside profit or loss

Covestro Group Consolidated Statement of Financial Position

	June 30, 2018[1]	June 30, 2019	Dec. 31, 2018[1]
	€ million	€ million	€ million
Noncurrent assets			
Goodwill	254	263	256
Other intangible assets	79	109	77
Property, plant and equipment[2]	4,262	5,148	4,409
Investments accounted for using the equity method	212	194	214
Other financial assets	30	32	31
Other receivables	40	46	32
Deferred taxes	756	820	782
	5,633	**6,612**	**5,801**
Current assets			
Inventories	2,091	2,079	2,213
Trade accounts receivable	2,185	1,803	1,786
Other financial assets	88	16	17
Other receivables	317	351	346
Claims for income tax refunds	81	106	55
Cash and cash equivalents	475	640	865
Assets held for sale	32	54	1
	5,269	**5,049**	**5,283**
Total assets	**10,902**	**11,661**	**11,084**
Equity			
Capital stock of Covestro AG	193	183	183
Capital reserves of Covestro AG	4,105	3,480	3,480
Other reserves	1,176	1,498	1,679
Equity attributable to Covestro AG stockholders	**5,474**	**5,161**	**5,342**
Equity attributable to noncontrolling interest	31	44	33
	5,505	**5,205**	**5,375**
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	1,305	1,704	1,445
Other provisions	227	239	237
Financial liabilities[2]	1,182	1,702	1,166
Income tax liabilities	93	114	107
Other liabilities	19	32	18
Deferred taxes	155	166	153
	2,981	**3,957**	**3,126**
Current liabilities			
Other provisions	370	220	493
Financial liabilities[2]	83	552	59
Trade accounts payable	1,473	1,424	1,637
Income tax liabilities	219	78	172
Other liabilities	269	211	222
Liabilities directly related to assets held for sale	2	14	–
	2,416	**2,499**	**2,583**
Total equity and liabilities	**10,902**	**11,661**	**11,084**

[1] Reference information was not restated, see Note 2.1 "Financial Reporting Standards Applied for the First Time in the Reporting Period."
[2] The figures as of June 30, 2019, include right-of-use assets and lease liabilities from initial application of IFRS 16.

Covestro Group Consolidated Statement of Cash Flows

	2nd quarter 2018[1]	2nd quarter 2019	1st half 2018[1]	1st half 2019
	€ million	€ million	€ million	€ million
Income after income taxes	606	190	1,252	370
Income taxes	193	61	426	122
Financial result	27	23	55	46
Income taxes paid	(279)	(144)	(335)	(223)
Depreciation, amortization and impairment losses and impairment loss reversals	159	185	315	363
Change in pension provisions	–	17	8	26
(Gains)/losses on retirements of noncurrent assets	–	(19)	1	(17)
Decrease/(increase) in inventories	(48)	135	(197)	148
Decrease/(increase) in trade accounts receivable	(41)	29	(299)	(17)
(Decrease)/increase in trade accounts payable	8	(5)	(129)	(229)
Changes in other working capital, other noncash items	(108)	(308)	(128)	(305)
Cash flows from operating activities	**517**	**164**	**969**	**284**
Cash outflows for additions to property, plant, equipment and intangible assets	(153)	(219)	(241)	(384)
Cash inflows from sales of property, plant, equipment and other assets	–	1	–	4
Cash outflows for noncurrent financial assets	(4)	(5)	(8)	(7)
Cash inflows from noncurrent financial assets	1	(1)	1	1
Cash outflows for acquisitions less acquired cash	–	(8)	–	(8)
Interest and dividends received	7	9	12	18
Cash inflows from/(outflows for) other current financial assets	84	39	201	3
Cash flows from investing activities	**(65)**	**(184)**	**(35)**	**(373)**
Reacquisition of treasury shares	(413)	–	(670)	–
Dividend payments and withholding tax on dividends	(440)	(441)	(440)	(441)
Issuances of debt	34	440	40	490
Retirements of debt	(64)	(87)	(589)	(153)
Interest paid	(20)	(21)	(33)	(39)
Cash flows from financing activities	**(903)**	**(109)**	**(1,692)**	**(143)**
Change in cash and cash equivalents due to business activities	**(451)**	**(129)**	**(758)**	**(232)**
Cash and cash equivalents at beginning of period	**926**	**771**	**1,232**	**865**
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)	1	8
Cash and cash equivalents at end of period	**475**	**640**	**475**	**640**

[1] Reference information was not restated, see Note 2.1 "Financial Reporting Standards Applied for the First Time in the Reporting Period."

Covestro Group Consolidated Statement of Changes in Equity

				Accumulated other comprehensive income				
	Capital stock of Covestro AG	Capital reserves of Covestro AG	Retained earnings incl. total income	Currency translation	Fair value measurement of financial assets	Equity attributable to Covestro AG stockholders	Equity attributable to noncontrolling interest	Equity
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Dec. 31, 2017[1]	**201**	**4,767**	**113**	**253**	**1**	**5,335**	**30**	**5,365**
Changes in accounting for initial application of new IFRS			8		(1)	7		7
Jan. 1, 2018, adjusted	**201**	**4,767**	**121**	**253**	**–**	**5,342**	**30**	**5,372**
Reacquisition of treasury shares	(8)	(662)				(670)		(670)
Dividend payments			(436)			(436)	(4)	(440)
Income after income taxes			1,248			1,248	4	1,252
Other comprehensive income			(73)	63	–	(10)	1	(9)
Total comprehensive income			**1,175**	**63**	**–**	**1,238**	**5**	**1,243**
June 30, 2018[2]	**193**	**4,105**	**860**	**316**	**–**	**5,474**	**31**	**5,505**
of which treasury shares	(10)	(803)				(813)		(813)
Dec. 31, 2018[2]	**183**	**3,480**	**1,356**	**323**	**–**	**5,342**	**33**	**5,375**
Dividend payments			(438)			(438)	(3)	(441)
Other changes[3]			(12)			(12)	11	(1)
Income after income taxes			368			368	2	370
Other comprehensive income			(147)	48	–	(99)	1	(98)
Total comprehensive income			**221**	**48**	**–**	**269**	**3**	**272**
June 30, 2019	**183**	**3,480**	**1,127**	**371**	**–**	**5,161**	**44**	**5,205**
of which treasury shares	–	(15)				(15)		(15)

[1] Reference information was not restated for financial reporting standards IFRS 9 and IFRS 15.
[2] Reference information was not restated, see Note 2.1 "Financial Reporting Standards Applied for the First Time in the Reporting Period."
[3] Other changes result from a step acquisition of shares in April 2019 and the related equity transaction, 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 of the German Securities Trading Act (WpHG), the consolidated interim financial statements of Covestro AG, Leverkusen (Germany), (Covestro AG), as of June 30, 2019, 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, 2018, were applied unchanged in preparing the consolidated interim financial statements as of June 30, 2019, 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." Reference information for previous periods has not been restated for new financial reporting standards.

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, 2018	Dec. 31, 2018	June 30, 2019
BRL	Brazil	4.49	4.44	4.35
CNY	China	7.72	7.87	7.82
HKD	Hong Kong	9.15	8.97	8.89
INR	India	79.81	79.73	78.52
JPY	Japan	129.04	125.85	122.60
MXN	Mexico	22.88	22.49	21.82
USD	United States	1.17	1.15	1.14

Average Rates for Major Currencies

		Average rates	
€1/		1st half 2018	1st half 2019
BRL	Brazil	4.13	4.34
CNY	China	7.70	7.68
HKD	Hong Kong	9.49	8.86
INR	India	79.44	79.10
JPY	Japan	131.63	124.33
MXN	Mexico	23.07	21.65
USD	United States	1.21	1.13

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
IFRS 16 (January 13, 2016)	Leases	January 1, 2019
IFRIC Interpretation 23 (June 7, 2017)	Uncertainty over Income Tax Treatments	January 1, 2019
Amendments to IFRS 9 (October 12, 2017)	Prepayment Features with Negative Compensation	January 1, 2019
Amendments to IAS 28 (October 12, 2017)	Long-term Interests in Associates and Joint Ventures	January 1, 2019
Annual Improvements to IFRSs (December 12, 2017)	2015–2017 Cycle	January 1, 2019
Amendments to IAS 19 (February 7, 2018)	Plan Amendment, Curtailment or Settlement	January 1, 2019

With the exception of **IFRS 16 (Leases)**, 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.

Initial Application of IFRS 16

On January 13, 2016, the IASB published **IFRS 16 (Leases)**, a new standard for recognizing leases, which has been applied since January 1, 2019, and replaces the previous accounting provisions for leases.

While IFRS 16 basically retains the previous accounting rules for lessors, there is now only one accounting model for use by lessees. This requires a lessee to recognize a right-of-use asset and a corresponding lease liability for each lease. The right-of-use asset reflects a lessee's right to use the asset being leased. The lease liability recognizes the lessee's obligation to make contractual lease payments. Exemptions are available for leases with a term of less than 12 months or those with a low-value underlying asset.

IFRS 16 was applied using the modified retrospective approach. For this reason, the reference figures were not adjusted. These continue to be presented in accordance with the previous accounting rules (for further details, see the 2018 Annual Report, Note 3 "Accounting Policies and Valuation Principles").

The IFRS 16 transition rules stipulate that no new assessment must be made at the date of initial application as to whether an existing agreement meets the definition of a lease according to IFRS 16. Instead, existing assessments of leases can continue to be applied. Covestro made use of this exemption when applying IFRS 16 for the first time.

With regard to lessees, right-of-use assets required upon initial application of IFRS 16 were generally recognized by Covestro in the amount of the corresponding lease liabilities. In specific cases, the right-of-use asset was adjusted by the amount of the deferred advance payments or liabilities recognized in the financial statements as of the end of fiscal year 2018. The initial application did not affect equity. The corresponding lease liability was measured using the incremental borrowing rate at the date of initial application. In addition, Covestro took advantage of the optional exemptions regarding the carrying amount of short-term leases and leases on low-value assets.

The following reconciliations of the carrying amounts of the right-of-use assets and lease liabilities as of January 1, 2019, to the carrying amounts as of June 30, 2019, are broken down into the former finance leases already recognized in the statement of financial position under IAS 17 in conjunction with IFRIC 4 and the former operating leases recognized for the first time as a result of the adoption of IFRS 16.

Right-of-Use Assets

	Former finance leases	Former operating leases	Totals
	€ million	€ million	€ million
Right-of-use assets, January 1, 2019	**218**	**660**	**878**
Additions	–	31	31
Depreciation	(16)	(57)	(73)
Other changes	4	6	10
Right-of-use assets, June 30, 2019	**206**	**640**	**846**

Lease Liabilities

	Former finance leases	Former operating leases	Totals
	€ million	€ million	€ million
Lease liabilities, January 1, 2019	**193**	**656**	**849**
Additions	–	31	31
Repayment	(16)	(51)	(67)
thereof lease rate	(23)	(61)	(84)
thereof interest portion	7	10	17
Other changes	2	6	8
Lease liabilities, June 30, 2019	**179**	**642**	**821**

As of January 1, 2019, property, plant and equipment and financial liabilities increased by €660 million and €656 million, respectively, due to the initial application of IFRS 16. The underlying leases relate mainly to real estate leases and leases for production and logistics infrastructure. The principal additions in the first half of 2019 comprise new leases for transport vessels, rail cars and electric buses, and the leases acquired through the increase in the stake held in DIC Covestro Polymer Ltd., Tokyo (Japan).

2.2 Published Financial Reporting Standards that Have Not Yet Been Applied

Compared with the disclosure presented in the 2018 consolidated financial statements regarding the effects of those published reporting standards that are not yet effective to be applied but whose application could affect the presentation of the net assets, financial position, and results of operations, no new determinations could be made concerning potential effects.

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 Covestro Group's accounting policies, which are outlined in the consolidated financial statements as of December 31, 2018, subject to the effects of the first-time adoption of financial reporting standards in the current fiscal year as described in Note 2.1 "Financial Reporting Standards Applied for the First Time in the Reporting Period" above.

As of June 30, 2019, 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 (MDI, TDI) and polyether polyols. Flexible polyurethane foam is used especially in the furniture and automotive industries (e.g., in upholstered furniture, mattresses and car seats). Rigid foam is used mainly in the construction industry as an insulating material as well as along the entire refrigeration chain. 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 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 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 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 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 generated mainly from 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 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 tax. 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.

- 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 (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 2019						
Net sales	1,489	898	621	203	–	3,211
EBITDA	172	154	150	(3)	(14)	459
EBIT	72	99	120	(3)	(14)	274
2nd quarter 2018						
Net sales	1,966	1,056	629	212	–	3,863
EBITDA	583	285	139	7	(29)	985
EBIT	492	241	116	6	(29)	826

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 2019						
Net sales	2,965	1,758	1,248	415	–	6,386
EBITDA	329	309	296	(1)	(32)	901
EBIT	129	204	238	(1)	(32)	538
1st half 2018						
Net sales	3,916	2,089	1,221	416	–	7,642
EBITDA	1,220	588	275	14	(49)	2,048
EBIT	1,039	501	229	13	(49)	1,733

Working Capital by Segment

	Dec. 31, 2018	June 30, 2019
	€ million	€ million
Polyurethanes	1,018	1,040
Polycarbonates	769	735
Coatings, Adhesives, Specialties	500	616
Total of reportable segments	**2,287**	**2,391**
All other segments	85	72
Corporate Center	(10)	(5)
Working capital	**2,362**	**2,458**
of which inventories	2,213	2,079
of which trade accounts receivable	1,786	1,803
of which trade accounts payable	(1,637)	(1,424)

Information on geographical areas

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

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

Regional Reporting 2nd Quarter

	EMLA	NAFTA	APAC	Total
	€ million	€ million	€ million	€ million
2nd quarter 2019				
Net sales (external) by market	1,379	822	1,010	3,211
Net sales (external) by point of origin	1,370	835	1,006	3,211
2nd quarter 2018				
Net sales (external) by market	1,677	885	1,301	3,863
Net sales (external) by point of origin	1,659	916	1,288	3,863

Regional Reporting 1st Half

	EMLA	NAFTA	APAC	Total
	€ million	€ million	€ million	€ million
1st half 2019				
Net sales (external) by market	2,793	1,610	1,983	6,386
Net sales (external) by point of origin	2,772	1,640	1,974	6,386
1st half 2018				
Net sales (external) by market	3,356	1,725	2,561	7,642
Net sales (external) by point of origin	3,330	1,777	2,535	7,642

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 2018	2nd quarter 2019	1st half 2018	1st half 2019
	€ million	€ million	€ million	€ million
EBITDA of segments	1,014	473	2,097	933
EBITDA of Corporate Center	(29)	(14)	(49)	(32)
EBITDA	**985**	**459**	**2,048**	**901**
Depreciation, amortization and impairment losses of segments	(159)	(185)	(315)	(363)
Depreciation, amortization and impairment losses of Corporate Center	–	–	–	–
Depreciation, amortization and impairment losses	**(159)**	**(185)**	**(315)**	**(363)**
EBIT of segments	855	288	1,782	570
EBIT of Corporate Center	(29)	(14)	(49)	(32)
EBIT	**826**	**274**	**1,733**	**538**
Financial result	(27)	(23)	(55)	(46)
Income before income taxes	**799**	**251**	**1,678**	**492**

4. Scope of Consolidation

4.1 Changes in the Scope of Consolidation

As of June 30, 2019, the scope of consolidation comprised Covestro AG and 49 consolidated companies (December 31, 2018: 49 companies). As in the financial statements as of December 31, 2018, 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). Further, as of June 30, 2019, two associated companies are accounted for in the consolidated financial statements using the equity method according to IAS 28 (Investments in Associates and Joint Ventures).

OOO Covestro, Moscow (Russia), was reclassified as an immaterial subsidiary in the first quarter of 2019 for reasons including the fact that local production was halted. It has therefore no longer been consolidated since the first quarter of 2019. Effective April 1, 2019, a further 30% of the shares in DIC Covestro Polymer Ltd., Tokyo (Japan) (DCP), was acquired, and the company was subsequently consolidated. Previously, it was classified as a joint venture and accounted for using the equity method in accordance with IAS 28 (Investments in Associates and Joint Ventures).

4.2 Acquisitions and Divestitures

Acquisitions

Covestro increased its interest in DCP effective April 1, 2019, through a step acquisition of shares. DCP is a Japanese producer of thermoplastic polyurethanes, which are used, for example, in the automotive, IT, electronics, health-care and sports sectors. The acquisition of DCP contributes to the goal of benefiting from the future growth potential of the thermoplastic polyurethanes (TPU) business in Japan. Covestro and DIC Corporation (DIC), Tokyo (Japan), previously operated this company as a joint venture in which each held a 50% interest. By acquiring a further 30% of the shares in DCP, Covestro increased its interest to 80% and thus gained control. As a result, DCP has been fully consolidated since April 1, 2019. The shares previously recognized using the equity method of accounting were remeasured at their fair value of €34 million. The remeasurement resulted in a gain of €19 million, which was recognized in other operating income. The carrying amount of the noncontrolling interest, which corresponds to the remaining 20% share held by DIC, was determined proportionately from the net assets of DCP less goodwill. It amounted to €11 million and was recognized in equity.

The consideration transferred was €21 million and was settled by a cash transfer. The acquired net assets amount to €66 million. The goodwill of €10 million included in the net assets reflects the anticipated sales synergies resulting from joint marketing of products over the relevant trading platforms. The goodwill is not tax deductible.

As of the date of acquisition, the above transaction had the following impact on the assets and liabilities of the Covestro Group in fiscal year 2019 and led to the following cash outflow after adjustment for the cash and cash equivalents acquired:

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

	DCP
	€ million
Goodwill	10
Other intangible assets	29
Property, plant and equipment	14
Other financial assets	3
Inventories	12
Trade accounts receivable	11
Cash and cash equivalents	13
Deferred tax assets	1
Other provisions	(1)
Financial liabilities	(4)
Trade accounts payable	(9)
Other liabilities	(1)
Deferred tax liabilities	(12)
Net assets	**66**
Noncontrolling interest	(11)
Fair value of pre-existing interest	(34)
Consideration transferred	**21**
Acquired cash and cash equivalents	(13)
Net cash outflow for acquisitions	**8**

Before the acquisition, Covestro and DCP engaged in operational goods and services transactions, which were recognized by Covestro as trade accounts receivable of €1 million. These transactions were settled when DCP was acquired. In addition, DIC was granted a put option on the remaining 20% shares still held by DIC. If it exercises this put option, the sale of these shares to Covestro would take effect in 2030. The put option is recognized in miscellaneous other financial liabilities while equity was reduced by the counter item recognized in retained earnings.

Since its consolidation as of April 1, 2019, DCP has contributed €9 million to net sales and a loss of €2 million to income after income taxes of the Covestro Group. Between January 1, 2019, and March 31, 2019, DCP generated net sales of €9 million and income after income taxes of €1 million.

Divestitures

In the second quarter of 2019, Covestro's Polyurethanes segment signed an agreement to divest the assets and liabilities (disposal group) of the European systems house business to H.I.G. Capital, Miami (US). The systems houses provide customers with tailored polyurethane systems. The European systems house business comprises systems houses in Denmark, Germany, the Netherlands and Spain, plus further activities in Italy. In connection with this divestiture, production-related assets and inventories amounting to €54 million and liabilities of €14 million were classified as "held for sale" in accordance with IFRS 5. This transaction should be completed in the fourth quarter of 2019 at the latest.

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 Net 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 2019						
EMLA	1,312	595	571	315	–	2,793
of which Germany	253	143	243	192	–	831
NAFTA	855	378	288	89	–	1,610
of which United States	681	306	260	88	–	1,335
APAC	798	785	389	11	–	1,983
of which China	494	522	198	2	–	1,216
1st half 2018						
EMLA	1,731	715	597	313	–	3,356
of which Germany	302	183	262	188	–	935
NAFTA	961	412	259	93	–	1,725
of which United States	755	337	235	91	–	1,418
APAC	1,224	962	365	10	–	2,561
of which China	849	619	191	2	–	1,661

6. Earnings per Share

Earnings per share are calculated according to IAS 33 (Earnings per Share) by dividing net income for the reporting period by the weighted average number of outstanding no-par voting shares of Covestro AG. Between November 21, 2017, and December 4, 2018, Covestro AG acquired own shares as part of a share buy-back program. In the first half of 2019, a weighted average number of outstanding no-par voting shares of 182,704,602 was used to calculate earnings per share, while in the first half of 2018, these shares numbered 197,746,827. There were no dilution effects to consider.

Earnings per Share

	1st half 2018	1st half 2019
	€ million	€ million
Income after income taxes	1,252	370
of which attributable to noncontrolling interest	4	2
of which attributable to Covestro AG stockholders (net income)	1,248	368
	Shares	Shares
Weighted average number of no-par voting shares of Covestro AG	197,746,827	182,704,602
	€	€
Basic earnings per share	6.31	2.01
Diluted earnings per share	6.31	2.01

7. Employees and Pension Obligations

As of June 30, 2019, the Covestro Group had 17,136 employees worldwide (December 31, 2018: 16,770). In particular, lower additions to provisions for short-term variable compensation contributed to the reduction of €79 million in personnel expenses to €918 million in the first half of 2019 (previous year: €997 million).

Employees by Corporate Function[1]

	Dec. 31, 2018	June 30, 2019
Production	10,479	10,854
Marketing and distribution	3,601	3,464
Research and development	1,123	1,276
General administration	1,567	1,542
Total	**16,770**	**17,136**

[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.

Provisions for pensions and other post-employment benefits increased to €1,704 million (December 31, 2018: €1,445 million). This was principally due to an increase in the valuation of pension obligations as a result of lower discount rates, but was countered, in particular, by a positive development in the value of plan assets.

Discount Rate for Pension Obligations

	Dec. 31, 2018	June 30, 2019
	%	%
Germany	1.80	1.30
United States	4.00	3.30

8. Financial Instruments

The following tables show the carrying amounts and fair values of financial assets and liabilities as of June 30, 2019, and December 31, 2018, based on IFRS 9.

Carrying Amounts of Financial Instruments According to IFRS 9 and Their Fair Values

						June 30, 2019
		Measurement according to IFRS 9				
	Carrying amount	Carried at amortized cost	Fair value through 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	1,803	1,803				1,803
Other financial assets	48					
Loans	13	13				13
Derivatives that do not qualify for hedge accounting	18			18		18
Receivables under finance lease agreements	8				8	18
Other investments	9		9			9
Other receivables[1]	26	26				26
Cash and cash equivalents	640	640				640
Financial liabilities						
Financial debts	2,254					
Bonds	997	997				1,063
Lease liabilities[2]	821				821	
Liabilities to banks	425	425				425
Derivatives that do not qualify for hedge accounting	11			11		11
Trade accounts payable	1,424	1,424				1,424
Other liabilities[3]	54					
Derivatives that do not qualify for hedge accounting	4			4		4
Miscellaneous other liabilities	50	50				50

[1] The other receivables recognized in the consolidated statement of financial position also include nonfinancial assets totaling €371 million.
[2] In accordance with IFRS 7.29 (d), disclosures on the fair value of lease liabilities are no longer required from fiscal year 2019 onward.
[3] The other liabilities recognized in the consolidated statement of financial position also include nonfinancial liabilities totaling €189 million.

Carrying Amounts of Financial Instruments According to IFRS 9 and Their Fair Values

						Dec. 31, 2018
		Measurement according to IFRS 9				
	Carrying amount	Carried at amortized cost	Fair value through other comprehen sive income	Fair value recognized in profit or loss	Measure-ment according to IAS 17	Fair value
	€ million	€ million	€ million	€ million	€ million	€ million
Financial assets						
Trade accounts receivable	1,786	1,786				1,786
Other financial assets	48					
Loans	12	12				12
Derivatives that do not qualify for hedge accounting	20			20		20
Receivables under finance lease agreements	9				9	16
Other investments	7		7			7
Other receivables[1]	35	35				35
Cash and cash equivalents	865	865				865
Financial liabilities						
Financial debts	1,225					
Bonds	996	996				1,030
Lease liabilities[2]	193				193	231
Liabilities to banks	24	24				24
Derivatives that do not qualify for hedge accounting	12			12		12
Trade accounts payable	1,637	1,637				1,637
Other liabilities[3]	26					
Derivatives that do not qualify for hedge accounting	4			4		4
Miscellaneous other liabilities	22	22				22

[1] The other receivables recognized in the consolidated statement of financial position also include nonfinancial assets totaling €343 million.
[2] Reference information was not restated, see Note 2.1 "Financial Reporting Standards Applied for the First Time in the Reporting Period."
[3] The other liabilities recognized in the consolidated statement of financial position also include nonfinancial liabilities totaling €214 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 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, 2018	Level 1	Level 2	Level 3	Fair value June 30, 2019	Level 1	Level 2	Level 3
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Financial assets carried at fair value								
Other investments	7	2		5	9	4		5
Derivatives that do not qualify for hedge accounting	20		12	8	18		10	8
Financial assets not carried at fair value								
Receivables under leasing agreements	16			16	18			18
Financial liabilities carried at fair value								
Derivatives that do not qualify for hedge accounting	16		12	4	15		11	4
Financial liabilities not carried at fair value								
Bonds	1,030	1,030			1,063	1,063		
Lease liabilities[1, 2]	231		231					
Other financial liabilities	24		24		425		425	

[1] According IFRS 7.29 (d) fair value disclosures for lease liabilities are not required from fiscal year 2019 onward.
[2] Reference information was not restated, see Note 2.1 "Financial Reporting Standards Applied for the First Time in the Reporting Period."

During the first half of 2019, no transfers were made between the levels of the fair value hierarchy.

Because of the generally short maturities of cash and cash equivalents, loans, 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 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 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 was applied as an unobservable factor.

Other financial investments exclusively comprised of equity instruments 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 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.

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 **net carrying amounts of the financial assets and liabilities allocated to level 3** were unchanged at €9 million in the first half of 2019.

9. Legal Risks

As a global 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 "Legal Risks" to the consolidated financial statements as of December 31, 2018. 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 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, 2018		June 30, 2019	
	Receivables	Liabilities	Receivables	Liabilities
	€ million	€ million	€ million	€ million
Nonconsolidated subsidiaries and associates	4	9	–	5
Associates	11	1	6	–

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

	1st half 2018		1st half 2019	
	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	21	24	19	22
Associates	10	328	5	276

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

No events have occurred since July 1, 2019, that will have a material impact on the net assets, financial position and results of operations of the Covestro Group.

Leverkusen, July 19, 2019

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 19, 2019

Covestro AG

The Board of Management

Review Report

To Covestro AG, Leverkusen

We have reviewed the condensed interim consolidated 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 — together with the interim group management report of Covestro AG, Leverkusen, for the period from January 1, 2019, to June 30, 2019, that are part of the semi-annual financial report according to § 115 WpHG ["Wertpapierhandelsgesetz": "German Securities Trading Act"]. The preparation of the condensed interim consolidated financial statements in accordance with the IFRSs applicable to interim reporting as adopted by the EU, and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports, is the responsibility of the Company's management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We performed our review of the condensed interim consolidated 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 Institut der Wirtschaftsprüfer (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 a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRSs applicable to interim reporting as adopted by the EU, and that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company employees and analytical assessments 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 issue an auditor's report.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRSs applicable to interim reporting as adopted by the EU, or that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Düsseldorf, July 22, 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Zeimes
[German Public Auditor]

Geier
[German Public Auditor]