Consolidated Interim Financial Statements

as of June 30, 2020

COVESTRO GROUP CONSOLIDATED INCOME STATEMENT

	2nd quarter 2019	2nd quarter 2020	1st half 2019	1st half 2020
	€ million	€ million	€ million	€ million
Sales	**3,211**	**2,156**	**6,386**	**4,939**
Cost of goods sold	(2,449)	(1,817)	(4,856)	(4,049)
Gross profit	**762**	**339**	**1,530**	**890**
Selling expenses	(346)	(268)	(690)	(589)
Research and development expenses	(68)	(59)	(136)	(124)
General administration expenses	(97)	(68)	(193)	(160)
Other operating income	31	8	53	17
Other operating expenses	(8)	(20)	(26)	(35)
EBIT[1]	**274**	**(68)**	**538**	**(1)**
Equity-method loss	(8)	(4)	(14)	(8)
Result from other affiliated companies	–	–	1	–
Interest income	9	7	19	15
Interest expense	(22)	(18)	(45)	(37)
Other financial result	(2)	(2)	(7)	(26)
Financial result	**(23)**	**(17)**	**(46)**	**(56)**
Income before income taxes	**251**	**(85)**	**492**	**(57)**
Income taxes	(61)	32	(122)	25
Income after income taxes	**190**	**(53)**	**370**	**(32)**
of which attributable to noncontrolling interest	1	(1)	2	–
of which attributable to Covestro AG shareholders (net income)	189	(52)	368	(32)
	€	€	€	€
Basic earnings per share[2]	**1.03**	**–0.28**	**2.01**	**–0.17**
Diluted earnings per share[2]	**1.03**	**–0.28**	**2.01**	**–0.17**

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

[2] The weighted average number of outstanding no-par voting shares of Covestro AG in issue amounted to 182,864,685 in both the second quarter of 2020 (previous year: 182,704,602) and the first half of 2020 (previous year: 182,704,602).

COVESTRO GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2nd quarter 2019	2nd quarter 2020	1st half 2019	1st half 2020
	€ million	€ million	€ million	€ million
Income after income taxes	**190**	**(53)**	**370**	**(32)**
Remeasurements of the net defined benefit liability for post-employment benefit plans	(20)	(437)	(220)	112
Income taxes	2	136	74	(38)
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans	**(18)**	**(301)**	**(146)**	**74**
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	**(19)**	**(301)**	**(147)**	**74**
Exchange differences of foreign operations	(94)	(36)	49	(40)
Reclassified to profit or loss	–	–	–	–
Other comprehensive income from exchange differences	**(94)**	**(36)**	**49**	**(40)**
Other comprehensive income that may be reclassified subsequently to profit or loss, if certain conditions are met	**(94)**	**(36)**	**49**	**(40)**
Total other comprehensive income[1]	**(113)**	**(337)**	**(98)**	**34**
of which attributable to noncontrolling interest	–	–	1	–
of which attributable to Covestro AG shareholders	(113)	(337)	(99)	34
Total comprehensive income	**77**	**(390)**	**272**	**2**
of which attributable to noncontrolling interest	1	(1)	3	–
of which attributable to Covestro AG shareholders	76	(389)	269	2

[1] Total change recognized outside profit or loss

COVESTRO GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	June 30, 2019	June 30, 2020	Dec. 31, 2019
	€ million	€ million	€ million
Noncurrent assets			
Goodwill	263	264	264
Other intangible assets	109	109	114
Property, plant and equipment	5,148	5,243	5,286
Investments accounted for using the equity method	194	187	192
Other financial assets	32	35	32
Other receivables	46	75	52
Deferred taxes	820	861	851
	6,612	**6,774**	**6,791**
Current assets			
Inventories	2,079	1,922	1,916
Trade accounts receivable	1,803	1,311	1,561
Other financial assets	16	557	27
Other receivables	351	288	359
Claims for income tax refunds	106	133	104
Cash and cash equivalents	640	1,504	748
Assets held for sale	54	–	12
	5,049	**5,715**	**4,727**
Total assets	**11,661**	**12,489**	**11,518**
Equity			
Capital stock of Covestro AG	183	183	183
Capital reserves of Covestro AG	3,480	3,487	3,487
Other reserves	1,498	1,539	1,537
Equity attributable to Covestro AG shareholders	**5,161**	**5,209**	**5,207**
Equity attributable to noncontrolling interest	44	45	47
	5,205	**5,254**	**5,254**
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	1,704	1,881	1,965
Other provisions	239	209	230
Financial liabilities	1,702	2,817	1,601
Income tax liabilities	114	96	95
Other liabilities	32	16	32
Deferred taxes	166	196	206
	3,957	**5,215**	**4,129**
Current liabilities			
Other provisions	220	208	203
Financial liabilities	552	532	151
Trade accounts payable	1,424	1,048	1,507
Income tax liabilities	78	33	69
Other liabilities	211	199	191
Liabilities directly related to assets held for sale	14	–	14
	2,499	**2,020**	**2,135**
Total equity and liabilities	**11,661**	**12,489**	**11,518**

COVESTRO GROUP CONSOLIDATED STATEMENT OF CASH FLOWS

	2nd quarter 2019	2nd quarter 2020	1st half 2019	1st half 2020
	€ million	€ million	€ million	€ million
Income after income taxes	190	(53)	370	(32)
Income taxes	61	(32)	122	(25)
Financial result	23	17	46	56
Income taxes paid	(144)	(12)	(223)	(102)
Depreciation, amortization and impairment losses and impairment loss reversals	185	193	363	380
Change in pension provisions	17	6	26	17
(Gains)/losses on retirements of noncurrent assets	(19)	(1)	(17)	1
Decrease/(increase) in inventories	135	94	148	(21)
Decrease/(increase) in trade accounts receivable	29	308	(17)	239
(Decrease)/increase in trade accounts payable	(5)	(360)	(229)	(457)
Changes in other working capital, other noncash items	(308)	11	(305)	5
Cash flows from operating activities	**164**	**171**	**284**	**61**
Cash outflows for additions to property, plant, equipment and intangible assets	(219)	(147)	(384)	(286)
Cash inflows from sales of property, plant, equipment and other assets	1	–	4	–
Cash inflows from divestments less divested cash	–	–	–	(3)
Cash outflows for noncurrent financial assets	(5)	(2)	(7)	(9)
Cash inflows from noncurrent financial assets	(1)	1	1	1
Cash outflows for acquisitions less acquired cash	(8)	–	(8)	–
Interest and dividends received	9	7	18	17
Cash inflows from/(outflows for) other current financial assets	39	(519)	3	(512)
Cash flows from investing activities	**(184)**	**(660)**	**(373)**	**(792)**
Dividend payments and withholding tax on dividends	(441)	(2)	(441)	(2)
Issuances of debt	402	1,011	428	1,768
Retirements of debt	(49)	(198)	(91)	(234)
Interest paid	(21)	(16)	(39)	(38)
Cash flows from financing activities	**(109)**	**795**	**(143)**	**1,494**
Change in cash and cash equivalents due to business activities	**(129)**	**306**	**(232)**	**763**
Cash and cash equivalents at beginning of period	**771**	**1,200**	**865**	**748**
Change in cash and cash equivalents due to changes in scope of consolidation	–	–	(1)	1
Change in cash and cash equivalents due to exchange rate movements	(2)	(2)	8	(8)
Cash and cash equivalents at end of period	**640**	**1,504**	**640**	**1,504**

COVESTRO GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Capital stock of Covestro AG	Capital reserves of Covestro AG	Retained earnings incl. subtotal 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, 2018	**183**	**3,480**	**1,356**	**323**	**5,342**	**33**	**5,375**
Dividend payments			(438)		(438)	(3)	(441)
Other changes[1]	–	–	(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)
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)

[1] Other changes result from a step acquisition of shares in April 2019 and the related equity transaction, see Covestro 2019 Annual Report, Consolidated Financial Statements, note 5.2 “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, 2020, 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 valuation principles described in the consolidated financial statements as of December 31, 2019, were applied unchanged in preparing the consolidated interim financial statements as of June 30, 2020, except in the case of the 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, 2019**	**Dec. 31, 2019**	**June 30, 2020**
BRL	Brazil	4.35	4.52	6.11
CNY	China	7.82	7.82	7.92
HKD	Hong Kong	8.89	8.75	8.68
INR	India	78.52	80.19	84.62
JPY	Japan	122.60	121.94	120.66
MXN	Mexico	21.82	21.22	25.95
USD	United States	1.14	1.12	1.12

Average rates for major currencies

		Average rates	
€1/		**1st half 2019**	**1st half 2020**
BRL	Brazil	4.34	5.33
CNY	China	7.68	7.76
HKD	Hong Kong	8.86	8.55
INR	India	79.10	81.60
JPY	Japan	124.33	119.22
MXN	Mexico	21.65	23.58
USD	United States	1.13	1.10

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 Standards (March 29, 2018)	Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020
Amendments to IFRS 3 (October 22, 2018)	Definition of a Business	January 1, 2020
Amendments to IAS 1 and IAS 8 (October 31, 2018)	Definition of Material	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7 (September 26, 2019)	Interest Rate Benchmark Reform	January 1, 2020

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

Compared with the disclosure presented in the consolidated financial statements as of December 31, 2019, 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 were made concerning potential effects.

3. Effects of the Coronavirus Pandemic on Financial Reporting

Business performance in the first half of 2020 was heavily influenced by the coronavirus pandemic. During this period, Covestro saw substantial sales losses, primarily due to a decline in volumes sold. Whereas the APAC region's sales had dropped considerably as early as the first quarter of 2020, sales in the EMLA and NAFTA regions did not begin their steep decline until the second quarter of 2020. In contrast, the slowdown in sales in the APAC region, particularly China, was much less severe than in the other regions in the second quarter of 2020.

Sales in all segments fell significantly in the first half of 2020. This was mainly due to a decline in volumes sold and a lower level of selling prices. The change in volumes resulted from weaker demand in all main customer industries. Only in the Polycarbonates segment did volume growth in the construction sector offset the downturns in the other main customer industries.

Additional disclosures on the effects of the coronavirus pandemic and the countermeasures taken by Covestro are presented in the interim group management report.

In view of the aforementioned changes in the business environment, preparation of the consolidated interim financial statements required Covestro to make assumptions and estimates to a certain extent that affected the measurement of reported assets and liabilities, as well as income and expenses, and that could deviate from the actual results in individual cases. Such estimates, assumptions and the exercise of discretion related primarily to the following areas:

- impairment testing of non-financial assets, particularly goodwill;
- assessment of the probability that deferred tax assets can be utilized in the future;
- calculation of impairment losses on trade accounts receivable;
- calculation of provisions relating to contractually agreed minimum purchase volumes ("take-or-pay" clauses) in supply contracts.

As a consequence of the significant decline in Covestro's market capitalization, the carrying amounts of all cash-generating units were subjected to impairment testing as of June 30, 2020. For this purpose, the most recent Covestro corporate planning approved by the Supervisory Board was used under consideration of currently available planning data.

As of June 30, 2020, there was no need to recognize an impairment loss for any of the cash-generating units.

As part of an extended sensitivity analysis, a 10% reduction in the future free operating cash flow, a 10% increase in the WACC, or a one-percentage-point reduction in the long-term growth rate were assumed. On this basis, there would be no need to recognize an impairment loss for any of the cash-generating units. The same applies at the measurement date of June 30, 2020, to other deviations from the assumptions used in the impairment testing that were deemed possible.

The probability that deferred tax assets resulting from temporary differences, tax credits or loss carryforwards can be utilized in the future is the subject of forecasts by the individual companies regarding the future earnings situation in the respective Covestro companies and other parameters. These forecasts have been updated to reflect the effects of the coronavirus pandemic and did not result in any impairment losses on deferred tax assets in the current financial statements.

The level of default risk associated with the Covestro Group's trade accounts receivable depends mainly on the creditworthiness of our customers. The coronavirus pandemic has heightened industry risk (equivalent to the default risk relating to the companies in a particular industry), because demand, and subsequently sales revenues, in certain industries have declined sharply. This can directly affect the creditworthiness of customers in these industries. In order to appropriately reflect the increased default risk when measuring trade accounts receivable, industry risk was additionally considered when assessing the creditworthiness of customers. The expected losses in trade accounts receivable therefore increased by €3 million (additional information on the calculation of default risk for trade accounts receivable can be found in note 24.2 "Financial Risk Management and Information on Derivatives" in the Consolidated Financial Statements in the 2019 Annual Report).

Due to weaker demand, the agreed minimum purchase amounts in some supply contracts ("take-or-pay" clauses) cannot be met for 2020. Provisions were recognized for the expected payments resulting from the failure to purchase the agreed volumes.

In addition, attention is drawn to the following accounting issues associated with the coronavirus pandemic:

In March 2020, the "Coronavirus Aid, Relief and Economic Security (CARES) Act" was passed in the United States. This economic relief package gives U.S. companies various options including carrying back losses at the federal tax level, incurred after December 31, 2017, and prior to January 1, 2021, to prior years and offsetting them against taxable income. Tax income of €4 million was realized by Covestro LLC, Pittsburgh (USA), in this context in the first half of 2020.

Covestro received public subsidies abroad in accordance with IAS 20 for managing sales losses resulting from the coronavirus pandemic. These subsidies related mainly to a reduction in personnel costs and amounted to €5 million in the first six months of 2020.

4. Segment and Regional Reporting

The Board of Management of Covestro AG, as the chief operating decision maker of the Covestro Group, allocates resources to the operating segments and assesses their performance. The reportable segments and regions are identified, and the disclosures selected, in line with the internal financial reporting system (management approach). They are based on the same accounting policies outlined in the consolidated financial statements as of December 31, 2019.

As of June 30, 2020, 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 toluene diisocyanate (TDI), diphenylmethane diisocyanate (MDI) and polyether polyol. Flexible polyurethane foam is used primarily in the furniture and automotive industries (e.g., in upholstered furniture, mattresses and car seats). Rigid foam is used mainly in the construction sector as an insulating material as well as along the entire refrigeration chain. The segment operates production facilities worldwide as well as systems houses, mainly in the APAC region, 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 and composite materials. The material is used primarily in the automotive industry (e.g., in the vehicle interior and for vehicle lighting) and in the construction sector (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 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 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

	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 2020						
Net sales	913	648	443	152	–	2,156
EBITDA	(24)	96	60	3	(10)	125
EBIT	(130)	41	28	3	(10)	(68)
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

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 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)
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

Trade working capital by segment

	Dec. 31, 2019	June 30, 2020
	€ million	€ million
Polyurethanes	860	987
Polycarbonates	562	638
Coatings, Adhesives, Specialties	485	498
Total of reportable segments	**1,907**	**2,123**
All other segments	73	66
Corporate Center	(10)	(4)
Trade working capital	**1,970**	**2,185**
of which inventories	1,916	1,922
of which trade accounts receivable	1,561	1,311
of which trade accounts payable	(1,507)	(1,048)

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 2020				
Net sales (external) by market	874	508	774	2,156
Net sales (external) by point of origin	869	517	770	2,156
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

Regional reporting 1st half

	EMLA	NAFTA	APAC	Total
	€ million	€ million	€ million	€ million
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
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

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 2019	2nd quarter 2020	1st half 2019	1st half 2020
	€ million	€ million	€ million	€ million
EBITDA of segments	473	135	933	401
EBITDA of Corporate Center	(14)	(10)	(32)	(22)
EBITDA	**459**	**125**	**901**	**379**
Depreciation, amortization and impairment losses of segments	(185)	(193)	(363)	(380)
Depreciation, amortization and impairment losses of Corporate Center	–	–	–	–
Depreciation, amortization and impairment losses	**(185)**	**(193)**	**(363)**	**(380)**
EBIT of segments	288	(58)	570	21
EBIT of Corporate Center	(14)	(10)	(32)	(22)
EBIT	**274**	**(68)**	**538**	**(1)**
Financial result	(23)	(17)	(46)	(56)
Income before income taxes	**251**	**(85)**	**492**	**(57)**

5. Scope of Consolidation

5.1 Changes in the scope of consolidation

As of June 30, 2020, the scope of consolidation comprised Covestro AG and 47 (December 31, 2019: 47) consolidated companies.

Effective January 1, 2020, Asellion B.V., Amsterdam (Netherlands), was included in the consolidated financial statements for the first time as a result of growth in business activities. Previously, the company had been classified as an immaterial subsidiary. Asellion B.V. provides a digital platform for online direct sales where manufacturers, suppliers and service providers can do business in a flexible, secure and private environment.

Covestro (Tielt) NV, Tielt (Belgium), and Covestro S.p.A., Milan (Italy), were deconsolidated in the course of the sale of the European polycarbonate sheets business to Munich-based Serafin Group concluded on January 2, 2020.

Effective June 1, 2020, Covestro International Re, Inc., Colchester (United States), was included in the consolidated financial statements as a fully consolidated company. This is Covestro's own insurance company, which received a license from the state of Vermont to act as a reinsurer for the primary insurer and to provide coverage for certain insurance risks to which the Covestro Group is exposed.

5.2 Acquisitions and divestitures

Acquisitions

No reportable acquisitions were made in the first half of 2020.

Divestitures

On January 2, 2020, Covestro concluded the sale of the assets and liabilities (disposal group) of the European polycarbonate sheets business, belonging to the Polycarbonates segment, to the Serafin Group, Munich (Germany). Polycarbonate sheets are extremely strong and are used primarily in the areas of industrial protection, construction systems and for advertising applications. The European polycarbonate sheets business comprises production sites in Belgium and Italy as well as central management and distribution functions in Europe. Within the scope of the sale, net liabilities totaling €2 million were transferred to the buyer, and net payments amounting to €3 million were made by Covestro to Serafin. The loss on the disposal of this business totaling €1 million was recognized in other operating result.

6. 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 2020						
EMLA	948	459	467	300	–	2,174
of which Germany	186	99	202	171	–	658
NAFTA	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
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

7. 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. In the first half of 2020, a weighted average number of outstanding no-par voting shares of 182,864,685 was used to calculate earnings per share, while in the first half of 2019, these shares amounted to 182,704,602. There were no dilution effects to consider.

Earnings per Share

	1st half 2019	1st half 2020
	€ million	€ million
Income after income taxes	370	(32)
of which attributable to noncontrolling interest	2	–
of which attributable to Covestro AG shareholders (net income)	368	(32)
	Shares	Shares
Weighted average number of no-par voting shares of Covestro AG	182,704,602	182,864,685
	€	€
Basic earnings per share	2.01	(0.17)
Diluted earnings per share	2.01	(0.17)

8. Employees and Pension Obligations

As of June 30, 2020, the Covestro Group had 16,803 employees worldwide (December 31, 2019: 17,201). In the first half of 2020, personnel expenses were down €5 million to €913 million (previous year: €918 million), chiefly on account of a decrease in current provisions recognized for short-term variable compensation.

Employees by corporate function[1]

	Dec. 31, 2019	June 30, 2020
Production	11,162	10,917
Marketing and distribution	3,314	3,220
Research and development	1,217	1,210
General administration	1,508	1,456
Total	**17,201**	**16,803**

[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 declined to €1,881 million (December 31, 2019: €1,965 million). This was principally due to a decrease in the valuation of pension obligations as a result of higher discount rates, but was countered, in particular, by a negative development in the value of plan assets.

Discount rate for pension obligations

	Dec. 31, 2019	June 30, 2020
	%	%
Germany	1.00	1.20
United States	3.00	2.30

A third-party consulting firm has begun calculating the discount rate for pension obligations in the euro area using a standard methodology as of the first quarter of 2020. Without the change in calculation procedure, the discount rate would have remained at 1.20% for Germany as of June 30, 2020. Measurement using the original discount rate would therefore not have changed the pension obligations as of June 30, 2020.

9. Financing

The €5.0 billion Debt Issuance Program launched in the first quarter of 2016 is a key form of external financing. In fiscal 2016, Covestro placed bonds totaling €1.5 billion, of which two fixed-rate tranches with terms until October 2021 (a coupon of 1.00% and a volume of €500 million) and September 2024 (a coupon of 1.75% and a volume of €500 million) remain in the portfolio. An additional €1.0 billion in bonds was placed on June 5, 2020. The fixed-rate bonds have terms expiring in February 2026 (a coupon of 0.875% and a volume of €500 million) and June 2030 (a coupon of 1.375% and a volume of €500 million). The proceeds of the bond placement serve to further reinforce Covestro's liquidity in view of the economic effects of the coronavirus pandemic and to provide funds to repay the existing bond maturing in fiscal 2021.

Effective March 17, 2020, Covestro obtained a new syndicated revolving credit facility totaling €2.5 billion with a term of five years, including two options for extending the term by one year in each case. An important new feature of the credit line is its link to an ESG (environment, social, governance) rating: The lower (higher) the externally calculated ESG score is, the lower (higher) the interest component of the credit facility. The new facility replaces the existing revolving credit line of €1.5 billion and, like it, functions as a backup liquidity reserve.

Furthermore, Covestro AG obtained a €225 million loan for research and development from the European Investment Bank (EIB) in March 2020. The focus here is, in particular, on sustainability and the circular economy in the European Union. The term of the EIB loan runs until September 30, 2025.

In addition, short-term loans totaling €500 million were assumed in the first quarter of 2020, €125 million of which was repaid according to schedule in June 2020. The remaining loan amount of €375 million comes due in September 2020.

10. 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, 2020

		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	Measurement according to IFRS 16	Fair value
	€ million	€ million	€ million	€ million	€ million	€ million
Financial assets						
Trade accounts receivable	1,311	1,311		–		1,311
Other financial assets	592					
Money market funds	530	–	–	530		530
Loans	14	9	–	5		14
Other investments	13		13	–		13
Receivables under lease agreements	8				8	21
Derivatives that do not qualify for hedge accounting	27			27		27
Other receivables[1]	34	28	–	6		34
Cash and cash equivalents	1,504	1,504	–	–		1,504
Financial liabilities						
Financial debts	3,349					
Bonds	1,989	1,989		–		2,034
Lease liabilities	732				732	
Liabilities to banks	623	623		–		632
Derivatives that do not qualify for hedge accounting	4			4		4
Other financial liabilities	1	1		–		1
Trade accounts payable	1,048	1,048		–		1,048
Other liabilities[2]	81					
Derivatives that do not qualify for hedge accounting	3			3		3
Refund liabilities	36	36		–		36
Miscellaneous other liabilities	42	42		–		42

[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 €134 million.

Carrying amounts of financial instruments and their fair values as of December 31, 2019

		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	1,561	1,561		–		1,561
Other financial assets	59					
Money market funds	–	–	–	–		–
Loans	16	16	–	–		16
Other investments	13		13	–		13
Receivables under lease agreements	8				8	19
Derivatives that do not qualify for hedge accounting	22			22		22
Other receivables[1]	41	32	–	9		41
Cash and cash equivalents	748	748	–	–		748
Financial liabilities						
Financial debts	1,752					
Bonds	997	997		–		1,045
Lease liabilities	735				735	
Liabilities to banks	10	10		–		10
Derivatives that do not qualify for hedge accounting	10			10		10
Other financial liabilities	–	–		–		–
Trade accounts payable	1,507	1,507		–		1,507
Other liabilities[2]	64					
Derivatives that do not qualify for hedge accounting	3			3		3
Refund liabilities	30	30		–		30
Miscellaneous other liabilities	31	31		–		31

[1] The other receivables recognized in the consolidated statement of financial position also include nonfinancial assets totaling €370 million.
[2] The other liabilities recognized in the consolidated statement of financial position also include nonfinancial liabilities totaling €159 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, 2019	Level 1	Level 2	Level 3	Fair value June 30, 2020	Level 1	Level 2	Level 3
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Financial assets carried at fair value								
Money market funds	–	–	–	–	530	–	530	–
Loans	–	–	–	–	5	–	–	5
Other investments	13	5	–	8	13	4	–	9
Derivatives that do not qualify for hedge accounting	22	–	15	7	27	–	21	6
Other receivables	9	–	–	9	6	–	–	6
Financial assets not carried at fair value								
Receivables under lease agreements	19	–	–	19	21	–	–	21
Financial liabilities carried at fair value								
Derivatives that do not qualify for hedge accounting	13	–	10	3	7	–	4	3
Financial liabilities not carried at fair value								
Bonds	1,045	1,045	–	–	2,034	2,034	–	–
Liabilities to banks	10	–	10	–	632	–	632	–
Other financial liabilities	–	–	–	–	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 2020, 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 equity instruments 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 EU Regulation 2017/1131 on money market funds, Article 29 in conjunction with Article 33 (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 leasing receivables, reported for information purposes, are calculated on the basis of interest curves observable in the market. Additionally, a discount for cash flows that are very far in the future is applied as an unobservable factor.

Debt instruments associated with corporate venture capital activities are recognized in profit or loss at fair value. The fair value is determined using a market price-oriented valuation method for which the main input factors are not based on observable market data (Level 3). The valuation is based on available performance indicators as well as on what are known as "market valuation multipliers." The estimated fair value of the debt instruments categorized within Level 3 would rise (fall) if the multiple applied were to be greater (smaller).

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 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)

	2019	2020
	€ million	€ million
Net carrying amounts, Jan. 1	**9**	**21**
Gains (losses) recognized in profit or loss	–	(4)
of which related to assets / liabilities recognized in the statement of financial position	–	(4)
Gains (losses) recognized outside profit or loss	–	1
Additions of assets (liabilities)	–	5
Settlements of (assets) liabilities	–	–
Reclassifications	–	–
Net carrying amounts, June 30	**9**	**23**

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

11. 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, 2019. 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.

12. 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, 2019		June 30, 2020	
	Receivables	Liabilities	Receivables	Liabilities
	€ million	€ million	€ million	€ million
Nonconsolidated subsidiaries and associates	–	5	2	5
Associates	3	–	5	1

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

	1st half 2019		1st half 2020	
	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	19	22	15	20
Associates	5	276	6	216

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.

13. Events after the End of the Reporting Period

No events have occurred since July 1, 2020, that will have a material impact on the net assets, financial position and results of operations of the Covestro Group.

Leverkusen (Germany), July 20, 2020

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 (Germany), July 20, 2020

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, 2020, to June 30, 2020, 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 30, 2020

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Zeimes
[German Public Auditor]

Geier
[German Public Auditor]