Interim Group Management Report

as of June 30, 2020

Significant Events

Coronavirus pandemic

Business performance in the first half of 2020 was heavily influenced by the evolution of the coronavirus pandemic. Early on, Covestro took steps to adjust the company’s activities to current conditions, protect the health of all Covestro employees, guarantee delivery capability for customers, and safeguard Covestro’s strong liquidity position.

Covestro decided to implement an extensive list of measures to protect all employees, including a wide range of health, safety and hygiene measures at our sites. Depending on the local situation in each case, staff, particularly employees in administrative departments, began working from home. Production continued for the most part at our sites in the first half of 2020, so Covestro's delivery capability was ensured throughout the period.

In reaction to the economic challenges of the coronavirus pandemic, the Board of Management increased the target for achieving short-term cost savings to over €300 million in the 2020 fiscal year (previously: €200 million). This step was taken in addition to the “Perspective” restructuring program underway, which is expected to cut costs by €130 million in fiscal 2020. Moreover, Covestro decreased current investments by around €200 million. In fiscal 2020, investments totaling approximately €700 million are now planned (previously: €900 million).

The Board of Management, the Supervisory Board and employees of Covestro are working together in solidarity to reach these goals and put the company in an even more robust position in the current environment. At all German companies, the Board of Management and employee representatives agreed to implement a model to reduce working hours while adjusting pay for all employees. The percentage reduction in compensation increases up the pay scale. Covestro's Board of Management and Supervisory Board are participating by accepting a 15% pay cut. These measures have been in effect since June 1, 2020, and are scheduled to run for a period of six months. All Covestro Group companies outside of Germany are implementing comparable country-specific measures to reduce costs.

Covestro's Board of Management continues to actively monitor the worldwide development of the coronavirus pandemic. Existing measures are modified or expanded as required in line with recommendations and instructtions issued by the relevant governments and committees of experts.

Other events

On January 2, 2020, Covestro successfully concluded the sale of its European polycarbonate sheets business to the Serafin Group. This included central management and distribution functions in Europe and production sites in Belgium and Italy. Serafin has pledged to continue operations at all sites. Covestro will continue to act as a key supplier of raw materials for the foreseeable future.

Covestro has taken various steps to safeguard liquidity. Effective March 17, 2020, Covestro obtained a new syndicated revolving credit facility totaling €2.5 billion with a term of five years. In addition, the Board of Management of Covestro AG voted on May 19, 2020, to propose a dividend of €1.20 per share for fiscal 2019 to the Annual General Meeting scheduled for July 30, 2020. On June 5, 2020, Covestro also successfully placed €1.0 billion in euro bonds on foreign debt markets.

More information and other relevant financing activities in the first half of 2020 can be found in “Financial Position and Net Assets of the Covestro Group”

Business Development of the Covestro Group

Second quarter of 2020

The Group's core volumes decreased by 22.7% in the second quarter of 2020 compared with the prior-year quarter. This was largely due to considerably weaker demand in all segments as a result of the global coronavirus pandemic. The Polyurethanes and Coatings, Adhesives, Specialties segments saw a decline in core volumes of 25.9% and 25.3%, respectively. In the Polycarbonates segment, core volumes fell by 14.4%. Whereas the Group-wide decline in volumes sold in the initial weeks of the second quarter of 2020 was steeper than in the previous year, the downward trend in volumes sold slowed in the second half of the quarter.

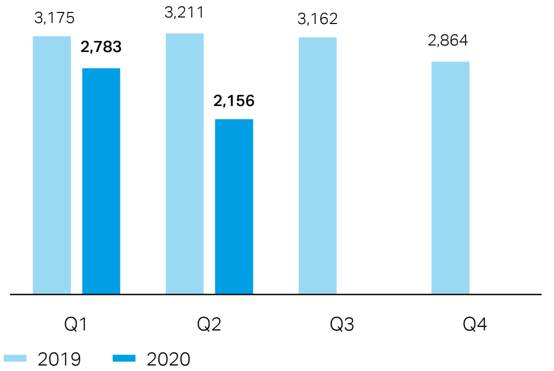
Group sales amounted to €2,156 million, down by 32.9% from the prior-year quarter (previous year: €3,211 million). In particular, the decline in total volumes due to a massive coronavirus-driven collapse in demand in all of our main customer industries caused sales to decrease by 22.3%. A lower level of selling prices had an additional negative effect on sales of 9.0%, chiefly due to competition pushing down selling prices in the prior year and lower raw material prices overall in the second quarter of 2020. Exchange rate movements had no notable effect on Group sales. The changes in the portfolio lowered sales by 1.5%.

In the second quarter of 2020, the downturn in sales was significantly more pronounced in the EMLA and NAFTA regions than in the APAC region. This was mainly due to a delay in the effects of the coronavirus pandemic. Whereas the APAC region saw sales drop sharply 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. At the same time, demand in the APAC region, particularly in China, has recovered somewhat, already making the slowdown in sales in the APAC region much less severe than in the other regions in the second quarter of 2020.

All segments were affected by lower sales in the second quarter of 2020. In the Polyurethanes segment, sales tumbled by 38.7% to €913 million (previous year: €1,489 million), while the Polycarbonates segment saw sales decrease by 27.8% to €648 million (previous year: €898 million). Sales in the Coatings, Adhesives, Specialties segment declined by 28.7% to €443 million (previous year: €621 million).

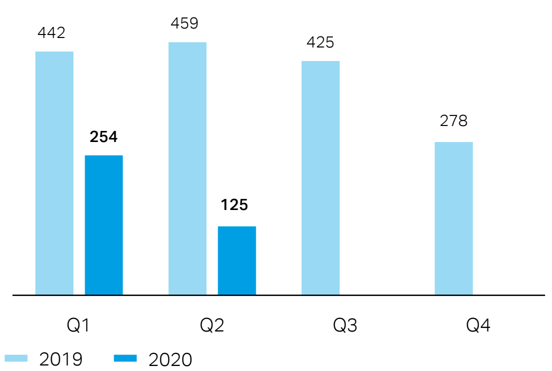
Covestro Group Quarterly Sales

€ million



Covestro Group Quarterly EBITDA

€ million



In the second quarter of 2020, Group EBITDA decreased by 72.8% to €125 million (previous year: €459 million), chiefly due to a downturn in volumes sold in all segments as a result of the coronavirus pandemic. Lower margins, especially in the Polyurethanes segment, also negatively affected earnings. In contrast, factors such as lower selling expenses and administrative costs had a positive impact on earnings.

EBITDA in the Polyurethanes segment slid to minus €24 million (previous year: €172 million) and in the Polycarbonates segment was down by 37.7% to €96 million (previous year: €154 million). In the Coatings, Adhesives, Specialties segment, EBITDA dropped by 60.0% to €60 million (previous year: €150 million).

Depreciation, amortization and impairment losses rose by 4.3% to €193 million in the second quarter of 2020 (previous year: €185 million). This item comprised depreciation and impairment losses on property, plant and equipment of €187 million (previous year: €180 million) and amortization and impairment losses on intangible assets of €6 million (previous year: €5 million).

The Covestro Group's EBIT declined to minus €68 million in the second quarter of 2020 (previous year: €274 million).

Including the financial result totaling minus €17 million (previous year: minus €23 million), income before income taxes was down from the prior-year quarter to minus €85 million (previous year: €251 million). In contrast to the prior-year quarter's tax expense amounting to €61 million, the second quarter of 2020 saw tax income of €32 million in line with earnings. This resulted in income after taxes of minus €53 million (previous year: €190 million). After noncontrolling interests, net income totaled minus €52 million (previous year: €189 million). Compared with the prior-year quarter, the earnings per share dropped to minus €0.28 (previous year: €1.03).

Cash flows from operating activities increased to €171 million (previous year: €164 million). The decline in EBITDA was mainly offset by lower income tax payments compared with the prior-year quarter as well as lower payments for short-term variable compensation.

In the second quarter of 2020, free operating cash flow rose to €24 million (previous year: minus €55 million). This was chiefly the result of a reduction in cash outflows for additions to property, plant, equipment and intangible assets, which decreased by 32.9% to €147 million (previous year: €219 million).

First half of 2020

The Group's core volumes in the first half of 2020 were down by 13.6%, primarily on account of the effects of the coronavirus pandemic. In the Coatings, Adhesives, Specialties segment and the Polyurethanes segment, volumes dropped by 15.2%, or 14.9%. Core volumes in the Polycarbonates segment fell by 9.8% compared with the prior-year period.

Group sales in the first six months of 2020 were down by 22.7% to €4,939 million (previous year: €6,386 million). This was mainly the result of lower total volumes, which reduced sales by 12.5%. Furthermore, a downturn in selling prices had a negative effect of 9.1%. Changes in exchange rates had a positive effect on sales amounting to 0.3%. In contrast, the change in the portfolio reduced sales by 1.4%.

All segments saw sales decline in the first half of 2020. Sales in the Polyurethanes segment were down by 26.2% to €2,187 million (previous year: €2,965 million), while in the Polycarbonates segment, sales fell by 21.4% to €1,381 million (previous year: €1,758 million), and in the Coatings, Adhesives, Specialties segment, they declined by 18.7% to €1,015 million (previous year: €1,248 million).

The Group's EBITDA was down by 57.9% from the prior-year period, dropping from €901 million to €379 million in the first half of 2020. This was a result of a decline in earnings in all segments, particularly in the Polyurethanes segment.

Depreciation, amortization and impairment losses rose by 4.7% to €380 million in the first six months of 2020 (previous year: €363 million). This item comprised depreciation and impairment losses on property, plant and equipment of €369 million (previous year: €354 million) and amortization and impairment losses on intangible assets of €11 million (previous year: €9 million).

The Covestro Group's EBIT fell to minus €1 million in the first half of 2020 (previous year: €538 million).

Including the financial result amounting to minus €56 million (previous year: minus €46 million), income before income taxes declined from the prior-year period to minus €57 million (previous year: €492 million). The tax expense in the first six months of 2019 totaled €122 million, while tax income amounted to €25 million in line with earnings in the first half-year of 2020. This produced income after taxes of minus €32 million (previous year: €370 million). After noncontrolling interests, net income totaled minus €32 million (previous year: €368 million). In the first half of 2020, earnings per share dropped to minus €0.17 (previous year: €2.01).

Cash flows from operating activities were down to €61 million in the first half of 2020 (previous year: €284 million), mostly due to the decline in EBITDA. In contrast, lower income tax payments and lower cash tied up in working capital had a positive effect.

In the first six months of 2020, free operating cash flow fell to minus €225 million (previous year: minus €100 million). The lower cash flows provided by operating activities were contrasted by lower cash outflows for additions to property, plant, equipment and intangible assets of €286 million (previous year: €384 million).

Business Development by Segment

Polyurethanes

Key data Polyurethanes

	2nd quarter 2019	2nd quarter 2020	Change	1st half 2019	1st half 2020	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth[1]	**+0.7%**	**–25.9%**		**+0.3%**	**–14.9%**	
Sales	1,489	913	–38.7	2,965	2,187	–26.2
Change in sales						
Volume	+0.8%	–24.8%		+1.9%	–13.7%	
Price	–26.8%	–12.3%		–28.1%	–11.5%	
Currency	+1.7%	–0.4%		+1.9%	+0.1%	
Portfolio	0.0%	–1.2%		0.0%	–1.1%	
Sales by region						
EMLA	643	359	–44.2	1,312	948	–27.7
NAFTA	444	266	–40.1	855	661	–22.7
APAC	402	288	–28.4	798	578	–27.6
EBITDA	**172**	**(24)**	**.**	**329**	**26**	**–92.1**
EBIT	72	(130)	.	129	(181)	.
Operating cash flows	116	7	–94.0	120	(79)	.
Cash outflows for additions to property, plant, equipment and intangible assets	138	84	–39.1	240	168	–30.0
Free operating cash flow	**(22)**	**(77)**	**>200**	**(120)**	**(247)**	**>100**

[1] Reference values calculated on the basis of the definition of the core business effective March 31, 2020

Second quarter of 2020

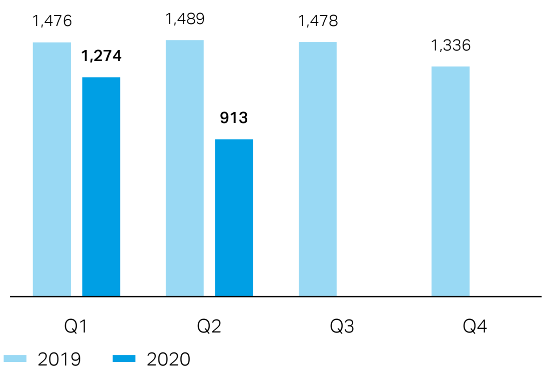
In the second quarter of 2020, core volumes in Polyurethanes decreased by 25.9%. Core volumes fell substantially in all main customer industries as a result of the coronavirus pandemic, but particularly in the furniture and wood processing industry as well as the automotive and transportation industry.

Sales in the Polyurethanes segment amounted to €913 million, down by 38.7% from the prior-year quarter (previous year: €1,489 million). This was mainly due to a downturn in total volumes, which reduced sales by 24.8%. Lower average selling prices had an additional negative effect on sales amounting to 12.3%, principally due to competition pushing down selling prices in the prior year and lower raw material prices overall in the second quarter of 2020. At the same time, exchange rate changes and the portfolio effect from the sale of the European systems house business in the fourth quarter of 2019 reduced sales by 0.4% and 1.2%, respectively, in the second quarter of 2020.

In the EMLA region, sales fell by 44.2% to €359 million (previous year: €643 million). Considerably lower total volumes and a steep decline in average selling prices had a negative effect on sales. The aforementioned portfolio effect reduced sales nominally, whereas exchange rate movements had no notable effect on sales. Sales in the NAFTA region slid by 40.1% to €266 million (previous year: €444 million), primarily due to a substantial decline in total volumes sold. Lower selling prices put slight downward pressure on sales, whereas changes in exchange rates were neutral overall with respect to sales. In the APAC region, sales decreased by 28.4% to €288 million (previous year: €402 million), mainly on account of a sharp drop in selling prices and a significant decline in total volumes sold. During the same period, exchange rate movements and the aforementioned portfolio effect had no noticeable effect on sales.

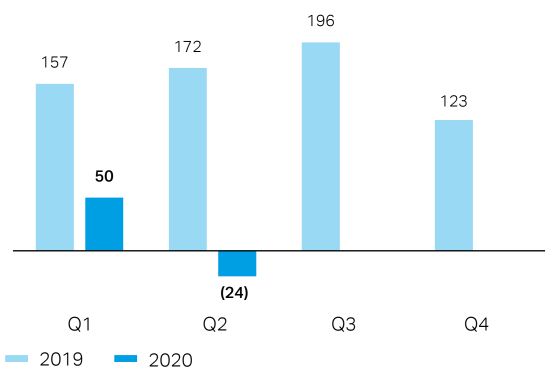
Polyurethanes Quarterly Sales

€ million



Polyurethanes Quarterly EBITDA

€ million



In the second quarter of 2020, EBITDA in the Polyurethanes segment was down from the prior-year quarter to minus €24 million (previous year: €172 million). The downturn in total volumes sold adversely affected earnings. Lower selling prices offset the effect of reduced raw material prices and led to a decrease in margins.

EBIT declined to minus €130 million (previous year: €72 million).

Free operating cash flow fell to minus €77 million (previous year: minus €22 million). This development is attributable chiefly to the decline in EBITDA, which stood in contrast to lower cash outflows for property, plant and equipment, and reduced funds tied up in working capital.

First half of 2020

In the first half of 2020, core volumes in Polyurethanes decreased by 14.9%. Core volumes in all main customer industries were down sharply, principally due to lower demand from the furniture and wood processing industry as well as the automotive and transportation industry.

Sales in the segment dropped by 26.2% in the same period to €2,187 million (previous year: €2,965 million). In this context, a decline in total volumes cut sales by 13.7%, a decrease in average selling prices by 11.5%, and the aforementioned portfolio effect by 1.1%. In addition, exchange rate movements had a positive effect on sales of 0.1%.

EBITDA tumbled by 92.1% in the first half of 2020, dropping to €26 million (previous year: €329 million). Lower raw material prices were unable to offset a decline in selling prices and, with margins down, this reduced earnings. The sharp drop in volumes additionally had a negative impact on EBITDA.

EBIT declined to minus €181 million (previous year: €129 million).

Free operating cash flow fell to minus €247 million (previous year: minus €120 million). EBITDA declined, whereas cash outflows for additions to property, plant, equipment and intangible assets decreased, and cash tied up in working capital was down.

Polycarbonates

Key data Polycarbonates

	2nd quarter 2019	2nd quarter 2020	Change	1st half 2019	1st half 2020	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth[1]	**+4.4%**	**–14.4%**		**–1.0%**	**–9.8%**	
Sales	898	648	–27.8	1,758	1,381	–21.4
Change in sales						
Volume	+5.7%	–16.4%		+1.5%	–9.6%	
Price	–18.8%	–7.8%		–15.8%	–8.6%	
Currency	+1.7%	–0.1%		+2.1%	+0.4%	
Portfolio	–3.6%	–3.5%		–3.6%	–3.6%	
Sales by region						
EMLA	306	197	–35.6	595	459	–22.9
NAFTA	190	121	–36.3	378	302	–20.1
APAC	402	330	–17.9	785	620	–21.0
EBITDA	**154**	**96**	**–37.7**	**309**	**205**	**–33.7**
EBIT	99	41	–58.6	204	95	–53.4
Operating cash flows	93	68	–26.9	231	103	–55.4
Cash outflows for additions to property, plant, equipment and intangible assets	42	34	–19.0	81	63	–22.2
Free operating cash flow	**51**	**34**	**–33.3**	**150**	**40**	**–73.3**

[1] Reference values calculated on the basis of the definition of the core business effective March 31, 2020

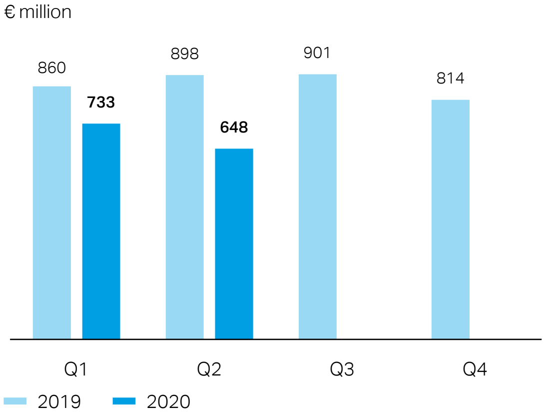
Second quarter of 2020

In the second quarter of 2020, core volumes in the Polycarbonates segment fell by 14.4% from the prior-year quarter. Sales shifts between the customer industries were able to mitigate the negative effects of the coronavirus pandemic. For instance, volume losses due to a sharp decline in demand in the automotive and transportation industry were limited by less significant decreases in volumes sold in the electrical, electronics and household appliances industry and volume growth in the construction sector.

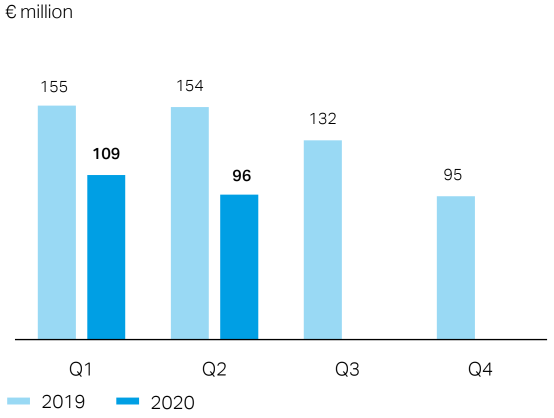
In the Polycarbonates segment, sales were down by 27.8% to €648 million in the second quarter of 2020 (previous year: €898 million). Sales decreased by 16.4% due to a downturn in total volumes and by 7.8% as a result of lower average selling prices. In addition, exchange rate movements had a negative effect on sales of 0.1%. Moreover, the portfolio effect from the sale of the European polycarbonate sheets business in the first quarter of 2020 decreased sales in the second quarter of 2020 by 3.5%.

In the EMLA region, sales were down 35.6% to €197 million (previous year: €306 million). A decline in total volumes, the aforementioned portfolio effect and lower average selling prices each had a significant negative effect on sales. In contrast, exchange rate movements were neutral on the whole with regard to sales. In the NAFTA region, sales decreased by 36.3% to €121 million (previous year: €190 million), mainly on account of a sharp drop in total volumes sold. The selling price level also put slight downward pressure on sales. In contrast, exchange rate changes had no notable effect on sales. In the APAC region, sales fell by 17.9% to €330 million (previous year: €402 million). A significant downturn in average selling prices and substantially lower total volumes decreased sales, whereas exchange rate movements had no noticeable effect on sales.

Polycarbonates Quarterly Sales



Polycarbonates Quarterly EBITDA



In the second quarter of 2020, EBITDA in the Polycarbonates segment decreased 37.7% from the prior-year quarter, coming in at €96 million (previous year: €154 million). Lower volumes negatively affected earnings. In addition, a reduction in selling prices outweighed the effect of lower raw material prices and led to a decline in margins.

EBIT dropped by 58.6% to €41 million (previous year: €99 million).

Free operating cash flow fell 33.3% to €34 million (previous year: €51 million). The key driver of this development was the decline in EBITDA, which stood in contrast to lower cash tied up in working capital.

First half of 2020

In the first half of 2020, core volumes in the Polycarbonates segment were 9.8% lower than in the prior-year period. The negative effects of the coronavirus pandemic were mitigated by shifts in sales between the customer industries. A steep decline in demand from the automotive and transportation industry, which led to lower volumes, was offset by less sharp decreases in volumes sold in the electrical, electronics and household appliances industry and rising volumes in the construction sector.

Sales in the Polycarbonates segment decreased by 21.4% to €1,381 million in the first half of 2020 (previous year: €1,758 million). Lower total volumes reduced sales by 9.6%, and a decline in average selling prices caused an 8.6% drop in sales. Exchange rate changes had a positive effect on sales totaling 0.4%, whereas the portfolio effect from the sale of the European polycarbonate sheets business in the first quarter of 2020 decreased sales in the first half of 2020 by 3.6%.

In the first half of 2020, EBITDA in the Polycarbonates segment decreased by 33.7% compared with the prior-year period, coming in at €205 million (previous year: €309 million), mostly on account of the downturn in total volumes sold. At the same time, the drop in selling prices outweighed the effect of the decline in raw material prices and led to lower margins.

EBIT was down by 53.4% to €95 million (previous year: €204 million).

Free operating cash flow fell by 73.3% to €40 million (previous year: €150 million), mainly on account of lower EBITDA.

Coatings, Adhesives, Specialties

Key data Coatings, Adhesives, Specialties

	2nd quarter 2019	2nd quarter 2020	Change	1st half 2019	1st half 2020	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth[1]	**–4.7%**	**–25.3%**		**–2.4%**	**–15.2%**	
Sales	621	443	–28.7	1,248	1,015	–18.7
Change in sales						
Volume	–4.5%	–25.8%		–1.7%	–16.4%	
Price	–0.4%	–3.2%		+0.6%	–3.5%	
Currency	+2.2%	+0.3%		+2.6%	+0.7%	
Portfolio	+1.4%	0.0%		+0.7%	+0.5%	
Sales by region						
EMLA	277	188	–32.1	571	467	–18.2
NAFTA	144	101	–29.9	288	240	–16.7
APAC	200	154	–23.0	389	308	–20.8
EBITDA	**150**	**60**	**–60.0**	**296**	**190**	**–35.8**
EBIT	120	28	–76.7	238	128	–46.2
Operating cash flows	38	94	>100	50	134	>100
Cash outflows for additions to property, plant, equipment and intangible assets	40	29	–27.5	64	54	–15.6
Free operating cash flow	**(2)**	**65**	**.**	**(14)**	**80**	**.**

[1] Reference values calculated on the basis of the definition of the core business effective March 31, 2020

Second quarter of 2020

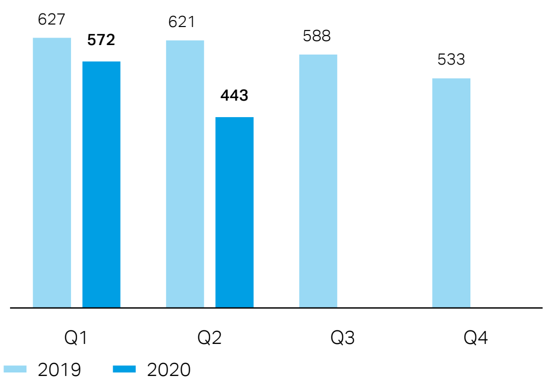
In the second quarter of 2020, the Coatings, Adhesives, Specialties segment saw core volumes decline by 25.3% from the prior-year quarter. The coronavirus pandemic led to considerably weaker demand from our main customer industries. This is primarily reflected in the negative development of volumes sold in the automotive and transportation industry and in the furniture and wood processing industry as well.

Sales in the segment dropped by 28.7% to €443 million (previous year: €621 million). A decline in total volumes had a negative effect on sales of 25.8%, while lower average selling prices reduced sales by 3.2%. Exchange rate fluctuations increased sales by 0.3%.

In the EMLA region, sales decreased by 32.1% to €188 million (previous year: €277 million), mainly on account of a sharp drop in total volumes sold. In addition, lower selling prices pushed sales down slightly. Exchange rate fluctuations had no material effect on sales. Sales in the NAFTA region dropped by 29.9% to €101 million (previous year: €144 million) as a result of a steep decline in total volumes sold. At the same time, average selling prices reduced sales somewhat, whereas changes in exchange rates had a slight positive effect on sales. In the APAC region, sales were down 23.0% to €154 million (previous year: €200 million). A considerable drop in total volumes and a significantly lower level of selling prices each reduced sales. Exchange rate movements had no noticeable effect on sales.

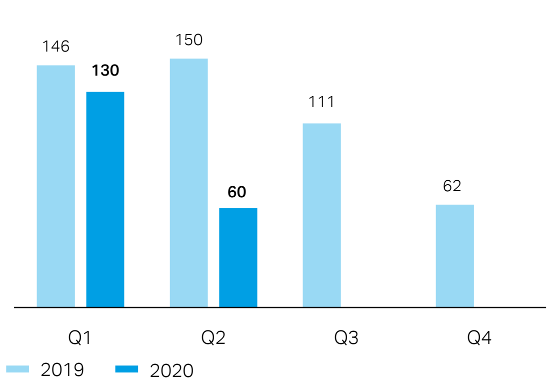
Coatings, Adhesives, Specialties Quarterly Sales

€ million



Coatings, Adhesives, Specialties Quarterly EBITDA

€ million



EBITDA in Coatings, Adhesives, Specialties fell by 60.0% to €60 million in the second quarter of 2020 (previous year: €150 million). This was mainly attributable to reduced volumes and lower margins, which negatively affected EBITDA performance.

EBIT declined by 76.7% to €28 million (previous year: €120 million).

In the second quarter of 2020, free operating cash flow rose to €65 million (previous year: minus €2 million). EBITDA declined, while freed-up working capital increased.

First half of 2020

In the first half of 2020, core volumes in the Coatings, Adhesives, Specialties segment were 15.2% lower than in the prior-year period. The drivers of this development were considerably weaker demand from our main customer industries, especially due to negative performance of volumes sold in the automotive and transportation industry as well as in the furniture and wood processing industry.

Sales in the Coatings, Adhesives, Specialties segment dropped by 18.7% in the same period to €1,015 million (previous year: €1,248 million). Negative effects on sales of 16.4% and 3.5% stemmed from total volumes sold and lower selling prices, respectively. At the same time, exchange rate changes increased sales by 0.7%, and the portfolio effect from the step acquisition of shares and subsequent full consolidation of Japan-based DIC Covestro Polymer Ltd. in the second quarter of 2019 gave sales a 0.5% boost.

In the first six months of 2020, EBITDA decreased by 35.8% compared to the prior-year period, coming in at €190 million (previous year: €296 million). This was primarily due to the drop in total volumes sold and lower margins.

EBIT was down by 46.2% to €128 million (previous year: €238 million).

In the first half of 2020, free operating cash flow increased to €80 million (previous year: minus €14 million). A lower level of cash tied up in working capital more than compensated for the decline in EBITDA.

Financial Position and Net Assets of the Covestro Group

Financial Position

Covestro Group summary statement of cash flows

	2nd quarter 2019	2nd quarter 2020	1st half 2019	1st half 2020
	€ million	€ million	€ million	€ million
EBITDA	**459**	**125**	**901**	**379**
Income taxes paid	(144)	(12)	(223)	(102)
Change in pension provisions	17	6	26	17
(Gains) losses on retirements of noncurrent assets	(19)	(1)	(17)	1
Change in working capital/other noncash items	(149)	53	(403)	(234)
Cash flows from operating activities	**164**	**171**	**284**	**61**
Cash outflows for additions to property, plant, equipment and intangible assets	(219)	(147)	(384)	(286)
Free operating cash flow	**(55)**	**24**	**(100)**	**(225)**
Cash flows from investing activities	**(184)**	**(660)**	**(373)**	**(792)**
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**

Cash flows from operating activities

In the second quarter of 2020, cash flows from operating activities rose to €171 million (previous year: €164 million). An increase in freed-up working capital and lower income tax payments were able to more than offset a decline in EBITDA. After deduction of cash outflows for additions to property, plant, equipment and intangible assets, free operating cash flow totaled €24 million (previous year: minus €55 million).

At €61 million, cash flows from operating activities in the first six months of 2020 fell below the prior-year figure of €284 million. After deduction of cash outflows for additions to property, plant, equipment, and intangible assets totaling €286 million (previous year: €384 million), free operating cash flows amounted to minus €225 million (previous year: minus €100 million).

Covestro applied a simplification rule at the segment level in calculating the income taxes paid as a component of operating cash flows.

More information can be found in Note 4 "Segment and Regional Reporting" in the Consolidated Financial Statements in the 2019 Annual Report.

The difference between the income tax payments of the reportable operating segments and the actual income taxes paid by the Covestro Group are taken into account in the segment reporting in "Other/consolidation". Cash flows from operating activities of €61 million comprise the cash flows from operating activities of the reportable operating segments (PUR: minus €79 million, PCS: €103 million, CAS: €134 million) and "Other/consolidation" (minus €97 million), which includes a difference of minus €92 million.

Cash flows from investing activities

In the second quarter of 2020, cash outflows for investing activities came to €660 million (previous year: cash outflows of €184 million). This item comprised investments in money market funds of €530 million and cash outflows for additions to property, plant, equipment and intangible assets of €147 million (previous year: €219 million).

Cash outflows for investing activities in the first half of 2020 totaled €792 million (previous year: cash outflows of €373 million). This item mainly comprises the investment in the aforementioned money market funds as well as cash outflows for additions to property, plant, equipment and intangible assets of €286 million (previous year: €384 million).

Cash flows from financing activities

The Covestro Group saw cash inflows from financing activities amounting to €795 million in the second quarter of 2020 (previous year: cash outflows of €109 million), mainly due to the issue of bonds totaling €1 billion. Furthermore, Covestro repaid a loan amounting to €125 million obtained in the first quarter of 2020.

In the first six months of 2020, cash inflows from financing activities totaled €1,494 million (previous year: cash outflows of €143 million). These comprise short-term loans assumed in the first quarter of 2020 in the total amount of €500 million, €125 million of which was repaid in the second quarter of 2020; a loan from the European Investment Bank (EIB) amounting to €225 million; and the aforementioned bonds issued in the second quarter of 2020 (see below the explanation of net financial debt).

Net financial debt

	Dec. 31, 2019	June 30, 2020
	€ million	€ million
Bonds	997	1,989
Liabilities to banks	10	623
Lease liabilities	735	732
Liabilities from derivatives	10	4
Other financial liabilities	–	1
Receivables from derivatives	(15)	(21)
Financial debt	**1,737**	**3,328**
Cash and cash equivalents	(748)	(1,504)
Current financial assets	–	(530)
Net financial debt	**989**	**1,294**

Compared with December 31, 2019, the Covestro Group's net financial debt increased by €305 million to €1,294 million as of June 30, 2020.

Financial debt in the first half of 2020 rose by €1,591 million to €3,328 million. The rise was attributable to increased liabilities to banks from short-term loans obtained in the first quarter of 2020 totaling €500 million and a loan from the EIB totaling €225 million for research and development. The focus here is, in particular, on sustainability and the circular economy in the European Union. On June 5, 2020, Covestro also successfully placed a total of €1.0 billion in euro bonds on the capital market. This enables Covestro to significantly extend the average maturity of the bond portfolio. The proceeds of the bonds placed will be used to further reinforce Covestro's liquidity in view of the economic effects of the coronavirus pandemic and to provide liquid funds to repay the existing bond maturing in fiscal 2021. The bonds mature in February 2026 and June 2030 and carry coupon rates of 0.875 % and 1.375 %, respectively. On the other hand, a €125 million loan from the first quarter of 2020 was repaid.

Moreover, cash and cash equivalents of €530 million were invested in money market funds.

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.

Net Assets

Covestro Group summary statement of financial position

	Dec. 31, 2019	June 30, 2020
	€ million	€ million
Noncurrent assets	6,791	6,774
Current assets	4,727	5,715
Total assets	**11,518**	**12,489**
Equity	**5,254**	**5,254**
Noncurrent liabilities	4,129	5,215
Current liabilities	2,135	2,020
Liabilities	**6,264**	**7,235**
Total equity and liabilities	**11,518**	**12,489**

Compared with December 31, 2019, total assets increased by €971 million to €12,489 million as of June 30, 2020.

Noncurrent assets remained largely stable at €6,774 million (December 31, 2019: €6,791 million). Current assets increased by €988 million to €5,715 million (December 31, 2019: €4,727 million), mostly due to an increase in cash and cash equivalents resulting from the aforementioned financing measures as well as the investment in money market funds, which led to an increase in other financial assets. In the second quarter of 2020, these increases stood in contrast to a sales-driven decline in trade accounts receivable and other receivables.

Equity remained stable compared to December 31, 2019, at €5,254 million.

Noncurrent liabilities rose by €1,086 million to €5,215 million as of June 30, 2020 (December 31, 2019: €4,129 million). This is largely attributable to the increase in noncurrent financial liabilities by €1,216 million to €2,817 million (December 31, 2019: €1,601 million), which resulted from the newly issued euro bonds and the loan obtained from the EIB. In contrast, provisions for pensions and other post-employment benefits were down by €84 million to €1,881 million (December 31, 2019: €1,965 million). Current liabilities fell by €115 million to €2,020 million as of the reporting date (December 31, 2019: €2,135 million). The drivers of this development were the decline in trade accounts payable, which stood in contrast with the increase in current financial liabilities resulting from the short-term loans obtained.

Forecast

Economic outlook

Global economy

The grave consequences of the spread of the coronavirus pandemic will have a substantial negative impact on the global economy. In contrast with our outlook in the 2019 Annual Report, we now project global economic output to drop significantly for a decline in growth of 5.6% for 2020 as a whole. The expectations for all regions were revised sharply downward. According to current estimates, we expect only China to post positive, albeit weak, growth. The economies in Europe, North America and Latin America are forecast to report negative growth rates. After two quarters of recession in the first half of 2020, we expect the global economy to grow again compared with the prior-year quarters in the second half of 2020.

Economic growth[1]

	Growth 2019	Growth forecast 2020 (Annual Report 2019)	Growth forecast 2020
	%	%	%
World	**+2.5**	**+2.5**	**–5.6**
Europe	**+1.5**	**+1.2**	**–8.5**
of which Western Europe	+1.3	+0.9	–8.8
of which Germany	+0.6	+0.4	–6.0
of which Eastern Europe	+2.7	+2.4	–7.3
Middle East	+0.7	+2.0	–8.5
Latin America	–0.4	+0.9	–9.7
Africa	+2.5	+2.9	–3.6
North America[2]	**+2.1**	**+1.9**	**–6.4**
of which United States	+2.3	+2.1	–6.1
Asia-Pacific	**+4.2**	**+4.2**	**–2.1**
of which China	+6.1	+5.8	+0.5

[1] Real growth of gross domestic product; source: IHS (Global Insight), Growth 2019 and Growth forecast 2020, as of July 15, 2020
[2] North America (not including Central America): Canada, Mexico, United States

Main customer industries*

We expect the coronavirus pandemic to also have a significant adverse impact on the performance of our main customer industries. Unlike our outlook in the 2019 Annual Report, we now believe the automotive industry will see a steep downturn amounting to a double-digit percentage. Growth in the furniture industry will also likely be considerably weaker than expected. In the electrical, electronics and household appliances industry as well as the construction sector, we project a negative growth rate in the lower single-digit range, down from our forecast in the 2019 Annual Report.

* Covestro's estimate, based on the following sources: LMC Automotive Limited, B+L, CSIL (Centre for Industrial Studies), Oxford Economics Economic data is only available for the automotive and furniture segments (not the transportation or wood processing segments) of our "automotive and transportation" and "furniture and wood processing" main customer industries.

Forecast for key performance indicators

As a result of the coronavirus pandemic and the resulting increasingly unfavorable business environment, the Board of Management of Covestro AG adjusted the forecasts in the 2019 Annual Report on April 15, 2020. Based on the business performance described in this Half-Year Financial Report and the aforementioned economic outlook, and taking into consideration the changed risk and opportunity potentials, we confirm the compared to the 2019 Annual Report adjusted forecast for the rest of the 2020 fiscal year.

We expect our key performance indicators to develop as follows.

In the current year, core volume growth is projected to decline year over year (forecast in the 2019 Annual Report: low-single-digit percentage range increase).

Free operating cash flow (FOCF) is expected to be in the range between minus €200 million and plus €300 million this year (forecast in the 2019 Annual Report: between €0 million and €400 million).

For fiscal 2020, return on capital employed* (ROCE) is projected between minus 1% and plus 4% (forecast in the 2019 Annual Report: between 2% and 7%).

* The return on capital employed is calculated as the ratio of EBIT after taxes to capital employed. Capital employed is the capital used by the company. It is the sum of current and noncurrent assets less noninterest-bearing liabilities such as trade accounts payable.

Opportunities and Risks

As a global enterprise with a diversified portfolio, the Covestro Group is exposed to a wide range of opportunities and risks.

The Covestro Group regards opportunity and risk management as an integral part of corporate governance. Our opportunity and risk management system and the opportunity and risk situation are outlined in detail in the "Opportunities and Risks Report" section in the combined management report of the 2019 Covestro Annual Report.

Changes in the risk situation

Material changes in Covestro's risk situation compared with the situation described in the 2019 Annual Report resulted primarily from the current worldwide coronavirus pandemic. The rapid outbreak of the coronavirus led governments and Covestro alike to take a host of countermeasures to prevent the further spread of the virus and therefore to protect people's health and well-being.

The countermeasures range from officially issued stay-at-home orders and temporary business closures to the promotion of certain types of social distancing and compliance with minimum hygiene standards. This alone led to significant curtailment of business activities — at Covestro and at our suppliers and customers — which adversely affected and continues to affect the supply of raw materials as well as demand for our products. The impact of these effects on our volumes sold and the company's operating result also depends on the duration of the individual measures.

Covestro has already developed a far-reaching pandemic plan. This plan calls for a global crisis management team as well as local crisis management teams, which work with local authorities to determine options for securing continued operations at Covestro's own production facilities and therefore to ensure our delivery capability. Furthermore, the teams work on measures to protect the health of employees at work, e.g., by providing training sessions or protective gear such as mouth-and-nose masks and disinfectants.

Covestro's Board of Management actively monitors the worldwide development of the coronavirus pandemic. Required adjustments or expansion of existing measures are made in line with recommendations and instructions issued by the relevant governments and committees of experts.

The full range of the pandemic's consequences for the global economy cannot be foreseen at this time. Substantial economic damage has already occurred. The pandemic is expected to have a long-term impact on the economic situation worldwide and therefore the business performance of Covestro as well. Currently, we estimate this risk to be a mid-level risk based on our assessment matrix. This is currently Covestro's greatest challenge.

In addition, we now consider the risk of negative economic performance to be high based on the change in the likelihood of occurrence.

However, the company has not identified any risks that could endanger the company's continued existence at this time or in the future.

In comparison with the situation presented in the 2019 Annual Report, there have been no new significant developments in the legal proceedings described there, and no new material legal proceedings are pending.
More information can be found in Note 26 "Legal Risks" in the Consolidated Financial Statements in the 2019 Annual Report.