Covestro Group Consolidated Income Statement

	3rd quarter 2018[1]	3rd quarter 2019	1st nine months 2018[1]	1st nine months 2019
	€ million	€ million	€ million	€ million
Net sales	**3,702**	**3,162**	**11,344**	**9,548**
Cost of goods sold	(2,499)	(2,460)	(7,327)	(7,316)
Gross profit	**1,203**	**702**	**4,017**	**2,232**
Selling expenses	(346)	(347)	(1,054)	(1,037)
Research and development expenses	(65)	(64)	(201)	(200)
General administration expenses	(126)	(82)	(373)	(275)
Other operating income	62	28	85	81
Other operating expenses	(21)	(16)	(34)	(42)
EBIT[2]	**707**	**221**	**2,440**	**759**
Equity-method loss	(6)	(5)	(16)	(19)
Result from other affiliated companies	1	–	1	1
Interest income	8	11	20	30
Interest expense	(20)	(21)	(61)	(66)
Other financial result	(8)	(4)	(24)	(11)
Financial result	**(25)**	**(19)**	**(80)**	**(65)**
Income before income taxes	**682**	**202**	**2,360**	**694**
Income taxes	(185)	(53)	(611)	(175)
Income after income taxes	**497**	**149**	**1,749**	**519**
of which attributable to noncontrolling interest	1	2	5	4
of which attributable to Covestro AG stockholders (net income)	496	147	1,744	515
	€	€	€	€
Basic earnings per share[3]	**2.59**	**0.80**	**8.92**	**2.82**
Diluted earnings per share[3]	**2.59**	**0.80**	**8.92**	**2.82**

[1] Reference information was not restated; see section "Changes in Accounting as a Result of the Initial Application of IFRS 16."

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

[3] Earnings per share: according to IAS 33, earnings per share comprise net income divided by the weighted average number of outstanding no-par voting shares of Covestro AG. The calculation was based on 191,152,569 no-par shares for the third quarter of 2018 and on 195,524,586 no-par shares for the first nine months of 2018, and on 182,704,602 no-par shares for the third quarter of 2019, and for the first nine months of 2019.

Covestro Group Consolidated Statement of Comprehensive Income

	3rd quarter 2018[1]	3rd quarter 2019	1st nine months 2018[1]	1st nine months 2019
	€ million	€ million	€ million	€ million
Income after income taxes	**497**	**149**	**1,749**	**519**
Remeasurements of the net defined benefit liability for post-employment benefit plans	59	(303)	(35)	(523)
Income taxes	(16)	105	5	179
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans	**43**	**(198)**	**(30)**	**(344)**
Changes in fair values of equity instruments	–	–	–	(1)
Income taxes	–	–	–	–
Other comprehensive income from equity instruments	**–**	**–**	**–**	**(1)**
Other comprehensive income that will not be reclassified subsequently to profit or loss	**43**	**(198)**	**(30)**	**(345)**
Changes in exchange differences recognized on translation of operations outside the eurozone	(48)	101	16	150
Reclassified to profit or loss	–	–	–	–
Other comprehensive income from exchange differences	**(48)**	**101**	**16**	**150**
Other comprehensive income that may be reclassified subsequently to profit or loss, if certain conditions are met	**(48)**	**101**	**16**	**150**
Total other comprehensive income[2]	**(5)**	**(97)**	**(14)**	**(195)**
of which attributable to noncontrolling interest	–	1	1	2
of which attributable to Covestro AG stockholders	(5)	(98)	(15)	(197)
Total comprehensive income	**492**	**52**	**1,735**	**324**
of which attributable to noncontrolling interest	1	3	6	6
of which attributable to Covestro AG stockholders	491	49	1,729	318

[1] Reference information was not restated; see section "Changes in Accounting as a Result of the Initial Application of IFRS 16."
[2] Total change recognized in equity outside profit or loss

Covestro Group Consolidated Statement of Financial Position

	Sep. 30, 2018[1]	Sep. 30, 2019	Dec. 31, 2018[1]
	€ million	€ million	€ million
Noncurrent assets			
Goodwill	255	267	256
Other intangible assets	77	109	77
Property, plant and equipment[2]	4,262	5,253	4,409
Investments accounted for using the equity method	211	199	214
Other financial assets	28	34	31
Other receivables	47	53	32
Deferred taxes	725	934	782
	5,605	**6,849**	**5,801**
Current assets			
Inventories	2,202	2,057	2,213
Trade accounts receivable	2,118	1,762	1,786
Other financial assets	14	19	17
Other receivables	357	336	346
Claims for income tax refunds	32	97	55
Cash and cash equivalents	846	422	865
Assets held for sale	–	69	1
	5,569	**4,762**	**5,283**
Total assets	**11,174**	**11,611**	**11,084**
Equity			
Capital stock of Covestro AG	188	183	183
Capital reserves of Covestro AG	3,806	3,480	3,480
Other reserves	1,667	1,547	1,679
Equity attributable to Covestro AG stockholders	**5,661**	**5,210**	**5,342**
Equity attributable to noncontrolling interest	32	47	33
	5,693	**5,257**	**5,375**
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	1,264	2,019	1,445
Other provisions	232	218	237
Financial liabilities[2]	1,171	1,695	1,166
Income tax liabilities	99	118	107
Other liabilities	21	30	18
Deferred taxes	154	168	153
	2,941	**4,248**	**3,126**
Current liabilities			
Other provisions	447	260	493
Financial liabilities[2]	76	149	59
Trade accounts payable	1,581	1,362	1,637
Income tax liabilities	170	89	172
Other liabilities	266	212	222
Liabilities directly related to assets held for sale	–	34	–
	2,540	**2,106**	**2,583**
Total equity and liabilities	**11,174**	**11,611**	**11,084**

[1] Reference information was not restated; see section "Changes in Accounting as a Result of the Initial Application of IFRS 16."
[2] As of September 30, 2019, this also contains the right-of-use assets and lease liabilities from initial application of IFRS 16.

Covestro Group Consolidated Statement of Cash Flows

	3rd quarter 2018[1]	3rd quarter 2019	1st nine months 2018[1]	1st nine months 2019
	€ million	€ million	€ million	€ million
Income after income taxes	497	149	1,749	519
Income taxes	185	53	611	175
Financial result	25	19	80	65
Income taxes paid	(170)	(42)	(505)	(265)
Depreciation, amortization and impairment losses and impairment loss reversals	152	204	467	567
Change in pension provisions	10	(3)	18	23
(Gains)/losses on retirements of noncurrent assets	(36)	1	(35)	(16)
Decrease/(increase) in inventories	(117)	52	(314)	200
Decrease/(increase) in trade accounts receivable	61	72	(238)	55
(Decrease)/increase in trade accounts payable	113	(78)	(16)	(307)
Changes in other working capital, other noncash items	46	35	(82)	(270)
Cash flows from operating activities	**766**	**462**	**1,735**	**746**
Cash outflows for additions to property, plant, equipment and intangible assets	(188)	(219)	(429)	(603)
Cash inflows from sales of property, plant, equipment and other assets	1	–	1	4
Cash inflows from divestitures	66	–	66	–
Cash outflows for noncurrent financial assets	(6)	(4)	(14)	(11)
Cash inflows from noncurrent financial assets	–	1	1	2
Cash outflows for acquisitions less acquired cash	–	(3)	–	(11)
Interest and dividends received	8	14	20	32
Cash inflows from/(outflows for) other current financial assets	62	(2)	263	1
Cash flows from investing activities	**(57)**	**(213)**	**(92)**	**(586)**
Reacquisition of treasury shares	(304)	–	(974)	–
Dividend payments and withholding tax on dividends	–	(1)	(440)	(442)
Issuances of debt	6	61	46	551
Retirements of debt	(19)	(503)	(608)	(656)
Interest paid	(20)	(25)	(53)	(64)
Cash flows from financing activities	**(337)**	**(468)**	**(2,029)**	**(611)**
Change in cash and cash equivalents due to business activities	**372**	**(219)**	**(386)**	**(451)**
Cash and cash equivalents at beginning of period	**475**	**640**	**1,232**	**865**
Change in cash and cash equivalents due to changes in scope of consolidation	–	–	–	(1)
Change in cash and cash equivalents due to exchange rate movements	(1)	1	–	9
Cash and cash equivalents at end of period	**846**	**422**	**846**	**422**

[1] Reference information was not restated; see section "Changes in Accounting as a Result of the Initial Application of IFRS 16."

Employees and Pension Obligations

As of September 30, 2019, the Covestro Group had 17,320 employees worldwide (December 31, 2018: 16,770). Personnel expenses in the first nine months of 2019 were down by €128 million from the prior-year period to €1,337 million (previous year: €1,465 million). This was mainly due to lower provisions for short-term variable compensation.

Employees by Corporate Function[1]

	Dec. 31, 2018	Sep. 30, 2019
Production	10,479	11,158
Marketing and distribution	3,601	3,387
Research and development	1,123	1,234
General administration	1,567	1,541
Total	**16,770**	**17,320**

[1] The number of employees on either permanent or temporary contracts is stated in full-time equivalents (FTE). 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 increased to €2,019 million as of September 30, 2019 (December 31, 2018: €1,445 million). In particular, this was attributable to a lower discount rate in Germany. A positive change in the value of plan assets partly compensated for this development.

Discount Rate for Pension Obligations

	Dec. 31, 2018	Sep. 30, 2019
	%	%
Germany	1.80	0.90
United States	4.00	2.90

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/		Sep. 30, 2018	Dec. 31, 2018	Sep. 30, 2019
BRL	Brazil	4.65	4.44	4.53
CNY	China	7.96	7.87	7.78
HKD	Hong Kong	9.06	8.97	8.54
INR	India	83.92	79.73	77.16
JPY	Japan	131.23	125.85	117.59
MXN	Mexico	21.78	22.49	21.45
USD	United States	1.16	1.15	1.09

Average Rates for Major Currencies

		Average rates	
€1/		1st nine months 2018	1st nine months 2019
BRL	Brazil	4.27	4.36
CNY	China	7.77	7.72
HKD	Hong Kong	9.36	8.81
INR	India	80.10	78.82
JPY	Japan	130.93	122.60
MXN	Mexico	22.73	21.63
USD	United States	1.19	1.12

Changes in Accounting as a Result of the Initial Application of IFRS 16

The new financial reporting standard **IFRS 16 (Leases)** has been applied since January 1, 2019, and replaces the previous regulations addressing the topic of leases. IFRS 16 was applied using the modified retrospective approach. For this reason, the reference figures were not adjusted; these continue to be presented in accordance with the previous accounting rules (for further details, see the 2018 Annual Report, Notes 2.2 and 3).

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

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

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

Right-of-Use Assets

	Former finance leases	Former operating leases	Total
	€ million	€ million	€ million
Right-of-use assets, January 1, 2019	**218**	**660**	**878**
Additions	–	53	53
Retirements	–	(8)	(8)
Transfers (IFRS 5)	–	(1)	(1)
Depreciation	(25)	(91)	(116)
Other changes	3	26	29
Right-of-use assets, September 30, 2019	**196**	**639**	**835**

Lease Liabilities

	Former finance leases	Former operating leases	Total
	€ million	€ million	€ million
Lease liabilities, January 1, 2019	**193**	**656**	**849**
Additions	–	53	53
Retirements	–	(8)	(8)
Transfers (IFRS 5)	–	(4)	(4)
Repayment	(30)	(74)	(104)
thereof lease rate	(40)	(90)	(130)
thereof interest portion	10	16	26
Other changes	2	26	28
Lease liabilities, September 30, 2019	**165**	**649**	**814**

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

Scope of Consolidation

Changes in the Scope of Consolidation

As of September 30, 2019, the scope of consolidation comprised Covestro AG and 48 consolidated companies (December 31, 2018: 49 companies).

OOO Covestro, Moscow (Russia), was reclassified as an immaterial subsidiary in the first quarter of 2019 for reasons including the fact that local production was halted. It has therefore no longer been consolidated since the first quarter of 2019.

Effective April 1, 2019, a further 30% of the shares in DIC Covestro Polymer Ltd. Tokyo (Japan), was acquired, and the company was subsequently consolidated. Previously, it was classified as a joint venture and accounted for using the equity method in accordance with IAS 28 (Investments in Associates and Joint Ventures).

Pure Salt Baytown LLC (Pure Salt), Houston (United States), which was previously included in the consolidated financial statements as a structured entity, has been classified as an immaterial associated company since the third quarter of 2019 and was subsequently deconsolidated. The basis of the relationship with Pure Salt has changed to such a degree due to contractual and economic factors that control is no longer exercised.

Acquisitions and Divestitures

Acquisitions

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

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

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

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

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

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

Since its consolidation as of April 1, 2019, DCP has contributed €20 million to net sales and a loss of €1 million to income after income taxes of the Covestro Group. Between January 1, 2019, and March 31, 2019, DCP generated sales of €9 million and income after income taxes of €1 million.

Divestitures

In the second quarter of 2019, Covestro's Polyurethanes segment signed an agreement to divest the assets and liabilities (disposal group) of the European systems house business to H.I.G. Capital, Miami (United States). The systems houses provide customers with tailored polyurethane systems. The European systems house business comprises systems houses in Denmark, Germany, the Netherlands and Spain, plus further activities in Italy. In connection with this divestiture, production-related assets and inventories amounting to €54 million and liabilities of €15 million were classified as "held for sale" in accordance with IFRS 5. This transaction should be completed in the fourth quarter of 2019 at the latest.

In the third quarter of 2019, Covestro's Polycarbonates segment signed an agreement to divest the assets and liabilities (disposal group) of the European polycarbonate sheets business to Serafin Group, Munich (Germany). Polycarbonate sheets are highly break-resistant and are mostly used in industrial protection, construction systems or signage applications. The European polycarbonate sheets business comprises manufacturing units in Belgium and Italy, as well as central management operations and sales support in Europe. In connection with this divestiture, production-related assets and inventories amounting to €15 million and liabilities of €19 million were classified as "held for sale" in accordance with IFRS 5. Impairment charges on the assets of the disposal group led to a loss totaling €26 million, which is reported in cost of goods sold, selling expenses and other operating expenses. This transaction should be completed in the first quarter of 2020 at the latest.