HALF-YEAR FINANCIAL REPORT
2020

INTERIM REPORT
AS OF JUNE 30, 2020

covestro

Key Data Covestro Group

	2nd quarter 2019	2nd quarter 2020	Change	1st half 2019	1st half 2020	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth[1, 2]	**+1.1%**	**–22.7%**		**–0.4%**	**–13.6%**	
Sales	3,211	2,156	–32.9	6,386	4,939	–22.7
Change in sales						
Volume	+0.8%	–22.3%		+0.9%	–12.5%	
Price	–18.7%	–9.0%		–18.5%	–9.1%	
Currency	+1.8%	–0.1%		+2.1%	+0.3%	
Portfolio	–0.8%	–1.5%		–0.9%	–1.4%	
Sales by region						
EMLA[3]	1,379	874	–36.6	2,793	2,174	–22.2
NAFTA[4]	822	508	–38.2	1,610	1,252	–22.2
APAC[5]	1,010	774	–23.4	1,983	1,513	–23.7
EBITDA[6]	**459**	**125**	**–72.8**	**901**	**379**	**–57.9**
Changes in EBITDA						
of which volume	+0.5%	–72.3%		+1.9%	–42.8%	
of which price	–73.5%	–63.2%		–69.0%	–64.4%	
of which raw material price effect	+8.9%	+41.4%		+5.8%	+36.6%	
of which currency	+1.1%	+1.5%		+1.1%	+1.2%	
EBIT[7]	274	(68)	.	538	(1)	.
Financial result	(23)	(17)	–26.1	(46)	(56)	+21.7
Net income[8]	189	(52)	.	368	(32)	.
Earnings per share (€)[9]	1.03	(0.28)	.	2.01	(0.17)	.
Operating cash flows[10]	164	171	+4.3	284	61	–78.5
Cash outflows for additions to property, plant, equipment and intangible assets	219	147	–32.9	384	286	–25.5
Free operating cash flow[11]	**(55)**	**24**	**.**	**(100)**	**(225)**	**>100**

1 Core volume growth refers to the core products in the Polyurethanes, Polycarbonates and Coatings, Adhesives, Specialties segments. It is calculated as the percentage change in externally sold volumes in thousand tons compared with the prior year. Covestro also takes advantage of business opportunities outside its core business, for example the sale of precursors and by-products such as hydrochloric acid, sodium hydroxide solution and styrene. These transactions are not included in core volume growth.
2 Reference values calculated on the basis of the definition of the core business effective March 31, 2020
3 EMLA: Europe, Middle East, Africa and Latin America (excluding Mexico) region
4 NAFTA: United States, Canada and Mexico region
5 APAC: Asia and Pacific region
6 EBITDA: EBIT plus depreciation, amortization and impairment losses, less impairment loss reversals
7 EBIT: Income after income taxes plus financial result and income taxes
8 Net income: income after income taxes attributable to the shareholders of Covestro AG
9 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 182,864,685 no-par shares (previous year: 182,704,602 no-par shares).
10 Operating cash flows: cash flows from operating activities according to IAS 7
11 Free operating cash flow: operating cash flows less cash outflows for additions to property, plant, equipment and intangible assets

Contents

Reporting Profile

Reporting principles

The Half-Year Financial Report of Covestro AG meets the requirements pursuant to the applicable provisions of the German Securities Trading Act (WpHG) and, in accordance with Section 115, Paragraphs 2–4 of the WpHG (Half-Year Financial Report; power to issue statutory orders), comprises condensed consolidated interim financial statements, an interim group management report, and a responsibility statement. The consolidated interim financial statements were prepared in accordance with IAS 34 according to the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB) as endorsed by the European Union (EU) and in effect at the closing date as well as their Interpretations. This Half-Year Financial Report should be read alongside the 2019 Annual Report and the additional information about the company contained therein, as well as the Interim Statement as of March 31, 2020.

Forward-looking statements

This Report may contain forward-looking statements based on current assumptions and forecasts made by the management of Covestro AG. Various known and unknown risks, uncertainties and other factors could lead to material differences between the actual future results, financial situation, development or performance of the company and the estimates given here. The various influencing factors include those discussed in Covestro's public reports, which are available at **www.covestro.com**. The company assumes no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.

Rounding and percentage deviations

As the indicators in this Report are stated in accordance with commercial rounding principles, totals and percentages may not always be exact.

Percentage deviations are only calculated and reported if they are no more than 100%. Larger deviations are reported as >100%, >200%, etc. If a deviation changes from positive to negative or vice versa, or if it is greater than 1,000%, this is shown by a period.

Alternative performance measures

Throughout its financial reporting, Covestro uses alternative performance measures (APMs) to assess the business performance of the Group. These are not defined in the IFRSs. These non-IFRS indicators should be considered a supplement to, not a replacement for, the performance measures determined in accordance with IFRSs. The alternative performance measures of relevance to the Covestro Group include EBITDA, return on capital employed (ROCE), free operating cash flow (FOCF), and net financial debt. Covestro uses ROCE to assess profitability in the context of the company's internal management system. EBITDA is also calculated as an additional indicator of profitability. FOCF is a key factor in the presentation of the liquidity position that indicates the company's ability to generate a cash surplus and finance its activities. Net financial debt gauges the Group's financial condition and financing requirements. The calculation methods for the APMs may vary from those of other companies, thus limiting the extent of the overall comparability. These alternative performance measures should not be viewed in isolation or employed as an alternative to the financial indicators determined in accordance with IFRSs and presented in the consolidated financial statements for purposes of assessing Covestro's net assets, financial position and results of operations.

Explanations of the definition and calculation of these alternative performance measures can be found in the "Alternative performance measures" section in the Combined Management Report in the 2019 Annual Report.

Abbreviations

The abbreviations used in this Report are explained in the glossary of the 2019 Covestro Annual Report.

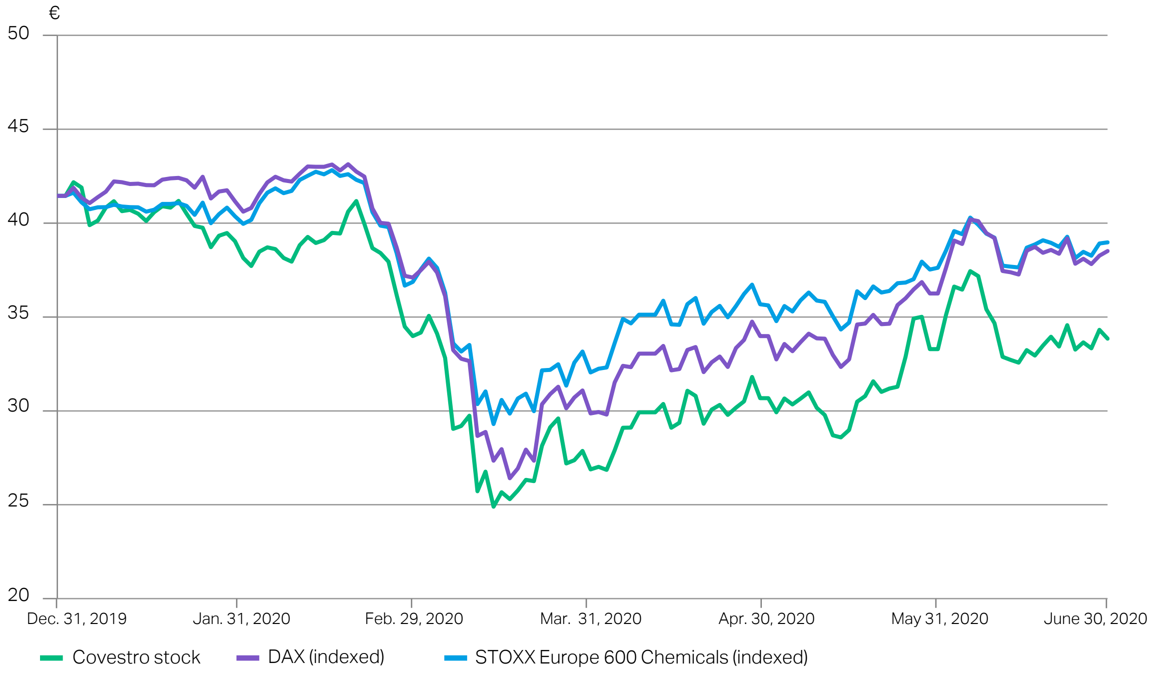
Publication

This Report was published on July 23, 2020. It is available in German and English. Only the German version is binding.

Covestro on the Capital Market

Covestro on the Capital Market

Performance of the Covestro Stock Versus the Market in the First Half of 2020



Covestro closing prices Xetra; source: Bloomberg

Negative stock market performance in an unsettled environment

The macroeconomic situation worldwide has been marked by extreme uncertainty since the outbreak of the coronavirus pandemic. In the first half of 2020, major economies such as those of the United States, the European Union, and Japan contracted. Stock markets also experienced turbulence due to this development in the real economy in the first six months of 2020. Sharp declines in the first quarter of 2020 were followed in the second quarter by an uptick in some stock prices, although market participants remained very jittery. Many indices such as the EURO STOXX 50 posted negative performance overall in the first half of 2020. As of June 30, 2020, the DAX, which is relevant for Covestro, was down by 7.1% compared with its value at year-end 2019, while the STOXX Europe 600 Chemicals index declined 6.0% during the same period.

In this capital market environment, Covestro stock finished the first half of 2020 at a Xetra closing price of €33.85 — down by 18.3% from the end of 2019. On March 16, 2020, Covestro stock marked its low for the first six months of 2020 with a closing price of €24.90. The high for the first half of 2020 was €42.18 on January 2, 2020.

Covestro Share at a Glance

		2nd quarter 2019	2nd quarter 2020	1st half 2019	1st half 2020
Average daily turnover	million shares	1.4	1.9	1.4	1.8
High	€	55.32	37.44	55.32	42.18
Low	€	39.23	26.86	39.23	24.90
Closing date	€	44.71	33.85	44.71	33.85
Outstanding shares (closing date)	million shares	182.7	182.90	182.7	182.90
Market capitalization (closing date)	€ billion	8	6	8.2	6.2

Covestro closing prices Xetra; source: Bloomberg

Annual General Meeting on July 30, 2020, and proposed dividend adjusted

Covestro AG had to delay the Annual General Meeting originally planned for April 17, 2020, in Bonn to a later date due to the rapid spread of the coronavirus at that time. The Annual General Meeting will now take place on July 30, 2020, and will be conducted as a virtual event for the first time in reaction to the changes in the legal environment.

Despite these economically challenging times, Covestro will continue to enable shareholders to take part in the company's success. On May 19, 2020, the Board of Management of Covestro AG voted to propose a dividend of €1.20 per share to the Annual General Meeting for fiscal 2019. The Board of Management had previously proposed a dividend of €2.40 per share to the Annual General Meeting on the originally scheduled date. The current focus of the Board of Management is on safeguarding liquidity and the company's credit rating. As stated in Covestro’s publications since the 2019 Annual Report, the Board of Management expects this fiscal year's earnings to be considerably lower than in the prior fiscal year due to the global coronavirus pandemic.

Moody's downgrades Covestro's rating

On October 7, 2015, one day after Covestro stock was listed on the Frankfurt Stock Exchange, Covestro AG received an investment-grade rating of Baa2 from London-based Moody's Investors Service. Moody's raised the company’s credit rating from Baa2 to Baa1 with stable outlook on July 30, 2018. On June 2, 2020, Moody's then revised our rating downward again from Baa1 back to Baa2 with negative outlook. Nevertheless, Covestro's credit rating remains firmly in the investment-grade range. In the future, Covestro intends to continue to maintain financing structures and financial ratios that support a solid investment-grade rating.

Successful placement of euro bonds

On June 5, 2020, Covestro successfully placed €1.0 billion in euro bonds on foreign debt markets. The bonds mature in February 2026 and June 2030 and carry coupon rates of 0.875% and 1.375%, respectively. Robust investor demand led to the placement volume being oversubscribed by more than ten times. The transactions enable Covestro to significantly extend the average maturity of the bond portfolio. The proceeds of the bond placement will be used 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.

Thirteen analysts issue buy recommendation for Covestro stock

At the end of the first six months of 2020, Covestro was covered by 25 securities brokers. Thirteen analysts recommended the stock as a buy, nine were neutral, and three rated it as a sell. The average share-price target at the end of the period was €35.

Basic Covestro Share Information

Capital stock	€183,000,000
Outstanding shares (Half-year-end)	182,864,685
Share class	No-par ordinary bearer shares
ISIN	DE0006062144
WKN	606214
Ticker symbol	1COV
Reuters symbol	1COV.DE
Bloomberg symbol	1COV GY
Market segment	Regulated market
Transparency level	Prime standard
Sector	Chemicals
Index	DAX

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.

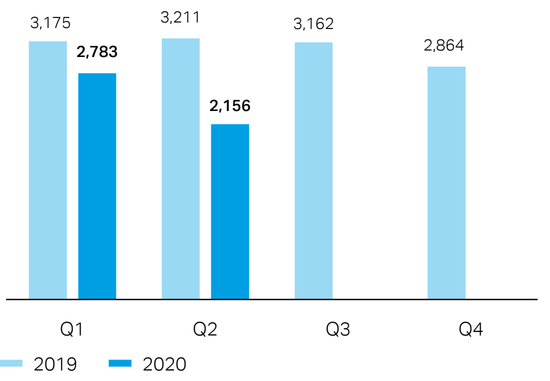
Group sales amounted to €2,156 million, down by 32.9% from the prior-year quarter (previous year: €3,211 million). In particular, the decline in total volumes due to a massive coronavirus-driven collapse in demand in all of our main customer industries caused sales to decrease by 22.3%. A lower level 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).

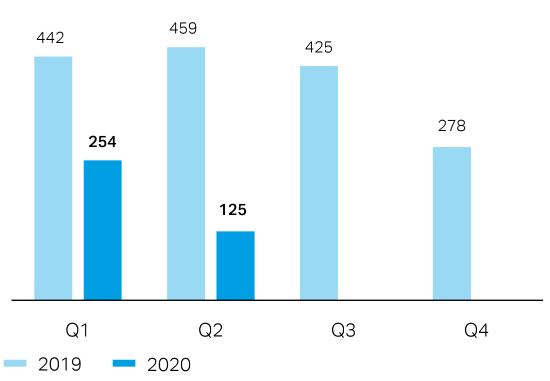
Covestro Group Quarterly Sales

€ 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

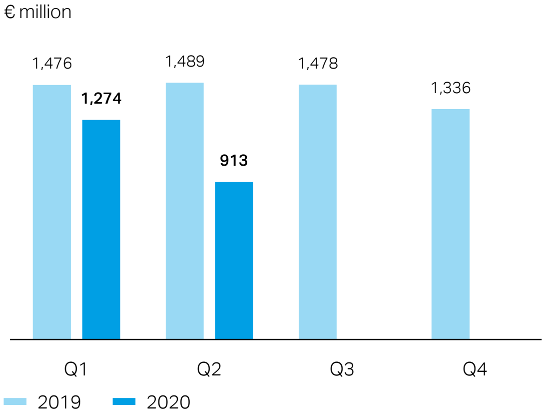
Second quarter of 2020

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.

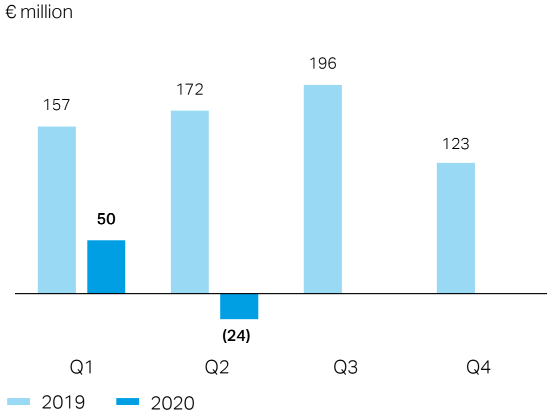
Sales in the Polyurethanes segment amounted to €913 million, down by 38.7% from the prior-year quarter (previous year: €1,489 million). This was mainly due to a downturn in total volumes, which reduced sales by 24.8%. Lower average selling prices had an additional negative effect on sales amounting to 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



Polyurethanes Quarterly EBITDA



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

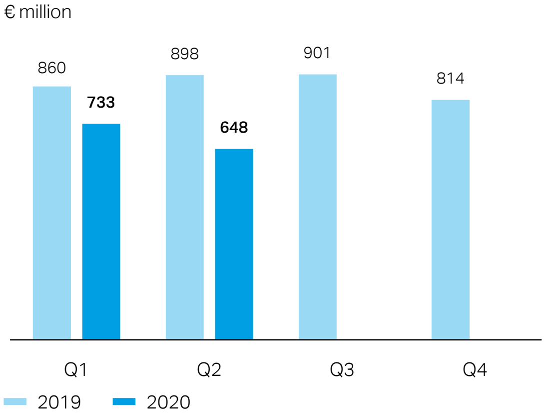
Second quarter of 2020

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.

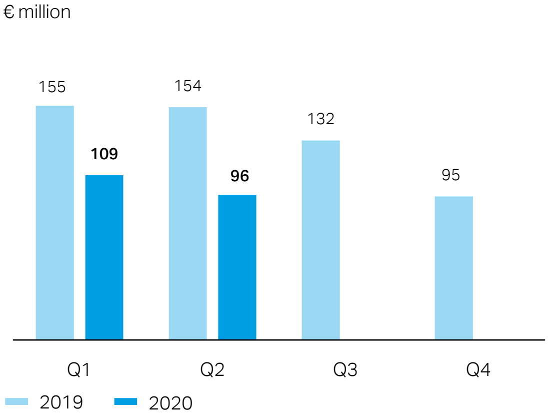
In the Polycarbonates segment, sales were down by 27.8% to €648 million in the second quarter of 2020 (previous year: €898 million). Sales decreased by 16.4% due to a downturn in total volumes and by 7.8% as a result of lower average selling prices. In addition, exchange rate movements had a negative 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

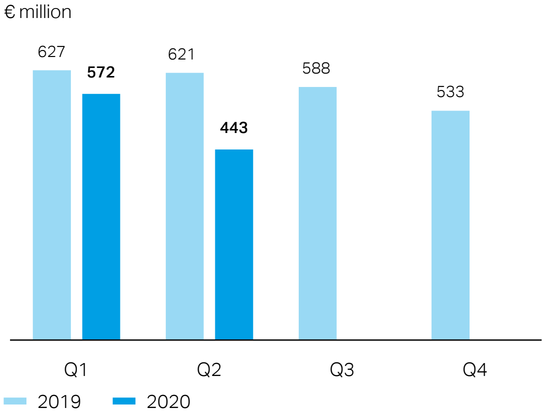
Second quarter of 2020

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.

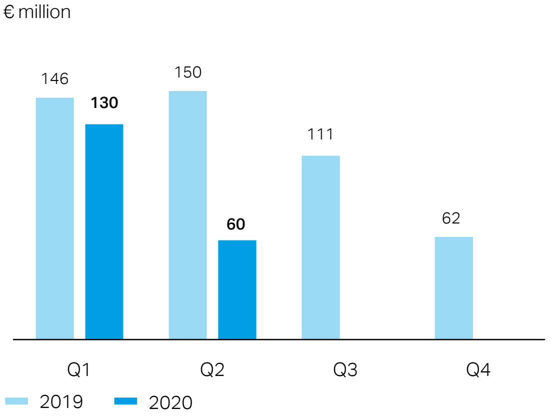
Sales in the segment dropped by 28.7% to €443 million (previous year: €621 million). A decline in total volumes had a negative effect on sales of 25.8%, while lower average selling prices reduced sales by 3.2%. Exchange rate fluctuations increased sales by 0.3%.

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



Coatings, Adhesives, Specialties Quarterly EBITDA



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.

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

				Other/consolidation		
	Polyurethanes	Polycarbonates	Coatings, Adhesives, Specialties	All other segments	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

				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						
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

	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						
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 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	1,561	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	Geier
[German Public Auditor]	[German Public Auditor]

Further Information

Segment and Quarterly Overview

Segment Information 2nd Quarter

	Polyurethanes		Polycarbonates		Coatings, Adhesives, Specialties		Others/consolidation		Covestro Group	
	2nd quarter 2019	2nd quarter 2020	2nd quarter 2019	2nd quarter 2020	2nd quarter 2019	2nd quarter 2020	2nd quarter 2019	2nd quarter 2020	2nd quarter 2019	2nd quarter 2020
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales	1,489	913	898	648	621	443	203	152	3,211	2,156
Change in sales										
Volume	+0.8%	–24.8%	+5.7%	–16.4%	–4.5%	–25.8%	–7.2%	–17.1%	+0.8%	–22.3%
Price	–26.8%	–12.3%	–18.8%	–7.8%	–0.4%	–3.2%	+1.6%	–8.2%	–18.7%	–9.0%
Currency	+1.7%	–0.4%	+1.7%	–0.1%	+2.2%	+0.3%	+1.4%	+0.2%	+1.8%	–0.1%
Portfolio	0.0%	–1.2%	–3.6%	–3.5%	+1.4%	0.0%	0.0%	0.0%	–0.8%	–1.5%
Core volume growth[1]	**+0.7%**	**–25.9%**	**+4.4%**	**–14.4%**	**–4.7%**	**–25.3%**			**+1.1%**	**–22.7%**
Sales by region										
EMLA	643	359	306	197	277	188	153	130	1,379	874
NAFTA	444	266	190	121	144	101	44	20	822	508
APAC	402	288	402	330	200	154	6	2	1,010	774
EBITDA	**172**	**(24)**	**154**	**96**	**150**	**60**	**(17)**	**(7)**	**459**	**125**
EBIT	72	(130)	99	41	120	28	(17)	(7)	274	(68)
Depreciation, amortization, impairment losses and impairment loss reversals	100	106	55	55	30	32	–	–	185	193
Operating cash flows[2]	116	7	93	68	38	94	(83)	2	164	171
Cash outflows for additions to property, plant, equipment and intangible assets	138	84	42	34	40	29	(1)	–	219	147
Free operating cash flow	**(22)**	**(77)**	**51**	**34**	**(2)**	**65**	**(82)**	**2**	**(55)**	**24**
Trade working capital[3]	1,040	987	735	638	616	498	67	62	2,458	2,185

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

2 Covestro applied a simplification rule in calculating the income taxes paid as a component of operating cash flows at the segment level (see 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 Others/consolidation column.

3 Trade working capital comprises inventories plus trade accounts receivable, less trade accounts payable, as of June 30, 2020, or June 30, 2019.

Segment Information 1st Half

	Polyurethanes		Polycarbonates		Coatings, Adhesives, Specialties		Others/consolidation		Covestro Group	
	1st half 2019	1st half 2020	1st half 2019	1st half 2020	1st half 2019	1st half 2020	1st half 2019	1st half 2020	1st half 2019	1st half 2020
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales	2,965	2,187	1,758	1,381	1,248	1,015	415	356	6,386	4,939
Change in sales										
Volume	+1.9%	–13.7%	+1.5%	–9.6%	–1.7%	–16.4%	–3.7%	–4.5%	+0.9%	–12.5%
Price	–28.1%	–11.5%	–15.8%	–8.6%	+0.6%	–3.5%	+1.9%	–10.0%	–18.5%	–9.1%
Currency	+1.9%	+0.1%	+2.1%	+0.4%	+2.6%	+0.7%	+1.6%	+0.3%	+2.1%	+0.3%
Portfolio	0.0%	–1.1%	–3.6%	–3.6%	+0.7%	+0.5%	0.0%	0.0%	–0.9%	–1.4%
Core volume growth[1]	**+0.3%**	**–14.9%**	**–1.0%**	**–9.8%**	**–2.4%**	**–15.2%**			**–0.4%**	**–13.6%**
Sales by region										
EMLA	1,312	948	595	459	571	467	315	300	2,793	2,174
NAFTA	855	661	378	302	288	240	89	49	1,610	1,252
APAC	798	578	785	620	389	308	11	7	1,983	1,513
EBITDA	**329**	**26**	**309**	**205**	**296**	**190**	**(33)**	**(42)**	**901**	**379**
EBIT	129	(181)	204	95	238	128	(33)	(43)	538	(1)
Depreciation, amortization, impairment losses and impairment loss reversals	200	207	105	110	58	62	–	1	363	380
Operating cash flows[2]	120	(79)	231	103	50	134	(117)	(97)	284	61
Cash outflows for additions to property, plant, equipment and intangible assets	240	168	81	63	64	54	(1)	1	384	286
Free operating cash flow	**(120)**	**(247)**	**150**	**40**	**(14)**	**80**	**(116)**	**(98)**	**(100)**	**(225)**
Trade working capital[3]	1,040	987	735	638	616	498	67	62	2,458	2,185

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

2 Covestro applied a simplification rule in calculating the income taxes paid as a component of operating cash flows at the segment level (see 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 Others/consolidation column.

3 Trade working capital comprises inventories plus trade accounts receivable, less trade accounts payable, as of June 30, 2020, or June 30, 2019.

Quarterly Overview

	1st quarter 2019	2nd quarter 2019	3rd quarter 2019	4th quarter 2019	1st quarter 2020	2nd quarter 2020
	€ million	€ million	€ million	€ million	€ million	€ million
Sales	3,175	3,211	3,162	2,864	2,783	2,156
Polyurethanes	1,476	1,489	1,478	1,336	1,274	913
Polycarbonates	860	898	901	814	733	648
Coatings, Adhesives, Specialties	627	621	588	533	572	443
Core volume growth[1]	**–1.8%**	**+1.1%**	**+5.3%**	**+3.8%**	**–4.1%**	**–22.7%**
EBITDA	**442**	**459**	**425**	**278**	**254**	**125**
Polyurethanes	157	172	196	123	50	(24)
Polycarbonates	155	154	132	95	109	96
Coatings, Adhesives, Specialties	146	150	111	62	130	60
EBIT	264	274	221	93	67	(68)
Polyurethanes	57	72	97	24	(51)	(130)
Polycarbonates	105	99	57	39	54	41
Coatings, Adhesives, Specialties	118	120	82	32	100	28
Financial result	(23)	(23)	(19)	(26)	(39)	(17)
Income before income taxes	241	251	202	67	28	(85)
Income after taxes	180	190	149	38	21	(53)
Net income	179	189	147	37	20	(52)
Operating cash flows	120	164	462	637	(110)	171
Cash outflows for additions to property, plant, equipment and intangible assets	165	219	219	307	139	147
Free operating cash flow	**(45)**	**(55)**	**243**	**330**	**(249)**	**24**

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

Financial Calendar

Annual General Meeting 2020	July 30, 2020
Interim Statement Q3 2020	October 27, 2020
Annual Report 2020	February 23, 2021
Annual General Meeting 2021	April 16, 2021
Interim Statement Q1 2021	April 28, 2021

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