INTERIM REPORT

Financial Report as of June 30, 2019

Half-Year Financial Report

Print version

Key Data Covestro Group

	2nd quarter 2018[1]	2nd quarter 2019	Change	1st half 2018[1]	1st half 2019	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth[2, 3]	**+4.4%**	**+1.1%**		**+2.2%**	**–0.4%**	
Sales	**3,863**	**3,211**	**–16.9**	**7,642**	**6,386**	**–16.4**
Change in sales						
Volume	+4.9%	+0.8%		+1.6%	+0.9%	
Price	+9.9%	–18.7%		+12.1%	–18.5%	
Currency	–4.4%	+1.8%		–5.8%	+2.1%	
Portfolio	0.0%	–0.8%		0.0%	–0.9%	
Sales by region						
EMLA[4]	1,677	1,379	–17.8	3,356	2,793	–16.8
NAFTA[5]	885	822	–7.1	1,725	1,610	–6.7
APAC[6]	1,301	1,010	–22.4	2,561	1,983	–22.6
EBITDA[7]	**985**	**459**	**–53.4**	**2,048**	**901**	**–56.0**
Changes in EBITDA						
of which volume	+11.7%	+0.5%		+4.7%	+1.9%	
of which price	+40.8%	–73.5%		+50.7%	–69.0%	
of which raw material price effect	–11.1%	+8.9%		–12.8%	+5.8%	
of which currency	–4.1%	+1.1%		–6.2%	+1.1%	
EBIT[8]	**826**	**274**	**–66.8**	**1,733**	**538**	**–69.0**
Financial result	**(27)**	**(23)**	**–14.8**	**(55)**	**(46)**	**–16.4**
Net income[9]	**604**	**189**	**–68.7**	**1,248**	**368**	**–70.5**
Earnings per share (€)[10]	**3.07**	**1.03**	**–66.4**	**6.31**	**2.01**	**–68.1**
Operating cash flows[11]	**517**	**164**	**–68.3**	**969**	**284**	**–70.7**
Cash outflows for additions to property, plant, equipment and intangible assets	**153**	**219**	**+43.1**	**241**	**384**	**+59.3**
Free operating cash flow[12]	**364**	**(55)**	**.**	**728**	**(100)**	**.**

1 Reference information was not restated; see section 2.1 "Financial Reporting Standards Applied for the First Time in the Reporting Period."
2 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.
3 Reference values calculated on the basis of the definition of the core business effective March 31, 2019
4 EMLA: Europe, Middle East, Africa and Latin America (excluding Mexico) region
5 NAFTA: United States, Canada and Mexico region
6 APAC: Asia and Pacific region
7 EBITDA: EBIT plus the sum of depreciation, amortization, impairment losses and impairment loss reversals
8 EBIT: Income after income taxes plus financial result and income taxes
9 Net income: income after income taxes attributable to the stockholders of Covestro AG
10 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 196,605,012 no-par shares for the second quarter of 2018 and on 197,746,827 no-par shares for the first half of 2018, and on 182,704,602 no-par shares for the second quarter of 2019, and for the first half of 2019.
11 Operating cash flows: cash flows from operating activities according to IAS 7
12 Free operating cash flow: operating cash flows less cash outflows for additions to property, plant, equipment and intangible assets

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About This Report

Reporting principles

The consolidated interim report of Covestro AG meets the requirements for a half-yearly financial report pursuant to the applicable provisions of the German Securities Trading Act (WpHG) and, in accordance with Section 115 of the German Securities Trading Act, 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. The reference information for fiscal year 2018 was not restated to reflect the new financial reporting standards, see Note 2.1 "Financial Reporting Standards Applied for the First Time in the Reporting Period." This consolidated interim report should be read alongside the 2018 Annual Report and the additional information about the company contained therein, as well as the First-Quarter 2019 Interim Statement.

Forward-looking statements

This Interim 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. These 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

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

Percentage deviations

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 performance of the Group. These are not defined in the International Financial Reporting Standards (IFRSs). They 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 the alternative performance measures can be found in section 17 "Alternative Performance Measures" in the combined management report in the 2018 Annual Report.

Abbreviations

The abbreviations used in this report are explained in the glossary of the 2018 Covestro Annual Report.

This Interim Report was published in German and English on July 24, 2019. Only the German version is binding.

Covestro on the Capital Market

Performance of the Covestro Stock Versus the Market in the First Half of 2019

Covestro closing prices Xetra®; source: Bloomberg

Positive stock market performance in an unsettled environment

Although the macroeconomic environment worldwide is marked by uncertainty, European stock markets performed well in the first six months of 2019, thereby recovering from a weak year for stocks in 2018. Many indices such as the EURO STOXX 50® posted positive performances in the first half of 2019. At the end of June, the DAX, which is relevant for Covestro, was up 17.4% compared with its value at year-end 2018, while the STOXX® Europe 600 Chemicals Index rose 18.5% during the same period. However, individual chemical stocks continued to experience strong volatility and muted growth during this period, driven by uncertainties arising from trade conflicts and the slowing of global economic growth and industrial production.

In this capital market environment, Covestro stock finished the first half of 2019 at a Xetra® closing price of €44.71 – an increase of 3.5% compared with the end of 2018. On May 31, 2019, Covestro stock dipped to its low for the half-year with a closing price of €39.23. The high for the first six months was €55.32 on April 12, 2019.

Covestro Share at a Glance

		2nd quarter 2018	2nd quarter 2019	1st half 2018	1st half 2019
Average daily turnover	million shares	1.3	1.4	1.2	1.4
High	€	82.10	55.32	95.00	55.32
Low	€	71.88	39.23	71.88	39.23
Closing date	€	76.42	44.71	76.42	44.71
Outstanding shares (closing date)	million shares	192.6	182.7	192.6	182.7
Market capitalization (closing date)	€ million	14,717	8,169	14,717	8,169

Covestro closing prices, Xetra®; source: Bloomberg

Dividend of €2.40 per share paid

At this year's Annual Stockholders' Meeting on April 12, 2019, which took place at the World Conference Center in Bonn (Germany), stockholders approved the dividend of €2.40 per share proposed by the Board of Management and the Supervisory Board of Covestro AG for 2018. Compared with the prior year (€2.20), this represents an increase of 9%. The dividend was paid on April 17, 2019.

New authorization to acquire treasury shares

At this year's Annual Stockholders' Meeting, stockholders approved the proposal by the Board of Management and the Supervisory Board of Covestro AG to authorize the Board of Management to acquire and use own shares in the amount of up to 10% of the capital stock. According to the German Stock Corporation Act, authorization such as this is required for deciding on possible additional share buy-backs in the future.

Moody's confirms credit rating

At the end of the first half of 2019, rating agency Moody's Investors Service, London (UK), reviewed Covestro's existing investment-grade rating and confirmed the company's rating on July 2, 2019. The Baa1 rating with a stable outlook puts Covestro in an excellent position for obtaining financing, particularly on the international debt market.

Buy recommendations from eight analysts

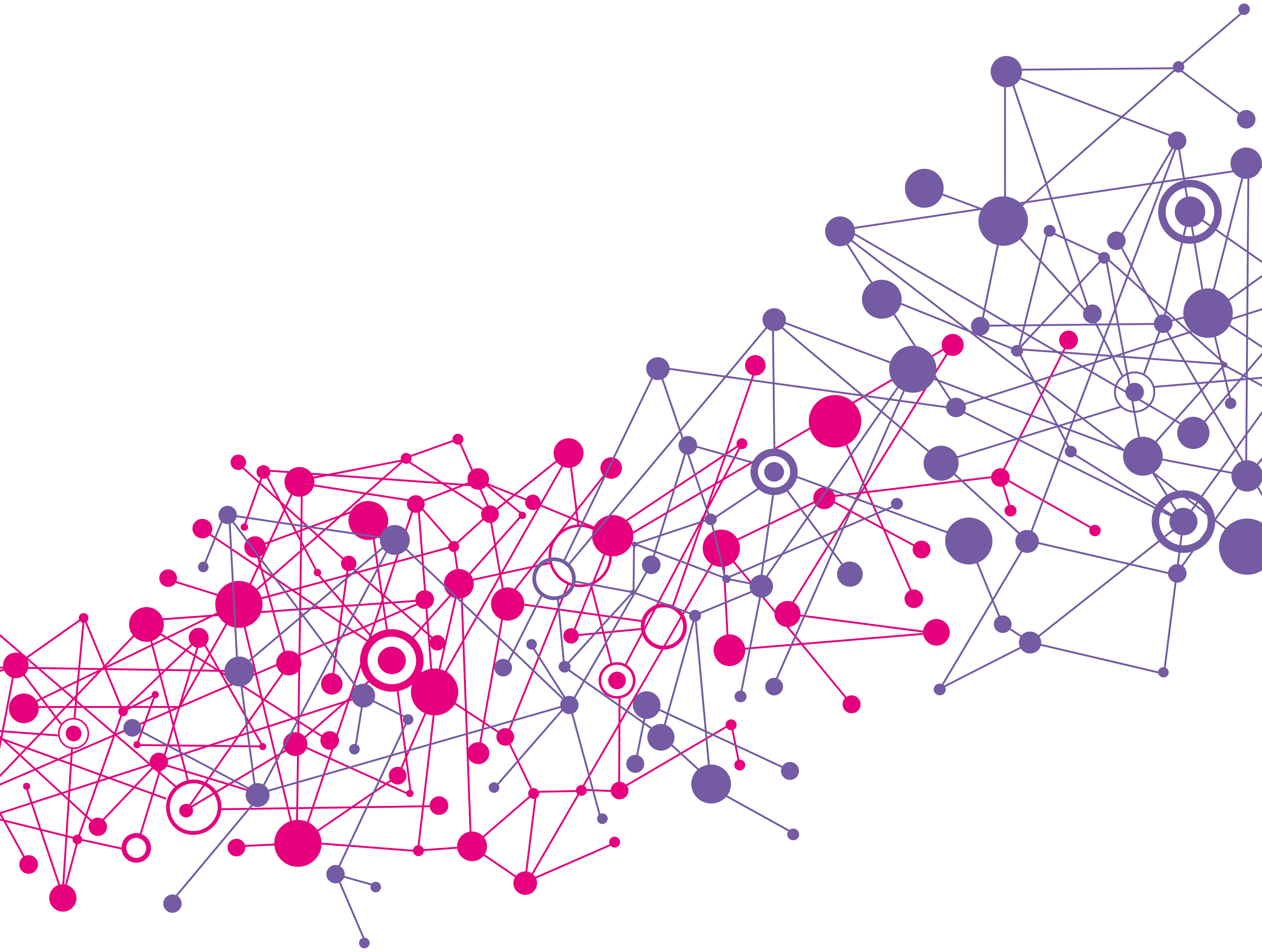
At the end of the first six months of 2019, Covestro was covered by 23 securities brokers. Eight analysts recommended the stock as a buy, twelve were neutral, and three rated it as a sell. The average share-price target at the end of the period was €51.

Basic Covestro Share Information

Capital stock	€183,000,000
Outstanding shares (half-year end)	182,704,602
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, 2019



1. Business Development of the Covestro Group

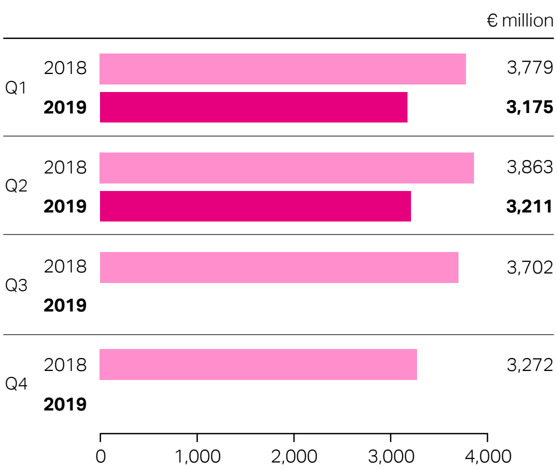
Second quarter of 2019

The Group's core volumes in the second quarter of 2019 rose by 1.1% compared with the prior-year quarter, in particular due to the performance of the Polycarbonates segment, which increased its volumes by 4.4%. Core volume growth in the Polyurethanes segment amounted to 0.7%, whereas volumes in the Coatings, Adhesives, Specialties segment declined by 4.7%.

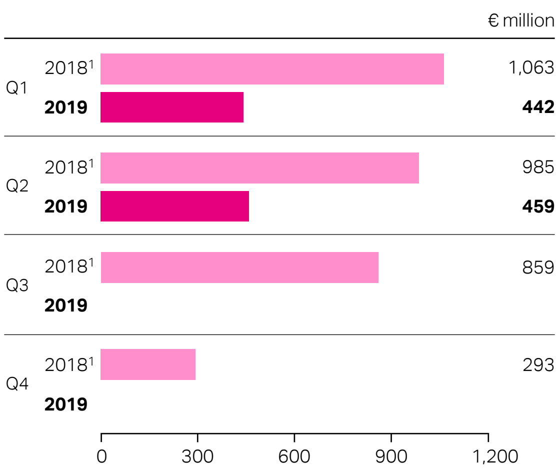
Group sales amounted to €3,211 million, down 16.9% from the prior-year quarter (previous year: €3,863 million). This was mainly due to lower selling prices, which had a negative effect on sales of 18.7%. Total volumes remained at the level of the prior-year quarter. Exchange rate movements had a positive effect of 1.8% on Group sales. In addition, the change in the portfolio reduced sales by 0.8%. In terms of sales in the second quarter of 2019, the sale of the U.S. sheet business in the third quarter of 2018 had a negative effect, and the step acquisition of shares of Japan-based DIC Covestro Polymer Ltd. in the second quarter of 2019 had a positive effect.

All segments were affected by the drop in sales in the second quarter of 2019. Sales in the Polyurethanes segment decreased 24.3% to €1,489 million (previous year: €1,966 million), and in the Polycarbonates segment they were down 15.0% to €898 million (previous year: €1,056 million). In the Coatings, Adhesives, Specialties segment, sales decreased 1.3% to €621 million (previous year: €629 million).

Covestro Group Quarterly Sales



Covestro Group Quarterly EBITDA



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

In the second quarter of 2019, the Group's EBITDA was down 53.4% to €459 million (previous year: €985 million). The decline in earnings resulted mainly from lower margins in the Polyurethanes and Polycarbonates segments. In contrast, higher volumes, a decrease in provisions for short-term, variable compensation, and the effects of applying the new financial reporting standard IFRS 16 (Leases) had a positive effect on earnings. In addition, earnings were also improved by the one-time gain from the remeasurement of the shares of DIC Covestro Polymer Ltd., which were previously recognized according to the equity method.

EBITDA in the Polyurethanes segment dropped 70.5% to €172 million (previous year: €583 million), and in the Polycarbonates segment it was down 46.0% to €154 million (previous year: €285 million). In the Coatings, Adhesives, Specialties segment, EBITDA rose 7.9% to €150 million (previous year: €139 million).

Depreciation, amortization, impairments and impairment loss reversals increased by 16.4% to €185 million in the second quarter of 2019 (previous year: €159 million). They comprised €180 million (previous year: €153 million) in depreciation and impairments of property, plant and equipment and €5 million (previous year: €6 million) in amortization and impairments of intangible assets.

In the second quarter of 2019, the Covestro Group's EBIT was down 66.8% to €274 million (previous year: €826 million).

Taking into account a financial result of minus €23 million (previous year: minus €27 million), income before income taxes decreased to €251 million, compared with €799 million in the prior-year quarter. After tax expense of €61 million (previous year: €193 million), which declined in line with earnings, income after income taxes was €190 million (previous year: €606 million). After noncontrolling interests, net income amounted to €189 million (previous year: €604 million). Compared with the prior-year quarter, the earnings per share dropped to €1.03 (prior year: €3.07).

Operating cash flows decreased to €164 million (previous year: €517 million) despite lower income tax payments, largely on account of lower EBITDA.

Free operating cash flow declined to minus €55 million in the second quarter of 2019 (previous year: €364 million). This decrease was due to lower cash outflows from operating activities and the increase in cash outflows for additions to property, plant, equipment and intangible assets, which rose 43.1% to €219 million (previous year: €153 million).

First half of 2019

In the first half of 2019, the Group's core volume growth was negative at minus 0.4%. The Polyurethanes segment saw growth of 0.3%, whereas volumes in the Polycarbonates and Coatings, Adhesives, Specialties segments fell 1.0% and 2.4%, respectively, compared with the prior-year period.

Compared with the prior-year period, Group sales dropped 16.4% to €6,386 million in the first six months of 2019 (previous year: €7,642 million). The decline in sales resulted chiefly from an overall decrease of 18.5% in selling prices. In the Polycarbonates and Polyurethanes segments in particular, selling prices were significantly below the prior-year period. In contrast, total volumes remained at the previous year's level. Exchange rate movements had a positive impact of 2.1%, but the change in the portfolio reduced sales by 0.9%.

In the Polyurethanes and Polycarbonates segments, sales were down in the first six months of 2019. Sales in the Polyurethanes segment declined 24.3% to €2,965 million (previous year: €3,916 million), and in the Polycarbonates segment sales decreased 15.8% to €1,758 million (previous year: €2,089 million). However, sales in the Coatings, Adhesives, Specialties segment rose 2.2% to €1,248 million (previous year: €1,221 million).

The Group's EBITDA fell 56.0% from the prior-year period, dropping from €2,048 million to €901 million in the first half of 2019. This was a result of lower earnings in the Polyurethanes and Polycarbonates segments.

Depreciation, amortization, impairment and impairment loss reversals increased by 15.2% to €363 million (previous year: €315 million) in the first half of 2019. They comprised €354 million (previous year: €304 million) in depreciation and impairments of property, plant and equipment and €9 million (previous year: €11 million) in amortization and impairments of intangible assets.

In the first six months of 2019, the Covestro Group's EBIT slid 69.0% to €538 million (previous year: €1,733 million).

Taking into account a financial result of minus €46 million (previous year: minus €55 million), income before income taxes decreased to €492 million, compared with €1,678 million in the prior-year period. After tax expense of €122 million (previous year: €426 million), which declined in line with earnings, income after income taxes was €370 million (previous year: €1,252 million). After noncontrolling interests, net income amounted to €368 million (previous year: €1,248 million). Earnings per share dropped to €2.01 (previous year: €6.31).

Operating cash flows sank to €284 million in the first six months of 2019 (previous year: €969 million). This is mostly due to the decline in EBITDA, which could not be balanced out by lower income tax payments and reduced funds tied up in working capital.

Free operating cash flow declined to minus €100 million (previous year: €728 million) in the first half of 2019. In addition to lower cash flows from operating activities, cash outflows for additions to property, plant, equipment and intangible assets rose to €384 million (previous year: €241 million).

2. Business Development by Segment

2.1 Polyurethanes

Polyurethanes Key Data

	2nd quarter 2018[1]	2nd quarter 2019	Change	1st half 2018[1]	1st half 2019	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth[2]	**+3.9%**	**+0.7%**		**+1.4%**	**+0.3%**	
Sales	**1,966**	**1,489**	**–24.3**	**3,916**	**2,965**	**–24.3**
Change in sales						
Volume	+3.3%	+0.8%		+0.3%	+1.9%	
Price	+9.2%	–26.8%		+13.2%	–28.1%	
Currency	–4.4%	+1.7%		–5.9%	+1.9%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
Sales by region						
EMLA	871	643	–26.2	1,731	1,312	–24.2
NAFTA	486	444	–8.6	961	855	–11.0
APAC	609	402	–34.0	1,224	798	–34.8
EBITDA	**583**	**172**	**–70.5**	**1,220**	**329**	**–73.0**
EBIT	**492**	**72**	**–85.4**	**1,039**	**129**	**–87.6**
Operating cash flows	**364**	**116**	**–68.1**	**540**	**120**	**–77.8**
Cash outflows for additions to property, plant, equipment and intangible assets	**84**	**138**	**+64.3**	**130**	**240**	**+84.6**
Free operating cash flow	**280**	**(22)**	**.**	**410**	**(120)**	**.**

[1] Reference information was not restated, see Note 2.1 “Financial Reporting Standards Applied for the First Time in the Reporting Period.”
[2] Reference values calculated on the basis of the definition of the core business effective March 31, 2019

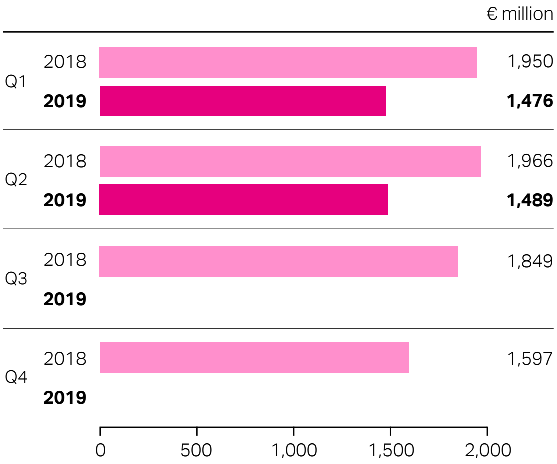
Second quarter of 2019

In the second quarter of 2019, core volume growth in Polyurethanes totaled 0.7%. Positive growth in volumes in the furniture and construction sectors was able to balance out weaker demand from the automotive industry.

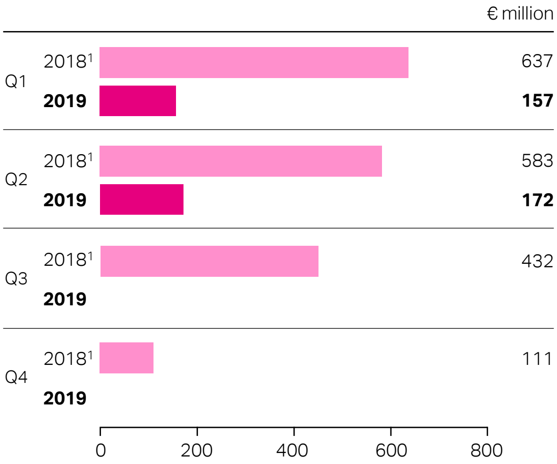
Sales in the Polyurethanes segment amounted to €1,489 million, down 24.3% from the prior-year quarter (previous year: €1,966 million), mainly due to a 26.8% decrease in selling prices as a result of increased competition. Volumes had a 0.8% effect on sales. In addition, exchange rate movements had a positive effect of 1.7% on sales.

The EMLA region’s sales dropped 26.2% to €643 million (previous year: €871 million) due to much lower average selling prices. Stable total volumes and neutral exchange rate effects stood in contrast to this development. In the NAFTA region, sales declined by 8.6% to €444 million (previous year: €486 million). A significant increase in total volumes and very positive exchange rate effects could not offset the significantly lower selling price level. Sales in the APAC region declined 34.0% to €402 million (previous year: €609 million). Considerably lower average selling prices and total volumes had a negative effect on sales, whereas exchange rate movements improved sales slightly.

Polyurethanes Quarterly Sales



Polyurethanes Quarterly EBITDA



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

In the second quarter of 2019, EBITDA in the Polyurethanes segment decreased 70.5% compared with the prior-year quarter, dropping to €172 million (previous year: €583 million). This decline was driven by the strongly negative development of selling prices as a result of increased competition.

EBIT declined to €72 million (previous year: €492 million).

Free operating cash flow decreased to minus €22 million (previous year: €280 million). The main reasons for this were lower EBITDA and higher cash outflows for additions to property, plant and equipment. In contrast, freeing up working capital in inventories and other items positively influenced free operating cash flow.

First half of 2019

In the first half of 2019, core volume growth in Polyurethanes was 0.3%.

Sales in the segment declined 24.3% to €2,965 million (previous year: €3,916 million) in the same period. Selling prices were down 28.1%, which had a negative effect on sales, whereas an increase in total volumes gave sales a 1.9% boost. Exchange rate fluctuations had a positive impact of 1.9% on sales.

EBITDA declined 73.0% to €329 million (previous year: €1,220 million) on account of the significantly negative change in selling prices.

EBIT decreased 87.6% to €129 million (previous year: €1,039 million).

Free operating cash flow fell to minus €120 million (previous year: €410 million). The key reasons for this development were lower EBITDA and higher cash outflows for additions to property, plant and equipment. Freeing up working capital in inventories and receivables had a positive effect.

2.2 Polycarbonates

Polycarbonates Key Data

	2nd quarter 2018[1]	2nd quarter 2019	Change	1st half 2018[1]	1st half 2019	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth[2]	**+5.3%**	**+4.4%**		**+4.0%**	**–1.0%**	
Sales	**1,056**	**898**	**–15.0**	**2,089**	**1,758**	**–15.8**
Change in sales						
Volume	+5.6%	+5.7%		+2.8%	+1.5%	
Price	+15.2%	–18.8%		+15.8%	–15.8%	
Currency	–4.9%	+1.7%		–6.6%	+2.1%	
Portfolio	0.0%	–3.6%		0.0%	–3.6%	
Sales by region						
EMLA	353	306	–13.3	715	595	–16.8
NAFTA	209	190	–9.1	412	378	–8.3
APAC	494	402	–18.6	962	785	–18.4
EBITDA	**285**	**154**	**–46.0**	**588**	**309**	**–47.4**
EBIT	**241**	**99**	**–58.9**	**501**	**204**	**–59.3**
Operating cash flows	**155**	**93**	**–40.0**	**234**	**231**	**–1.3**
Cash outflows for additions to property, plant, equipment and intangible assets	**44**	**42**	**–4.5**	**67**	**81**	**+20.9**
Free operating cash flow	**111**	**51**	**–54.1**	**167**	**150**	**–10.2**

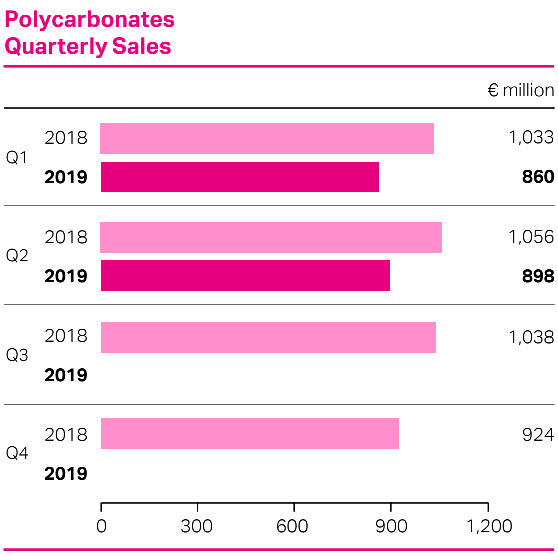
[1] Reference information was not restated, see Note 2.1 "Financial Reporting Standards Applied for the First Time in the Reporting Period."
[2] Reference values calculated on the basis of the definition of the core business effective March 31, 2019

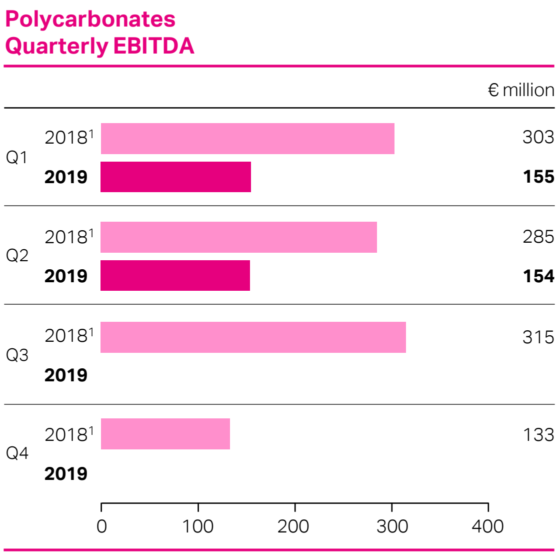
Second quarter of 2019

In the second quarter of 2019, core volumes in the Polycarbonates segment were 4.4% higher than in the prior-year quarter. Whereas the electrical and electronics industry and the construction sector contributed to this growth, weak demand from the auto industry led to a drop in volumes.

Sales in the Polycarbonates segment tumbled 15.0% to €898 million (previous year: €1,056 million). Lower selling prices had the effect of reducing sales by 18.8% due to increased competition, while the rise in total volumes had a positive effect on sales of 5.7%. Exchange rate fluctuations bumped up sales by 1.7%. Moreover, the portfolio effect from the sale of the U.S. sheet business in the third quarter of 2018 also impacted sales in the second quarter of 2019 with a negative effect of 3.6%.

In the EMLA region, sales were down by 13.3% to €306 million (previous year: €353 million). The decline in total volumes had a slightly negative effect on sales. In addition, lower selling prices pushed sales down considerably. The effect of exchange rate developments remained neutral. The NAFTA region's sales dropped 9.1% to €190 million (previous year: €209 million) primarily due to the aforementioned significant effect that portfolio changes had on sales.. A significant jump in total volumes and substantially positive exchange rate movements resulted in an increase in sales. In contrast, the drop in the selling price level had a major negative effect on sales. The APAC region's sales fell 18.6% to €402 million (previous year: €494 million). Significant growth in total volumes and slightly positive exchange rate movements could not compensate for a considerable decrease in the selling price level.





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

In the second quarter of 2019, EBITDA in the Polycarbonates segment decreased 46.0% compared with the prior-year quarter, dropping to €154 million (previous year: €285 million), mostly on account of the negative change in selling prices. In contrast, larger volumes sold and lower raw material prices positively influenced earnings. The portfolio effect from the sale of the U.S. sheet business additionally had a negative impact on EBITDA.

EBIT tumbled 58.9% to €99 million (previous year: €241 million).

Free operating cash flow decreased 54.1% to €51 million (previous year: €111 million). The key driver here was the decrease in EBITDA, which was partly offset by freeing up working capital in inventories.

First half of 2019

In the first half of 2019, core volumes in the Polycarbonates segment were 1.0% lower than in the prior-year period.

Sales in the Polycarbonates segment were down 15.8% to €1,758 million in the first six months of 2019 (previous year: €2,089 million). The lower selling price level was the primary factor in the reduction in sales by 15.8%. The changes in total volumes and exchange rates, which had a positive effect of 1.5% and 2.1%, respectively, were able to compensate for the negative effect of 3.6% from the sale of the U.S. sheet business in the third quarter of 2018.

In the first half of 2019, EBITDA in the Polycarbonates segment decreased by 47.4% compared with the prior-year period, dropping to €309 million (previous year: €588 million), mostly on account of the negative change in selling prices.

EBIT decreased 59.3% to €204 million (previous year: €501 million).

Free operating cash flow was down by 10.2% to €150 million (previous year: €167 million). Freeing up working capital in inventories and receivables partly offset the lower EBITDA.

2.3 Coatings, Adhesives, Specialties

Coatings, Adhesives, Specialties Key Data

	2nd quarter 2018[1]	2nd quarter 2019	Change	1st half 2018[1]	1st half 2019	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth[2]	**+5.4%**	**–4.7%**		**+2.0%**	**–2.4%**	
Sales	**629**	**621**	**–1.3**	**1,221**	**1,248**	**+2.2**
Change in sales						
Volume	+6.3%	–4.5%		+2.0%	–1.7%	
Price	+1.7%	–0.4%		+1.3%	+0.6%	
Currency	–3.9%	+2.2%		–4.9%	+2.6%	
Portfolio	0.0%	+1.4%		0.0%	+0.7%	
Sales by region						
EMLA	299	277	–7.4	597	571	–4.4
NAFTA	137	144	+5.1	259	288	+11.2
APAC	193	200	+3.6	365	389	+6.6
EBITDA	**139**	**150**	**+7.9**	**275**	**296**	**+7.6**
EBIT	**116**	**120**	**+3.4**	**229**	**238**	**+3.9**
Operating cash flows	**66**	**38**	**–42.4**	**83**	**50**	**–39.8**
Cash outflows for additions to property, plant, equipment and intangible assets	**25**	**40**	**+60.0**	**44**	**64**	**+45.5**
Free operating cash flow	**41**	**(2)**	**.**	**39**	**(14)**	**.**

[1] Reference information was not restated, see Note 2.1 "Financial Reporting Standards Applied for the First Time in the Reporting Period."
[2] Reference values calculated on the basis of the definition of the core business effective March 31, 2019

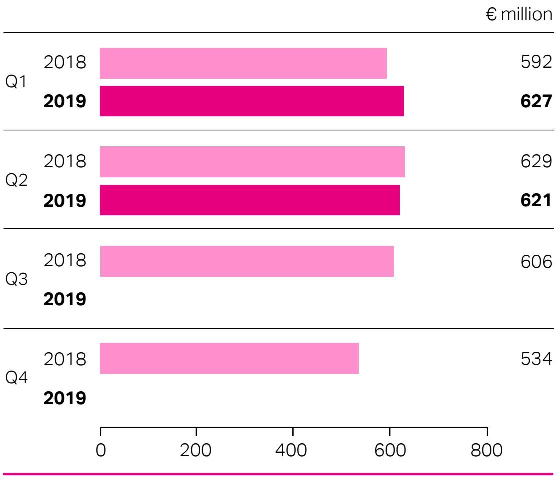
Second quarter of 2019

In the second quarter of 2019, core volumes in the Coatings, Adhesives, Specialties segment were 4.7% lower than in the prior-year quarter because of weaker demand from the automotive and construction industries.

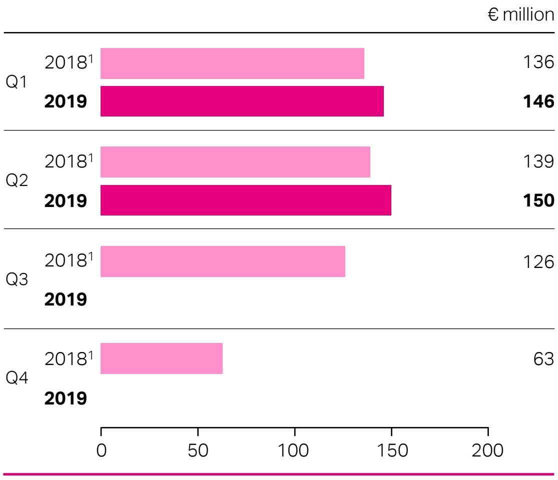
Segment sales decreased by 1.3% to €621 million (previous year: €629 million). Lower total volumes negatively affected sales by 4.5%, while the change in the selling price level amounted to minus 0.4%. Exchange rate movements increased sales by 2.2%. In addition, the step acquisition of shares of Japan-based DIC Covestro Polymer Ltd. had a positive effect on sales of 1.4%.

In the EMLA region, sales were down 7.4% to €277 million (previous year: €299 million). The drop in total volumes sold caused sales to decline considerably. In contrast, average selling prices remained largely stable at the previous year's level. The effect of exchange rate movements was also neutral. In the NAFTA region, sales rose by 5.1% to €144 million (previous year: €137 million). Exchange rate movements had a significant positive effect, which more than compensated for the modest decrease in total volumes. The change in average selling prices also had a slightly positive impact on sales. The APAC region's sales grew 3.6% to €200 million (previous year: €193 million). The aforementioned portfolio effect and changes in exchange rates boosted up sales slightly. Total volumes remained stable at the prior-year level, although average selling prices had a modestly negative effect on sales.

Coatings, Adhesives, Specialties
Quarterly Sales



Coatings, Adhesives, Specialties
Quarterly EBITDA



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

EBITDA in the Coatings, Adhesives, Specialties segment increased by 7.9% in the second quarter of 2019, rising to €150 million (previous year: €139 million). This was mostly due to the one-time gain from the remeasurement of previously held interest in Japan-based DIC Covestro Polymer Ltd., interest that had been accounted for under the equity method. In contrast, lower volumes adversely affected EBITDA performance.

EBIT rose 3.4% to €120 million (previous year: €116 million).

In the second quarter of 2019, free operating cash flow amounted to minus €2 million (previous year: €41 million). The improvement in EBITDA and freed-up working capital in receivables stood in contrast to higher cash outflows for additions to property, plant and equipment and an increase in cash tied up in liabilities.

First half of 2019

In the first half of 2019, core volumes in the Coatings, Adhesives, Specialties segment were 2.4% lower than in the prior-year period.

During the same period, sales of Coatings, Adhesives, Specialties rose 2.2% to €1,248 million (previous year: €1,221 million). Average selling prices had an effect on sales that amounted to 0.6%, whereas the decline in total volumes reduced sales by 1.7%. Exchange rate movements had a positive impact on sales of 2.6%. The step acquisition of shares of Japan-based DIC Covestro Polymer Ltd. resulted in a portfolio effect on sales of 0.7%.

In the first half of 2019, EBITDA improved by 7.6% compared with the prior-year period, growing to €296 million (previous year: €275 million), mostly on account of the previously mentioned one-time gain. Moreover, the change in selling prices also increased earnings. Lower volumes, however, had a negative effect.

EBIT increased 3.9% to €238 million (previous year: €229 million).

Free operating cash flow totaled minus €14 million in the first half of 2019 (previous year: €39 million). An increase in cash tied up in inventories and liabilities and higher cash outflows for additions to property, plant and equipment outweighed the increase in EBITDA and the cash freed up from receivables.

3. Net Assets and Financial Position of the Covestro Group

Covestro Group Summary Statement of Cash Flows

	2nd quarter 2018[1]	2nd quarter 2019	1st half 2018[1]	1st half 2019
	€ million	€ million	€ million	€ million
EBITDA	**985**	**459**	**2,048**	**901**
Income taxes paid	(279)	(144)	(335)	(223)
Change in pension provisions	–	17	8	26
(Gains) losses on retirements of noncurrent assets	–	(19)	1	(17)
Change in working capital/other noncash items	(189)	(149)	(753)	(403)
Cash flows from operating activities	**517**	**164**	**969**	**284**
Cash outflows for additions to property, plant, equipment and intangible assets	(153)	(219)	(241)	(384)
Free operating cash flow	**364**	**(55)**	**728**	**(100)**
Cash flows from investing activities	**(65)**	**(184)**	**(35)**	**(373)**
Cash flows from financing activities	**(903)**	**(109)**	**(1,692)**	**(143)**
Change in cash and cash equivalents due to business activities	**(451)**	**(129)**	**(758)**	**(232)**
Cash and cash equivalents at beginning of period	**926**	**771**	**1,232**	**865**
Change in cash and cash equivalents due to exchange rate movements	–	(2)	1	7
Cash and cash equivalents at end of period	**475**	**640**	**475**	**640**

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

Cash flows from operating activities

In the second quarter of 2019, cash flows from operating activities declined to €164 million (previous year: €517 million). Reduced EBITDA was the key reason for this development. However, income tax payments were lower. After deduction of cash outflows for additions to property, plant, equipment and intangible assets, free operating cash flow totaled minus €55 million (previous year: €364 million).

In the first half of 2019, cash flows from operating activities amounted to €284 million, down from the previous year’s figure of €969 million. After deduction of cash outflows for additions to property, plant, equipment, and intangible assets totaling €384 million (previous year: €241 million), free operating cash flow was minus €100 million (previous year: €728 million).

Cash flows from investing activities

In the second quarter of 2019, cash outflows for investing activities totaled €184 million (previous year: cash outflows €65 million). Cash outflows for additions to property, plant and equipment and intangible assets totaling €219 million (previous year: €153 million) stood in contrast to cash inflows from items such as maturing bank deposits.

Cash outflows for investing activities in the first half of 2019 totaled €373 million (previous year: cash outflows €35 million). These mainly included cash outflows for additions to property, plant and equipment and intangible assets of €384 million (previous year: €241 million).

Cash flows from financing activities

The Covestro Group saw cash outflows for financing activities amounting to €109 million in the second quarter of 2019 (previous year: cash outflows €903 million). The Covestro AG dividend paid in April 2019 totaled €438 million, while cash received from issuance of debt stood at €440 million. Additional cash outflows comprised debt repayments in the amount of €87 million and interest payments of €21 million.

Cash outflows for financing activities in the first half of 2019 totaled €143 million (previous year: cash outflows €1,692 million).

Net Financial Debt

	Dec. 31, 2018[1]	June 30, 2019
	€ million	€ million
Bonds	996	997
Liabilities to banks	24	425
Lease liabilities[2]	193	821
Liabilities from derivatives	12	11
Other financial liabilities	–	–
Receivables from derivatives	(12)	(10)
Financial debt	**1,213**	**2,244**
Cash and cash equivalents	(865)	(640)
Current financial assets	–	–
Net financial debt	**348**	**1,604**

[1] Reference information was not restated, see Note 2.1 “Financial Reporting Standards Applied for the First Time in the Reporting Period.”
[2] As of June 30, 2019, this also contains the lease liabilities from initial application of IFRS 16.

In comparison with December 31, 2018, the Covestro Group’s net financial debt increased by €1,256 million to reach €1,604 million as of June 30, 2019. The rise in financial debt stemmed largely from the initial application of IFRS 16 and the resulting increase in lease liabilities as well as the assumption of short-term loans. Furthermore, cash and cash equivalents decreased by €225 million to €640 million.

Covestro Group Summary Statement of Financial Position

	Dec. 31, 2018[1]	June 30, 2019
	€ million	€ million
Noncurrent assets[2]	5,801	6,612
Current assets	5,283	5,049
Total assets	**11,084**	**11,661**
Equity	**5,375**	**5,205**
Noncurrent liabilities[2]	3,126	3,957
Current liabilities	2,583	2,499
Liabilities	**5,709**	**6,456**
Total equity and liabilities	**11,084**	**11,661**

[1] Reference information was not restated, see Note 2.1 “Financial Reporting Standards Applied for the First Time in the Reporting Period.”
[2] As of June 30, 2019, this also contains the lease liabilities from initial application of IFRS 16.

Total assets grew by €577 million compared with December 31, 2018, rising to €11,661 million as of June 30, 2019.

Noncurrent assets rose €811 million to €6,612 million, primarily due to an increase in property, plant and equipment, which chiefly resulted from the initial application of IFRS 16. Current assets decreased by €234 million to €5,049 million. This resulted mainly from a reduction in cash and cash equivalents and inventories, which stood in contrast to higher income tax refund claims and an increase in assets held for sale.

Compared with December 31, 2018, equity declined €170 million to €5,205 million. The drop was attributable to the dividend distribution, which was not offset by income after income taxes.

Liabilities were up €747 million, totaling €6,456 million as of June 30, 2019. Provisions for pensions and other post-employment benefits increased by €259 million to €1,704 million. Noncurrent financial liabilities grew by €536 million to €1,702 million, a change mostly attributable to the increase in lease liabilities resulting from the initial application of IFRS 16. Current financial liabilities increased €493 million to €552 million, mainly due to the assumption of short-term loans.

4. Forecast

4.1 Economic Outlook

Economic Outlook

	Growth[1] 2018	Growth[1] forecast 2019 (2018 Annual Report)	Growth[1] forecast 2019
	%	%	%
World	**+3.1**	**+2.8**	**+2.7**
European Union	+2.0	+1.3	+1.3
of which Germany	+1.5	+1.0	+0.5
NAFTA	+2.7	+2.4	+2.4
of which United States	+2.9	+2.5	+2.6
Asia-Pacific	+4.8	+4.7	+4.5
of which China	+6.6	+6.3	+6.2

[1] Real growth of gross domestic product; source: IHS (Global Insight), Growth 2018 and Growth forecast 2019, as of July 2019.

We expect global economic growth of 2.7% for 2019, slightly weaker than our outlook in the 2018 Annual Report. The current assessment of developments in the Asia-Pacific region has clouded somewhat, whereas assessments for the NAFTA region and the European Union remain unchanged. The expectation for Germany has, however, been significantly scaled back. Overall, we expect to see ongoing difficult economic conditions due to such issues as political uncertainties in Europe and increasing trade barriers.

Main customer industries[1]

Compared with the expectations we expressed in the 2018 Annual Report, we so far see only minor changes, or none at all, for the performance of the construction sector industry, assuming no further global trade barriers. Growth in the furniture industry is anticipated to be somewhat weaker than presented in the 2018 Annual Report. We expect a significant decline for the electrical and electronics industry and, in particular, for the automotive industry.

4.2 Forecast for Key Data

On the basis of the business performance described in this report, along with our consideration of the potential associated risks and opportunities, we confirm the forecast for key data made in both the 2018 Annual Report and the Quarterly Statement as of March 31, 2019, for the rest of the 2019 fiscal year.

We expect core volume growth in the low-to-mid-single-digit-percentage range. This projection applies to the Covestro Group as well as to the Polyurethanes, Polycarbonates and Coatings, Adhesives, Specialties segments.

In fiscal year 2019, we anticipate free operating cash flow (FOCF) of between €300 million and €700 million. For the Polyurethanes segment, we project an increase in cash outflows for additions to property, plant, equipment and intangible assets, which will exceed the expected net cash provided by operating activities. FOCF is anticipated to decline in the Polycarbonates segment as well, although the trend here will likely be much more positive than for the Group as a whole. For the Coatings, Adhesives, Specialties segment, we expect FOCF around the prior-year level.

For 2019, we expect ROCE[2] of between 8% and 13%.

[1] Covestro's estimate, based on the following sources: LMC Automotive Limited, B+L, CSIL (Centre for Industrial Studies), Oxford Economics

[2] ROCE: 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. Starting in fiscal year 2019, assets held for sale and the associated liabilities are also included in the calculation of capital employed.

5. 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 section 21 "Opportunities and Risks Report" of the 2018 Covestro Annual Report.

There have been no material changes since December 31, 2018. At the time this interim financial report was prepared, the Group faced no risks that could endanger its continued existence.

In comparison with the situation presented in the 2018 Annual Report (Note 26 to the Consolidated Financial Statements, "Legal Risks"), there have been no new significant developments in the legal proceedings described there, and no new material legal proceedings are pending.

Consolidated Interim Financial Statements

as of June 30, 2019

Covestro Group Consolidated Income Statement

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

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

Covestro Group Consolidated Statement of Comprehensive Income

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

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

Covestro Group Consolidated Statement of Financial Position

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

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

Covestro Group Consolidated Statement of Cash Flows

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

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

Covestro Group Consolidated Statement of Changes in Equity

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

[1] Reference information was not restated for financial reporting standards IFRS 9 and IFRS 15.
[2] Reference information was not restated, see Note 2.1 "Financial Reporting Standards Applied for the First Time in the Reporting Period."
[3] Other changes result from a step acquisition of shares in April 2019 and the related equity transaction, see Note 4.2 "Acquisitions and Divestitures".

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. General Information

Information on the consolidated interim financial statements

Pursuant to Section 115 of the German Securities Trading Act (WpHG), the consolidated interim financial statements of Covestro AG, Leverkusen (Germany), (Covestro AG), as of June 30, 2019, have been prepared according to the International Financial Reporting Standards (IFRSs) — including IAS 34 (Interim Financial Reporting) – of the International Accounting Standards Board (IASB), London (United Kingdom), the Interpretations (IFRICs) of the IFRS Interpretations Committee (IFRS IC), and the interpretations published by the Standing Interpretations Committee (SIC), endorsed by the European Union and in effect at the closing date.

The accounting policies and measurement principles described in the consolidated financial statements as of December 31, 2018, were applied unchanged in preparing the consolidated interim financial statements as of June 30, 2019, subject to the effects of financial reporting standards adopted for the first time in the current fiscal year as described in Note 2.1 "Financial Reporting Standards Applied for the First Time in the Reporting Period." Reference information for previous periods has not been restated for new financial reporting standards.

The consolidated interim financial statements are drawn up in euros. Amounts are stated in millions of euros (€ million) except where otherwise indicated.

Exchange rates

In the reporting period, the following exchange rates were used for the major currencies of relevance to the Covestro Group:

Closing Rates for Major Currencies

		Closing rates		
€1/		June 30, 2018	Dec. 31, 2018	June 30, 2019
BRL	Brazil	4.49	4.44	4.35
CNY	China	7.72	7.87	7.82
HKD	Hong Kong	9.15	8.97	8.89
INR	India	79.81	79.73	78.52
JPY	Japan	129.04	125.85	122.60
MXN	Mexico	22.88	22.49	21.82
USD	United States	1.17	1.15	1.14

Average Rates for Major Currencies

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

2. Effects of New Financial Reporting Standards

2.1 Financial Reporting Standards Applied for the First Time in the Reporting Period

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

With the exception of **IFRS 16 (Leases)**, initial application of the standards listed in the table had little or no material impact on the presentation of the net assets, financial position and results of operations.

Initial Application of IFRS 16

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

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

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

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

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

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

Right-of-Use Assets

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

Lease Liabilities

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

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

2.2 Published Financial Reporting Standards that Have Not Yet Been Applied

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

3. Segment and Regional Reporting

The Board of Management of Covestro AG, as the chief operating decision maker of the Covestro Group, allocates resources to the operating segments and assesses their performance. The reportable segments and regions are identified, and the disclosures selected, in line with the internal financial reporting system (management approach). They are based on the Covestro Group's accounting policies, which are outlined in the consolidated financial statements as of December 31, 2018, subject to the effects of the first-time adoption of financial reporting standards in the current fiscal year as described in Note 2.1 "Financial Reporting Standards Applied for the First Time in the Reporting Period" above.

As of June 30, 2019, the Covestro Group comprises three reportable segments with the following activities:

Polyurethanes

The Polyurethanes segment develops, produces and markets high-quality precursors for polyurethanes. These precursors are isocyanates (MDI, TDI) and polyether polyols. Flexible polyurethane foam is used especially in the furniture and automotive industries (e.g., in upholstered furniture, mattresses and car seats). Rigid foam is used mainly in the construction industry as an insulating material as well as along the entire refrigeration chain. The segment operates production facilities worldwide as well as systems houses for formulating and supplying customized polyurethane systems.

Polycarbonates

The Polycarbonates segment develops, produces and markets the high-performance plastic polycarbonate in the form of granules, composite materials and semifinished products (sheets). The material is used primarily in the automotive industry (e.g., in the vehicle interior and for vehicle lighting) and in the construction industry (e.g., for roof structures). It is also used in the electrical and electronics industry (e.g., for connector housings, computer cases and DVDs), the medical technology sector and the lighting industry (e.g., for LED components). The Covestro Group produces polycarbonate all around the world and processes it at compounding centers to meet specific customer requirements.

Coatings, Adhesives, Specialties

The Coatings, Adhesives, Specialties segment develops, produces and markets precursors for coatings, adhesives and sealants as well as specialties – primarily for polyurethane systems. They include polymer materials and aqueous dispersions based on the isocyanates HDI and IPDI, which are produced at facilities located throughout the world. The main areas of application are automotive and transportation, infrastructure and construction, wood processing, and furniture. The specialties comprise elastomers, high-quality films and precursors for the cosmetics, textiles, and health care sectors.

Business activities that cannot be allocated to any of the aforementioned segments are reported under **"All other segments."** The external sales from these activities are generated mainly from by-products of chlorine production and use.

The costs of Corporate Center functions and higher or lower expenses for long-term stock-based compensation arising from fluctuations in the performance of Covestro AG stock are presented in the segment reporting as **"Corporate Center and reconciliation."**

The segment data is calculated as follows:

- EBIT and EBITDA are not defined in the International Financial Reporting Standards. EBIT is equal to income after income taxes plus financial result and income tax. EBITDA is the EBIT as reported in the income statement plus depreciation and impairment losses on property, plant, and equipment and amortization and impairment losses on intangible assets, less impairment loss reversals.

- Working capital comprises inventories plus trade accounts receivable, less trade accounts payable.

The following tables show the segment reporting data for the second quarter and for the first half year (as of June 30), respectively:

Segment Reporting 2nd Quarter

				Other/consolidation		
	Polyurethanes	Polycarbonates	Coatings, Adhesives, Specialties	All other segments	Corporate Center and reconciliation	Covestro Group
	€ million	€ million	€ million	€ million	€ million	€ million
2nd quarter 2019						
Net sales	1,489	898	621	203	–	3,211
EBITDA	172	154	150	(3)	(14)	459
EBIT	72	99	120	(3)	(14)	274
2nd quarter 2018						
Net sales	1,966	1,056	629	212	–	3,863
EBITDA	583	285	139	7	(29)	985
EBIT	492	241	116	6	(29)	826

Segment Reporting 1st Half

				Other/consolidation		
	Polyurethanes	Polycarbonates	Coatings, Adhesives, Specialties	All other segments	Corporate Center and reconciliation	Covestro Group
	€ million	€ million	€ million	€ million	€ million	€ million
1st half 2019						
Net sales	2,965	1,758	1,248	415	–	6,386
EBITDA	329	309	296	(1)	(32)	901
EBIT	129	204	238	(1)	(32)	538
1st half 2018						
Net sales	3,916	2,089	1,221	416	–	7,642
EBITDA	1,220	588	275	14	(49)	2,048
EBIT	1,039	501	229	13	(49)	1,733

Working Capital by Segment

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

Information on geographical areas

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

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

Regional Reporting 2nd Quarter

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

Regional Reporting 1st Half

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

Reconciliation

The following table shows the reconciliation of EBITDA of the segments to income before income taxes of the Group:

Reconciliation of Segments' EBITDA to Group Income Before Income Taxes

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

4. Scope of Consolidation

4.1 Changes in the Scope of Consolidation

As of June 30, 2019, the scope of consolidation comprised Covestro AG and 49 consolidated companies (December 31, 2018: 49 companies). As in the financial statements as of December 31, 2018, one joint operation is accounted for in line with Covestro's share of its assets, liabilities, sales, and expenses in accordance with IFRS 11 (Joint Arrangements). Further, as of June 30, 2019, two associated companies are accounted for in the consolidated financial statements using the equity method according to IAS 28 (Investments in Associates and Joint Ventures).

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

4.2 Acquisitions and Divestitures

Acquisitions

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

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

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

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

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

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

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

Divestitures

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

5. Net Sales

Net sales are categorized according to "geographical regions and key countries," and mainly comprise sales from contracts with customers and an insignificant amount of rental and leasing sales. The table also contains a breakdown of net sales by reportable segments.

Disaggregation of Net Sales

				Other/consolidation		
	Polyurethanes	Polycarbonates	Coatings, Adhesives, Specialties	All other segments	Corporate Center and reconciliation	Covestro Group
	€ million	€ million	€ million	€ million	€ million	€ million
1st half 2019						
EMLA	1,312	595	571	315	–	2,793
of which Germany	253	143	243	192	–	831
NAFTA	855	378	288	89	–	1,610
of which United States	681	306	260	88	–	1,335
APAC	798	785	389	11	–	1,983
of which China	494	522	198	2	–	1,216
1st half 2018						
EMLA	1,731	715	597	313	–	3,356
of which Germany	302	183	262	188	–	935
NAFTA	961	412	259	93	–	1,725
of which United States	755	337	235	91	–	1,418
APAC	1,224	962	365	10	–	2,561
of which China	849	619	191	2	–	1,661

6. Earnings per Share

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

Earnings per Share

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

7. Employees and Pension Obligations

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

Employees by Corporate Function[1]

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

[1] The number of employees on either permanent or temporary contracts is stated in full-time equivalents (FTEs). Part-time employees are included on a pro-rated basis in line with their contractual working hours.

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

Discount Rate for Pension Obligations

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

8. Financial Instruments

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

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

	June 30, 2019					
		Measurement according to IFRS 9				
	Carrying amount	Carried at amortized cost	Fair value through other comprehensive income	Fair value recognized in profit or loss	Measurement according to IFRS 16	Fair value
	€ million	€ million	€ million	€ million	€ million	€ million
Financial assets						
Trade accounts receivable	1,803	1,803				1,803
Other financial assets	48					
Loans	13	13				13
Derivatives that do not qualify for hedge accounting	18			18		18
Receivables under finance lease agreements	8				8	18
Other investments	9		9			9
Other receivables[1]	26	26				26
Cash and cash equivalents	640	640				640
Financial liabilities						
Financial debts	2,254					
Bonds	997	997				1,063
Lease liabilities[2]	821				821	
Liabilities to banks	425	425				425
Derivatives that do not qualify for hedge accounting	11			11		11
Trade accounts payable	1,424	1,424				1,424
Other liabilities[3]	54					
Derivatives that do not qualify for hedge accounting	4			4		4
Miscellaneous other liabilities	50	50				50

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

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

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

[1] The other receivables recognized in the consolidated statement of financial position also include nonfinancial assets totaling €343 million.
[2] Reference information was not restated, see Note 2.1 "Financial Reporting Standards Applied for the First Time in the Reporting Period."
[3] The other liabilities recognized in the consolidated statement of financial position also include nonfinancial liabilities totaling €214 million.

The fair values of financial instruments are determined and reported in accordance with IFRS 13 (Fair Value Measurement) on the basis of the fair value hierarchy described below:

Level 1 covers fair values determined on the basis of unadjusted prices that exist in active markets.

Level 2 comprises fair values determined on the basis of parameters that are observable in an active market.

Level 3 applies to fair values determined using parameters whose input factors are not based on observable market data.

The following table shows the assignment of the financial instruments to the three-level fair value hierarchy:

Fair Value Hierarchy of Financial Instruments

	Fair value Dec. 31, 2018	Level 1	Level 2	Level 3	Fair value June 30, 2019	Level 1	Level 2	Level 3
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Financial assets carried at fair value								
Other investments	7	2		5	9	4		5
Derivatives that do not qualify for hedge accounting	20		12	8	18		10	8
Financial assets not carried at fair value								
Receivables under leasing agreements	16			16	18			18
Financial liabilities carried at fair value								
Derivatives that do not qualify for hedge accounting	16		12	4	15		11	4
Financial liabilities not carried at fair value								
Bonds	1,030	1,030			1,063	1,063		
Lease liabilities[1, 2]	231		231					
Other financial liabilities	24		24		425		425	

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

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

Because of the generally short maturities of cash and cash equivalents, loans, trade accounts receivable and payable, and other receivables and liabilities, their carrying amounts do not significantly differ from the fair values.

The fair value of the bonds issued by Covestro AG is based on quoted, unadjusted prices in active markets and therefore assigned to Level 1 of the fair value hierarchy. The fair value of some of the other investments is also based on quoted prices in active markets (Level 1).

The fair values stated for noncurrent financial assets and liabilities are the present values of the respective future cash inflows or outflows. These are determined by discounting the cash flows at a reporting-date interest rate that takes into account the term of the assets or liabilities and the creditworthiness of the counterparty. For this reason, these values are assigned to Level 2 of the fair value hierarchy.

The fair values of derivatives for which no publicly quoted market prices exist are determined using valuation techniques based on observable market data as of the reporting date (Level 2). Credit value adjustments and debt value adjustments are determined to allow for both the contracting party's credit risk and Covestro's own credit risk. The currency forward contracts are measured individually at their forward rates or forward prices as of the reporting date. These depend on spot rates or prices including time spreads.

Fair values measured using unobservable inputs are categorized within Level 3 of the fair value hierarchy. The fair values of noncurrent leasing receivables, reported for information purposes, are calculated on the basis of interest curves observable in the market. Additionally, a discount for cash flows that are very far in the future was applied as an unobservable factor.

Other financial investments exclusively comprised of equity instruments are recognized at fair value directly in equity because they are held for the long term for strategic reasons. The fair value of some of the other investments is based on quoted prices in active markets (Level 1). Where there are no quoted, unadjusted prices in an active market for identical or similar instruments, and there is no suitable valuation method where all major input factors are based on observable market data, the fair value of the other investments is determined using a valuation method where the main input factors are not based on observable market data (Level 3). The valuation of certain other investments is based on available performance indicators.

Further, the fair values of embedded derivatives are determined on the basis of unobservable input factors (Level 3). They are separated from their respective host contracts, which are purchase agreements relating to the operational business. The embedded derivatives cause the cash flows from the contracts to vary with fluctuations in exchange rates, or regional and industry-specific price indices, for example. The internal measurement of embedded derivatives is mainly performed using the discounted cash flow method, which is based on unobservable inputs. These include prices or price indices derived from market data.

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

9. Legal Risks

As a global enterprise, the Covestro Group is exposed to numerous legal risks, particularly in the areas of product liability, competition and antitrust law, patent disputes, tax law, environmental law, and compliance issues such as corruption and export control. The outcome of any current or future proceedings cannot be predicted. It is therefore possible that legal judgments or regulatory decisions or future settlements could give rise to expenses that are not covered, or not fully covered, by insurers' compensation payments and could significantly affect the earnings of the Covestro Group.

The legal risks that are material to the Covestro Group were described in Note 26 "Legal Risks" to the consolidated financial statements as of December 31, 2018. In the current fiscal year, there have been no new significant developments regarding the legal proceedings described there, and no new material legal proceedings are pending.

10. Related Parties

Related parties as defined in IAS 24 (Related Party Disclosures) are those legal entities and natural persons that are able to exert at least significant influence on Covestro AG and its subsidiaries or over which Covestro AG or its subsidiaries exercise control or have at least significant influence. They include nonconsolidated subsidiaries, joint ventures and associated companies, post-employment benefit plans and corporate officers of Covestro AG.

Receivables from and Liabilities to Related Parties

	Dec. 31, 2018		June 30, 2019	
	Receivables	Liabilities	Receivables	Liabilities
	€ million	€ million	€ million	€ million
Nonconsolidated subsidiaries and associates	4	9	–	5
Associates	11	1	6	–

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

	1st half 2018		1st half 2019	
	Sales of goods and services	Purchases of goods and services	Sales of goods and services	Purchases of goods and services
	€ million	€ million	€ million	€ million
Nonconsolidated subsidiaries and associates	21	24	19	22
Associates	10	328	5	276

The **goods and services provided** by associated companies mainly result from the ongoing operating business with PO JV, LP, Wilmington (United States). Covestro benefits from fixed long-term supply quotas/volumes of propylene oxide (PO) from this company's production.

Receivables from and payables to related parties mainly comprise leasing and financing matters, trade in goods and services, and other transactions.

11. Events after the End of the Reporting Period

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

Leverkusen, July 19, 2019

Covestro AG

The Board of Management

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim reporting, the consolidated interim financial statements give a true and fair view of the net assets, financial position and results of operations of the Covestro Group, and the interim group management report includes a fair review of the development and performance of the business and the position of the Covestro Group, together with a description of the principal opportunities and risks associated with the expected development of the Covestro Group for the remainder of the fiscal year.

Leverkusen, July 19, 2019

Covestro AG

The Board of Management

Review Report

To Covestro AG, Leverkusen

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

We performed our review of the condensed interim consolidated financial statements and the interim group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) and additionally observed the International Standard on Review Engagements "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE 2410). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRSs applicable to interim reporting as adopted by the EU, and that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor's report.

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

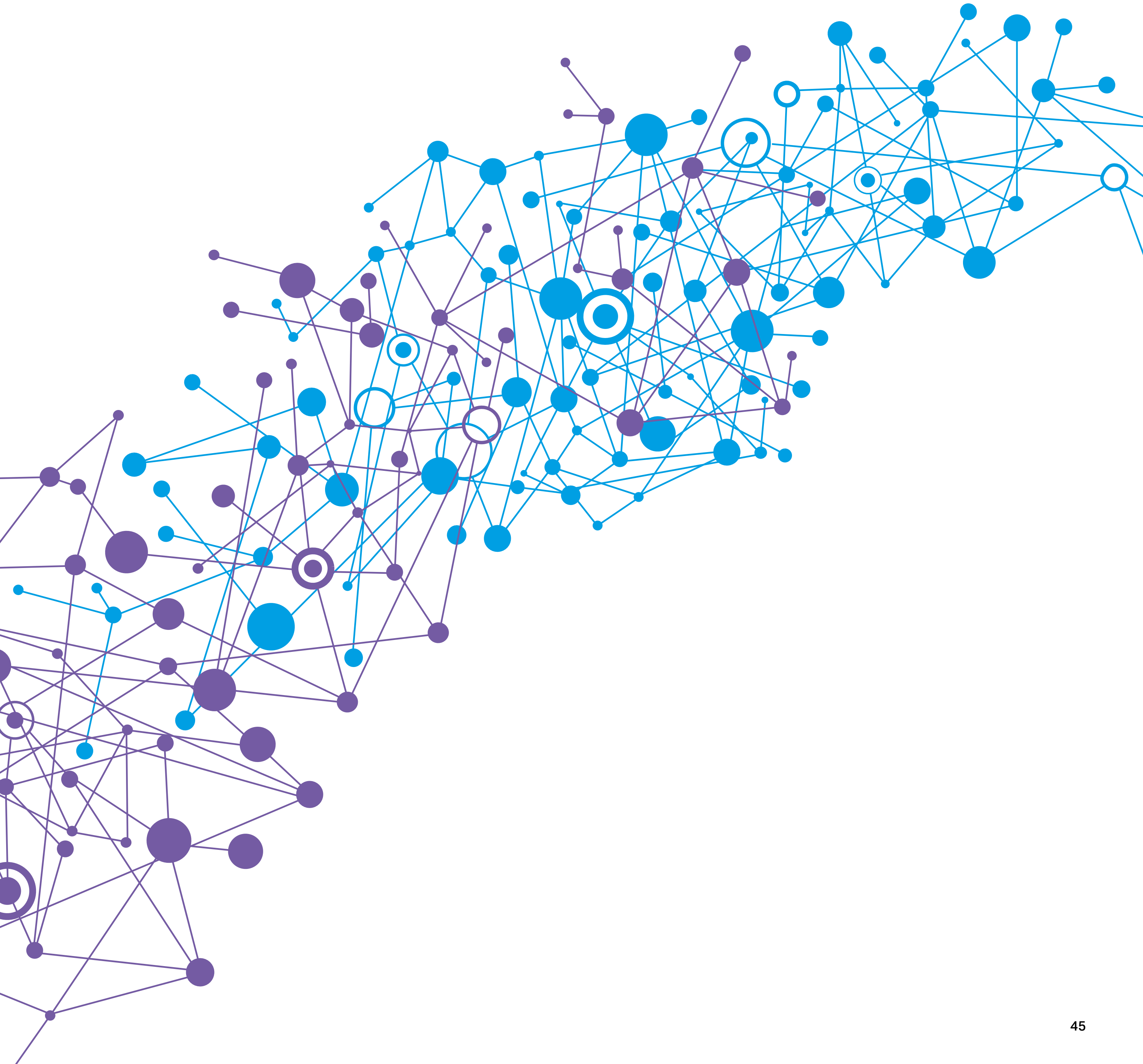
Düsseldorf, July 22, 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Zeimes
[German Public Auditor]

Geier
[German Public Auditor]

Further Information



Segment and Quarterly Overview

Segment Information 2nd Quarter[1]

	Polyurethanes		Polycarbonates		Coatings, Adhesives, Specialties		Others/consolidation		Covestro Group	
	2nd quarter 2018	2nd quarter 2019	2nd quarter 2018	2nd quarter 2019	2nd quarter 2018	2nd quarter 2019	2nd quarter 2018	2nd quarter 2019	2nd quarter 2018	2nd quarter 2019
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales	**1,966**	**1,489**	**1,056**	**898**	**629**	**621**	**212**	**203**	**3,863**	**3,211**
Change in sales										
Volume	+3.3%	+0.8%	+5.6%	+5.7%	+6.3%	–4.5%	+12.7%	–7.2%	+4.9%	+0.8%
Price	+9.2%	–26.8%	+15.2%	–18.8%	+1.7%	–0.4%	+18.6%	+1.6%	+9.9%	–18.7%
Currency	–4.4%	+1.7%	–4.9%	+1.7%	–3.9%	+2.2%	–2.8%	+1.4%	–4.4%	+1.8%
Portfolio	0.0%	0.0%	0.0%	–3.6%	0.0%	+1.4%	0.0%	0.0%	0.0%	–0.8%
Core volume growth[2]	**+3.9%**	**+0.7%**	**+5.3%**	**+4.4%**	**+5.4%**	**–4.7%**			**+4.4%**	**+1.1%**
Sales by region										
EMLA	871	643	353	306	299	277	154	153	1,677	1,379
NAFTA	486	444	209	190	137	144	53	44	885	822
APAC	609	402	494	402	193	200	5	6	1,301	1,010
EBITDA	**583**	**172**	**285**	**154**	**139**	**150**	**(22)**	**(17)**	**985**	**459**
EBIT	**492**	**72**	**241**	**99**	**116**	**120**	**(23)**	**(17)**	**826**	**274**
Depreciation, amortization, impairment losses and impairment loss reversals	**91**	**100**	**44**	**55**	**23**	**30**	**1**	**–**	**159**	**185**
Operating cash flows	**364**	**116**	**155**	**93**	**66**	**38**	**(68)**	**(83)**	**517**	**164**
Cash outflows for additions to property, plant, equipment and intangible assets	**84**	**138**	**44**	**42**	**25**	**40**	**–**	**(1)**	**153**	**219**
Free operating cash flow	**280**	**(22)**	**111**	**51**	**41**	**(2)**	**(68)**	**(82)**	**364**	**(55)**

[1] Reference information was not restated, see Note 2.1 "Financial Reporting Standards Applied for the First Time in the Reporting Period."
[2] Reference values calculated on the basis of the definition of the core business effective March 31, 2019.

Segment Information 1st Half[1]

	Polyurethanes		Polycarbonates		Coatings, Adhesives, Specialties		Others/consolidation		Covestro Group	
	1st half 2018	1st half 2019	1st half 2018	1st half 2019	1st half 2018	1st half 2019	1st half 2018	1st half 2019	1st half 2018	1st half 2019
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales	**3,916**	**2,965**	**2,089**	**1,758**	**1,221**	**1,248**	**416**	**415**	**7,642**	**6,386**
Change in sales										
Volume	+0.3%	+1.9%	+2.8%	+1.5%	+2.0%	–1.7%	+6.4%	–3.7%	+1.6%	+0.9%
Price	+13.2%	–28.1%	+15.8%	–15.8%	+1.3%	+0.6%	+19.6%	+1.9%	+12.1%	–18.5%
Currency	–5.9%	+1.9%	–6.6%	+2.1%	–4.9%	+2.6%	–3.3%	+1.6%	–5.8%	+2.1%
Portfolio	0.0%	0.0%	0.0%	–3.6%	0.0%	+0.7%	0.0%	0.0%	0.0%	–0.9%
Core volume growth[2]	**+1.4%**	**+0.3%**	**+4.0%**	**–1.0%**	**+2.0%**	**–2.4%**			**+2.2%**	**–0.4%**
Sales by region										
EMLA	1,731	1,312	715	595	597	571	313	315	3,356	2,793
NAFTA	961	855	412	378	259	288	93	89	1,725	1,610
APAC	1,224	798	962	785	365	389	10	11	2,561	1,983
EBITDA	**1,220**	**329**	**588**	**309**	**275**	**296**	**(35)**	**(33)**	**2,048**	**901**
EBIT	**1,039**	**129**	**501**	**204**	**229**	**238**	**(36)**	**(33)**	**1,733**	**538**
Depreciation, amortization, impairment losses and impairment loss reversals	**181**	**200**	**87**	**105**	**46**	**58**	**1**	**–**	**315**	**363**
Operating cash flows	**540**	**120**	**234**	**231**	**83**	**50**	**112**	**(117)**	**969**	**284**
Cash outflows for additions to property, plant, equipment and intangible assets	**130**	**240**	**67**	**81**	**44**	**64**	**–**	**(1)**	**241**	**384**
Free operating cash flow	**410**	**(120)**	**167**	**150**	**39**	**(14)**	**112**	**(116)**	**728**	**(100)**

[1] Reference information was not restated, see Note 2.1 "Financial Reporting Standards Applied for the First Time in the Reporting Period."
[2] Reference values calculated on the basis of the definition of the core business effective March 31, 2019.

Quarterly Overview[1]

	1st quarter 2018	2nd quarter 2018	3rd quarter 2018	4th quarter 2018	1st quarter 2019	2nd quarter 2019
	€ million	€ million	€ million	€ million	€ million	€ million
Sales	**3,779**	**3,863**	**3,702**	**3,272**	**3,175**	**3,211**
Polyurethanes	1,950	1,966	1,849	1,597	1,476	1,489
Polycarbonates	1,033	1,056	1,038	924	860	898
Coatings, Adhesives, Specialties	592	629	606	534	627	621
Core volume growth[2]	**0.0%**	**+4.4%**	**+0.2%**	**+1.7%**	**–1.8%**	**+1.1%**
EBITDA	**1,063**	**985**	**859**	**293**	**442**	**459**
Polyurethanes	637	583	432	111	157	172
Polycarbonates	303	285	315	133	155	154
Coatings, Adhesives, Specialties	136	139	126	63	146	150
EBIT	**907**	**826**	**707**	**140**	**264**	**274**
Polyurethanes	547	492	346	27	57	72
Polycarbonates	260	241	272	88	105	99
Coatings, Adhesives, Specialties	113	116	103	39	118	120
Financial result	**(28)**	**(27)**	**(25)**	**(24)**	**(23)**	**(23)**
Income before income taxes	**879**	**799**	**682**	**116**	**241**	**251**
Income after taxes	**646**	**606**	**497**	**80**	**180**	**190**
Net income	**644**	**604**	**496**	**79**	**179**	**189**
Operating cash flows	**452**	**517**	**766**	**641**	**120**	**164**
Cash outflows for additions to property, plant, equipment and intangible assets	**88**	**153**	**188**	**278**	**165**	**219**
Free operating cash flow	**364**	**364**	**578**	**363**	**(45)**	**(55)**

[1] Reference information was not restated, see Note 2.1 “Financial Reporting Standards Applied for the First Time in the Reporting Period.”
[2] Reference values calculated on the basis of the definition of the core business effective March 31, 2019.

Financial Calendar

Q3 2019 Interim Statement	**October 28, 2019**
Annual Report 2019	**February 19, 2020**
Annual General Meeting 2020	**April 17, 2020**
Q1 2020 Interim Statement	**April 29, 2020**

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