

HALF-YEAR FINANCIAL REPORT 2022



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Reporting Profile

Reporting Principles

The Half-Year Financial Report of Covestro AG, Leverkusen (Germany), meets the requirements of the German Securities Trading Act (WpHG) and, in accordance with Section 115 (2) through (4) of the WpHG (half-year financial report; power to issue statutory instruments), comprises Condensed Interim Consolidated Financial Statements, an Interim Group Management Report, and a Responsibility Statement by Management. This report covers the period from January 1 to June 30, 2022. The Interim Consolidated Financial Statements have been prepared in accordance with IAS 34 (Interim Financial Reporting) under the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB) and their Interpretations, as adopted by the European Union (EU) and applicable as of the reporting date. The Half-Year Financial Report should be read alongside the Annual Report for fiscal 2021 and the additional information about the company contained therein, as well as the Interim Statement as of March 31, 2022.

Forward-Looking Statements

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

Alternative Performance Measures

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

Explanations of the definition and calculation of these alternative performance measures can be found in the "Management" section of the Combined Management Report in the 2021 Annual Report

Acronyms and Abbreviations

Acronyms and abbreviations used in this Report are explained in this Report or in the Glossary provided in the Annual Report 2021.

Rounding and Percentage Deviations

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

Inclusive Language

Diversity, equity, and inclusion are important to Covestro. To ensure better readability, we therefore strive to use gender-neutral language and avoid gender-specific terms in this Report. All terms should be taken to apply equally to all genders.

Publication

This Report was published on August 2, 2022. It is available in German and English. The German version is binding.

Covestro Group Key Data

	2nd quarter 2021	2nd quarter 2022	Change	1st half 2021	1st half 2022	Change
	€ million	€ million	%	€ million	€ million	%
Sales	3,956	4,703	18.9	7,263	9,386	29.2
Change in sales						
Volume	29.0%	-2.1%		14.6%	0.5%	
Price	45.9%	14.5%		31.4%	18.3%	
Currency	-5.4%	6.5%		-5.0%	6.1%	
Portfolio	14.0%	0.0%		6.1%	4.3%	
EBITDA¹	817	547	-33.0	1,560	1,353	-13.3
Changes in EBITDA						
Volume	245.6%	-5.8%		90.8%	-0.5%	
Price	791.2%	70.3%		409.5%	85.3%	
Raw material price	-320.8%	-96.5%		-106.6%	-103.1%	
Currency	-16.0%	4.9%		-11.3%	5.8%	
Other ²	-146.4%	-5.9%		-70.7%	-0.8%	
EBIT ³	607	307	-49.4	1,163	896	-23.0
Financial result	(18)	(44)	144.4	(47)	(72)	53.2
Net income⁴	449	199	-55.7	842	615	-27.0
Earnings per share (€) ⁵	2.32	1.04	-55.2	4.36	3.20	-26.6
Cash flows from operating activities ⁶	553	(272)	.	981	(115)	.
Cash outflows for additions to property, plant, equipment and intangible assets	179	190	6.1	289	330	14.2
Free operating cash flow⁷	374	(462)	.	692	(445)	.

¹ Earnings before interest, taxes, depreciation and amortization (EBITDA): EBIT plus depreciation, amortization, and impairment losses; less impairment loss reversals on intangible assets and property, plant and equipment.

² Other changes in EBITDA such as changes in provisions for variable compensation.

³ Earnings before interest and taxes (EBIT): income after income taxes plus financial result and income taxes.

⁴ Net income: income after income taxes attributable to the shareholders of Covestro AG.

⁵ Earnings per share: according to IAS 33 (Earnings per Share), net income divided by the weighted average number of outstanding no-par value voting shares of Covestro AG. The calculation was based on 191,070,836 no-par shares for the second quarter of 2022 (previous year: 193,160,544 no-par shares) and on 192,101,348 no-par shares for the first half of 2022 (previous year: 193,160,544 no-par shares).

⁶ Cash flows from operating activities according to IAS 7 (Statement of Cash Flows).

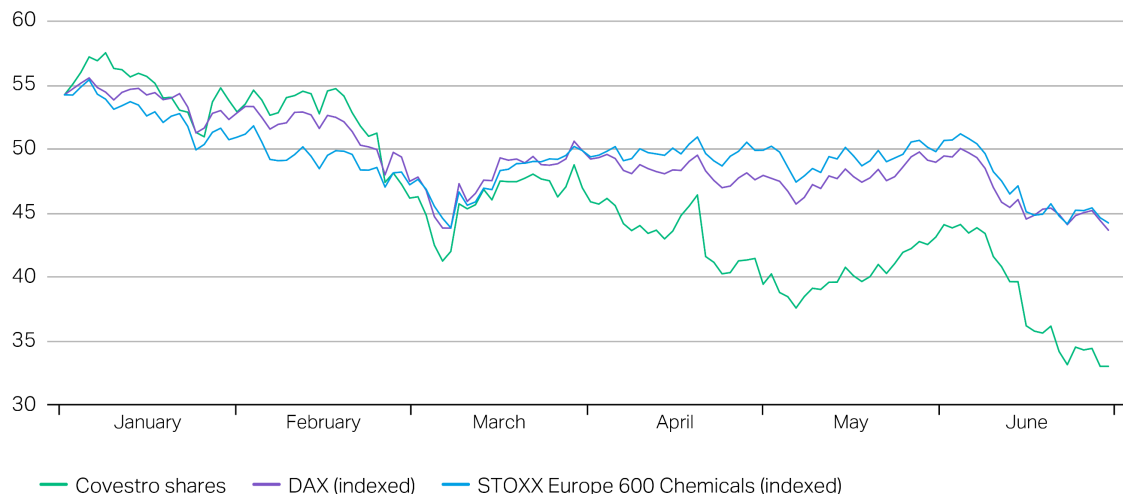
⁷ Free operating cash flow (FOCF): cash flows from operating activities less cash outflows for additions to property, plant, equipment and intangible assets.

COVESTRO ON THE CAPITAL MARKET

Covestro on the Capital Market

Performance of Covestro shares versus market in the first half of 2022

€ (Covestro shares)



Xetra closing prices for Covestro; source: Deutsche Börse

Stock Market Performance Impacted by Effects of Russian War against Ukraine and the Continuing Coronavirus Pandemic

Both on the stock exchanges and in the global economy, the first half of the year 2022 continued to be affected by the global coronavirus pandemic and the Russian war against Ukraine, which started in February 2022. China's zero-COVID strategy and the resulting restrictions in many economic hubs in China, in particular the lockdown in the Shanghai region, had a serious negative impact on local production and global supply chains. The significant increases in energy prices caused by the war in Ukraine weighed heavily on many branches of industry and, together with the worsening outlook for the global economy, led to negative share price performance on the stock exchanges. The discussions around gas supply security and potential gas rationing hit the share price performance of energy-intensive industries such as the chemical industry particularly hard. As of June 30, 2022, the German DAX benchmark index, which is relevant for Covestro, was down 19.5% compared with the end of the year 2021.

European chemical stocks tracked this development. As of June 30, 2022, the STOXX Europe 600 Chemicals index was 18.5% lower than at the beginning of the year. At a Xetra closing price of €32.98, Covestro's share price was also down at the end of the first half of 2022, losing 39.2% compared with December 31, 2021. Covestro's share price marked its low for the period toward the end of the second quarter, on June 29, 2022, closing at €32.98. After a brief boom at the beginning of January, the share price reached its high of €57.48 on January 7, 2022. Since April 2022, Covestro share prices have primarily trended downward, with brief phases of recovery.

Including the 2021 fiscal year dividend of €3.40 per share, which was resolved by the Annual General Meeting on April 21, 2022, Covestro's share performance (with dividend reinvestment) for fiscal 2021 was -34.2% compared with the 2021 year-end closing price of €54.20.

At the end of the first half of 2022, Covestro's market capitalization stood at around €6.3 billion based on 189.7 million shares outstanding. The average daily Xetra trading volume was around 1.3 million shares.

Virtual Annual General Meeting Held on April 21, 2022

Covestro AG's 2022 Annual General Meeting (AGM) was held on April 21, 2022. Due to the ongoing coronavirus pandemic, Covestro once again has decided early on to hold a virtual AGM as in the previous year to avoid exposing those present to additional health risks.

The AGM approved the dividend of €3.40 per share for the fiscal year 2021 proposed by the Board of Management and Supervisory Board. That means Covestro's payout ratio was 40% of consolidated net income.

Furthermore, Dr. Sven Schneider was elected by the AGM as a new member of the Supervisory Board. He succeeds Prof. Dr. Rolf Nonnenmacher, who resigned effective at the end of the 2022 AGM. Dr. Schneider is the CFO of Infineon Technologies AG. He brings with him extensive professional knowledge, and experience as a CFO and was elected as Chairman of the Audit Committee.

Share Buyback Program

Based on the resolution adopted at the 2019 AGM, Covestro AG's Board of Management on February 28, 2022 resolved a share buyback program totaling around €500 million (excluding transaction costs). The share buyback program is to be completed within two years. All repurchased shares are subsequently expected to be retired and the capital stock reduced accordingly. By the end of the first half of 2022, 3,479,956 million shares worth €150 million had already been bought back in two tranches at an average price of €43.0785 per share.

Moody's Confirms Covestro Rating and Outlook

On May 10, 2022, Moody's Investors Service, London (United Kingdom), confirmed Covestro's Baa2 investment-grade rating with a stable outlook. Covestro intends to continue to maintain financing structures and financial ratios that support a solid investment-grade rating in the future.

12 Analysts Issue Buy Recommendation for Covestro Shares

At the end of the first six months of 2022, Covestro was covered by 21 securities brokers. Of these, 12 analysts issued buy recommendations, eight were neutral, and one advised investors to sell. The average share price target was approximately €55 at the reporting date.

Basic Covestro share information

Capital stock	€193,200,000
Outstanding shares (Half-year-end)	189,720,044
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

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REPORT ON ECONOMIC POSITION

Significant Events

War in Ukraine

The Russian war against Ukraine, which began in February 2022, has had a notable impact on the global economy. The global consequences for the energy and raw material markets and on supply chains also influenced Covestro's business situation. In the first half of 2022, production at Covestro was not affected by the reductions in gas supplies from Russia implemented to date. However, there is uncertainty about future supplies, in particular since further significant cuts in, or a suspension of, gas supplies from Russia could have considerable consequences for Covestro's European sites, especially in Germany. There is no short-term substitute for gas in Covestro's production processes, where it is predominantly used as a source of energy and as process gas in chemical reactions. As in the previous year, less than 1% of Group sales are generated in the countries affected by the war, Russia, Belarus, and Ukraine, combined. The existing trade accounts receivable from customers in these countries were evaluated and impaired, if needed. Covestro does not operate any production sites in any of the three countries. The sanctions imposed on Russia and Belarus by the international community therefore only minimally affect Covestro's business.

See "Opportunities and Risks."

In March 2022, Covestro reacted to the humanitarian crisis in Ukraine and its neighboring countries by donating aid for this purpose. We have made available €250,000 to UNO-Flüchtlingshilfe, the German partner organization to the United Nations High Commissioner for Refugees (UNHCR). Covestro has also provided its companies in Slovakia and Poland an additional €40,000 for local aid organizations.

Coronavirus Pandemic

Strict measures to curb the spread of the coronavirus pandemic, most of which were imposed by the Chinese government, impacted on the global economy in the first half of 2022. Production at Covestro's sites continued to be unaffected by the pandemic, although logistical bottlenecks emerged at the Shanghai (China) site in the course of the first half of 2022. This also had significant effects on business performance in the APAC region. The health, safety, and hygiene measures implemented by Covestro are regularly reviewed and modified to address current conditions. Employees in the EMLA and NA regions were gradually returning to the workplace. Especially in China, part of the workforce, particularly employees in administrative departments, worked from home due to the restrictions described earlier.

CEO Dr. Markus Steilemann's Contract Extended

The Supervisory Board has prematurely extended, to May 31, 2028, the contract with Dr. Markus Steilemann, which was due to expire in May 2023. This means that he will remain the CEO of Covestro AG for another five years. Dr. Steilemann has been a member of Covestro's Board of Management since September 2015 and its Chair since June 2018. In his function as CEO, he is responsible for the Strategy, Sustainability & Public Affairs, Group Innovation, Corporate Audit, Human Resources, and Communications corporate functions.

Share Buyback Program

On February 28, 2022, Covestro AG's Board of Management resolved to initiate a share buyback program. The total volume of the program is approximately €500 million (excluding transaction costs), and it is expected to be completed within two years. All repurchased shares are subsequently expected to be retired and the capital stock reduced accordingly. Share buybacks began in March 2022. By the end of the first half of 2022, Covestro AG had acquired 3,479,956 shares valued at €150 million in two tranches.

Additional information is available at: www.covestro.com/en/investors/share-performance/share-buyback

Climate Neutrality by the Year 2035

In the course of Covestro's efforts to make plastics production fully circular, on March 1, 2022, the company communicated new climate targets to reduce its direct GHG emissions from its own production activities (Scope 1) and indirect GHG emissions from external energy sources (Scope 2). The Group is striving to become climate-neutral and to reach net-zero greenhouse gas (GHG) emissions* by the year 2035. The company plans to reduce Scope 1 and Scope 2 GHG emissions by 60% to 2.2 million metric tons of CO₂ equivalents by the year 2030. In the long term, Covestro's goal is to use up to 100% renewable energy such as wind and solar power as well as alternative raw materials such as biomass, waste, CO₂, and hydrogen in its production processes. In addition, a target for the long-term reduction of indirect GHG emissions from upstream and downstream processes in the value chain (Scope 3) is to be defined in the year 2023.

Extension of the Revolving Credit Facility and Establishment of the Green Financing Framework

In March 2022, the second of two agreed options was exercised to extend the term of the five-year, €2.5 billion syndicated revolving credit facility obtained in fiscal 2020 by another year until March 2027. This facility provides a back-up cash reserve and is linked to an environmental, social, and governance (ESG) rating. In May 2022, Covestro published a Green Financing Framework, which supports Covestro's strategic goals and allows it to finance green projects with green financing instruments (such as bonds or other debt instruments).

See "Financial Management" in the Annual Report 2021 and further information at: www.covestro.com/en/investors/debt/green-financing-framework

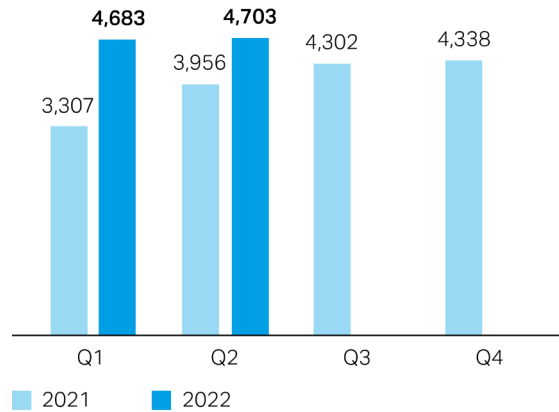
* Achievement of net zero greenhouse gas emissions is defined as a balance between anthropogenic emissions (those caused by the company's own production activities and by external energy sources) and anthropogenic reduction of greenhouse gases.

Results of Operations, Financial Position, and Net Assets of the Covestro Group

Results of Operations

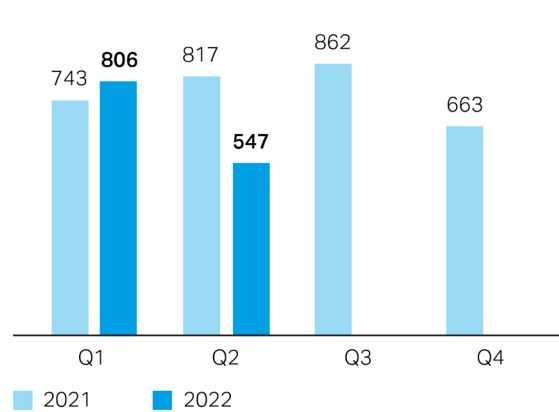
Covestro Group Quarterly Sales

€ million



Covestro Group Quarterly EBITDA

€ million



Second Quarter of 2022

In the second quarter of 2022, Group sales grew by 18.9% to €4,703 million (previous year: €3,956 million). This was mainly due to a considerably higher selling price level, which had a positive impact on sales amounting to 14.5%. In addition, exchange rate movements caused sales to rise by 6.5%. In contrast, a decline in volumes sold resulted in a 2.1% decline in sales.

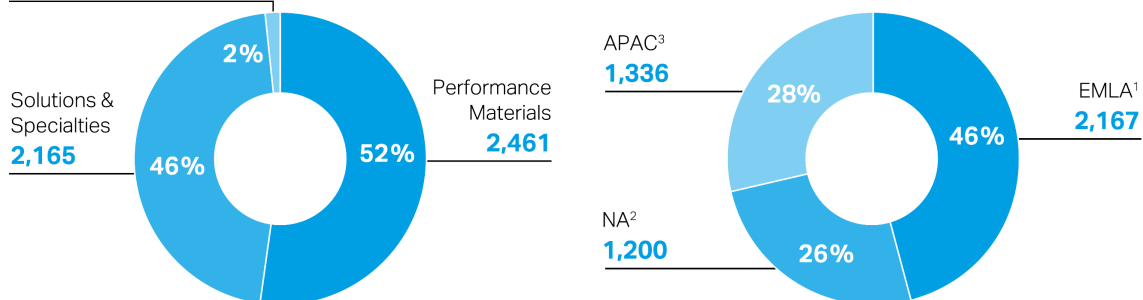
The sales increase in the second quarter of 2022 was driven by both segments. Sales in the Performance Materials segment grew by 25.8% to €2,461 million (previous year: €1,957 million), while sales in the Solutions & Specialties segment were up 11.0% to €2,165 million (previous year: €1,951 million).

In the EMLA region, sales were 22.8% higher, at €2,167 million (previous year: €1,765 million), while sales in the NA region increased 42.2% to €1,200 million (previous year: €844 million). Logistical bottlenecks in China limited the growth potential in the APAC region, leading to a decline in sales of 0.8% to €1,336 million (previous year: €1,347 million).

Sales by segment and region in the second quarter of 2022

€ million

Others/Consolidation

77

¹ EMLA: Europe, Middle East, Latin America (excluding Mexico), Africa region.

² NA: North America region (Canada, Mexico, United States).

³ APAC: Asia and Pacific region.

In the second quarter of 2022, the Group's EBITDA decreased by 33.0% to €547 million (previous year: €817 million). This was largely driven by a rise in raw material and energy prices, partially offset by a higher selling price level. The resulting decline in margins affected primarily the Performance Materials segment. The drop in volumes sold also had a negative effect on earnings. In contrast, lower provisions for short-term variable compensation and exchange rate movements both boosted earnings.

EBITDA decreased to €367 million (previous year: €644 million) in the Performance Materials segment and to €213 million (previous year: €237 million) in the Solutions & Specialties segment.

Depreciation, amortization, impairment losses, and impairment loss reversals rose by 14.3% to €240 million in the second quarter of 2022 (previous year: €210 million), of which €205 million (previous year: €190 million) was attributable to property, plant and equipment and €35 million (previous year: €20 million) to intangible assets.

In the second quarter of 2022, the Covestro Group's EBIT dropped by 49.4% to €307 million (previous year: €607 million).

Taking into account a financial result of €-44 million (previous year: €-18 million), income before income taxes fell to €263 million compared with the prior-year quarter (previous year: €589 million). The tax expense in the second quarter of 2022 amounted to €65 million (previous year: €139 million). This resulted in income after taxes of €198 million (previous year: €450 million). After noncontrolling interests, net income amounted to €199 million (previous year: €449 million). Compared to the prior-year quarter, earnings per share fell to €1.04 (previous year: €2.32).

First Half of 2022

Group sales in the first half of 2022 rose by 29.2% to €9,386 million (previous year: €7,263 million), mainly due to a higher selling price level, which boosted sales growth by 18.3%. Moreover, changes in exchange rates had a positive effect of 6.1% on sales. The portfolio change arising from the acquisition of the Resins & Functional Materials (RFM) business from Koninklijke DSM N.V., Heerlen (Netherlands), in the second quarter of 2021 had the effect of increasing sales by 4.3%. The change in volumes sold had a positive effect of 0.5% on sales.

Both segments saw sales go up in the first half of 2022, with sales up 31.2% to €4,849 million (previous year: €3,697 million) in the Performance Materials segment and up 26.1% to €4,387 million (previous year: €3,480 million) in the Solutions & Specialties segment.

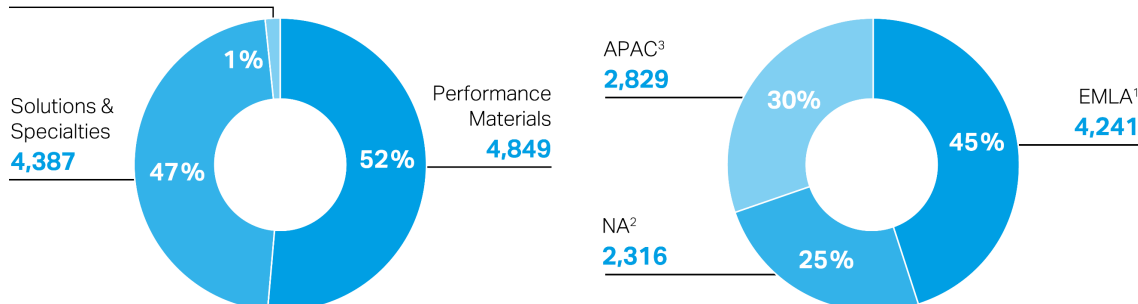
In the EMLA region, sales were 29.8% higher, at €4,241 million (previous year: €3,267 million), while sales in the NA region increased 55.1% to €2,316 million (previous year: €1,493 million). Sales in the APAC region rose by 13.0% to €2,829 million (previous year: €2,503 million).

Sales by segment and region in the first half of 2022

€ million

Others/Consolidation

150



¹ EMLA: Europe, Middle East, Latin America (excluding Mexico), Africa region.

² NA: North America region (Canada, Mexico, United States).

³ APAC: Asia and Pacific region.

The Group's EBITDA contracted by 13.3% to €1,353 million in the first half of 2022 compared with the prior-year period (previous year: €1,560 million). This was mainly driven by a rise in raw material and energy prices, which were partially offset by the higher selling price level and led to lower margins. In contrast, lower provisions for short-term variable compensation and exchange rate movements both had the effect of increasing earnings. The change in volumes sold did not have any notable effect on earnings.

Depreciation, amortization, impairment losses, and impairment loss reversals rose by 15.1% to €457 million in the first half of 2022 (previous year: €397 million), of which €402 million (previous year: €370 million) was attributable to property, plant and equipment and €55 million (previous year: €27 million) to intangible assets.

The Covestro Group's EBIT was down 23.0% to €896 million in the first half of 2022 (previous year: €1,163 million).

Taking into account a financial result of €-72 million (previous year: €-47 million), income before income taxes declined to €824 million compared with the prior-year period (previous year: €1,116 million). After deduction of the tax expense of €209 million for the first half of 2022 (previous year: €271 million), income after taxes totaled €615 million (previous year: €845 million). After noncontrolling interests, net income amounted to €615 million (previous year: €842 million). In the first half of 2022, earnings per share decreased to €3.20 (previous year: €4.36).

Financial Position

Covestro Group summary statement of cash flows

	2nd quarter 2021	2nd quarter 2022	1st half 2021	1st half 2022
	€ million	€ million	€ million	€ million
EBITDA	817	547	1,560	1,353
Income taxes paid	(126)	(262)	(176)	(360)
Change in pension provisions	12	10	21	12
(Gains)/losses on retirements of noncurrent assets	(8)	–	(8)	–
Change in working capital/other noncash items	(142)	(567)	(416)	(1,120)
Cash flows from operating activities	553	(272)	981	(115)
Cash outflows for additions to property, plant, equipment and intangible assets	(179)	(190)	(289)	(330)
Free operating cash flow	374	(462)	692	(445)
Cash flows from investing activities	(1,472)	233	(1,145)	154
Cash flows from financing activities	(341)	(276)	(395)	(381)
Change in cash and cash equivalents due to business activities	(1,260)	(315)	(559)	(342)
Cash and cash equivalents at beginning of period	2,106	623	1,404	649
Change in cash and cash equivalents due to exchange rate movements	10	7	11	8
Cash and cash equivalents at end of period	856	315	856	315

Cash Flows from Operating Activities/Free Operating Cash Flow

In the second quarter of 2022, net cash outflows from the Covestro Group's operating activities amounted to €272 million (previous year: net cash inflows of €553 million). The key drivers of this development were higher funds tied up in working capital, due especially to the payment of short-term variable compensation for fiscal 2021 in April 2022, as well as a decline in EBITDA and a rise in income tax payments. After deduction of cash outflows of €190 million for additions to property, plant, equipment and intangible assets (previous year: €179 million), free operating cash flow totaled €–462 million (previous year: €374 million).

Cash flows from operating activities in the first half of 2022 accounted for net outflows of €115 million (previous year: cash inflows of €981 million). This was mainly due to an increase in funds tied up in working capital, lower EBITDA, and higher income tax payments. After deduction of cash outflows of €330 million for additions to property, plant, equipment and intangible assets (previous year: €289 million), free operating cash flow totaled €–445 million (previous year: €692 million).

Cash Flows from Investing Activities

In the second quarter of 2022, net cash provided by investing activities totaled €233 million (previous year: cash outflow of €1,472 million), mainly as a result of net proceeds of short-term bank deposits maturing, amounting to €420 million. This was set against cash outflows of €190 million for additions to property, plant, equipment and intangible assets (previous year: €179 million). The cash outflows in the prior-year period arose primarily from the net purchase price payments of €1,469 million for the acquisition of the RFM business.

In the first half of 2022, the net cash inflow from investing activities totaled €154 million (previous year: cash outflow of €1,145 million). This was attributable to net proceeds of short-term bank deposits maturing in an amount of €374 million, and cash inflows of €65 million from the net sale of money market fund units. Cash outflows of €330 million for additions to property, plant, equipment and intangible assets (previous year: €289 million) had an offsetting effect. Here, the cash outflows in the prior-year period were also mainly attributable to the net purchase price payments for the acquisition of the RFM business.

Cash Flows from Financing Activities

In the second quarter of 2022, the Covestro Group's net cash outflow for financing activities totaled €276 million (previous year: €341 million), mainly due to dividend payments of €653 million. Of this amount, €651 million was attributable to Covestro AG shareholders. In addition, the share buyback program in the second quarter of 2022 led to cash outflows of €102 million. This was set against the proceeds of borrowing amounting to €565 million.

See "Share Buyback Program."

In the first half of 2022, financing activities gave rise to a cash outflow of €381 million (previous year: €395 million). This was driven to a significant extent by the above-mentioned dividend payments of €653 million and the share buyback program, which accounted for €150 million. This was set against the proceeds of borrowing, which brought cash inflows of €579 million.

Net financial debt

	Dec. 31, 2021	June 30, 2022
	€ million	€ million
Bonds	1,492	1,493
Liabilities to banks	275	840
Lease liabilities	761	772
Liabilities from derivatives	11	53
Other financial liabilities	2	1
Receivables from derivatives	(34)	(46)
Financial debt	2,507	3,113
Cash and cash equivalents	(649)	(315)
Current financial assets	(453)	(14)
Net financial debt	1,405	2,784

Financial debt amounted to €3,113 million on June 30, 2022, an increase of €606 million compared with December 31, 2021, due in particular to the €565 million increase in liabilities to banks.

Cash and cash equivalents decreased in comparison with the figure on December 31, 2021, by €334 million to €315 million. This was mainly attributable to dividend payments of €653 million and cash outflows of €330 million for additions to property, plant, equipment and intangible assets. Cash and cash equivalents also decreased because of the purchase of treasury shares worth €150 million in connection with the share buyback program and because of cash outflows of €115 million for operating activities. In contrast, cash inflows from an increase in liabilities to banks, net proceeds of short-term bank deposits maturing (€374 million), and the net sale of money market fund units (€65 million) increased cash and cash equivalents. Net proceeds of short-term bank deposits maturing and the net sale of money market fund units led to a decrease in current financial assets, which were down €439 million to €14 million.

In comparison with December 31, 2021, the Covestro Group's net financial debt increased by €1,379 million to €2,784 million as of June 30, 2022.

Net Assets

Covestro Group summary statement of financial position

	Dec. 31, 2021	June 30, 2022
	€ million	€ million
Noncurrent assets	8,610	8,693
Current assets	6,961	7,429
Total assets	15,571	16,122
Equity	7,762	8,494
Noncurrent liabilities	4,203	3,488
Current liabilities	3,606	4,140
Liabilities	7,809	7,628
Total equity and liabilities	15,571	16,122

Total assets were up €551 million as compared with December 31, 2021, to €16,122 million as of June 30, 2022.

Noncurrent assets increased by €83 million to €8,693 million (December 31, 2021: €8,610 million). Current assets were up €468 million to €7,429 million (December 31, 2021: €6,961 million). This change can be attributed to a rise in inventories and trade accounts receivable as a result of higher raw material and selling prices. The main factors with an offsetting effect were the decrease in current financial assets and in cash and cash equivalents.

Equity grew to €8,494 million, increasing by €732 million as compared with December 31, 2021. The increase in equity is primarily due to actuarial gains on the remeasurement of pension obligations, income after income taxes for the first half of 2022, and positive foreign exchange differences. The dividend distribution for fiscal 2021 had the opposite effect.

Noncurrent liabilities were down €715 million to €3,488 million as of June 30, 2022 (December 31, 2021: €4,203 million). This stemmed principally from the decline in provisions for pensions and other post-employment benefits, which dropped by €726 million to €473 million (December 31, 2021: €1,199 million).

Net defined benefit liability for post-employment benefits

	Dec. 31, 2021	June 30, 2022
	€ million	€ million
Provisions for pensions and other post-employment benefits	1,199	473
Net defined benefit asset	(4)	(164)
Net defined benefit liability for post-employment benefits	1,195	309

The net defined benefit liability for post-employment benefits (pension obligations less plan assets) was down by €886 million in the reporting year to €309 million (previous year: €1,195 million). This was due to the increase in the discount rate in Germany and the United States.

Current liabilities were also up €534 million to €4,140 million as of the reporting date (December 31, 2021: €3,606 million). The main factors driving this development were the rise in current financial liabilities and in trade accounts payable; this contrasts with a reduction in other provisions as compared with December 31, 2021.

Performance of the Segments

Performance Materials

Performance Materials key data¹

	2nd quarter 2021	2nd quarter 2022	Change	1st half 2021	1st half 2022	Change
	€ million	€ million	%	€ million	€ million	%
Sales (external)	1,957	2,461	25.8	3,697	4,849	31.2
Intersegment sales	468	524	12.0	951	1,181	24.2
Sales (total)	2,425	2,985	23.1	4,648	6,030	29.7
Change in sales (external)						
Volume	19.5%	1.6%		7.1%	3.5%	
Price	71.2%	17.5%		49.5%	21.7%	
Currency	-5.2%	6.7%		-5.0%	6.0%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
Sales by region (external)						
EMLA	955	1,255	31.4	1,845	2,397	29.9
NA	445	625	40.4	779	1,229	57.8
APAC	557	581	4.3	1,073	1,223	14.0
EBITDA²	644	367	-43.0	1,274	987	-22.5
EBIT ²	502	204	-59.4	991	679	-31.5
Cash flows from operating activities	498	95	-80.9	835	301	-64.0
Cash outflows for additions to property, plant, equipment and intangible assets	125	132	5.6	203	226	11.3
Free operating cash flow	373	(37)	.	632	75	-88.1

¹ Reference information calculated based on the organizational and reporting structure as of July 1, 2021.

² EBITDA and EBIT include the effect on earnings of intersegment sales.

Second Quarter of 2022

The Performance Materials segment's sales increased compared with the prior-year quarter, rising 25.8% to €2,461 million (previous year: €1,957 million). This was mainly driven by a higher selling price level, which helped raise sales by 17.5%. At the same time, exchange rate movements and an increase in total volumes sold each had a positive impact, increasing sales by 6.7% and 1.6% respectively. The logistical bottlenecks in China in the second quarter of 2022 limited the segment's further growth, particularly in the APAC region.

In the EMLA region, sales were up 31.4% to €1,255 million (previous year: €955 million). Higher average selling prices increased sales substantially. At the same time, an increase in total volumes sold as well as exchange rate movements each had a slightly positive impact on sales. In the NA region, sales expanded by 40.4% to €625 million (previous year: €445 million), driven primarily by a higher selling price level, which led to a sharp increase in sales. Exchange rate movements drove sales up significantly and the increase in volumes sold led sales slightly higher. Sales in the APAC region were up 4.3% to €581 million (previous year: €557 million). Exchange rate movements contributed considerably to higher sales, while an increase in average selling prices had a slightly positive effect on sales. However, the change in volumes sold reduced sales significantly.

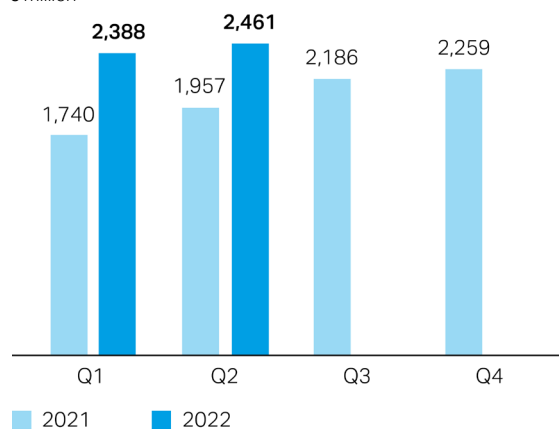
In the second quarter of 2022, the Performance Materials segment's EBITDA was down 43.0% on the prior-year quarter, declining to €367 million (previous year: €644 million). This was attributable in particular to lower margins, as higher selling prices were outweighed by the rise in raw material and energy prices. In contrast, earnings were boosted by lower provisions for short-term variable compensation and exchange rate movements. The trend in volumes sold had no notable effect on earnings.

EBIT declined 59.4% to €204 million (previous year: €502 million).

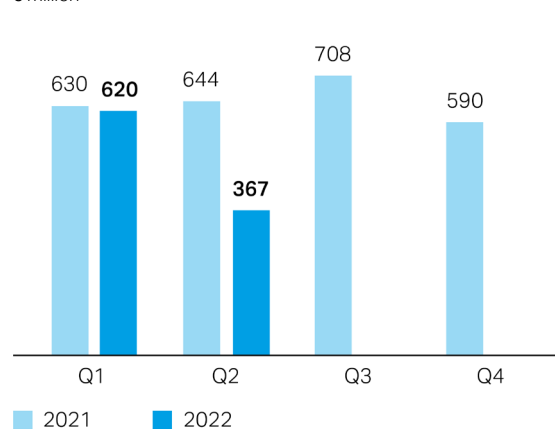
Free operating cash flow declined to €-37 million (previous year: €373 million). This is predominantly due to the decline in EBITDA and an increase in funds tied up in working capital.

Performance Materials**Quarterly Sales**

€ million

**Performance Materials****Quarterly EBITDA**

€ million

**First Half of 2022**

Segment sales in the first half of 2022 rose by 31.2% to €4,849 million (previous year: €3,697 million), mainly driven by a rise in average selling prices, which helped raise sales by 21.7%. Exchange rate movements and an increase in volumes sold each had a positive impact, increasing sales by 6.0% and 3.5% respectively.

EBITDA was down 22.5% to €987 million in the first half of 2022 (previous year: €1,274 million). This was mainly attributable to a decline in margins, with higher selling prices partially offsetting increased raw material and energy prices. In contrast, lower provisions for short-term variable compensation, exchange rate movements, and an increase in volumes sold had a positive effect on earnings.

EBIT declined 31.5% to €679 million (previous year: €991 million).

Free operating cash flow decreased 88.1% to €75 million (previous year: €632 million), driven mainly by lower EBITDA and higher funds tied up in working capital.

Solutions & Specialties

Solutions & Specialties key data¹

	2nd quarter 2021	2nd quarter 2022	Change	1st half 2021	1st half 2022	Change
	€ million	€ million	%	€ million	€ million	%
Sales (external)	1,951	2,165	11.0	3,480	4,387	26.1
Intersegment sales	6	8	33.3	11	17	54.5
Sales (total)	1,957	2,173	11.0	3,491	4,404	26.2
Change in sales (external)						
Volume	39.1%	-7.3%		23.3%	-4.4%	
Price	22.4%	11.8%		14.4%	15.2%	
Currency	-5.8%	6.5%		-5.3%	6.3%	
Portfolio	28.4%	0.0%		12.5%	9.0%	
Sales by region (external)						
EMLA	772	851	10.2	1,355	1,724	27.2
NA	392	563	43.6	700	1,064	52.0
APAC	787	751	-4.6	1,425	1,599	12.2
EBITDA²	237	213	-10.1	418	437	4.5
EBIT ²	170	139	-18.2	308	291	-5.5
Cash flows from operating activities	82	(83)	.	125	(184)	.
Cash outflows for additions to property, plant, equipment and intangible assets	53	56	5.7	85	101	18.8
Free operating cash flow	29	(139)	.	40	(285)	.

¹ Reference information calculated based on the organizational and reporting structure as of July 1, 2021.

² EBITDA and EBIT include the effect on earnings of intersegment sales.

Second Quarter of 2022

Sales in the Solutions & Specialties segment were up 11.0% to €2,165 million in the second quarter of 2022 (previous year: €1,951 million). A rise in the selling price level and exchange rate movements, impacted positively on sales, increasing them by 11.8% and 6.5% respectively. This was offset by a decline in volumes sold, which had the effect of decreasing sales by 7.3%. The drivers of this development include, e.g., the lockdown in Shanghai (China) in the second quarter of 2022 and the Russian war against Ukraine, which led, among other things, to logistical bottlenecks, especially in the EMLA and APAC regions.

In the EMLA region, sales were up 10.2% to €851 million (previous year: €772 million). A rise in the selling price level increased sales significantly. A decline in volumes sold, in contrast, resulted in a considerable decrease in sales. On aggregate, exchange rate changes did not have any notable effect on sales. Sales in the NA region were up 43.6% to €563 million (previous year: €392 million). Changes in exchange rates, higher average selling prices, and growth in the volumes sold each had the effect of driving up sales considerably. In the APAC region, sales were down 4.6% to €751 million (previous year: €787 million). The key driver here was a decline in volumes sold, which led to significantly lower sales. In contrast, exchange rate movements contributed considerably to higher sales, while a higher selling price level had a slightly positive impact on sales.

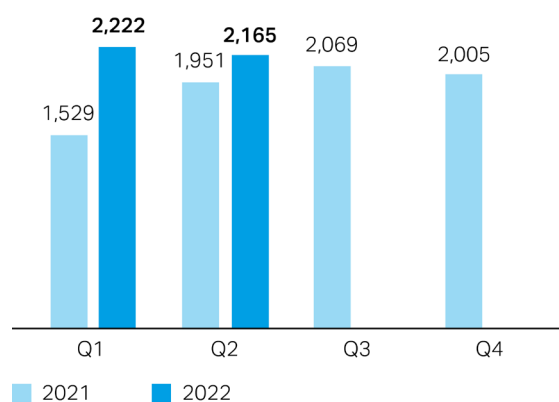
In the second quarter of 2022, the Solutions & Specialties segment's EBITDA was down 10.1% on the prior-year quarter, declining to €213 million (previous year: €237 million). This was mainly caused by a decline in volumes sold and lower margins, with higher selling prices partially offsetting increased raw material and energy prices. However, lower provisions for short-term variable compensation and exchange rate movements both had a positive impact on earnings.

EBIT fell 18.2% to €139 million (previous year: €170 million).

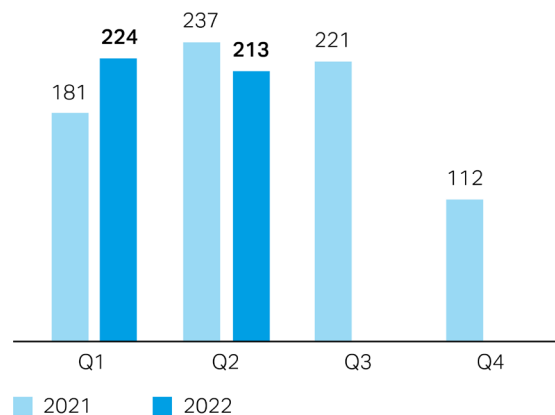
Free operating cash flow was down, amounting to €-139 million (previous year: €29 million), largely due to higher funds tied up in working capital.

Solutions & Specialties**Quarterly Sales**

€ million

**Solutions & Specialties****Quarterly EBITDA**

€ million

**First Half of 2022**

In the first half of 2022, sales in the Solutions & Specialties segment rose by 26.1% to €4,387 million (previous year: €3,480 million). A rise in average selling prices had a positive effect, increasing sales by 15.2%. The portfolio effect arising from the acquisition of the Resins & Functional Materials (RFM) business from Koninklijke DSM N.V., Heerlen (Netherlands), in the second quarter of 2021 as well as exchange rate movements drove up sales by 9.0% and 6.3% respectively. A decline in volumes sold had a decreasing effect on sales amounting to 4.4%.

EBITDA in the Solutions & Specialties segment increased 4.5% over the prior-year period in the first half of 2022, growing to €437 million in the first half of 2022 (previous year: €418 million). This is mainly attributable to a decline in provisions for short-term variable compensation, exchange rate movements, and the RFM acquisition. It was set against a drop in volumes sold, which had a negative effect on earnings. Lower margins reduced earnings, although a rise in the selling price level partially offset higher raw material and energy prices.

EBIT declined 5.5% to €291 million (previous year: €308 million).

Free operating cash flow amounted to €–285 million (previous year: €40 million), driven primarily by a year-on-year increase in funds tied up in working capital. Increased cash outflows for additions to property, plant, equipment and intangible assets also had a negative effect.

REPORT ON FUTURE PERSPECTIVES AND ON OPPORTUNITIES AND RISKS

Economic Outlook

Global Economy

The Russian war against Ukraine has fundamentally changed the geopolitical landscape and has had an extensive impact on the global economy. We anticipate additional consequences for global supply chains as a result of this conflict, along with a high level of raw material and energy prices, higher inflation, and weaker global economic growth compared with the outlook we published in the Annual Report 2021. Moreover, the possibility of another reduction in gas supplies from Russia to Europe poses an additional risk. Increases in key interest rates by a number of central banks are further exacerbating the risk of recession. In addition, the zero-COVID strategy in China and the resulting lockdowns put the brakes on global economic performance in the first half of 2022. Existing and possible future tight restrictions in China in reaction to the spread of the coronavirus hold risks for the entire global economy. Compared to the outlook we published in the Annual Report 2021, we still anticipate slight growth in the global economy, but now with a less robust increase in economic performance of 2.6%. Due to the aforementioned effects, the estimates were reduced for all three regions for the reporting year.

Economic growth¹

	Growth 2021	Growth forecast 2022 (Annual Report 2021)	Growth forecast 2022
	%	%	%
World	5.8	4.2	2.6
Europe, Middle East, Latin America², Africa (EMLA)	5.5	3.7	2.0
of which Europe	5.5	3.7	1.2
of which Germany	2.9	3.8	1.7
of which Middle East	5.2	4.9	5.0
of which Latin America ²	6.9	2.3	2.5
of which Africa	4.4	3.3	3.3
North America³ (NA)	5.5	4.0	1.6
of which United States	5.7	4.1	1.4
Asia-Pacific (APAC)	6.2	4.8	4.0
of which China	8.1	5.4	4.0

¹ Real growth of gross domestic product; source: IHS (Global Insight), "Growth 2021" and "Growth forecast 2022" as of July 2022.

² Latin America (excluding Mexico).

³ North America (Canada, Mexico, United States).

Main Customer Industries

In all main customer industries, we continue to forecast positive growth for the year 2022. Growth in the automotive industry is projected to remain strongly positive but, at 6.0%, below the outlook presented in the Annual Report 2021. The growth rates expected for the furniture and construction industries as well as for the electrical, electronics, and household appliances industry have also been reduced.

Growth in main customer industries¹

	Growth 2021	Growth forecast 2022 (Annual Report 2021)	Growth forecast 2022
	%	%	%
Automotive	2.9	12.5	6.0
Construction	3.1	3.6	2.6
Electrical, electronics and household appliances	12.2	4.5	2.7
Furniture	8.0	3.7	2.6

¹ Covestro's estimate, based on the following sources: LMC Automotive Limited (published on July 4, 2022), B+L (published on May 16, 2022), CSIL (Centre for Industrial Studies) (published on May 16, 2022), Oxford Economics (published on June 17, 2022). We limited the economic data of our "automotive and transportation" and "furniture and wood processing" main customer industries to the automotive and furniture segments (excluding the transportation or wood processing segments). As of: July 2022.

Forecast for the Covestro Group

The analysis of the development of our key management indicators is based on the business performance described in this Half-Year Financial Report and consideration of our potential risks and opportunities. Our forecast does not include the potential effects of a supply bottleneck as the result of a considerable disruption to Russian natural gas deliveries.

On July 29, 2022, Covestro adjusted the forecast for fiscal 2022 in response to another significant increase in energy costs and continued weakening of the global economy. We now expect the following developments in our key management indicators:

Forecast key management indicators

	2021	Forecast 2022 (Annual Report 2021)	Previous forecast 2022 (May 2, 2022)	Adjusted forecast 2022 (July 29, 2022)
EBITDA ¹	€3,085 million	Between €2,500 million and €3,000 million	Between €2,000 million and €2,500 million	Between €1,700 million and €2,200 million
Free operating cash flow ²	€1,429 million	Between €1,000 million and €1,500 million	Between €400 million and €900 million	Between €0 million and €500 million
ROCE ³ above WACC ⁴	12.9% points	Between 5% points and 9% points	Between 1% point and 5% points	Between -2% points and 2% points
Greenhouse gas emissions ⁵ (CO ₂ equivalents)	5.2 million metric tons	Between 5.6 million metric tons and 6.1 million metric tons	Between 5.5 million metric tons and 6.0 million metric tons	Between 5.3 million metric tons and 5.8 million metric tons

¹ Earnings before interest, taxes, depreciation and amortization (EBITDA): EBIT plus depreciation, amortization, and impairment losses; less impairment loss reversals on intangible assets and property, plant and equipment.

² Free operating cash flow (FOCF): cash flows from operating activities less cash outflows for additions to property, plant, equipment and intangible assets.

³ Return on capital employed (ROCE): ratio of the adjusted operating result (EBIT) after imputed income taxes to capital employed.

⁴ Weighted average cost of capital (WACC): weighted average cost of capital reflecting the expected return on the company's equity and debt capital. A figure of 7.0% has been taken into account for the year 2022 (2021: 6.6%).

⁵ Greenhouse gas (GHG) emissions (Scope 1 and 2, GHG Protocol) at main production sites (responsible for more than 95% of our energy usage).

For the Covestro Group's EBITDA, we now forecast a figure between €1,700 million and €2,200 million (previously: between €2,000 million and €2,500 million). The Performance Materials segment's EBITDA is still expected to be significantly down on the prior-year amount. In the Solutions & Specialties segment, however, we project an EBITDA slightly above the prior-year figure (previously: well above the prior-year figure).

The Covestro Group's FOCF is now forecast to total between €0 million and €500 million (previously: between €400 million and €900 million). For the Performance Materials segment, we still expect FOCF to fall significantly short of the figure for the year 2021. For the Solutions & Specialties segment, we are now also forecasting FOCF to be considerably below the prior-year figure (previously: FOCF well above the prior-year figure).

We now forecast ROCE above WACC of between -2% points and 2% points (previously: between 1% point and 5% points).

The Covestro Group's GHG emissions measured as CO₂ equivalents are now projected to be between 5.3 million and 5.8 million metric tons (previously: between 5.5 million and 6.0 million metric tons).

Opportunities and Risks

As a company with global operations and a diversified portfolio, the Covestro Group is subject to a number of opportunities and risks.

Opportunity and risk management at Covestro is an integral part of the Group's corporate governance system. See the "Opportunities and Risks Report" in the Combined Management Report in the Annual Report 2021 for a detailed explanation of our opportunity and risk management system and opportunity and risk situation.

Changes in the Risk Situation

Geopolitical risks increased considerably in the first half of 2022, especially as a result of the Russian war against Ukraine. This means that the continued supply of natural gas to Europe is subject to major uncertainty. In contrast to the presentation in the Annual Report 2021, we have identified another material individual risk for Covestro in the production/value chain risk category. If supplies of natural gas from Russia were to become significantly scarce or halt entirely, this could, depending on the duration, necessitate the closure of certain of Covestro's production facilities, or of entire plants or product lines in Germany. This could in turn result in production outages of certain chemical precursors, intermediates, and by-products that are needed at other sites in the EMLA region.

Several teams of experts in the company are monitoring the current situation closely, studying the consequences of the war in detail, and working on mitigation plans. The potential losses are being analyzed continually; and these analyses are integrated into existing processes to also monitor factors such as risk bearing capacity.

As a result of the assessment of the aforementioned risks as well as with regard to the Covestro Group's other opportunity or risk factors, no material changes have been made to the presentation of risk categories in the Annual Report 2021. At the time this Half-Year Financial Report was prepared, there were again no risks that could endanger the Group's continued existence.

No new material developments have occurred in the legal proceedings presented in the Annual Report 2021, and no new material legal proceedings are pending.

[See note 26 "Legal Risks" in the Notes to the 2021 Consolidated Financial Statements for additional information.](#)

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COVESTRO GROUP CONSOLIDATED INCOME STATEMENT

	2nd quarter 2021	2nd quarter 2022	1st half 2021	1st half 2022
	€ million	€ million	€ million	€ million
Sales	3,956	4,703	7,263	9,386
Cost of goods sold	(2,813)	(3,783)	(5,074)	(7,280)
Gross profit	1,143	920	2,189	2,106
Selling expenses	(357)	(409)	(670)	(797)
Research and development expenses	(87)	(96)	(160)	(190)
General administration expenses	(105)	(96)	(203)	(189)
Other operating income	40	16	52	34
Other operating expenses	(27)	(28)	(45)	(68)
EBIT¹	607	307	1,163	896
Equity-method loss	(4)	(6)	(7)	(10)
Result from other affiliated companies	–	–	1	–
Interest income	9	22	15	37
Interest expense	(22)	(34)	(41)	(57)
Other financial result	(1)	(26)	(15)	(42)
Financial result	(18)	(44)	(47)	(72)
Income before income taxes	589	263	1,116	824
Income taxes	(139)	(65)	(271)	(209)
Income after income taxes	450	198	845	615
of which attributable to noncontrolling interest	1	(1)	3	–
of which attributable to Covestro AG shareholders (net income)	449	199	842	615
	€	€	€	€
Basic earnings per share²	2.32	1.04	4.36	3.20
Diluted earnings per share²	2.32	1.04	4.36	3.20

¹ EBIT: income after income taxes plus financial result and income taxes

² Earnings per share: According to IAS 33 (Earnings per Share) corresponds to net income divided by the weighted average number of outstanding no-par voting shares of Covestro AG. The calculation was based on 191,070, 836 no-par shares for the second quarter of 2022 (previous year: 193,160,544 no-par shares) and on 192,101,348 no-par shares for the first half of 2022 (previous year: 193,160,544).

COVESTRO GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2nd quarter 2021	2nd quarter 2022	1st half 2021	1st half 2022
	€ million	€ million	€ million	€ million
Income after income taxes	450	198	845	615
Remeasurements of the net defined benefit liability for post-employment benefit plans	113	551	484	926
Income taxes	(46)	(161)	(154)	(268)
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans	67	390	330	658
Changes in fair values of equity instruments	-	-	-	(1)
Income taxes	-	-	-	-
Other comprehensive income from equity instruments	-	-	-	(1)
Other comprehensive income that will not be reclassified subsequently to profit or loss	67	390	330	657
Exchange differences of foreign operations	(30)	160	100	266
Reclassified to profit or loss	-	-	-	-
Other comprehensive income from exchange differences	(30)	160	100	266
Other comprehensive income that may be reclassified subsequently to profit or loss	(30)	160	100	266
Total other comprehensive income	37	550	430	923
of which attributable to noncontrolling interest	-	(1)	-	(2)
of which attributable to Covestro AG shareholders	37	551	430	925
Total comprehensive income	487	748	1,275	1,538
of which attributable to noncontrolling interest	1	(2)	3	(2)
of which attributable to Covestro AG shareholders	486	750	1,272	1,540

COVESTRO GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	June 30, 2021	June 30, 2022	Dec. 31, 2021
	€ million	€ million	€ million
Noncurrent assets			
Goodwill	739	753	757
Other intangible assets	716	692	706
Property, plant and equipment	5,747	6,171	6,032
Investments accounted for using the equity method	169	181	172
Other financial assets	31	45	49
Other receivables	88	247	76
Deferred taxes	736	604	818
	8,226	8,693	8,610
Current assets			
Inventories	2,363	3,673	2,914
Trade accounts receivable	2,266	2,771	2,343
Other financial assets	561	67	493
Other receivables	335	456	434
Claims for income tax refunds	93	147	128
Cash and cash equivalents	856	315	649
Assets held for sale	59	–	–
	6,533	7,429	6,961
Total assets	14,759	16,122	15,571
Equity			
Capital stock of Covestro AG	193	190	193
Capital reserves of Covestro AG	3,925	3,780	3,927
Other reserves	2,510	4,473	3,576
Equity attributable to Covestro AG shareholders	6,628	8,443	7,696
Equity attributable to noncontrolling interest	73	51	66
	6,701	8,494	7,762
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	1,692	473	1,199
Other provisions	211	196	223
Financial liabilities	2,351	2,353	2,349
Income tax liabilities	103	113	98
Other liabilities	31	29	34
Deferred taxes	256	324	300
	4,644	3,488	4,203
Current liabilities			
Other provisions	407	338	637
Financial liabilities	644	806	192
Trade accounts payable	1,846	2,560	2,214
Income tax liabilities	223	128	239
Other liabilities	280	308	324
Liabilities directly related to assets held for sale	14	–	–
	3,414	4,140	3,606
Total equity and liabilities	14,759	16,122	15,571

COVESTRO GROUP CONSOLIDATED STATEMENT OF CASH FLOWS

	2nd quarter 2021	2nd quarter 2022	1st half 2021	1st half 2022
	€ million	€ million	€ million	€ million
Income after income taxes	450	198	845	615
Income taxes	139	65	271	209
Financial result	18	44	47	72
Income taxes paid	(126)	(262)	(176)	(360)
Depreciation, amortization and impairment losses and impairment loss reversals	210	240	397	457
Change in pension provisions	12	10	21	12
(Gains)/losses on retirements of noncurrent assets	(8)	–	(8)	–
Decrease/(increase) in inventories	(298)	(341)	(528)	(651)
Decrease/(increase) in trade accounts receivable	(191)	(23)	(446)	(335)
(Decrease)/increase in trade accounts payable	255	296	394	291
Changes in other working capital, other noncash items	92	(499)	164	(425)
Cash flows from operating activities	553	(272)	981	(115)
Cash outflows for additions to property, plant, equipment and intangible assets	(179)	(190)	(289)	(330)
Cash inflows from sales of property, plant, equipment and other assets	10	2	10	3
Cash inflows from divestments less divested cash	–	5	–	6
Cash outflows for noncurrent financial assets	(22)	(5)	(22)	(7)
Cash inflows from noncurrent financial assets	2	–	2	1
Cash outflows for acquisitions less acquired cash	(1,469)	–	(1,469)	–
Interest and dividends received	11	19	17	33
Cash inflows from other current financial assets	175	402	606	448
Cash flows from investing activities	(1,472)	233	(1,145)	154
Reacquisition of treasury shares	–	(102)	–	(150)
Dividend payments and withholding tax on dividends	(257)	(653)	(257)	(653)
Issuances of debt	1	565	2	579
Retirements of debt	(63)	(52)	(98)	(90)
Interest paid	(22)	(34)	(42)	(63)
Cash outflows for the purchase of additional interests in subsidiaries	–	–	–	(4)
Cash flows from financing activities	(341)	(276)	(395)	(381)
Change in cash and cash equivalents due to business activities	(1,260)	(315)	(559)	(342)
Cash and cash equivalents at beginning of period	2,106	623	1,404	649
Change in cash and cash equivalents due to exchange rate movements	10	7	11	8
Cash and cash equivalents at end of period	856	315	856	315

COVESTRO GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Capital stock of Covestro AG	Capital reserves of Covestro AG	Retained earnings incl. total income	Accumulated other com- prehensive income	Equity attributable to Covestro AG shareholders	Equity attributable to non- controlling interest	Equity
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Dec. 31, 2020	193	3,925	1,280	209	5,607	37	5,644
Dividend payments			(251)		(251)	(6)	(257)
Other changes ¹	–	–	–	–	–	39	39
Income after income taxes			842		842	3	845
Other comprehensive income			330	100	430	–	430
Total comprehensive income			1,172	100	1,272	3	1,275
June 30, 2021	193	3,925	2,201	309	6,628	73	6,701
of which treasury shares	–	(2)			(2)		(2)
Dec. 31, 2021	193	3,927	3,002	574	7,696	66	7,762
Reacquisition of treasury shares	(3)	(147)			(150)		(150)
Dividend payments			(651)		(651)	(2)	(653)
Other changes ²			8		8	(11)	(3)
Income after income taxes			615		615	–	615
Other comprehensive income			657	268	925	(2)	923
Total comprehensive income			1,272	268	1,540	(2)	1,538
June 30, 2022	190	3,780	3,631	842	8,443	51	8,494
of which treasury shares	(3)	(147)			(150)		(150)

¹ Other changes in fiscal 2021 in noncontrolling interests result from the acquisition of the Resins & Functional Materials (RFM) business from Koninklijke DSM N.V., Heerlen (Netherlands), see note 5.2 "Acquisitions and Divestitures" in the Annual Report 2021.

² Other changes in 2022 shareholders mainly include the acquisition of the remaining 30% of shares in Japan Fine Coatings Co. Ltd., Ibaraki (Japan).

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. General Information

Information on the Consolidated Interim Financial Statements

Pursuant to Section 115, Paragraph 3 of the German Securities Trading Act (WpHG), the consolidated interim financial statements of Covestro AG, Leverkusen (Germany), as of June 30, 2022, have been prepared in accordance with 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 reporting date.

The accounting policies and measurement principles described in the consolidated financial statements as of December 31, 2021, were applied unchanged in preparing the consolidated interim financial statements as of June 30, 2022, 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.”

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

The Board of Management approved the Condensed Interim Consolidated Financial Statements for publication on August 1, 2022. The Interim Consolidated Financial Statements were subjected to a review by the group auditor.

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

€1/		Closing rates		
		June 30, 2021	Dec. 31, 2021	June 30, 2022
BRL	Brazil	5.91	6.31	5.42
CNY	China	7.68	7.20	6.97
HKD	Hong Kong ¹	9.23	8.83	8.15
INR	India	88.32	84.23	82.11
JPY	Japan	131.43	130.38	141.54
MXN	Mexico	23.58	23.14	20.96
USD	United States	1.19	1.13	1.04

Average rates for major currencies

€1/		Average rates	
		1st half 2021	1st half 2022
BRL	Brazil	6.49	5.53
CNY	China	7.80	7.09
HKD	Hong Kong ¹	9.35	8.55
INR	India	88.38	83.31
JPY	Japan	129.76	134.10
MXN	Mexico	24.32	22.14
USD	United States	1.21	1.09

¹ Special Administration Region (China)

2. Effects of New Financial Reporting Standards

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

IFRS pronouncement (published on)	Title	Effective for annual periods beginning on or after
Amendments to IFRS 3 (May 14, 2020)	Reference to the Conceptual Framework	January 1, 2022
Amendments to IAS 16 (May 14, 2020)	Property, Plant and Equipment – Proceeds before Intended Use	January 1, 2022
Amendments to IAS 37 (May 14, 2020)	Onerous Contracts – Cost of Fulfilling a Contract	January 1, 2022
Annual Improvements to IFRSs (May 14, 2020)	2018–2020 Cycle	January 1, 2022

Initial application of the standards listed in the table had little or no material impact on the presentation of the net assets, financial position and results of operations.

2.2 Published Financial Reporting Standards That Have Not Yet Been Applied

There were no new findings regarding the potential effects of reporting standards newly published up to the authorization for issue of the financial statements, but not yet required to be applied, whose application could affect the presentation of the net assets, financial position and results of operations that differ from the information presented in the 2021 consolidated financial statements.

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 reportable segments and assesses their performance. The reportable segments are identified, and the disclosures selected, in line with the internal management and reporting system (management approach).

The segments pursue the following activities:

Performance Materials

The Performance Materials segment focuses on developing, producing, and reliably supplying high-performance materials such as standard polyurethanes and polycarbonates, as well as base chemicals. These include diphenylmethane diisocyanate (MDI), toluene diisocyanate (TDI), long-chain polyols, and polycarbonate resins. Those materials are used in sectors such as the furniture and wood processing industry, the construction industry as well as the automotive and transportation industry. These materials are used in roof structures, insulation for buildings and refrigerators, mattresses, and car seats, among other applications.

Solutions & Specialties

The Solutions & Specialties segment consolidates Covestro's solutions and specialties businesses, and combines chemical products with application technology services. A fast pace of innovation is a key success factor since customer requirements change quickly. Covestro's Solutions & Specialties business comprises a variety of polymer products including polycarbonates, precursors for coatings and adhesives, MDI specialties and polyols, thermoplastic polyurethanes, specialty films, and elastomers. They are used in sectors such as the automotive and transportation industry; the electrical, electronics and household appliances industry; the construction industry; and the healthcare industry. These materials include composite resins for wind turbine rotor blades; precursors for coatings and adhesives; laptop cases; floodlights; and high-quality specialty films.

Business activities that cannot be allocated to any of the aforementioned segments, costs associated with central corporate functions, and higher or lower expenses resulting from more or less favorable Covestro share performance as part of long-term variable compensation are reported in **"Others/Consolidation."** External sales are generated primarily from the sale of energy, site management services, and rentals and leasing.

As a rule, the segment data is calculated in accordance with the International Financial Reporting Standards (IFRSs) listed in note 3 of the Annual Report 2021 "Accounting Policies and Valuation Principles" with the following specifics:

- Intersegment sales are based on arm's length transactions between the units that make up Covestro's segments.
- EBIT and EBITDA are not defined in the IFRSs. EBIT is equal to income after income taxes plus financial result and income taxes. EBITDA is EBIT plus amortization and impairment losses on intangible assets, and depreciation and impairment losses on property, plant and equipment, less impairment loss reversals. EBIT and EBITDA per segment include intersegment sales and, in each case, the effects of the allocation of property, plant and equipment and intangible assets, including noncurrent assets used jointly by both segments, and the associated depreciation, amortization, impairment losses, and impairment loss reversals.
- Trade working capital includes inventories plus trade accounts receivable and contract assets, less trade accounts payable, contract liabilities and refund liabilities.

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 quarter¹

	Performance Materials	Solutions & Specialties	Others/ Consolidation	Covestro Group
	€ million	€ million	€ million	€ million
2nd quarter 2022				
Sales (external)	2,461	2,165	77	4,703
Intersegment sales	524	8	(532)	–
Sales (total)	2,985	2,173	(455)	4,703
EBITDA ²	367	213	(33)	547
EBIT ²	204	139	(36)	307
2nd quarter 2021				
Sales (external)	1,957	1,951	48	3,956
Intersegment sales	468	6	(474)	–
Sales (total)	2,425	1,957	(426)	3,956
EBITDA ²	644	237	(64)	817
EBIT ²	502	170	(65)	607

¹ Reference information calculated based on the organizational and reporting structure as of July 1, 2021.

² The earnings of the Performance Materials and Solutions & Specialties reportable segments include the effect on earnings of intersegment sales.

Segment reporting 1st half¹

	Performance Materials	Solutions & Specialties	Others/ Consolidation	Covestro Group
	€ million	€ million	€ million	€ million
1st half 2022				
Sales (external)	4,849	4,387	150	9,386
Intersegment sales	1,181	17	(1,198)	–
Sales (total)	6,030	4,404	(1,048)	9,386
EBITDA ²	987	437	(71)	1,353
EBIT ²	679	291	(74)	896
1st half 2021				
Sales (external)	3,697	3,480	86	7,263
Intersegment sales	951	11	(962)	–
Sales (total)	4,648	3,491	(876)	7,263
EBITDA ²	1,274	418	(132)	1,560
EBIT ²	991	308	(136)	1,163

¹ Reference information calculated based on the organizational and reporting structure as of July 1, 2021.

² The earnings of the Performance Materials and Solutions & Specialties reportable segments include the effect on earnings of intersegment sales.

Covestro's market capitalization fell below the carrying amount of the Group's equity in the second quarter of 2022. As a consequence of this and due to a significant rise in the risk-free interest rate, the assumptions used for impairment testing of the cash generating units in fiscal 2021 were reviewed. With regard to the Standard Polyether Polyols (SPET) cash generating unit in the Performance Materials Segment, the impairment test conducted on the basis of the available planning data identified an impairment. As of June 30, 2022, the fair value less costs of disposal was determined using a cost of capital rate of 7.14%. The measurement methodology and growth assumptions are unchanged compared with the annual impairment test conducted in fiscal 2021. In accordance with IAS 36 (Impairment of Assets), impairment losses of €18 million were recognized in EBIT, including €16 million for goodwill previously recognized by SPET and €2 million for miscellaneous noncurrent assets of this cash generating unit.

Trade working capital by segment

	Dec. 31, 2021	June 30, 2022
	€ million	€ million
Performance Materials	1,392	1,831
Solutions & Specialties	1,560	2,010
Total of reportable segments	2,952	3,841
All other segments	–	(5)
Corporate Center	–	–
Trade working capital	2,952	3,836
of which inventories	2,914	3,673
of which trade accounts receivable	2,343	2,771
of which trade accounts payable	(2,214)	(2,560)
of which IFRS 15 items ¹	(91)	(48)

¹ The item includes contract assets, contract liabilities, and refund liabilities.

Information on Geographical Areas

The following tables show information by geographical area. The EMLA region consists of Europe, the Middle East, Latin America except Mexico, and Africa. Mexico forms together with the United States and Canada the NA 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	NA	APAC	Total
	€ million	€ million	€ million	€ million
2nd quarter 2022				
Sales (external) by market	2,167	1,200	1,336	4,703
Sales (external) by point of origin	2,162	1,223	1,318	4,703
2nd quarter 2021				
Sales (external) by market	1,765	844	1,347	3,956
Sales (external) by point of origin	1,785	851	1,320	3,956

Regional reporting 1st half

	EMLA	NA	APAC	Total
	€ million	€ million	€ million	€ million
1st half 2022				
Sales (external) by market	4,241	2,316	2,829	9,386
Sales (external) by point of origin	4,252	2,352	2,782	9,386
1st half 2021				
Sales (external) by market	3,267	1,493	2,503	7,263
Sales (external) by point of origin	3,273	1,515	2,475	7,263

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 2021	2nd quarter 2022	1st half 2021	1st half 2022
	€ million	€ million	€ million	€ million
EBITDA of segments	881	580	1,692	1,424
EBITDA of Others/Consolidation	(64)	(33)	(132)	(71)
EBITDA	817	547	1,560	1,353
Depreciation, amortization and impairment losses of segments	(209)	(237)	(393)	(454)
Depreciation, amortization and impairment losses of Others/Consolidation	(1)	(3)	(4)	(3)
Depreciation, amortization and impairment losses	(210)	(240)	(397)	(457)
EBIT of segments	672	343	1,299	970
EBIT of Others/Consolidation	(65)	(36)	(136)	(74)
EBIT	607	307	1,163	896
Financial result	(18)	(44)	(47)	(72)
Income before income taxes	589	263	1,116	824

4. Scope of Consolidation

4.1 Changes in the Scope of Consolidation

As of June 30, 2022, the scope of consolidation comprised Covestro AG and 60 (December 31, 2021: 66) consolidated companies.

Covestro Invest GmbH, Leverkusen (Germany), was consolidated for the first time effective April 1, 2022. This company was previously classified as an immaterial subsidiary. The purpose of Covestro Invest GmbH is to acquire, hold and manage the company's investments, provide services for third parties, especially within the scope of intragroup management of investments, in each case insofar as these does not constitute activities requiring authorization under the German Banking Act (Kreditwesengesetz), and the assumption of personal liability and management functions for commercial partnerships.

The decrease in the number of consolidated companies in the first half of 2022 is attributable to intragroup mergers of consolidated companies, which were transferred in connection with the acquisition of the Resins & Functional Materials (RFM) business from Koninklijke DSM N.V., Heerlen (Netherlands). As of June 1, 2022, Covestro Coating Resins B.V., Zwolle (Netherlands), Covestro Desotech B.V., Hoek van Holland (Netherlands), and Covestro Resins B.V., Zwolle (Netherlands) were merged into Covestro (Netherlands) B.V., Geleen (Netherlands), and Covestro Coating Resins, Inc., Wilmington, Massachusetts (USA), and Covestro Desotech Inc., Elgin, Illinois (USA), were merged into Covestro LLC, Pittsburgh, Pennsylvania (USA). In addition, Covestro Coating Resins Spain S.L., Barcelona (Spain) was merged into Covestro, S.L., Barcelona (Spain), while Covestro Resins (ROA) Ltd., Taipei City (Taiwan, Greater China), was merged into Covestro (Taiwan) Ltd., Kaohsiung City (Taiwan, Greater China).

4.2 Acquisitions and Divestitures

No reportable acquisitions or divestitures were made in the first half of 2022.

5. Sales

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 sales by reportable segments.

Disaggregation of sales

	Performance Materials	Solutions & Specialties	Others/ Consolidation	Covestro Group
	€ million	€ million	€ million	€ million
1st half 2022				
EMLA	2,397	1,724	120	4,241
of which Germany	609	506	79	1,194
NA	1,229	1,064	23	2,316
of which United States	1,029	883	22	1,934
APAC	1,223	1,599	7	2,829
of which China	792	946	1	1,739
1st half 2021¹				
EMLA	1,845	1,355	67	3,267
of which Germany	469	422	38	929
NA	779	700	14	1,493
of which United States	658	565	13	1,236
APAC	1,073	1,425	5	2,503
of which China	706	888	–	1,594

¹ Reference information calculated based on the organizational and reporting structure as of July 1, 2021.

6. Earnings per Share

Earnings per share are calculated according to IAS 33 (Earnings per Share) as the relationship of the Group's income after income taxes (net income) for the income period to the weighted average number of outstanding no-par voting shares of Covestro AG. Since March 12, 2022, Covestro AG has purchased treasury shares under a share buyback program¹. In the first half of 2022, a weighted average number of outstanding no-par voting shares of 192,101,348 was used to calculate earnings per share, while in the first half of 2021, these shares amounted to 193,160,544. There were no dilution effects to consider.

See Covestro on the Capital Market, in the section entitled "Share Buyback Program" for further information on the share buyback program.

Earnings per share

	1st half 2021	1st half 2022
	€ million	€ million
Income after income taxes	845	615
of which attributable to noncontrolling interest	3	–
of which attributable to Covestro AG shareholders (net income)	842	615
	Shares	Shares
Weighted average number of no-par voting shares of Covestro AG	193,160,544	192,101,348
	€	€
Basic earnings per share	4.36	3.20
Diluted earnings per share	4.36	3.20

7. Employees and Pension Obligations

As of June 30, 2022, the Covestro Group had 17,978 employees worldwide (December 31, 2021: 17,909). In the first half of 2022, personnel expenses decreased by €32 million to €1,114 million (previous year: €1,146 million), largely due to lower expenses for short-term variable compensation.

Employees by division¹

	Dec. 31, 2021	June 30, 2022
Production	11,618	11,751
Marketing and distribution	3,254	3,330
Research and development	1,477	1,457
General administration	1,560	1,440
Total	17,909	17,978

¹ The number of employees on either permanent or temporary contracts is stated in full-time equivalents (FTEs). Part-time employees are included on a pro-rated basis in line with their contractual working hours. Employees in vocational training are not included.

Provisions for pensions and other post-employment benefits decreased to €473 million (December 31, 2021: €1,199 million). This was mainly due to a reduction in the measurement of obligations as a result of significantly higher discount rates. The rise in projected future benefit increases in Germany to 1.9% (December 31, 2021: 1.8%) had an offsetting effect on the measurement of obligations.

Discount rate for pension obligations

	Dec. 31, 2021	June 30, 2022
	%	%
Germany	1.20	3.30
United States	2.60	4.30

8. Financial Instruments

The following tables show the carrying amounts and fair values of financial assets and liabilities based on IFRS 9:

Carrying amounts of financial instruments and their fair values as of June 30, 2022

	Measurement according to IFRS 9					
	Carrying amount	Carried at amortized cost	Fair value recognized in other comprehensive income	Fair value recognized in profit or loss	Measurement according to IFRS 16	Fair value
	€ million	€ million	€ million	€ million	€ million	€ million
Financial assets						
Trade accounts receivable	2,771	2,771	–	–		2,771
Other financial assets	112					
Money market funds	–	–	–	–		–
Loans and bank deposits	27	17	–	10		27
Other investments	26		26	–		26
Receivables under lease agreements	8				8	18
Derivatives that do not qualify for hedge accounting	51			51		51
Other receivables ¹	24	24	–	–		24
Cash and cash equivalents	315	315	–	–		315
Financial liabilities						
Financial debts	3,159					
Bonds	1,493	1,493		–		1,356
Lease liabilities	772				772	
Liabilities to banks	840	840		–		839
Derivatives that do not qualify for hedge accounting	53			53		53
Other financial liabilities	1	1		–		1
Trade accounts payable	2,560	2,560		–		2,560
Other liabilities ²	130					
Derivatives that do not qualify for hedge accounting	3			3		3
Refund liabilities	82	82		–		82
Miscellaneous other liabilities	45	45		–		45

¹ The other receivables recognized in the consolidated statement of financial position also include nonfinancial assets totaling €679 million.

² The other liabilities recognized in the consolidated statement of financial position also include nonfinancial liabilities totaling €207 million.

Carrying amounts of financial instruments and their fair values as of December 31, 2021

	Measurement according to IFRS 9					
	Carrying amount	Carried at amortized cost	Fair value recognized in other comprehensive income	Fair value recognized in profit or loss	Measurement according to IFRS 16	Fair value
	€ million	€ million	€ million	€ million	€ million	€ million
Financial assets						
Trade accounts receivable	2,343	2,343	–	–		2,343
Other financial assets	542					
Money market funds	65	–	–	65		65
Loans and bank deposits	402	393	–	9		402
Other investments	27		27	–		27
Receivables under lease agreements	8				8	19
Derivatives that do not qualify for hedge accounting	40			40		40
Other receivables ¹	30	22	–	8		30
Cash and cash equivalents	649	649	–	–		649
Financial liabilities						
Financial debts	2,541	–				
Bonds	1,492	1,492		–		1,568
Lease liabilities	761	–			761	
Liabilities to banks	275	275		–		280
Derivatives that do not qualify for hedge accounting	11	–		11		11
Other financial liabilities	2	2		–		2
Trade accounts payable	2,214	2,214		–		2,214
Other liabilities ²	172	–				
Derivatives that do not qualify for hedge accounting	3	–		3		3
Refund liabilities	116	116		–		116
Miscellaneous other liabilities	53	53		–		53

¹ The other receivables recognized in the consolidated statement of financial position also include nonfinancial assets totaling €480 million.

² The other liabilities recognized in the consolidated statement of financial position also include nonfinancial liabilities totaling €186 million.

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

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

Level 2 comprises fair values determined on the basis of parameters which 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				Fair value			
	Dec. 31, 2021	Level 1	Level 2	Level 3	June 30, 2022	Level 1	Level 2	Level 3
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Financial assets carried at fair value								
Money market funds	65	–	65	–	–	–	–	–
Loans	9	–	–	9	10	–	–	10
Other investments	27	4	–	23	26	3	–	23
Derivatives that do not qualify for hedge accounting	40	–	34	6	51	–	46	5
Other receivables	8	–	–	8	–	–	–	–
Financial assets not carried at fair value								
Receivables under lease agreements	19	–	–	19	18	–	–	18
Financial liabilities carried at fair value								
Derivatives that do not qualify for hedge accounting	14	–	11	3	56	–	53	3
Financial liabilities not carried at fair value								
Bonds	1,568	1,568	–	–	1,356	1,356	–	–
Liabilities to banks	280	–	280	–	839	–	839	–
Other financial liabilities	2	–	2	–	1	–	1	–

Reallocation between the different levels of the fair value hierarchy takes place at the end of the reporting period in which the change occurred. In the first half of 2022, no transfers were made between the levels of the fair value hierarchy.

Because of the generally short maturities of cash and cash equivalents, loans and bank deposits, 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 money market funds correspond to the quoted prices of the funds in accordance with Article 29 in conjunction with Article 33 of EU Regulation 2017/1131 on money market funds (Level 2).

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

Fair values measured using unobservable inputs are categorized within Level 3 of the fair value hierarchy. The fair values of noncurrent receivables under lease agreements are calculated on the basis of interest curves observable

in the market. Additionally, a discount for cash flows that are very far in the future is applied as an unobservable factor.

Covestro works with and invests in start-ups under the auspices of the Covestro Venture Capital (COVeC) approach, which was newly developed in fiscal 2020. Investments associated with COVeC activities are recognized either as debt instruments at fair value through profit and loss or as other financial investments at fair value directly in equity, depending on the contractual design. The fair value is calculated as the present value of the future cash flows estimated based on available performance indicators. The cash flows are discounted at the current interest rate for the appropriate term on the reporting date and reflecting the creditworthiness of the venture capital company. The main input factors are not based on observable market data (Level 3). The estimated fair value of the debt instruments classified in Level 3 would rise (fall) if the expected cash inflows were to be higher (lower) or if the risk-adjusted discount rate were to be lower (higher).

Other financial investments are recognized at fair value directly in equity because they are held for the long term for strategic reasons. The fair value of some of the other investments is based on quoted prices in active markets (Level 1). Where there are no quoted, unadjusted prices in an active market for identical or similar instruments, and there is no suitable valuation method where all major input factors are based on observable market data, the fair value of the other investments is determined using a market price-oriented valuation method where the main input factors are not based on observable market data (Level 3). The valuation of certain other investments is based on available performance indicators as well as on market valuation multipliers. The estimated fair value of the equity instruments categorized within Level 3 would rise (fall) if the multiple applied were to be greater (smaller).

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

The fair value of the contingent purchase price receivable from divestments recognized in other receivables was calculated as the present value of future cash flows. The basis was the expected EBITDA of the business unit sold for fiscal year 2021. The actual EBITDA reported for 2021 was well below expectations, so no purchase price payment will be made.

The table below shows the changes in Level 3 financial instruments:

Changes in the net amount of financial assets and liabilities recognized at fair value based on unobservable inputs (level 3)

	2021	2022
	€ million	€ million
Net carrying amounts, Jan. 1	22	43
Gains (losses) recognized in profit or loss	3	(8)
of which related to assets / liabilities recognized in the statement of financial position	3	–
Gains (losses) recognized outside profit or loss	–	–
Net carrying amounts, June 30	25	35

The gains and losses from Level 3 financial assets and liabilities are reported as follows:

- gains and losses from embedded derivatives recognized in profit or loss are reported in other operating expenses or income;
- gains and losses from the contingent purchase price receivable from divestments and debt instruments recognized in profit or loss are reported in other financial result;
- gains and losses from other financial investments are reported in other comprehensive income from equity instruments.

9. Legal Risks

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

The legal risks that are material to the Covestro Group were described in note 26 "Legal Risks" to the Consolidated Financial Statements as of December 31, 2021. 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 entities as defined in IAS 24 (Related Party Disclosures) are those legal entities 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 a significant influence, or which are controlled by a related person or a close family member of such a person. They include nonconsolidated subsidiaries, joint ventures, associated companies, and other related companies and persons.

In the course of its operating business, Covestro sources materials, supplies and services from a large number of business partners worldwide, including companies in which it has a direct or indirect interest. Transactions with these companies are undertaken on an arm's length basis. The goods and services received from associated companies result from ongoing operating business with PO JV, LP, Houston, Texas (USA) and amounted to €463 million in the first half of 2022 (previous year: €362million). Covestro benefits from fixed long-term supply quotas/volumes of propylene oxide (PO) from this company's production.

There are no further reportable business relationships with other related parties.

11. Events after the End of the Reporting Period

Covestro will sell its Additive Manufacturing business, which offers material solutions for common polymer 3D printing processes. The business to be divested, which is reported in the Solutions & Specialties segment, includes, among other things, research & development facilities, production assets and employees. The portfolio also includes products that are part of the Resins & Functional Materials business (RFM) acquired from from Koninklijke DSM N.V., Heerlen, (Netherlands), in fiscal 2021. The divestment is planned to be closed in the first quarter of 2023, subject to the finalization of contractual negotiations.

Leverkusen, August 1, 2022

Covestro AG

The Board of Management

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RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial 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 during the rest of the fiscal year.

Leverkusen, August 1, 2022

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 the Covestro AG, Leverkusen, for the period from January 1, 2022 to June 30, 2022 that are part of the semi annual (or quarterly financial report) according to § 115 WpHG [“Wertpapierhandelsgesetz”: “German Securities Trading Act”]. The preparation of the condensed interim consolidated financial statements in accordance with International Accounting Standard IAS 34 “Interim Financial 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 in 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 IAS 34, “Interim Financial 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 IAS 34, “Interim Financial 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, August 1, 2022

KPMG AG
Wirtschaftsprüfungsgesellschaft

Ufer
Wirtschaftsprüfer
[German Public Auditor]

Dr. Ackermann
Wirtschaftsprüferin
[German Public Auditor]

Segment and Quarterly Overview

Segment information 2nd quarter

	Performance Materials ¹		Solutions & Specialties ¹		Others/Consolidation ¹		Covestro Group	
	2nd quarter 2021	2nd quarter 2022	2nd quarter 2021	2nd quarter 2022	2nd quarter 2021	2nd quarter 2022	2nd quarter 2021	2nd quarter 2022
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales (external)	1,957	2,461	1,951	2,165	48	77	3,956	4,703
Intersegment sales	468	524	6	8	(474)	(532)	-	-
Sales (total)	2,425	2,985	1,957	2,173	(426)	(455)	3,956	4,703
Change in sales								
Volume	19.5%	1.6%	39.1%	-7.3%	18.9%	57.1%	29.0%	-2.1%
Price	71.2%	17.5%	22.4%	11.8%	0.0%	0.0%	45.9%	14.5%
Currency	-5.2%	6.7%	-5.8%	6.5%	-1.8%	3.3%	-5.4%	6.5%
Portfolio	0.0%	0.0%	28.4%	0.0%	0.0%	0.0%	14.0%	0.0%
Sales by region								
EMLA	955	1,255	772	851	38	61	1,765	2,167
NA	445	625	392	563	7	12	844	1,200
APAC	557	581	787	751	3	4	1,347	1,336
EBITDA²	644	367	237	213	(64)	(33)	817	547
EBIT ²	502	204	170	139	(65)	(36)	607	307
Depreciation, amortization, impairment losses and impairment loss reversals	142	163	67	74	1	3	210	240
Cash flows from operating activities	498	95	82	(83)	(27)	(284)	553	(272)
Cash outflows for additions to property, plant, equipment and intangible assets	125	132	53	56	1	2	179	190
Free operating cash flow	373	(37)	29	(139)	(28)	(286)	374	(462)
Trade working capital ³	1,278	1,831	1,447	2,010	-	(5)	2,725	3,836

¹ Reference information calculated based on the organizational and reporting structure as of July 1, 2021.

² The earnings of the Performance Materials and Solutions & Specialties reportable segments include the effect on earnings of intersegment sales.

³ Trade working capital includes inventories plus trade accounts receivable and contract assets, less trade accounts payable, contract liabilities, and refund liabilities as of June 30, 2021/2022.

Segment information 1st half

	Performance Materials ¹		Solutions & Specialties ¹		Others/Consolidation ¹		Covestro Group	
	1st half 2021	1st half 2022	1st half 2021	1st half 2022	1st half 2021	1st half 2022	1st half 2021	1st half 2022
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales (external)	3,697	4,849	3,480	4,387	86	150	7,263	9,386
Intersegment sales	951	1,181	11	17	(962)	(1,198)	–	–
Sales (total)	4,648	6,030	3,491	4,404	(876)	(1,048)	7,263	9,386
Change in sales								
Volume	7.1%	3.5%	23.3%	–4.4%	–12.5%	71.7%	14.6%	0.5%
Price	49.5%	21.7%	14.4%	15.2%	0.0%	0.0%	31.4%	18.3%
Currency	–5.0%	6.0%	–5.3%	6.3%	–1.5%	2.7%	–5.0%	6.1%
Portfolio	0.0%	0.0%	12.5%	9.0%	0.0%	0.0%	6.1%	4.3%
Sales by region								
EMLA	1,845	2,397	1,355	1,724	67	120	3,267	4,241
NA	779	1,229	700	1,064	14	23	1,493	2,316
APAC	1,073	1,223	1,425	1,599	5	7	2,503	2,829
EBITDA²	1,274	987	418	437	(132)	(71)	1,560	1,353
EBIT ²	991	679	308	291	(136)	(74)	1,163	896
Depreciation, amortization, impairment losses and impairment loss reversals	283	308	110	146	4	3	397	457
Cash flows from operating activities	835	301	125	(184)	21	(232)	981	(115)
Cash outflows for additions to property, plant, equipment and intangible assets	203	226	85	101	1	3	289	330
Free operating cash flow	632	75	40	(285)	20	(235)	692	(445)
Trade working capital ³	1,278	1,831	1,447	2,010	–	(5)	2,725	3,836

¹ Reference information calculated based on the organizational and reporting structure as of July 1, 2021.

² The earnings of the Performance Materials and Solutions & Specialties reportable segments include the effect on earnings of intersegment sales.

³ Trade working capital includes inventories plus trade accounts receivable and contract assets, less trade accounts payable, contract liabilities, and refund liabilities as of June 30, 2021/2022.

Quarterly Overview

	1st quarter 2021 ¹	2nd quarter 2021 ¹	3rd quarter 2021 ¹	4th quarter 2021	1st quarter 2022	2nd quarter 2022
	€ million	€ million	€ million	€ million	€ million	€ million
Sales (external)	3,307	3,956	4,302	4,338	4,683	4,703
Performance Materials	1,740	1,957	2,186	2,259	2,388	2,461
Solutions & Specialties	1,529	1,951	2,069	2,005	2,222	2,165
EBITDA	743	817	862	663	806	547
Performance Materials ²	630	644	708	590	620	367
Solutions & Specialties ²	181	237	221	112	224	213
EBIT	556	607	654	445	589	307
Performance Materials ²	489	502	567	445	475	204
Solutions & Specialties ²	138	170	154	41	152	139
Financial result	(29)	(18)	(20)	(10)	(28)	(44)
Income before income taxes	527	589	634	435	561	263
Income after taxes	395	450	473	301	417	198
Net income	393	449	472	302	416	199
Cash flows from operating activities	428	553	564	648	157	(272)
Cash outflows for additions to property, plant, equipment and intangible assets	110	179	183	292	140	190
Free operating cash flow	318	374	381	356	17	(462)

¹ The values were recalculated retroactively as of October 1, 2021, based on a change in the underlying market prices for compensation for transactions between the Performance Materials and Solutions & Specialties segments and the reference information restated accordingly.

² The earnings of the Performance Materials and Solutions & Specialties reportable segments include the effect on earnings of intersegment sales.

Financial Calendar

Quarterly Statement Third Quarter 2022.....	October 25, 2022
Annual Report 2022.....	March 2, 2023
Annual General Meeting 2023	April 19, 2023
Quarterly Statement First Quarter 2023	April 28, 2023

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