

REPORT ON ECONOMIC POSITION

Economic Environment

Global economy

At 2.5%, the global economy grew at a slower pace in 2019 than in the previous year. All regions saw weaker year-over-year growth. The drivers here were the escalation of trade disputes, especially between the United States and China, and the associated effects on investment activity and exports. The downturn was modest on the whole in the Middle East and Africa as well as China and the Asia-Pacific region. In contrast, North America, Latin America, Europe and especially export-oriented Germany experienced much lower growth rates than in the prior year.

Economic environment

	Growth ¹ 2018	Growth ¹ 2019
	%	%
World	+3.1	+2.5
Europe	+2.1	+1.4
of which Western Europe	+1.8	+1.2
of which Germany	+1.5	+0.5
of which Eastern Europe	+3.3	+2.5
Middle East	+2.4	+1.1
Latin America	+0.4	-0.2
Africa	+2.7	+2.6
North America²	+2.8	+2.2
of which United States	+2.9	+2.3
Asia-Pacific	+4.7	+4.3
of which China	+6.6	+6.2

¹ Real growth of gross domestic product; source: IHS (Global Insight), as of January 2020

² North America (not including Central America): Canada, Mexico, United States

Main customer industries*

In 2019, automotive production worldwide was down 5%. Despite a decline in sales of some 8%, China remained the largest sales market for the automotive industry. With the exception of Eastern Europe, which saw minimal growth, all regions recorded sharp downturns.

In 2019, growth in the global construction industry, at approximately 2%, was weaker than in the previous year. An ongoing recovery in Eastern Europe and Latin America as well as the continued stability of the investment climate in North America stood in contrast to diminishing growth in Western Europe and China.

The global electrical, electronics and household appliances industry expanded by some 4% in 2019. All regions reported a year-over-year slowdown in growth that was mild in North America and Europe, and significant in the Asia-Pacific region. Nonetheless, growth rates were positive, except in Latin America.

In 2019, the global furniture industry grew by about 2%, roughly the same as last year. All regions generated positive growth rates, although Asia-Pacific stands out as the main driver at around 3%.

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

Business Development of the Covestro Group

Key Data Covestro Group

	4th quarter 2018 ¹	4th quarter 2019	Change	2018 ¹	2019	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth²	+1.7%	+3.8%		+1.5%	+2.0%	
Sales	3,272	2,864	-12.5	14,616	12,412	-15.1
Change in sales						
Volume	+2.9%	-0.7%		+2.3%	+0.8%	
Price	-9.3%	-13.3%		+4.5%	-17.3%	
Currency	+0.3%	+1.5%		-3.0%	+1.9%	
Portfolio	-1.0%	0.0%		-0.4%	-0.5%	
EBITDA	293	278	-5.1	3,200	1,604	-49.9
Depreciation and amortization	153	185	+20.9	620	752	+21.3
EBIT	140	93	-33.6	2,580	852	-67.0
Financial result	(24)	(26)	+8.3	(104)	(91)	-12.5
Net income	79	37	-53.2	1,823	552	-69.7
Operating cash flows	641	637	-0.6	2,376	1,383	-41.8
Cash outflows for additions to property, plant, equipment and intangible assets	278	307	+10.4	707	910	+28.7
Free operating cash flow	363	330	-9.1	1,669	473	-71.7
Net financial debt ³				348	989	>100
ROCE				+29.5%	+8.4%	

¹ Reference information was not restated, see note 2.1 "Financial reporting standards applied for the first time in the reporting period."

² Reference values calculated on the basis of the definition of the core business effective March 31, 2019.

³ As of December 31, 2019, compared with December 31, 2018

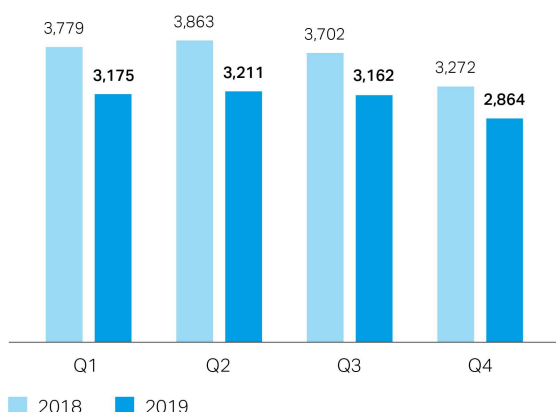
The Group's core volumes in 2019 as a whole rose by 2.0% over the prior-year period. The Polycarbonates and Polyurethanes segments reported growth rates of 2.7% and 2.3%, respectively. In the Coatings, Adhesives, Specialties segment, core volumes declined by 1.0% over the prior-year period.

In fiscal 2019, Group sales were down by 15.1% year over year to €12,412 million (previous year: €14,616 million). This is largely due to lower selling prices, which reduced sales by 17.3%. The main driver here is greater competitive pressure in all segments. The increase in total volumes sold gave sales a 0.8% boost and the effects of exchange rate developments also had a positive impact on sales of 1.9%. In contrast, changes in the portfolio had an overall negative effect on sales of 0.5%. The sale of the U.S. polycarbonate sheets business in the third quarter of 2018 and of the European polyurethane systems house business in the fourth quarter of 2019 had a negative effect. In contrast, the step acquisition of shares of Japan-based DIC Covestro Polymer Ltd. and its subsequent full inclusion in the Group's consolidated financial statements in the second quarter of 2019 had a positive effect on sales.

The Polyurethanes and Polycarbonates segments' sales were down in fiscal 2019. Sales in the Polyurethanes segment declined by 21.5% to €5,779 million (previous year: €7,362 million), and in the Polycarbonates segment sales decreased by 14.3% to €3,473 million (previous year: €4,051 million). At €2,369 million, sales in the Coatings, Adhesives, Specialties segment remained at the previous year's level (€2,361 million).

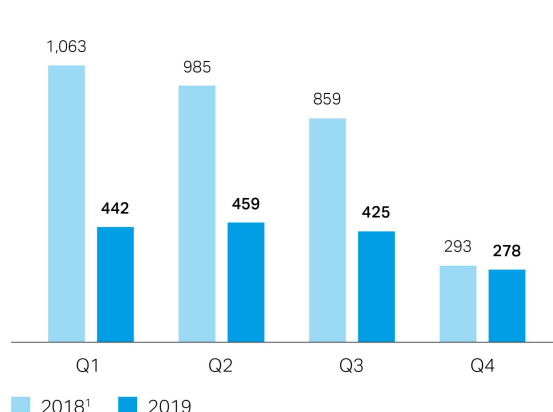
Covestro Group Quarterly sales

€ million



Covestro Group Quarterly EBITDA

€ million



¹ Reference information was not restated, see note 2.1 "Financial reporting standards applied for the first time in the reporting period."

The Group's EBITDA in 2019 as a whole decreased 49.9% over the prior-year period to €1,604 million (previous year: €3,200 million).

[See "Results of Operations" \(p. 88\)](#)

In the Polyurethanes segment, EBITDA slid by 63.2% to €648 million (previous year: €1,763 million). The Polycarbonates segment's EBITDA fell by 48.3% to €536 million (previous year: €1,036 million). At €469 million, EBITDA in the Coatings, Adhesives, Specialties segment was up by 1.1% on the prior-year figure (previous year: €464 million).

In 2019 as a whole, depreciation, amortization and impairment losses rose by 21.3% to €752 million (previous year: €620 million). This development was mainly due to the application of the IFRS 16 standard, which resulted in an effect totaling €124 million. Depreciation, amortization and impairment losses amounted to €732 million (previous year: €599 million) in depreciation of property, plant and equipment and €20 million (previous year: €21 million) in amortization of intangible assets. This included €28 million (previous year: €7 million) in impairment losses and €1 million (previous year: €0 million) in reversals of impairment losses.

[See „Alternative Performance Measures“ \(p. 92\) and note 2.1 „Financial reporting standards applied for the first time in the reporting period“ in the Notes to the Consolidated Financial Statements \(p. 154\)](#)

In the 2019 fiscal year, the Covestro Group's EBIT dropped by 67.0% to €852 million (previous year: €2,580 million).

Operating cash flows sank by 41.8% to €1,383 million in fiscal 2019 (previous year: €2,376 million). EBITDA declined, while income tax payments decreased and freed-up working capital increased.

In the reporting period, free operating cash flow was down by 71.7% to €473 million (previous year: €1,669 million) due to a decrease in operating cash flows and increase in cash outflows for additions to property, plant, equipment and intangible assets. These outflows totaled €910 million in 2019 (previous year: €707 million).

Calculation of the return on capital employed

ROCE measures profitability and is calculated as the ratio of EBIT after imputed income taxes (NOPAT = net operating profit after taxes) to the average capital employed. Imputed taxes are determined by multiplying the effective tax rate by EBIT. If ROCE exceeds the weighted average cost of capital (WACC), the company is earning a premium on its cost of capital.

The value contribution is the difference between NOPAT and the cost of capital. The latter is calculated by multiplying the average capital employed by WACC. A positive value contribution means that value has been generated.

In fiscal 2019, ROCE was 8.4% (previous year: 29.5%), exceeding WACC of 6.8% (previous year: 6.7%), which meant Covestro earned a premium over capital costs. This resulted in a positive value contribution of €120 million, which was, however, well below the prior-year figure of €1,474 million.

Covestro value management indicators at a glance

	2018	2019
	€ million	€ million
NOPAT	1,907	624
Average capital employed	6,468	7,406
WACC	+6.7%	+6.8%
ROCE	+29.5%	+8.4%
Value contribution	1,474	120

Material transactions

The increasing competitive pressure that had already become apparent in the fourth quarter of 2018 led to a sharp decrease in margins again in fiscal 2019. A drop in selling prices led mainly to EBITDA being reduced nearly by half compared with the previous year.

Effective April 1, 2019, Covestro increased its interest in DIC Covestro Polymer Ltd. (DCP), Tokyo (Japan), by another 30% to 80% as part of a step acquisition of shares. The shares previously recognized using the equity method of accounting were remeasured at their fair value. This resulted in a gain of €19 million, which was recognized in other operating income. DCP has been fully consolidated since April 1, 2019.

In the second quarter of 2019, Covestro's Polyurethanes segment signed an agreement to divest the European systems house business. This transaction was completed in the fourth quarter of 2019. The gain on the disposal of this business totaling €34 million was recognized in other operating income.

In the third quarter of 2019, Covestro's Polycarbonates segment signed an agreement to divest the European polycarbonate sheets business. Writedowns of assets totaling €26 million in connection with the disposal negatively affected EBIT. Of this amount, €21 million related to impairment losses on noncurrent assets.

Overall assessment of target attainment and business performance

Target attainment

In the 2018 Annual Report, the Covestro Group published a forecast for key performance indicators in fiscal 2019. In view of the business performance of the first nine months of fiscal 2019, Covestro AG's Board of Management elected to concretize the forecast for 2019 as a whole in the reporting for the period ended September 30, 2019. The earlier forecast of volume growth in the low-to-mid-single-digit percentage range was narrowed to the low-single-digit percentage range. Also concretized were the bandwidths for expected FOCF and ROCE performance. After initial projections of FOCF between €300 million and €700 million, this range was narrowed to between €300 million and €500 million in October 2019. The original ROCE forecast of 8% to 13% was narrowed to 8% to 10% in October 2019.

Target attainment 2019

	2018	Forecast 2019 ¹	Narrowed forecast 2019 ²	Target attainment 2019
Core volume growth	+1.5%	Low- to mid-single-digit-percentage range increase	Low-single-digit-percentage range increase	+2.0%
of which Polyurethanes	+0.8%	Low- to mid-single-digit-percentage range increase	Low-single-digit-percentage range increase	+2.3%
of which Polycarbonates	+3.0%	Low- to mid-single-digit-percentage range increase	Low-single-digit-percentage range increase	+2.7%
of which Coatings, Adhesives, Specialties	+2.3%	Low- to mid-single-digit-percentage range increase	Low-single-digit-percentage range decrease	-1.0%
Free operating cash flow	€1,669 million	Between €300 million and €700 million	Between €300 million and €500 million	€473 million
of which Polyurethanes	€972 million	Increase in cash outflows for additions to property, plant, equipment and intangible assets, which will exceed the expected net cash provided by operating activities	Increase in cash outflows for additions to property, plant, equipment and intangible assets, which will exceed the expected net cash provided by operating activities	€32 million
of which Polycarbonates	€468 million	Decline in FOCF, although the trend here will likely be much more positive than for the Group as a whole	Decline in FOCF, although the trend here will likely be much more positive than for the Group as a whole	€404 million
of which Coatings, Adhesives, Specialties	€203 million	FOCF around the prior-year level	FOCF slightly below the prior-year level	€191 million
ROCE	+29.5%	Between 8% and 13%	Between 8% and 10%	+8.4%

¹ Published on February 25, 2019 (Annual Report 2018)

² Published on October 28, 2019 (Quarterly Statement as of September 30, 2019)

Covestro therefore met the projections for all key performance indicators for the Covestro Group in the forecast for fiscal 2019 originally issued and narrowed in October 2019. At 2.0%, our core volume growth met our forecast target. At €473 million, free operating cash flow for fiscal 2019 was in the announced range, as well as ROCE at 8.4%.

Overall assessment of business performance

Fiscal 2019 was a challenging year for Covestro, with business down significantly from fiscal 2018. The trend apparent in the second half of 2018 continued in the year under review and is primarily the result of a decline in selling prices. These developments halved EBITDA compared with the previous year's figure. Despite weaker demand from the automotive industry, core volumes expanded overall. Free operating cash flow also declined to €473 million (previous year: €1,669 million) on account of the lower EBITDA. In the interest of supporting our long-term growth and maintaining our facilities, we increased our cash outflows for additions to property, plant, equipment and intangible assets as planned to €910 million (previous year: €707 million).

Business Development by Segment

Polyurethanes

Key data Polyurethanes

	4th quarter 2018 ¹	4th quarter 2019	Change	2018 ¹	2019	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth²	+2.4%	+3.6%		+0.8%	+2.3%	
Sales	1,597	1,336	-16.3	7,362	5,779	-21.5
Change in sales						
Volume	+2.5%	-0.2%		+0.9%	+1.5%	
Price	-17.6%	-16.9%		+1.9%	-24.7%	
Currency	+0.2%	+1.5%		-3.1%	+1.8%	
Portfolio	0.0%	-0.7%		0.0%	-0.1%	
Sales by region						
EMLA	678	546	-19.5	3,182	2,487	-21.8
NAFTA	474	394	-16.9	1,947	1,680	-13.7
APAC	445	396	-11.0	2,233	1,612	-27.8
EBITDA	111	123	+10.8	1,763	648	-63.2
EBIT	27	24	-11.1	1,412	250	-82.3
Operating cash flows	393	282	-28.2	1,386	575	-58.5
Cash outflows for additions to property, plant, equipment and intangible assets	171	168	-1.8	414	543	+31.2
Free operating cash flow	222	114	-48.6	972	32	-96.7

¹ Reference information was not restated, see note 2.1 "Financial reporting standards applied for the first time in the reporting period."

² Reference values calculated on the basis of the definition of the core business effective March 31, 2019.

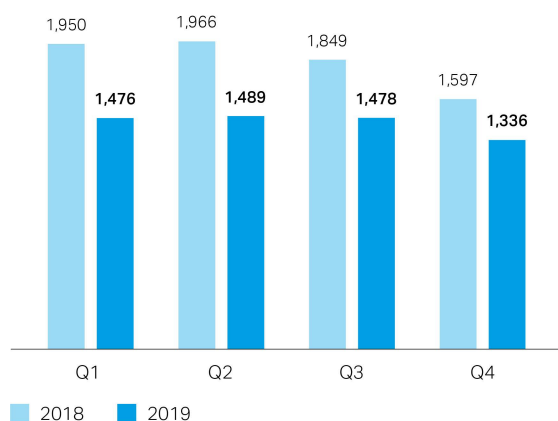
In fiscal 2019, core volumes in Polyurethanes rose by 2.3% over the prior-year period. An increase in volumes sold in the furniture and construction industries and in the electrical, electronics and household appliances industry more than offset weaker demand, especially from the automotive industry.

The Polyurethanes segment's sales were down 21.5% to €5,779 million (previous year: €7,362 million). The decrease in average selling prices reduced sales by 24.7%. In contrast, the growth in total volumes sold and exchange rate movements increased sales by 1.5% and 1.8%, respectively. Moreover, the portfolio effect from the sale of the European systems house business in the fourth quarter of 2019 had a negative effect of 0.1% on sales.

Sales in the EMLA region declined by 21.8% to €2,487 million (previous year: €3,182 million) on account of significantly lower average selling prices. However, total volumes sold increased somewhat. Changes in exchange rates and the aforementioned portfolio effect had no notable impact on sales. The NAFTA region's sales fell by 13.7% to €1,680 million (previous year: €1,947 million). Considerably lower selling prices and a minor decrease in total volumes sold combined to negatively affect sales. Conversely, exchange rate movements improved sales slightly. The APAC region's sales declined by 27.8% to €1,612 million (previous year: €2,233 million) due to a clear drop in average selling prices. The increase in total volumes sold and changes in exchange rates had a mildly positive effect on sales.

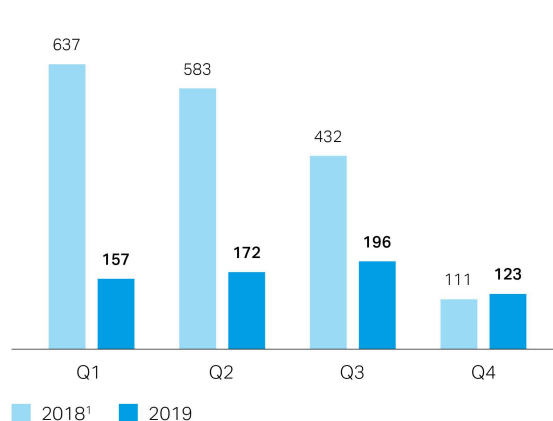
Polyurethanes Quarterly sales

€ million



Polyurethanes Quarterly EBITDA

€ million



¹ Reference information was not restated, see note 2.1 "Financial reporting standards applied for the first time in the reporting period."

EBITDA was down by 63.2% from the prior-year period to €648 million (previous year: €1,763 million). Lower selling prices cut deeply into margins despite a decline in raw material prices. In contrast, higher volumes sold had a positive effect on EBITDA. Moreover, insurance reimbursements were recognized in other operating income in the amount of €63 million. Gains from the sale of the European systems house business totaling €34 million served to increase earnings.

EBIT declined to €250 million (previous year: €1,412 million).

Free operating cash flow was down by 96.7% year over year to €32 million (previous year: €972 million), mostly due to a decrease in EBITDA and increase in cash outflows for property, plant and equipment. In addition, increased working capital freed up had a positive effect.

Polycarbonates

Key data Polycarbonates

	4th quarter 2018 ¹	4th quarter 2019	Change	2018 ¹	2019	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth²	+1.6%	+3.5%		+3.0%	+2.7%	
Sales	924	814	-11.9	4,051	3,473	-14.3
Change in sales						
Volume	+4.2%	0.0%		+3.8%	+2.4%	
Price	-2.3%	-13.5%		+9.7%	-16.5%	
Currency	+0.3%	+1.6%		-3.4%	+2.0%	
Portfolio	-3.8%	0.0%		-1.7%	-2.2%	
Sales by region						
EMLA	301	270	-10.3	1,347	1,146	-14.9
NAFTA	200	160	-20.0	817	734	-10.2
APAC	423	384	-9.2	1,887	1,593	-15.6
EBITDA	133	95	-28.6	1,036	536	-48.3
EBIT	88	39	-55.7	861	300	-65.2
Operating cash flows	235	204	-13.2	654	613	-6.3
Cash outflows for additions to property, plant, equipment and intangible assets	70	84	+20.0	186	209	+12.4
Free operating cash flow	165	120	-27.3	468	404	-13.7

¹ Reference information was not restated, see note 2.1 "Financial reporting standards applied for the first time in the reporting period."

² Reference values calculated on the basis of the definition of the core business effective March 31, 2019

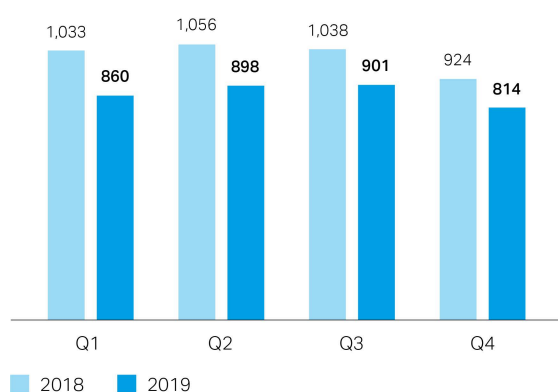
In 2019 as a whole, core volumes in Polycarbonates rose by 2.7% over the prior-year period. The electrical, electronics and household appliances industries and the construction industry were the main contributors to this growth.

The Polycarbonates segment's sales declined by 14.3% to €3,473 million in 2019 (previous year: €4,051 million). The key driver here was the year-over-year decrease in selling price levels, which reduced sales by 16.5%. In contrast, the expansion of total volumes and exchange rate movements had a positive effect on sales of 2.4% and 2.0%, respectively. Moreover, the portfolio effect from the sale of the U.S. sheets business in the third quarter of 2018 also impacted sales in fiscal 2019 with a negative effect of 2.2%.

In the EMLA region, sales were down by 14.9% to €1,146 million (previous year: €1,347 million). Significantly lower selling prices and slight decline in total volumes sold adversely affected sales, while changes in exchange rates overall did not have any notable impact. Sales in the NAFTA region declined by 10.2% to €734 million (previous year: €817 million), driven by a significant drop in average selling prices and the aforementioned portfolio effect, which had a strongly negative effect on sales. This stood in contrast to the slightly positive effects from the increase in total volumes sold and exchange rate movements. In the APAC region, sales decreased by 15.6% to €1,593 million (previous year: €1,887 million). Lower selling prices had a considerable negative effect on sales, whereas total volumes sold had a significantly positive effect. Exchange rate changes improved sales slightly.

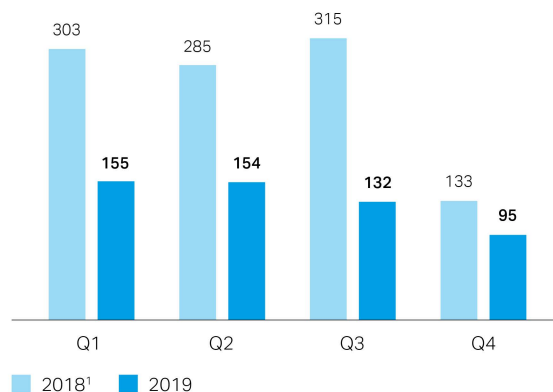
Polycarbonates Quarterly sales

€ million



Polycarbonates Quarterly EBITDA

€ million



¹ Reference information was not restated, see note 2.1 "Financial reporting standards applied for the first time in the reporting period."

In 2019, EBITDA in the Polycarbonates segment decreased by 48.3% compared with the prior-year period, dropping to €536 million (previous year: €1,036 million), mostly on account of the negative change in selling prices. Moreover, the portfolio effect from the sale of the U.S. sheets business also reduced earnings. Conversely, lower raw material prices and higher volumes sold had a positive effect on EBITDA.

EBIT decreased by 65.2% to €300 million (previous year: €861 million). Writedowns of assets totaling €26 million in connection with the disposal of the U.S. sheets business negatively affected EBIT. Of this amount, €21 million related to impairment losses on noncurrent assets.

Free operating cash flow decreased by 13.7% year over year to €404 million (previous year: €468 million), mostly as a result of the lower EBITDA. Greater cash outflows for additions to property, plant and equipment also had a negative effect, whereas increased working capital freed up had a positive effect.

Coatings, Adhesives, Specialties

Key data Coatings, Adhesives, Specialties

	4th quarter 2018 ¹	4th quarter 2019	Change	2018 ¹	2019	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth²	-2.2%	+6.2%		+2.3%	-1.0%	
Sales	534	533	-0.2	2,361	2,369	+0.3
Change in sales						
Volume	+0.3%	+0.1%		+3.5%	-2.1%	
Price	0.0%	-4.2%		+0.6%	-1.1%	
Currency	+0.6%	+1.9%		-2.6%	+2.3%	
Portfolio	0.0%	+2.0%		0.0%	+1.2%	
Sales by region						
EMLA	240	224	-6.7	1,117	1,052	-5.8
NAFTA	129	129	0.0	519	562	+8.3
APAC	165	180	+9.1	725	755	+4.1
EBITDA	63	62	-1.6	464	469	+1.1
EBIT	39	32	-17.9	371	352	-5.1
Operating cash flows	107	170	+58.9	309	349	+12.9
Cash outflows for additions to property, plant, equipment and intangible assets	36	55	+52.8	106	158	+49.1
Free operating cash flow	71	115	+62.0	203	191	-5.9

¹ Reference information was not restated, see note 2.1 "Financial reporting standards applied for the first time in the reporting period."

² Reference values calculated on the basis of the definition of the core business effective March 31, 2019.

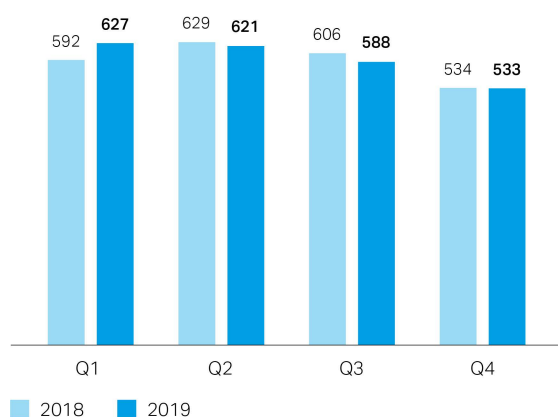
In the 2019 fiscal year, core volumes in Coatings, Adhesives, Specialties were down 1.0% from the prior year. This development was driven primarily by weaker automotive industry demand for coating precursors.

At €2,369 million, the Coatings, Adhesives, Specialties segment's sales remained stable year over year (previous year: €2,361 million). A decrease in total volumes sold and lower selling prices had negative effects on sales of 2.1% and 1.1%, respectively. In contrast, exchange rate movements had a positive impact of 2.3%. The step acquisition of shares and subsequent full consolidation of Japan-based DIC Covestro Polymer Ltd. also gave sales a 1.2% boost.

Sales in the EMLA region dropped by 5.8% to €1,052 million (previous year: €1,117 million) as a result of a sharp decline in total volumes sold. Changes in average selling prices and exchange rates collectively had no notable effect on sales. In the NAFTA region, sales grew by 8.3% to €562 million (previous year: €519 million). The growth in total volumes sold and higher selling price levels resulted in a slight improvement in sales. In addition, exchange rate fluctuations had a significant positive impact on sales. Sales in the APAC region increased by 4.1% to €755 million (previous year: €725 million). A modest positive effect from total volumes sold and exchange rate movements compensated for the minimal decrease in average selling prices. Moreover, the portfolio effect from the step acquisition of shares and subsequent full consolidation of Japan-based DIC Covestro Polymer Ltd. improved sales slightly.

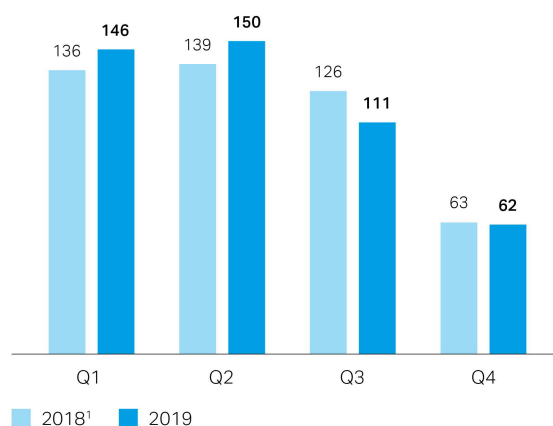
Coatings, Adhesives, Specialties Quarterly sales

€ million



Coatings, Adhesives, Specialties Quarterly EBITDA

€ million



¹ Reference information was not restated, see note 2.1 "Financial reporting standards applied for the first time in the reporting period."

EBITDA was up by 1.1% from the prior-year period to €469 million (previous year: €464 million). Lower selling prices were not balanced out by a decline in raw material prices and therefore cut into margins. Lower volumes likewise adversely influenced EBITDA. Conversely, exchange rate effects and the portfolio effect of the step acquisition of shares of Japan-based DIC Covestro Polymer Ltd. improved sales. In addition, the one-time gain from the remeasurement of shares of DIC Covestro Polymer Ltd. in Japan previously accounted for under the equity method had a positive effect on EBITDA of €19 million.

EBIT sank by 5.1% to €352 million (previous year: €371 million).

Free operating cash flow decreased by 5.9% to €191 million (previous year: €203 million). The main reason for this was the increase in cash outflows for additions to property, plant and equipment, which stood in contrast to the overall lower funds tied up in working capital.

Results of Operations

Covestro Group summary income statement

	2018 ¹	2019	Change
	€ million	€ million	%
Sales	14,616	12,412	-15.1
Cost of goods sold	(9,918)	(9,658)	-2.6
Selling expenses	(1,408)	(1,380)	-2.0
Research and development expenses	(276)	(266)	-3.6
General administration expenses	(491)	(372)	-24.2
Other operating expenses (-) and income (+)	57	116	>100
EBIT	2,580	852	-67.0
Financial result	(104)	(91)	-12.5
Income before income taxes	2,476	761	-69.3
Income taxes	(647)	(204)	-68.5
Income after income taxes	1,829	557	-69.5
of which attributable to noncontrolling interest	6	5	-16.7
of which attributable to Covestro AG stockholders (net income)	1,823	552	-69.7

¹ Reference information was not restated, see note 2.1 "Financial reporting standards applied for the first time in the reporting period."

Group sales in the reporting year dropped by 15.1% to €12,412 million (previous year: €14,616 million).

There was a 2.6% decrease in the cost of goods sold to €9,658 million (previous year: €9,918 million) on account of lower raw material prices. The ratio of the cost of goods sold to sales increased to 77.8% (previous year: 67.9%).

Selling expenses were down by 2.0% to €1,380 million (previous year: €1,408 million), yielding a ratio of selling expenses to sales of 11.1% (previous year: 9.6%). Research and development (R&D) expenses of €266 million decreased by 3.6% (previous year: €276 million). As a share of sales, this produced an R&D ratio of 2.1% (previous year: 1.9%). The funds were used mainly for developing new application solutions for our products and improving products and process technologies. The R&D projects are aligned to sustainability aspects.

General administration expenses saw a decrease of 24.2% to €372 million (previous year: €491 million).

A decline in provisions for short-term variable compensation had a positive effect on all functional costs.

Other operating income exceeded other operating expenses by €116 million (previous year: €57 million). This included items such as a gain from the sale of the European systems house business in the fourth quarter of 2019 amounting to €34 million, insurance reimbursements of €63 million, and a gain of €19 million from the remeasurement of shares of Japan-based DIC Covestro Polymer Ltd. previously accounted for under the equity method.

In the reporting period, EBIT amounted to €852 million, down 67.0% (previous year: €2,580 million). As a result, the EBIT margin decreased to 6.9% (previous year: 17.7%).

In fiscal 2019, the financial result was €-91 million (previous year: €-104 million). The key component of the financial result is the net interest expense totaling €-45 million (previous year: €-47 million). A negative effect from the application of IFRS 16 in the amount of €21 million is included in net interest expense. Conversely, lower hedging costs had a positive effect on net interest expense. Including the financial result, income before income taxes declined 69.3% to €761 million (previous year: €2,476 million). Due to earnings, the income tax expense dropped by 68.5% to €204 million (previous year: €647 million). After taxes and noncontrolling interests, net income was down 69.7% and amounted to €552 million (previous year: €1,823 million).

Financial Position

Covestro Group summary statement of cash flows

	4th quarter 2018 ¹	4th quarter 2019	2018 ¹	2019
	€ million	€ million	€ million	€ million
EBITDA	293	278	3,200	1,604
Income taxes paid	(69)	(31)	(574)	(296)
Change in pension provisions	8	26	26	49
(Gains) losses on retirements of noncurrent assets	(10)	(35)	(45)	(51)
Change in working capital/other noncash items	419	399	(231)	77
Cash flows from operating activities	641	637	2,376	1,383
Cash outflows for additions to property, plant, equipment and intangible assets	(278)	(307)	(707)	(910)
Free operating cash flow	363	330	1,669	473
Cash flows from investing activities	(254)	(252)	(346)	(838)
Cash flows from financing activities	(373)	(57)	(2,402)	(668)
Change in cash and cash equivalents due to business activities	14	328	(372)	(123)
Cash and cash equivalents at beginning of period	846	422	1,232	865
Change in cash and cash equivalents due to changes in scope of consolidation	–	–	–	(1)
Change in cash and cash equivalents due to exchange rate movements	5	(2)	5	7
Cash and cash equivalents at end of period	865	748	865	748

¹ Reference information was not restated, see note 2.1 "Financial reporting standards applied for the first time in the reporting period."

Cash flows from operating activities/free operating cash flow

Operating cash flows sank to €1,383 million (previous year: €2,376 million). A reduction in EBITDA stood in contrast to greater freed-up working capital and lower income tax payments. Cash outflows for additions to property, plant, equipment and intangible assets increased, resulting in free operating cash flow of €473 million (previous year: €1,669 million).

Cash flows from investing activities

In fiscal 2019, net cash used in investing activities totaled €838 million (previous year: €346 million). This item mainly reflected cash outflows for additions to property, plant, equipment and intangible assets of €910 million (previous year: €707 million) and cash inflows from the sale of the European systems house business of €51 million.

Capital expenditures in 2019 were targeted at plant maintenance and improvement as well as at new capacities in all three segments. An investment in the Shanghai (China) site safeguards and optimizes the chlorine supply. At Polyurethanes, after the successful completion of the MDI investment in Brunsbüttel (Germany), the strategically relevant capital expenditures pertained to the expansion of MDI capacity in Tarragona (Spain); at Polycarbonates, to the expansion of capacity at the site in Shanghai (China); and at Coatings, Adhesives, Specialties, to the expansion of global production capacities for Specialty Films.

Cash outflows for additions to property, plant, equipment and intangible assets

	2018 ¹	2019
Polyurethanes	414	543
Polycarbonates	186	209
Coatings, Adhesives, Specialties	106	158
Others/Consolidation	1	–
Covestro Group	707	910

¹ Reference information was not restated, see note 2.1 "Financial reporting standards applied for the first time in the reporting period."

Cash flows from financing activities

Net cash outflow for the Covestro Group's financing activities in 2019 amounted to €668 million (previous year: €2,402 million). These mainly included the dividend payout for Covestro AG totaling €438 million (previous year: €436 million).

Net financial debt

	Dec. 31, 2018 ¹	Dec. 31, 2019
	€ million	€ million
Bonds	996	997
Liabilities to banks	24	10
Lease liabilities ²	193	735
Liabilities from derivatives	12	10
Receivables from derivatives	(12)	(15)
Financial liabilities	1,213	1,737
Cash and cash equivalents	(865)	(748)
Net financial debt	348	989

¹ Reference information was not restated, see note 2.1 "Financial reporting standards applied for the first time in the reporting period."

² As of December 31, 2019, this also contains the lease liabilities from initial application of IFRS 16.

In fiscal 2019, net financial debt increased by €641 million to €989 million (previous year: €348 million). This rise was mainly attributable to the initial application of the IFRS 16 financial reporting standard and the resulting increase in lease liabilities. Moreover, cash and cash equivalents decreased to €748 million (previous year: €865 million).

Financial management

The main purpose of financial management is to ensure solvency at all times, continuously optimize capital costs and reduce the risks of financing measures. Financial management for the Covestro Group is performed centrally by Covestro AG.

Covestro AG currently holds a Baa1 investment-grade rating with a stable outlook from the rating agency Moody's Investors Service, London (United Kingdom).

Covestro AG operates a Debt Issuance Program as a framework with a total volume of €5,000 million to facilitate obtaining flexible financing from the capital market. The company is thus in the position to issue fixed- and variable-rate bonds as well as to undertake private placements. Covestro AG successfully placed several bonds from its Debt Issuance Program in March 2016. The outstanding bonds with a total volume of €1,000 million are fixed-rate bonds maturing in October 2021 (1.00% coupon, €500 million) and September 2024 (1.75% coupon, €500 million), and carry a Baa1 rating from Moody's Investors Service.

The liquidity acquired in this way is intended to be used for general financing needs. Covestro AG agreed a syndicated revolving credit facility with a banking consortium totaling €1,500 million with a term until September 2022. No loans were drawn against this syndicated credit facility as of December 31, 2019.

The Covestro Group pursues a prudent debt management strategy to ensure flexibility, drawing on a balanced financing portfolio. This portfolio is based for the most part on bonds, syndicated credit facilities and bilateral loan agreements.

As a company with international operations, Covestro is exposed to financial opportunities and risks. These are continuously monitored within the context of Covestro's financial management activities. Derivative financial instruments are used to minimize risks.

Please see the "Opportunities and Risks Report" for further details of financial opportunities and risks.

Net Assets

Covestro Group summary statement of financial position

	Dec. 31, 2018 ¹	Dec. 30, 2019
	€ million	€ million
Noncurrent assets ²	5,801	6,791
Current assets	5,283	4,727
Total assets	11,084	11,518
Equity	5,375	5,254
Noncurrent liabilities ³	3,126	4,129
Current liabilities	2,583	2,135
Liabilities	5,709	6,264
Total equity and liabilities	11,084	11,518

¹ Reference information was not restated, see note 2.1 "Financial reporting standards applied for the first time in the reporting period."

² As of January 1, 2019, this also contains the right-of-use assets from initial application of IFRS 16.

³ As of January 1, 2019, this also contains the lease liabilities from initial application of IFRS 16.

Total assets were up by €434 million compared with December 31, 2018, to €11,518 million as of December 31, 2019 (previous year: €11,084 million).

Noncurrent assets increased by €990 million to €6,791 million (previous year: €5,801 million) and accounted for 59.0% (previous year: 52.3%) of total assets. This change is largely attributable to the increase in property, plant and equipment by €877 million, which in turn resulted mainly from the recognition of right-of-use assets in accordance with the initial application of IFRS 16. Current financial liabilities declined by €556 million to €4,727 million (previous year: €5,283 million) and therefore accounted for 41.0% (previous year: 47.7%) of total assets. Active working capital management was the main driver here, resulting in a decline in inventories and trade accounts receivable.

Equity as of December 31, 2019, decreased by €121 million to €5,254 million (previous year: €5,375 million). The equity ratio amounted to 45.6% as of the reporting date (previous year: 48.5%). Income after income taxes was insufficient to offset the equity-reducing effects of the dividend distribution and the remeasurement of pension obligations.

Noncurrent liabilities increased by €1,003 million to €4,129 million as of the reporting date (previous year: €3,126 million) and accounted for 65.9% (previous year: 54.8%) of liabilities. This was mainly due to an increase in provisions for pensions and other post-employment benefits by €520 million and noncurrent financial liabilities by €435 million. In contrast, current liabilities decreased by €448 million to €2,135 million (previous year: €2,583 million) and accounted for 34.1% (previous year: 45.2%) of liabilities. The chief reason was a decline in other provisions by €290 million.

Net defined benefit liability for post-employment benefits

	Dec. 31, 2018	Dec. 31, 2019
	€ million	€ million
Net defined benefit liability for post-employment benefits	1,444	1,963

The net defined benefit liability for post-employment benefits (pension obligations less plan assets) increased by €519 million in the reporting year to €1,963 million (previous year: €1,444 million). An increase in the value of the plan assets was unable to offset actuarial losses primarily resulting from the lowering of the discount rate in Germany and the United States.

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 International Financial Reporting Standards (IFRSs). These non-IFRS indicators should be considered a supplement to, not a replacement for, the performance measures determined in accordance with IFRSs. The calculation methods and reconciliation of the non-IFRS sales and earnings APMs to the figures reported in the financial statements are presented below. 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.

The following are the alternative performance measures relevant to the Covestro Group:

- EBITDA
- Return on capital employed (ROCE)
- Free operating cash flow (FOCF)
- Net financial debt

Covestro uses ROCE to assess profitability in the context of the company's internal management system. EBITDA is also calculated as an additional indicator of profitability. FOCF is a key factor in the presentation of the liquidity position that indicates the company's ability to generate a cash surplus and finance its activities. Net financial debt gauges the Group's financial condition and financing requirements.

EBITDA

EBIT is a measure used in the calculation of EBITDA. EBIT represents the share of the income after income taxes plus financial result and income taxes attributable to Covestro's core business after elimination of the influence of variable tax rates and/or various financing activities.

Calculation of EBIT

	2018 ¹	2019
	€ million	€ million
Sales	14,616	12,412
Cost of goods sold	(9,918)	(9,658)
Gross profit	4,698	2,754
Selling expenses	(1,408)	(1,380)
Research and development expenses	(276)	(266)
General administration expenses	(491)	(372)
Other operating income	123	181
Other operating expenses	(66)	(65)
EBIT	2,580	852
Financial result	(104)	(91)
Income before income taxes	2,476	761
Income taxes	(647)	(204)
Income after income taxes	1,829	557

¹ Reference information was not restated, see note 2.1 "Financial reporting standards applied for the first time in the reporting period."

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. In addition, EBITDA is adjusted for possible distortions arising from various depreciation/amortization methods and measurement options, and therefore represents earnings from operating business activities.

Calculation of EBITDA

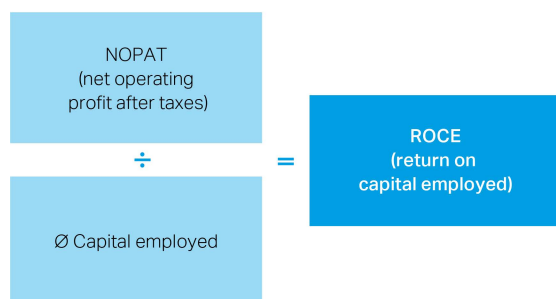
	2018 ¹	2019
	€ million	€ million
EBIT	2,580	852
Depreciation, amortization, impairment losses and impairment loss reversals	620	752
EBITDA	3,200	1,604

¹ Reference information was not restated, see note 2.1 "Financial reporting standards applied for the first time in the reporting period."

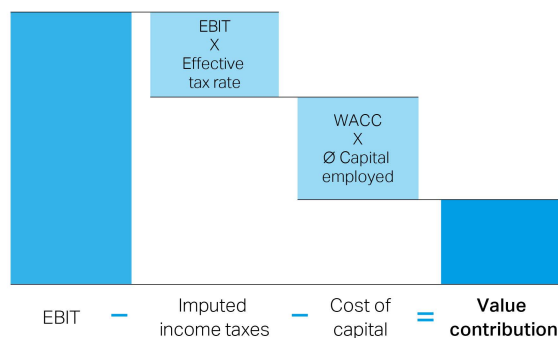
Return on capital employed (ROCE)

The foremost objective of the Covestro Group is to steadily increase enterprise value. Value is generated if Group earnings exceed the cost of capital. Covestro uses return on capital employed (ROCE) as the central value-based management metric. ROCE measures profitability and is calculated as the ratio of EBIT, adjusted for special items as needed, after imputed income taxes (NOPAT = net operating profit after taxes) to the average capital employed. If ROCE exceeds the weighted average cost of capital (WACC), the company is generating a premium on its cost of capital.

Calculation of the return on capital employed



Calculation of the value contribution



Calculation of average capital employed

The capital employed is the interest-bearing capital required by the company for its operations. It is calculated from operating noncurrent and current assets less non-interest-bearing liabilities. Non-interest-bearing liabilities include, for example, trade accounts payable and current provisions. The average capital employed is determined using the capital employed at the beginning and end of the relevant period.

Calculation of average capital employed

	Dec. 31, 2017 ^{1,2}	Effects of IFRS 9 and IFRS 15	Jan. 01, 2018 ²	Dec. 31, 2018 ²	Effects of IFRS 16	Jan. 01, 2019	Dec. 31, 2019
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Goodwill	253	–	253	256	–	256	264
Other intangible assets	81	–	81	77	–	77	114
Property, plant and equipment ³	4,296	–	4,296	4,409	660	5,069	5,286
Investments accounted for using the equity method	208	–	208	214	–	214	192
Other noncurrent financial assets ⁴	8	–	8	8	–	8	7
Other receivables ⁵	297	61	358	361	–	361	376
Deferred taxes ⁶	224	4	228	256	–	256	221
Inventories	1,913	(33)	1,880	2,213	–	2,213	1,916
Trade accounts receivable	1,882	(18)	1,864	1,786	–	1,786	1,561
Claims for income tax refunds	138	–	138	55	–	55	104
Assets held for sale ^{7,8}	–	–	–	–	–	1	12
Gross capital employed	9,300	14	9,314	9,635	660	10,296	10,053
Other provisions ⁹	(755)	28	(727)	(721)	–	(721)	(422)
Other liabilities ¹⁰	(215)	(65)	(280)	(234)	–	(234)	(208)
Deferred tax liabilities ¹¹	(160)	(6)	(166)	(153)	–	(153)	(204)
Trade accounts payable	(1,618)	37	(1,581)	(1,637)	–	(1,637)	(1,507)
Income tax liabilities	(235)	–	(235)	(279)	–	(279)	(164)
Liabilities directly related to assets held for sale ^{12,13}	–	–	–	–	–	–	(8)
Capital employed	6,317	8	6,325	6,611	660	7,272	7,540
Average capital employed				6,468			7,406

¹ Reference information was not restated for financial reporting standards IFRS 9 and IFRS 15.

² Reference information was not restated, see note 2.1 "Financial reporting standards applied for the first time in the reporting period."

³ As of January 1, 2019, this also contains the lease liabilities from initial application of IFRS 16.

⁴ Other noncurrent financial assets were adjusted for nonoperating assets.

⁵ Other receivables were adjusted for nonoperating and financial receivables.

⁶ Deferred taxes were adjusted for deferred taxes from defined benefit plans and similar obligations.

⁷ Assets held for sale have been included in the calculation of capital employed since January 1, 2019. The prior-year figures were not restated.

⁸ Assets held for sale were adjusted for nonoperating and financial assets.

⁹ Other provisions were adjusted for provisions for interest payments.

¹⁰ Other liabilities were adjusted for nonoperating and financial liabilities.

¹¹ Deferred tax liabilities were adjusted for deferred tax liabilities from defined benefit plans and similar obligations.

¹² Liabilities directly related to assets held for sale have been included in the calculation of capital employed since January 1, 2019. The prior-year figures were not restated.

¹³ Liabilities directly related to assets held for sale were adjusted for nonoperating and financial liabilities.

Calculation of the net operating profit after taxes (NOPAT) and capital costs

NOPAT is the operating result (EBIT) after imputed income taxes. The imputed income taxes are determined by multiplying the effective tax rate by EBIT.

WACC reflects the expected return on the company's capital comprising both equity and debt. The cost of equity factors used in WACC are calculated by addition of the risk-free interest rate and the risk premium for an equity investment. Covestro uses the returns on long-term German government bonds as the risk-free interest rate. We derive this risk premium from capital market information for comparable listed companies. The cost of debt factors is calculated by addition of the risk-free interest rate and a risk premium on debt capital that Covestro calculates using the financing costs of comparable companies, less the tax benefit of interest incurred on borrowed capital. Calculation of the cost of capital generally has a long-term perspective; short-term fluctuations are evened out. The capital cost factor for the Covestro Group was 6.8% in fiscal 2019 (previous year: 6.7%).

Calculation of the value contribution

The absolute value generation of the company is measured by the metric value contribution. This is the difference between NOPAT and the cost of capital. The latter is calculated by multiplying the average capital employed by WACC. A positive value contribution means that value has been generated.

Calculation of the value contribution

	2018 ¹	2019
	€ million	€ million
EBIT	2,580	852
Effective tax rate ²	+26.1%	+26.8%
Imputed income taxes ³	(673)	(228)
NOPAT	1,907	624
WACC	+6.7%	+6.8%
Average capital employed	6,468	7,406
Cost of capital	(433)	(504)
Value contribution	1,474	120
ROCE	+29.5%	+8.4%

¹ Reference information was not restated, see note 2.1 "Financial reporting standards applied for the first time in the reporting period."

² The calculation of the effective tax rate is presented in note 11 "Taxes."

³ The imputed income taxes used in the calculation of NOPAT are determined by multiplying EBIT by the effective tax rate.

Free operating cash flow (FOCF)

FOCF is the operating cash flow less cash outflows for additions to property, plant, equipment and intangible assets. Free operating cash flow serves in particular to pay dividends and interest and to repay debt.

Calculation of free operating cash flow

	2018 ¹	2019
	€ million	€ million
EBITDA	3,200	1,604
Income taxes paid	(574)	(296)
Change in pension provisions	26	49
(Gains) losses on retirements of noncurrent assets	(45)	(51)
Change in other working capital, other noncash items	(231)	77
Operating cash flows	2,376	1,383
Cash outflows for additions to property, plant, equipment and intangible assets	(707)	(910)
Free operating cash flow	1,669	473

¹ Reference information was not restated, see note 2.1 "Financial reporting standards applied for the first time in the reporting period."

Net financial debt

Net financial debt equals the sum of all financial liabilities less cash and cash equivalents, current financial assets and receivables from financial derivatives.

Net financial debt

	Dec. 31, 2018 ¹	Dec. 31, 2019
	€ million	€ million
Bonds	996	997
Liabilities to banks	24	10
Lease liabilities ²	193	735
Liabilities from derivatives	12	10
Receivables from derivatives	(12)	(15)
Financial liabilities	1,213	1,737
Cash and cash equivalents	(865)	(748)
Current financial assets	–	–
Net financial debt	348	989

¹ Reference information was not restated, see note 2.1 "Financial reporting standards applied for the first time in the reporting period."

² As of January 1, 2019, this also contains the lease liabilities from initial application of IFRS 16.

Effects of IFRS 16 (Leases)

Initial application of the IFRS 16 accounting standard in the reporting period did not result in any changes in the method for calculating the alternative performance measures relevant to Covestro.

The effects of the initial application of IFRS 16 in the reporting period on the alternative performance measures are presented in the following table:

Effects of the initial application of IFRS 16 on the alternative performance measures

	Dec.31, 2019	thereof IFRS 16 effects ¹
	€ million	€ million
EBITDA	1,604	131
Depreciation, amortization, impairment losses and impairment loss reversals	752	124
EBIT	852	7
Imputed income taxes	228	2
NOPAT	624	5
Capital employed	7,540	570
Average capital employed	7,406	615
ROCE	+8.4%	–0.7%
Free operating cash flow	473	130
Net financial debt	989	575

¹ Effects of the initial application of IFRS 16 in the 2019 fiscal year

Results of Operations, Financial Position and Net Assets of Covestro AG

Covestro AG is the parent company and strategic management holding company of the Covestro Group. The principal management functions for the entire Group are performed by the Board of Management. These include strategic planning for the Group, resource allocation and executive and financial management. Covestro AG's net assets, financial position and results of operations are largely determined by the business performance of its subsidiaries.

The financial statements of Covestro AG are prepared in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The company, headquartered in Leverkusen (Germany), is registered in the commercial register of the Local Court of Cologne under No. HRB 85281.

There is a control and profit and loss transfer agreement between Covestro AG and Covestro Deutschland AG, Leverkusen (Germany). All profit not subject to a prohibition on transfer is transferred in full to Covestro AG at the end of the year. Losses are absorbed in full. Other retained earnings recognized during the term of the agreement must be released upon request by Covestro AG and used to compensate a net loss for the year or transferred as profit.

Results of operations

Covestro AG income statements according to the German Commercial Code

	2018	2019
	€ million	€ million
Income from investments in affiliated companies - net	745	695
Interest expense - net	(18)	(14)
Other financial income - net	(6)	(3)
Net sales	23	21
Cost of services provided	(22)	(19)
General administration expenses	(79)	(48)
Other operating income	25	–
Other operating expenses	(1)	(3)
Income before income taxes	667	629
Income taxes	(171)	(6)
Net income	496	623
Retained earnings brought forward from prior year	3	1
Allocation to other retained earnings	(60)	(185)
Distributable profit	439	439

In fiscal 2019, Covestro AG generated net income of €623 million (previous year: €496 million), which stemmed largely from income from investments in affiliated companies totaling €695 million (previous year: €745 million). Income from investments in affiliated companies is solely attributable to income from the control and profit and loss transfer agreement with Covestro Deutschland AG.

General administration expenses totaling €48 million (previous year: €79 million) mainly consisted of personnel expenses for the employees of the holding company and members of the Board of Management. The year-over-year decline in the amount of €31 million is chiefly attributable to a decrease in expenses for short-term variable compensation and lower expenditure on strategic projects. The interest result includes interest expense of €14 million for the bonds issued. Other income and expense items had no notable effect on earnings. The result of operations was €629 million (previous year: €667 million) and led to income taxes of €6 million (previous year: €171 million). Taking into account the profit brought forward from the previous year and an allocation of €185 million (previous year: €60 million) to other retained earnings, there was a distributable profit of €439 million as in the previous year.

Our goal for the 2019 fiscal year was to generate distributable profit that would enable our stockholders to adequately participate in the Covestro Group's earnings. The Board of Management and the Supervisory Board are proposing a dividend of €2.40 per share carrying dividend rights for the 2019 fiscal year to the Annual General Meeting.

Net assets and financial position

Covestro AG statements of financial position according to the German Commercial Code

	Dec. 31, 2018	Dec. 31, 2019
	€ million	€ million
ASSETS		
Noncurrent assets	1,767	1,767
Intangible assets, property, plant and equipment	1	1
Financial assets	1,766	1,766
Current assets	3,839	3,999
Trade accounts receivables	25	7
Receivables from affiliated companies	3,762	3,902
Other assets	52	90
Deferred charges	7	5
Excess of plan assets over pension liability	7	8
Total assets	5,620	5,779
EQUITY AND LIABILITIES		
Equity	4,444	4,636
Capital stock	183	183
Own shares	–	–
Issued capital	183	183
Capital reserves	3,493	3,500
Other retained earnings	329	514
Distributable profit	439	439
Provisions	160	125
Provisions for pensions	3	3
Provisions for taxes	108	81
Other provisions	49	41
Liabilities	1,016	1,018
Bonds	1,000	1,000
Trade accounts payables	10	11
Payables to affiliated companies	1	3
Other liabilities	5	4
Total equity and liabilities	5,620	5,779

Covestro AG had total assets of €5,779 million as of December 31, 2019 (previous year: €5,620 million). The net assets and financial position of Covestro AG are dominated by its role as a holding company in managing subsidiaries and financing corporate activities. This is primarily reflected in the levels of financial assets (30.6% of total assets) and receivables from (67.5% of total assets), and payables to, Group companies.

Receivables from affiliated companies increased by €140 million to €3,902 million (previous year: €3,762 million). This is primarily due to a correspondingly higher intercompany loan to Covestro Deutschland AG.

All receivables and other assets have maturities of less than one year.

Property, plant, equipment and intangible assets were of secondary importance. At €12 million, current other receivables, including deferred income, were also immaterial in relation to total assets. Other assets of €90 million (previous year: €52 million) mainly included income tax and VAT receivables.

Covestro AG's equity amounted to €4,636 million (previous year: €4,444 million). This corresponds to an equity ratio of 80.2% (previous year: 79.1%). Changes in equity in fiscal 2019 were attributable to the payout of the dividend for fiscal 2018 in the amount of €438 million and an allocation of €185 million to retained earnings (previous year: €60 million). Treasury shares were issued to employees as part of a stock participation program (Covestment), thereby increasing capital reserves by €7 million in the fiscal year.

In contrast to equity, provisions amounted to €125 million (previous year: €160 million) and other liabilities totaled €1,018 million (previous year: €1,016 million).

Provisions comprised provisions for pensions and other post-employment benefits of €3 million (previous year: €3 million), tax provisions of €81 million (previous year: €108 million), and other provisions of €41 million (previous year: €49 million). The bonds have the following maturities: €1,000 million due within a period of one to five years. All other liabilities are due within one year.