INTERIM GROUP MANAGEMENT REPORT

AS OF JUNE 30, 2021

REPORT ON ECONOMIC POSITION

Significant Events

Coronavirus Pandemic

Despite the ongoing coronavirus pandemic, the growing availability of vaccines and the possibilities for combating the pandemic are having a positive impact on the global economy. In parallel, we are observing a significant recovery in demand compared with the prior-year period. The steps taken by Covestro early on last year to protect the health of all employees will stay in place, so extensive health, safety, and hygiene measures are still in effect at our sites. Covestro supports employee access to vaccinations against the coronavirus, including through cooperation with company health facilities. Depending on the local situation in each case, some staff, particularly employees in administrative departments, continue to work from home. Production at our sites was not affected by the pandemic in the first half of 2021.

Covestro is monitoring the development of the coronavirus pandemic worldwide on an ongoing basis to ensure that we can react quickly when necessary. Existing measures are modified and continually expanded as required in line with recommendations and instructions issued by the relevant governments and committees of experts.

Other Events

On February 25, 2021, Covestro signed an agreement on the sale of its 51% equity investment in subsidiary Pearl Covestro Polyurethane Systems FZCO, which operates the systems house business in Dubai (United Arab Emirates), to current co-shareholder Pearl Industries Overseas Ltd. The sale is part of an ongoing effort to optimize the portfolio and represents another step toward strategically refocusing the Polyurethanes segment. The transaction was completed on July 26, 2021, and generated proceeds of USD 8 million (about 7 Mio. €).

See note 11 "Events after the End of the Reporting Period" in the Notes to the Consolidated Interim Financial Statements.

On April 1, 2021, Covestro completed the acquisition of the Resins & Functional Materials (RFM) business from Koninklijke DSM N.V., Heerlen (Netherlands). A total of 27 RFM companies were fully consolidated for the first time on that date. Completing the RFM acquisition makes Covestro one of the world's leading suppliers of sustainable coating resins.

See note 4 "Scope of Consolidation" in the Notes to the Consolidated Interim Financial Statements.

In keeping with the first chapter of the strategy – "Become the best of who we are" – the Group restructured its organization as of July 1, 2021. The Group's three reportable segments to date (Polyurethanes, Polycarbonates and Coatings, Adhesives, Specialties) will be replaced in the future with two new reportable segments: Performance Materials and Solutions & Specialties. The Performance Materials segment concentrates on reliably delivering standard products at competitive market prices. The focus of the Solutions & Specialties segment is on complex products with a high pace of innovation, which Covestro combines with application technology services. Covestro's first report containing the new segment structure will be issued in the third quarter of 2021.

See note 11 "Events after the End of the Reporting Period" in the Notes to the Consolidated Interim Financial Statements.

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

Results of Operations

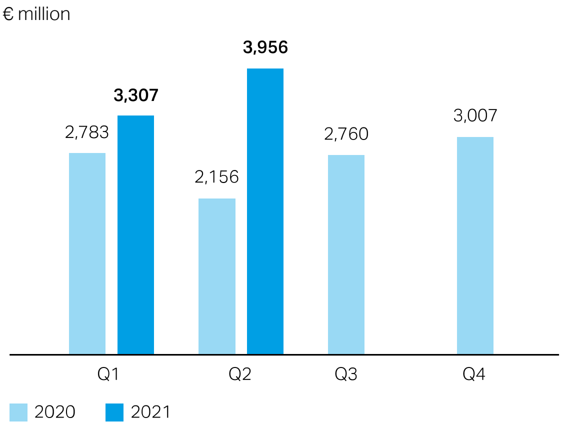
Second Quarter of 2021

Business picked up again considerably in the second quarter of 2021 after the coronavirus pandemic triggered a steep decline in demand in the prior-year quarter. The Group's core volumes sold rose by 35.0%, driven by the strong recovery in all main customer industries, but especially the automotive and transportation industry. Volumes were also up in the Coatings, Adhesives, Specialties segment due to the initial consolidation of the Resins & Functional Materials (RFM) business, which contributed 10.4% to this increase. The Polyurethanes and Polycarbonates segments reported growth in core volumes sold of 27.8% and 15.4%, respectively. Core volumes sold in the Coatings, Adhesives, Specialties segment more than doubled, taking into account the RFM acquisition.

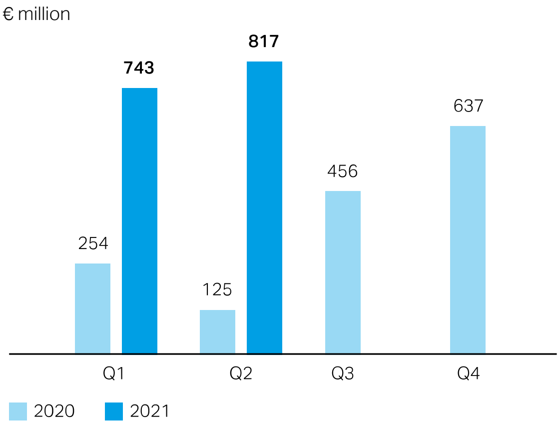
Group sales amounted to €3,956 million, up 83.5% from the prior-year quarter (previous year: €2,156 million). Significantly higher selling prices had a positive effect on sales amounting to 45.9%, chiefly due to a favorable competitive situation in the Polyurethanes and Polycarbonates segments. The growth in total volumes sold also increased sales by 29.0%. Moreover, the portfolio change resulting from the acquisition of the RFM business in the Coatings, Adhesives, Specialties segment in the second quarter of 2021 had a positive effect on sales of 14.0%. In contrast, exchange rate developments reduced sales by 5.4%.

All segments contributed to sales growth in the second quarter of 2021. Sales in the Polyurethanes segment more than doubled to €1,841 million (previous year: €913 million). In the Polycarbonates segment, sales were up 56.6% to €1,015 million (previous year: €648 million). The Coatings, Adhesives, Specialties segment also saw sales more than double to €926 million (previous year: €443 million), taking into account the RFM acquisition.

Covestro Group
Quarterly Sales



Covestro Group
Quarterly EBITDA



In the second quarter of 2021, the Group's EBITDA increased to €817 million (previous year: €125 million). This was largely due to higher selling prices, which more than offset the rise in raw material prices. As a result, all segments reported improved margins, especially Polyurethanes. An increase in total volumes sold also had a positive effect on EBITDA. In contrast, higher provisions for variable compensation reduced earnings. Nonrecurring expenses related to the RFM acquisition also had a negative effect on earnings in the low double-digit million range.

EBITDA in the Polyurethanes segment rose to €452 million (previous year: €–24 million), while the Polycarbonates segment's EBITDA grew to €260 million (previous year: €96 million). In the Coatings, Adhesives, Specialties segment, EBITDA increased to €134 million (previous year: €60 million) taking into account the RFM acquisition.

Depreciation, amortization and impairment losses rose by 8.8% to €210 million in the second quarter of 2021 (previous year: €193 million) for reasons including the takeover of assets as part of the RFM acquisition. They comprised €190 million (previous year: €187 million) in depreciation and impairments of property, plant and equipment and €20 million (previous year: €6 million) in amortization and impairments of intangible assets.

In the second quarter of 2021, the Covestro Group improved EBIT to €607 million (previous year: €–68 million).

Taking into account a financial result of €–18 million (previous year: €–17 million), income before income taxes increased to €589 million compared with the prior-year quarter (previous year: €–85 million). In contrast to the prior-year quarter's tax income of €32 million, the second quarter of 2021 saw a tax expense of €139 million in line with earnings. This resulted in income after taxes of €450 million (previous year: €–53 million). After noncontrolling interests, net income amounted to €449 million (previous year: €–52 million). Compared to the prior-year quarter, earnings per share totaled €2.32 (previous year: €–0.28).

First Half of 2021

In the first half of 2021, the Group's core volumes sold rose by 18.9%, driven by the recovery in demand in all main customer industries. The RFM acquisition contributed 4.7% of this growth. In the Coatings, Adhesives, Specialties segment, core volumes sold increased by 62.4%, mainly due to acquisitions. The Polyurethanes and Polycarbonates segments saw core volumes sold rise by 13.7% and 13.5%, respectively, over the prior-year period.

Group sales in the first half of 2021 increased by 47.1% to €7,263 million (previous year: €4,939 million). This development was largely attributable to higher selling prices, which boosted sales by 31.4%. An increase in total volumes sold had a positive effect on sales amounting to 14.6%. The portfolio change increased sales by 6.1%. In contrast, exchange rate movements reduced sales by 5.0%.

All segments saw sales grow in the first half of 2021. Sales in the Polyurethanes segment thus rose by 60.3% to €3,506 million (previous year: €2,187 million), while the Polycarbonates segment's sales grew by 37.9% to €1,904 million (previous year: €1,381 million), and sales in the Coatings, Adhesives, Specialties segment were up 49.9% to €1,521 million taking into account the RFM acquisition (previous year: €1,015 million).

The Group's EBITDA rose to €1,560 million in the first half of 2021 compared with the prior-year period (previous year: €379 million). This was mainly due to higher selling prices, which more than offset the rise in raw material prices. As a result, all segments reported improved margins, especially Polyurethanes. The increase in total volumes sold also had a positive impact on earnings. In contrast, higher provisions for short-term variable compensation reduced earnings. Nonrecurring expenses related to the RFM acquisition also had a negative effect on earnings in the low double-digit million range.

Depreciation, amortization and impairments in the first half of 2021 increased by 4.5% to €397 million (previous year: €380 million). They comprised €370 million (previous year: €369 million) in depreciation and impairments of property, plant and equipment and €27 million (previous year: €11 million) in amortization and impairments of intangible assets.

The Covestro Group's EBIT rose to €1,163 million in the first half of 2021 (previous year: €–1 million).

Taking into account a financial result of €–47 million (previous year: €–56 million), income before income taxes climbed to €1,116 million compared with the previous year (previous year: €–57 million). In contrast to the prior-year period's tax income of €25 million, the first half of 2021 saw a tax expense of €271 million in line with earnings. This resulted in income after taxes of €845 million (previous year: €–32 million). Net income amounted to €842 million (previous year: €–32 million) after noncontrolling interests. In the first half of 2021, earnings per share increased to €4.36 (previous year: €–0.17).

Financial Position

Covestro Group summary statement of cash flows

	2nd quarter 2020	2nd quarter 2021	1st half 2020	1st half 2021
	€ million	€ million	€ million	€ million
EBITDA	**125**	**817**	**379**	**1,560**
Income taxes paid	(12)	(126)	(102)	(176)
Change in pension provisions	6	12	17	21
(Gains) losses on retirements of noncurrent assets	(1)	(8)	1	(8)
Change in working capital/other noncash items	53	(142)	(234)	(416)
Cash flows from operating activities	**171**	**553**	**61**	**981**
Cash outflows for additions to property, plant, equipment and intangible assets	(147)	(179)	(286)	(289)
Free operating cash flow	**24**	**374**	**(225)**	**692**
Cash flows from investing activities	**(660)**	**(1,472)**	**(792)**	**(1,145)**
Cash flows from financing activities	**795**	**(341)**	**1,494**	**(395)**
Change in cash and cash equivalents due to business activities	**306**	**(1,260)**	**763**	**(559)**
Cash and cash equivalents at beginning of period	**1,200**	**2,106**	**748**	**1,404**
Change in cash and cash equivalents due to changes in scope of consolidation	–	–	1	–
Change in cash and cash equivalents due to exchange rate movements	(2)	10	(8)	11
Cash and cash equivalents at end of period	**1,504**	**856**	**1,504**	**856**

Cash Flows from Operating Activities/Free Operating Cash Flow

In the second quarter of 2021, cash flows from operating activities were up, rising to €553 million (previous year: €171 million). The key driver here was an increase in EBITDA, which more than offset any negative effects. These mainly comprised cash tied up in working capital, whereas in the prior-year quarter funds had been freed up from working capital. In addition, higher income tax payments had a negative effect. After deduction of cash outflows for additions to property, plant, equipment and intangible assets of €179 million (previous year: €147 million), free operating cash flow totaled €374 million (previous year: €24 million).

At €981 million, cash flows from operating activities in the first half of 2021 exceeded the prior-year figure of €61 million, chiefly on account of higher EBITDA. An increase in funds tied up in working capital and higher income tax payments had the opposite effect. After deduction of cash outflows for additions to property, plant, equipment and intangible assets of €289 million (previous year: €286 million), free operating cash flow totaled €692 million (previous year: €–225 million).

Cash Flows from Investing Activities

In the second quarter of 2021, net cash used in investing activities totaled €1,472 million (previous year: cash outflow of €660 million). Net purchase price payments of €1,469 million for the acquisition of the RFM business and additions to property, plant, equipment and intangible assets of €179 million (previous year: €147 million) were the main factors here. The net sale of money market fund units produced a cash inflow of €208 million.

In the first half of 2021, the net cash outflow for investing activities totaled €1,145 million (previous year: cash outflow of €792 million). This figure largely comprised the aforementioned net purchase price payments for the RFM acquisition and additions to property, plant, equipment and intangible assets of €289 million (previous year: €286 million). In contrast, net redemptions of short-term bank deposits amounted to €335 million, and the net sale of money market fund units generated €269 million.

Cash Flows from Financing Activities

In the second quarter of 2021, the Covestro Group's net cash outflow for financing activities totaled €341 million (previous year: cash inflow of €795 million), mainly due to dividend payments of €257 million. Of this amount, €251 million was attributable to Covestro AG shareholders.

Largely due to the aforementioned dividend payments, net cash used in financing activities in the first half of 2021 amounted to €395 million (previous year: cash inflow of €1,494 million). Net cash provided by financing activities in the prior-year period consisted mainly of bond issues totaling €1.0 billion.

Net financial debt

	Dec. 31, 2020	June 30, 2021
	€ million	€ million
Bonds	1,990	1,991
Liabilities to banks	227	225
Lease liabilities	672	757
Liabilities from derivatives	9	21
Other financial liabilities	1	1
Receivables from derivatives	(13)	(13)
Financial debt	**2,886**	**2,982**
Cash and cash equivalents	(1,404)	(856)
Current financial assets	(1,126)	(522)
Net financial debt	**356**	**1,604**

In comparison with December 31, 2020, the Covestro Group's financial debt increased by €96 million to €2,982 million in the first half of 2021.

Cash and cash equivalents decreased in comparison with the figure on December 31, 2020, by €548 million to €856 million. This change was mainly driven by the net purchase price payments for the RFM acquisition amounting to €1,469 million. Moreover, cash and cash equivalents declined on account of cash outflows for additions to property, plant, equipment and intangible assets of €289 million and dividend payments of €257 million. In contrast, positive cash flows from operating activities (€981 million), net proceeds of short-term bank deposits maturing (€335 million), and the net sale of money market fund units (€269 million) increased cash and cash equivalents. The redemption of short-term bank deposits and net sale of money market fund units in particular decreased current financial assets, which were down €604 million to €522 million.

In comparison with December 31, 2020, the Covestro Group's net financial debt increased by €1,248 million to €1,604 million as of June 30, 2021.

Net Assets

Covestro Group summary statement of financial position

	Dec. 31, 2020	June 30, 2021
	€ million	€ million
Noncurrent assets	6,734	8,226
Current assets	6,190	6,533
Total assets	**12,924**	**14,759**
Equity	**5,644**	**6,701**
Noncurrent liabilities	4,916	4,644
Current liabilities	2,364	3,414
Liabilities	**7,280**	**8,058**
Total equity and liabilities	**12,924**	**14,759**

Total assets were up €1,835 million as compared with December 31, 2020, to €14,759 million as of June 30, 2021.

Noncurrent assets increased by €1,492 million to €8,226 million (December 31, 2020: €6,734 million). The key factor here was the addition of noncurrent assets as part of the initial consolidation of RFM. Current assets were up €343 million to €6,533 million (December 31, 2020: €6,190 million). In particular, this was also due to the acquisition of the RFM business.

Equity grew to €6,701 million, increasing by €1,057 million as compared with December 31, 2020. This increase was largely attributable to income after income taxes.

Noncurrent liabilities were down €272 million to €4,644 million as of June 30, 2021 (December 31, 2020: €4,916 million). This stemmed principally from the change in provisions for pensions and other post-employment benefits, which dropped by €431 million to €1,692 million (December 31, 2020: €2,123 million). In contrast, noncurrent financial liabilities rose by €74 million to €2,351 million (December 31, 2020: €2,277 million), mainly on account of the initial consolidation of RFM. Current liabilities were also up €1,050 million to €3,414 million as of the reporting date (December 31, 2020: €2,364 million). The key drivers of this development were increases in trade accounts payable and other provisions.

Performance of the Reportable Segments

Polyurethanes

Polyurethanes key data

	2nd quarter 2020	2nd quarter 2021	Change	1st half 2020	1st half 2021	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth[1]	**–25.9%**	**+27.8%**		**–14.9%**	**+13.7%**	
Sales	913	1,841	>100	2,187	3,506	+60.3
Change in sales						
Volume	–24.8%	+29.1%		–13.7%	+12.3%	
Price	–12.3%	+78.5%		–11.5%	+53.8%	
Currency	–0.4%	–6.0%		+0.1%	–5.8%	
Portfolio	–1.2%	0.0%		–1.1%	0.0%	
Sales by region						
EMLA	359	874	>100	948	1,678	+77.0
NA	266	457	+71.8	661	814	+23.1
APAC	288	510	+77.1	578	1,014	+75.4
EBITDA	**(24)**	**452**	**.**	**26**	**895**	**.**
EBIT	(130)	348	.	(181)	688	.
Cash flows from operating activities	7	288	.	(79)	490	.
Cash outflows for additions to property, plant, equipment and intangible assets	84	113	+34.5	168	184	+9.5
Free operating cash flow	**(77)**	**175**	**.**	**(247)**	**306**	**.**

[1] Reference values calculated on the basis of the definition of the core business effective March 31, 2021.

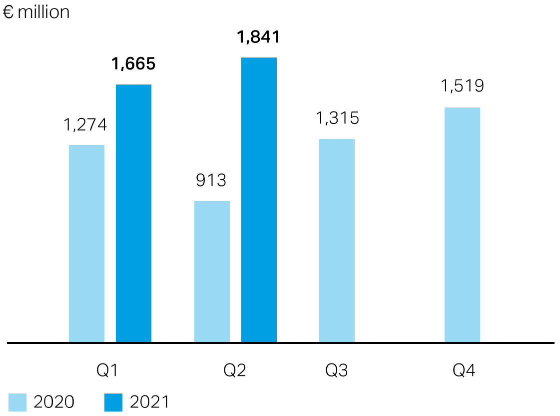
Second Quarter of 2021

In the second quarter of 2021, core volumes sold in the Polyurethanes segment grew by 27.8% over the prior-year quarter, which had been heavily affected by the coronavirus pandemic. Core volumes sold were up in all main customer industries across the three regions. This was particularly evident in the construction industry as well as in the automotive and transportation industry. In contrast, the consequences of the unplanned weather-related production stoppages in the NA region in the first quarter of 2021 continued to be felt well into the second quarter of 2021. This led to limited product availability and impaired our growth potential.

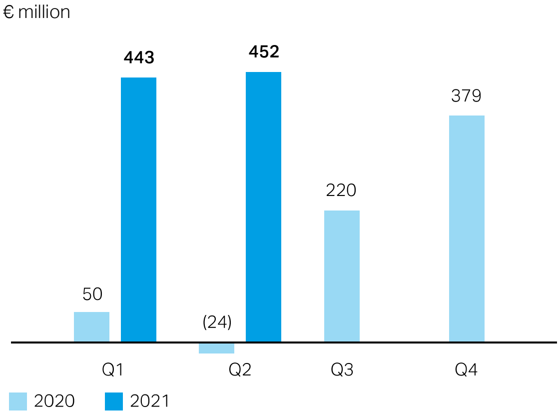
The Polyurethanes segment's sales more than doubled over the prior-year quarter to €1,841 million (previous year: €913 million). Key drivers of this development were an increase in average selling prices, which lifted sales by 78.5%, and especially a favorable competitive situation. Growth in total volumes sold also had a positive effect on sales of 29.1%. In contrast, exchange rate developments had a negative impact on sales of 6.0%.

The EMLA region's sales more than doubled to €874 million (previous year: €359 million). Higher selling prices and growth in total volumes sold contributed substantially to the increase in sales. However, exchange rate changes had a slightly negative effect on sales. In the NA region, sales were up by 71.8% to €457 million (previous year: €266 million). This was the result of a massive rise in average selling prices and strong increase in total volumes sold, both factors which positively affected sales. In contrast, the development of exchange rates pushed sales down significantly. Sales in the APAC region were up by 77.1% to €510 million (previous year: €288 million). A higher selling price level and positive trend in total volumes sold each had a substantially positive effect on sales. Exchange rate movements had a slightly negative impact on sales.

Polyurethanes
Quarterly Sales



Polyurethanes
Quarterly EBITDA



In the second quarter of 2021, the Polyurethanes segment's EBITDA rose over the prior-year quarter, increasing to €452 million (previous year: €–24 million). The main drivers of this development were the increase in selling prices, which offset the contrasting effect of higher raw material prices and led to higher margins, and the growth in total volumes sold. However, higher provisions for variable compensation reduced earnings.

EBIT advanced to €348 million (previous year: €–130 million).

Free operating cash flow climbed to €175 million (previous year: €–77 million). This was mainly due to the sharp rise in EBITDA, which stood in contrast to an increase in funds tied up in working capital and higher cash outflows for additions to property, plant and equipment.

First Half of 2021

Core volumes sold in the Polyurethanes segment increased by 13.7% in the first half of 2021 in contrast to the prior-year period, which had been adversely affected by the coronavirus pandemic. This development was attributable to the growth in core volumes sold in all main customer industries, especially the automotive and transportation industry as well as the construction industry, particularly in the EMLA and APAC regions. However, the aforementioned effects of the unplanned weather-related production stoppages in the NA region limited product availability and growth potential during the first half of 2021.

In the same period, the segment's sales were up by 60.3% to €3,506 million (previous year: €2,187 million). Higher selling prices attributable to an advantageous competitive situation and growth in total volumes sold had positive effects on sales of 53.8% and 12.3%, respectively. Exchange rate changes reduced sales by 5.8%.

In the first half of 2021, EBITDA increased to €895 million (previous year: €26 million). Higher selling prices more than compensated for the rise in raw material prices and increased margins. Likewise, the increase in total volumes sold had a positive effect on EBITDA. However, higher provisions for variable compensation had a negative effect on earnings.

EBIT rose to €688 million (previous year: €–181 million).

Free operating cash flow was up, amounting to €306 million (previous year: €–247 million), largely due to the improvement in EBITDA. This increase stood in contrast to greater funds tied up in working capital and higher cash outflows for additions to property, plant, equipment and intangible assets.

Polycarbonates

Polycarbonates key data

	2nd quarter 2020	2nd quarter 2021	Change	1st half 2020	1st half 2021	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth[1]	**–14.4%**	**+15.4%**		**–9.8%**	**+13.5%**	
Sales	648	1,015	+56.6	1,381	1,904	+37.9
Change in sales						
Volume	–16.4%	+28.1%		–9.6%	+19.9%	
Price	–7.8%	+33.3%		–8.6%	+22.9%	
Currency	–0.1%	–4.8%		+0.4%	–4.9%	
Portfolio	–3.5%	0.0%		–3.6%	0.0%	
Sales by region						
EMLA	197	310	+57.4	459	602	+31.2
NA	121	166	+37.2	302	313	+3.6
APAC	330	539	+63.3	620	989	+59.5
EBITDA	**96**	**260**	**>100**	**205**	**482**	**>100**
EBIT	41	208	>400	95	376	>200
Cash flows from operating activities	68	140	>100	103	245	>100
Cash outflows for additions to property, plant, equipment and intangible assets	34	22	–35.3	63	38	–39.7
Free operating cash flow	**34**	**118**	**>200**	**40**	**207**	**>400**

[1] Reference values calculated on the basis of the definition of the core business effective March 31, 2021.

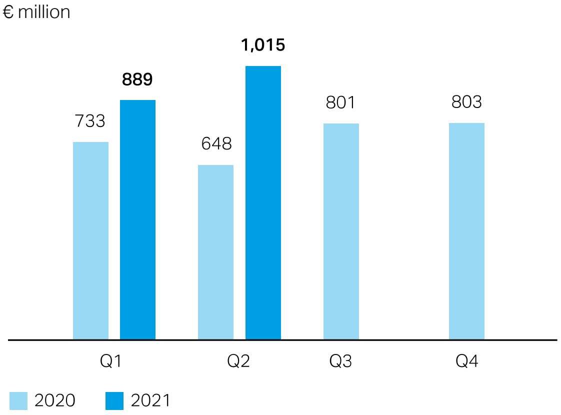
Second Quarter of 2021

In the second quarter of 2021, core volumes sold in the Polycarbonates segment rose by 15.4% over the prior-year quarter, which had been adversely affected by the coronavirus pandemic. This change was mainly due to growth in core volumes sold in the automotive and transportation industry observed across all regions. At the same time, the unplanned weather-related production stoppages in the NA region in the first quarter of 2021 resulted in limited product availability and therefore reduced our growth potential.

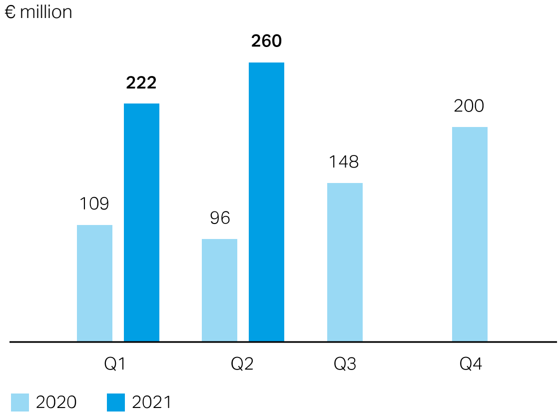
The Polycarbonates segment’s sales were up by 56.6% to €1,015 million in the second quarter of 2021 (previous year: €648 million). Sales saw positive effects of 33.3% from higher selling prices due to a favorable competitive situation and 28.1% from growth in total volumes sold. Exchange rate changes reduced sales by 4.8%, however.

In the EMLA region, sales were up by 57.4% to €310 million (previous year: €197 million). A positive trend in total volumes sold had a strong positive impact on sales. In addition, a rise in the selling price level increased sales significantly, while exchange rate changes were neutral overall with respect to sales. In the NA region, sales climbed by 37.2% to €166 million (previous year: €121 million). This development was driven by a massive increase in total volumes sold. At the same time, exchange rate movements had a considerable negative effect on sales, whereas the decline in average selling prices only reduced sales slightly. In the APAC region, sales grew by 63.3% to €539 million (previous year: €330 million). Higher selling price levels caused sales to increase substantially. Moreover, the expansion of total volumes sold had a considerable positive effect on sales. In contrast, exchange rate developments pushed sales down significantly.

Polycarbonates
Quarterly Sales



Polycarbonates
Quarterly EBITDA



In the second quarter of 2021, the Polycarbonates segment's EBITDA rose to €260 million over the prior-year quarter (previous year: €96 million). Higher selling prices more than offset the rise in raw material prices and led to substantially improved margins, which had a positive effect on EBITDA. Growth in total volumes sold also increased earnings. However, higher provisions for variable compensation had a negative effect on earnings.

EBIT increased more than fivefold, amounting to €208 million (previous year: €41 million).

Free operating cash flow rose to €118 million (previous year: €34 million). The key drivers of this development were the higher EBITDA and lower cash outflows for additions to property, plant and equipment, which stood in contrast to an increase in funds tied up in working capital.

First Half of 2021

In the first half of 2021, the Polycarbonates segment saw core volumes sold grow by 13.5% over the prior-year period, which was adversely affected by the coronavirus pandemic. Core volumes sold were up, particularly in the automotive and transportation industry across all regions and in the electrical, electronics and household appliance industry in the APAC region. The aforementioned production stoppages in the first quarter of 2021 resulted in limited product availability and impeded our growth opportunities.

In the Polycarbonates segment, sales climbed by 37.9% in the first half of 2021 to €1,904 million (previous year: €1,381 million). Higher selling prices increased sales by 22.9% due to an advantageous competitive situation. Growth in total volumes sold also had a positive impact on sales totaling 19.9%. In contrast, exchange rate developments reduced sales by 4.9%.

EBITDA in the Polycarbonates segment in the first half of 2021 more than doubled over the prior-year period, growing to €482 million (previous year: €205 million). The main factor driving this development was the rise in margins, with higher selling prices more than offsetting the countereffect of higher raw material prices. At the same time, an increase in total volumes sold gave earnings a boost. However, higher provisions for variable compensation had a negative effect on earnings.

EBIT advanced to €376 million (previous year: €95 million).

Free operating cash flow grew to €207 million (previous year: €40 million). This was due to the increase in EBITDA and lower cash outflows for additions to property, plant and equipment. An increase in funds tied up in working capital had a negative effect.

Coatings, Adhesives, Specialties

Coatings, Adhesives, Specialties key data

	2nd quarter 2020	2nd quarter 2021	Change	1st half 2020	1st half 2021	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth[1]	**–25.3%**	**+133.5%**		**–15.2%**	**+62.4%**	
Sales	443	926	>100	1,015	1,521	+49.9
Change in sales						
Volume	–25.8%	+34.4%		–16.4%	+18.1%	
Price	–3.2%	+13.2%		–3.5%	+7.1%	
Currency	+0.3%	–6.5%		+0.7%	–5.0%	
Portfolio	0.0%	+67.9%		+0.5%	+29.7%	
Sales by region						
EMLA	188	434	>100	467	702	+50.3
NA	101	198	+96.0	240	325	+35.4
APAC	154	294	+90.9	308	494	+60.4
EBITDA	**60**	**134**	**>100**	**190**	**248**	**+30.5**
EBIT	28	81	>100	128	166	+29.7
Cash flows from operating activities	94	132	+40.4	134	177	+32.1
Cash outflows for additions to property, plant, equipment and intangible assets	29	43	+48.3	54	66	+22.2
Free operating cash flow	**65**	**89**	**+36.9**	**80**	**111**	**+38.8**

[1] Reference values calculated on the basis of the definition of the core business effective March 31, 2021.

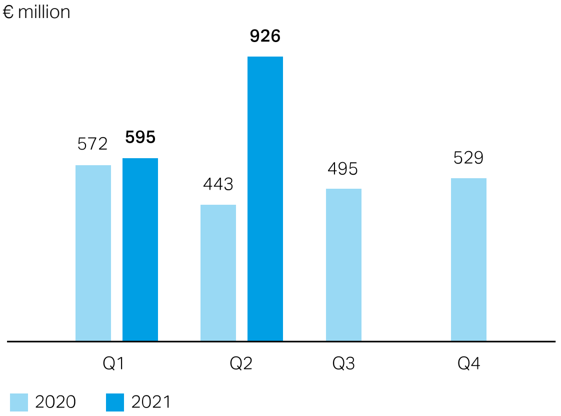
Second Quarter of 2021

In the second quarter of 2021, core volumes sold in the Coatings, Adhesives, Specialties segment rose by 133.5% over the prior-year quarter. The initial consolidation of the Resins & Functional Materials (RFM) business contributed 100.6% of this figure. Moreover, volumes sold increased in the main customer industries, especially in the EMLA region, where demand recovered in contrast to the prior-year quarter adversely affected by the coronavirus pandemic. At the same time, raw material bottlenecks ongoing since the first quarter of 2021 continued to limit product availability in the Coatings, Adhesives, Specialties segment in the second quarter of 2021 and impeded our organic growth opportunities.

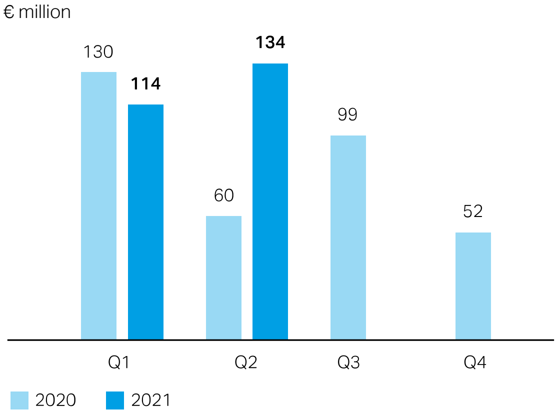
In the second quarter of 2021, the segment's sales more than doubled, growing to €926 million (previous year: €443 million). The portfolio effect stemming from the acquisition of RFM had a positive effect on sales of 67.9%. Likewise, growth in total volumes sold and higher selling prices also increased sales by 34.4% and 13.2%, respectively. However, exchange rate movements reduced sales by 6.5%.

In the EMLA region, sales more than doubled over the prior-year quarter, amounting to €434 million (previous year: €188 million). Key drivers here were the aforementioned portfolio effect and an increase in total volumes sold, both of which massively increased sales. Higher average selling prices also had a significantly positive effect on sales. Exchange rate developments were neutral overall in terms of sales. Sales in the NA region were up by 96.0% to €198 million (previous year: €101 million). Both the aforementioned portfolio effect and an increase in total volumes sold substantially boosted sales. At the same time, a rise in the selling price level had a significant positive impact on sales, whereas exchange rate changes reduced sales considerably. In the APAC region, sales climbed by 90.9% to €294 million (previous year: €154 million). The above-mentioned portfolio effect, a positive trend in total volumes sold, and higher average selling prices strongly increased sales. In contrast, exchange rate movements had a clearly negative effect on sales.

Coatings, Adhesives, Specialties
Quarterly Sales



Coatings, Adhesives, Specialties
Quarterly EBITDA



In the second quarter of 2021, EBITDA in the Coatings, Adhesives, Specialties segment more than doubled over the prior-year period, growing to €134 million (previous year: €60 million). The increase in total volumes sold was the key factor in this development. At the same time, a higher selling price level led to improved margins despite an increase in raw material prices, which in turn buoyed earnings. However, higher provisions for variable compensation reduced earnings. Nonrecurring expenses in the low double-digit million range resulting from the RFM acquisition also had a negative effect on earnings.

EBIT was up, increasing to €81 million (previous year: €28 million).

In the second quarter of 2021, free operating cash flow rose to €89 million (previous year: €65 million). Higher EBITDA had a positive effect here, whereas a decrease in funds freed up from working capital and higher cash outflows for additions to property, plant and equipment each had a negative effect on free operating cash flow.

First Half of 2021

In the first half of 2021, core volumes sold in the Coatings, Adhesives, Specialties segment were up by 62.4% over the prior-year period. This was chiefly due to the aforementioned RFM acquisition and growth in volumes sold across all main customer industries as a result of the recovery in demand since the prior-year quarter, which had felt the impact of the coronavirus pandemic. At the same time, persistent raw material bottlenecks and the resulting limited availability of products curbed our organic growth potential.

Sales of Coatings, Adhesives, Specialties were up by 49.9% to €1,521 million in the same period (previous year: €1,015 million). The above-mentioned portfolio effect and higher total volumes sold increased sales by 29.7% and 18.1%, respectively. Average selling prices also increased, which gave sales a 7.1% lift, but exchange rate movements reduced sales by 5.0%.

In the first half of 2021, EBITDA grew by 30.5% to €248 million over the prior-year period (previous year: €190 million), mainly due to the increase in total volumes sold. In addition, higher selling prices led to improved margins despite an increase in raw material prices, which had a positive effect on earnings. However, higher provisions for variable compensation had a negative effect on EBITDA. At the same time, nonrecurring effects in the low double-digit million range in connection with the RFM acquisition also reduced earnings.

EBIT increased by 29.7% to €166 million (previous year: €128 million).

Free operating cash flow rose by 38.8% in the first half of 2021 to €111 million (previous year: €80 million). The rise in EBITDA more than offset higher cash outflows for additions to property, plant, equipment and intangible assets and an increase in funds tied up in working capital.

REPORT ON FUTURE PERSPECTIVES AND ON OPPORTUNITIES AND RISKS

Economic Outlook

Global Economy

The lingering coronavirus pandemic is likely to make the year 2021 another challenging one for the global economy. Likewise, the spread of coronavirus variants raise the possibility of new waves of the pandemic, which could affect growth negatively. However, as a result of the increasing availability of vaccines and the start of a controlled approach to fighting the pandemic, we continue to expect a return to positive growth rates in all regions. In contrast to the outlook we published in the Annual Report 2020, we now anticipate a faster recovery of the global economy and a resulting greater increase in economic performance of 5.8%.

We revised our estimates for all regions upward, principally due to expected higher production volumes and consumer spending. In the NA region, we anticipate a more significant increase in expected economic growth compared with our outlook published in the Annual Report 2020. This is due to factors including the increase in the US economic stimulus package to USD 1.9 trillion and the demand for travel and services in excess of expectations to date. Another overall economic situation significantly better than the assessment we presented in our Annual Report 2020 is taking shape in the EMLA region. This is mostly due to rising vaccination rates and an increasing number of pandemic-related restrictions being lifted. In the APAC region, we expect the economic recovery to proceed slightly faster than stated in our outlook in the Annual Report 2020, driven mainly by growth in China coming in stronger than expected.

Economic growth[1]

	Growth 2020	Growth forecast 2021 (Annual Report 2020)	Growth forecast 2021
	%	%	%
World	**–3.6**	**+4.4**	**+5.8**
Europe, Middle East, Latin America[2], Africa (EMLA)	**–5.8**	**+3.4**	**+4.8**
of which Europe	–6.1	+3.2	+5.0
of which Germany	–5.1	+2.8	+3.8
of which Middle East	–4.0	+4.5	+4.4
of which Latin America[2]	–7.5	+3.7	+4.9
of which Africa	–2.8	+2.4	+3.7
North America[3] (NA)	**–3.9**	**+4.0**	**+6.5**
of which United States	–3.5	+4.0	+6.6
Asia-Pacific (APAC)	**–1.1**	**+5.7**	**+6.2**
of which China	+2.3	+7.6	+8.5

[1] Real growth of gross domestic product; source: IHS (Global Insight), "Growth 2020" and "Growth forecast 2021" as of July 2021.
[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 2021. However, we expect the pace of growth to differ in the individual industries.

Growth in main customer industries[1]

	Growth 2020	Growth forecast 2021 (Annual Report 2020)	Growth forecast 2021
	%	%	%
Automotive	–15.9	+17.3	+13.8
Construction	–1.8	+0.6	+1.3
Electrical, electronics and household appliances	+4.5	+6.3	+13.9
Furniture	–6.8	+4.6	+4.7

[1] Covestro's estimate, based on the following sources: LMC Automotive Limited, B+L, CSIL (Centre for Industrial Studies), Oxford Economics. We limited the economic data of our "automotive and transportation" and "furniture and wood processing" main customer industries to the automotive and furniture segments (not the transportation or wood processing segments). As of: July 2021.

Growth in the automotive industry is projected to be 13.8%, down from the outlook presented in the Annual Report 2020. This is chiefly due to bottlenecks in the supply of semiconductors and petrochemical by-products, and the resulting limitations in car manufacturing. At 1.3%, growth in the construction industry will likely exceed the projection in the Annual Report 2020. Likewise, we anticipate the growth rate in the electrical, electronic, and household appliances industry to come in at 13.9%, higher than expected in the Annual Report 2020, on account of the growth in consumer expenditure persisting throughout the pandemic. The projected growth rate for the furniture industry was raised to 4.7%.

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, the economic outlook outlined above, and consideration of our potential risks and opportunities. The acquisition completed on April 1, 2021, and the integration of the Resins & Functional Materials (RFM) business of Koninklijke DSM N.V., Heerlen (Netherlands), into the Coatings, Adhesives, Specialties segment has been factored into this forecast.

Covestro adjusted the forecast presented in the Annual Report 2020 on April 13, 2021, as a result of business development that has been better than previously expected. An increasingly positive outlook led to the forecast being raised again on July 12, 2021. We hereby confirm the forecast for fiscal year 2021 amended on July 12, 2021, and expect the following development of our key performance indicators:

Forecast key management indicators

	2020	Forecast 2021 (Annual Report 2020)	Previous forecast 2021 (April 13, 2021)	Adjusted forecast 2021 (July 12, 2021)
Core volume growth	–5.6%	Between 10% and 15%	Between 10% and 15%	Between 10% and 15%
Free operating cash flow (FOCF)	€530 million	Between €900 million and €1,400 million	Between €1,300 million and €1,800 million	Between €1,600 million and €2,000 million
Return on capital employed (ROCE)[1]	+7.0%	Between 7% and 12%	Between 12% and 17%	Between 16% and 20%

[1] ROCE: The return on capital employed is calculated as the ratio of EBIT after taxes to capital employed. Capital employed is the capital used by the company. It is the sum of noncurrent and current assets less noninterest-bearing liabilities such as trade accounts payable.

We still anticipate that core volume growth for the Covestro Group will be between 10% and 15%, with around 6 percentage points attributable to the acquisition of the RFM business. We also continue to project growth for the Coatings, Adhesives, Specialties segment significantly above the corridor expected for the Group. For the Polyurethanes and Polycarbonates segments, our growth projection remains in the mid- to high-single-digit percentage range.

This year, FOCF is forecast to fall between €1,600 million and €2,000 million. We continue to expect a FOCF well over the prior-year figures for the Polyurethanes and Polycarbonates segments and now project a similar trend for the Coatings, Adhesives, Specialties segment (previously: FOCF well under the prior-year figure).

For fiscal year 2021, we now expect a ROCE of between 16% and 20%.

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 2020 for a detailed explanation of our opportunity and risk management system and opportunity and risk situation.

Changes in the Risk Situation

At the time this Half-Year Financial Report was prepared, there had been no fundamental changes in the opportunity or risk situation since December 31, 2020. Additionally, there are no risks that could endanger the Group's continued existence, and no such risks are currently identifiable for the future.

No new material developments have occurred in the legal proceedings presented in the Annual Report 2020, and no new material legal proceedings are pending.

See note 28 "Legal Risks" in the Notes to the Consolidated Financial Statements for additional information.