INTERIM GROUP MANAGEMENT REPORT

REPORT ON ECONOMIC POSITION

Significant Events

War in Ukraine

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

See "Opportunities and Risks."

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

Coronavirus Pandemic

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

CEO Dr. Markus Steilemann's Contract Extended

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

Share Buyback Program

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

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

Climate Neutrality by the Year 2035

In the course of Covestro's efforts to make plastics production fully circular, on March 1, 2022, the company communicated new climate targets to reduce its direct GHG emissions from its own production activities (Scope 1) and indirect GHG emissions from external energy sources (Scope 2). The Group is striving to become climate-neutral and to reach net-zero greenhouse gas (GHG) emissions* by the year 2035. The company plans to reduce Scope 1 and Scope 2 GHG emissions by 60% to 2.2 million metric tons of CO_2 equivalents by the year 2030. In the long term, Covestro's goal is to use up to 100% renewable energy such as wind and solar power as well as alternative raw materials such as biomass, waste, CO_2, and hydrogen in its production processes. In addition, a target for the long-term reduction of indirect GHG emissions from upstream and downstream processes in the value chain (Scope 3) is to be defined in the year 2023.

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

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

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

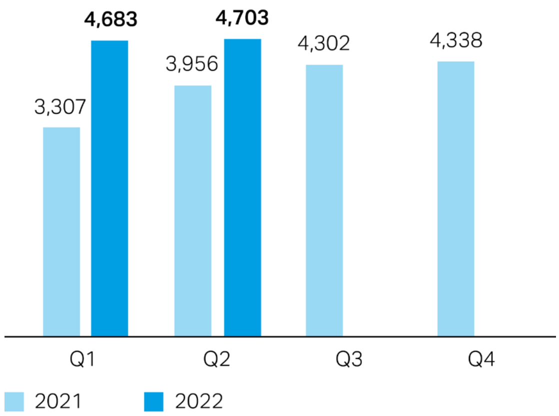
* Achievement of net zero greenhouse gas emissions is defined as a balance between anthropogenic emissions (those caused by the company's own production activities and by external energy sources) and anthropogenic reduction of greenhouse gases.

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

Results of Operations

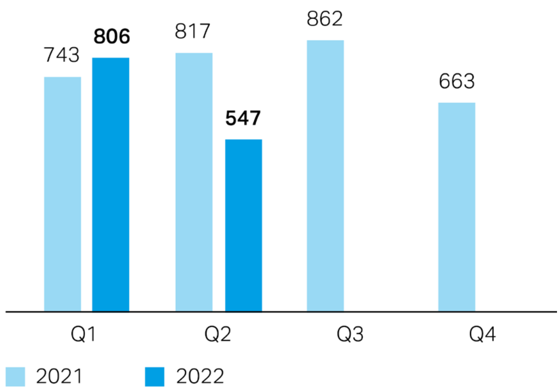
Covestro Group
Quarterly Sales

€ million



Covestro Group
Quarterly EBITDA

€ million



Second Quarter of 2022

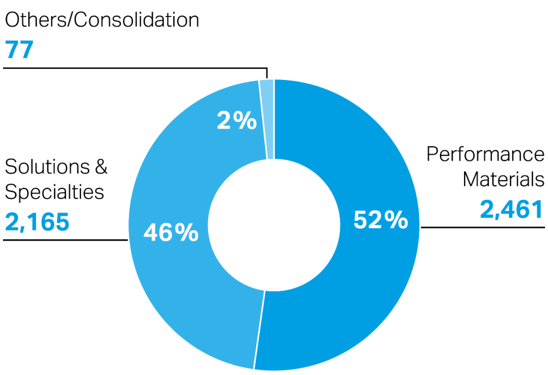
In the second quarter of 2022, Group sales grew by 18.9% to €4,703 million (previous year: €3,956 million). This was mainly due to a considerably higher selling price level, which had a positive impact on sales amounting to 14.5%. In addition, exchange rate movements caused sales to rise by 6.5%. In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

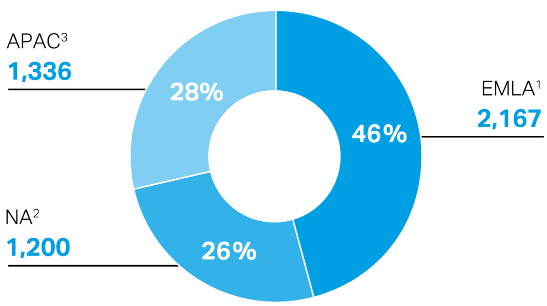
The sales increase in the second quarter of 2022 was driven by both segments. Sales in the Performance Materials segment grew by 25.8% to €2,461 million (previous year: €1,957 million), while sales in the Solutions & Specialties segment were up 11.0% to €2,165 million (previous year: €1,951 million).

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

Sales by segment and region in the second quarter of 2022

€ million





[1] EMLA: Europe, Middle East, Latin America (excluding Mexico), Africa region.
[2] NA: North America region (Canada, Mexico, United States).
[3] APAC: Asia and Pacific region.

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

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

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

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

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

First Half of 2022

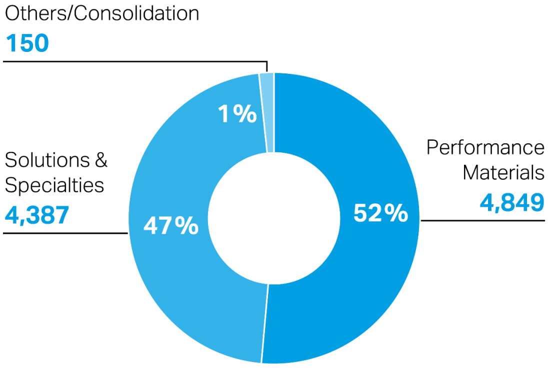
Group sales in the first half of 2022 rose by 29.2% to €9,386 million (previous year: €7,263 million), mainly due to a higher selling price level, which boosted sales growth by 18.3%. Moreover, changes in exchange rates had a positive effect of 6.1% on sales. The portfolio change arising from the acquisition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

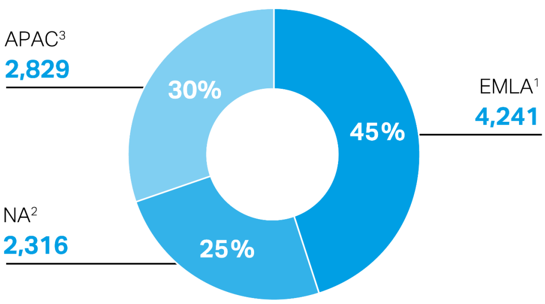
Both segments saw sales go up in the first half of 2022, with sales up 31.2% to €4,849 million (previous year: €3,697 million) in the Performance Materials segment and up 26.1% to €4,387 million (previous year: €3,480 million) in the Solutions & Specialties segment.

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

Sales by segment and region in the first half of 2022

€ million





[1] EMLA: Europe, Middle East, Latin America (excluding Mexico), Africa region.
[2] NA: North America region (Canada, Mexico, United States).
[3] APAC: Asia and Pacific region.

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

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

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

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

Financial Position

Covestro Group summary statement of cash flows

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

Cash Flows from Operating Activities/Free Operating Cash Flow

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

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

Cash Flows from Investing Activities

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

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

Cash Flows from Financing Activities

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

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

Net financial debt

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

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

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

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

Net Assets

Covestro Group summary statement of financial position

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

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

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

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

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

Net defined benefit liability for post-employment benefits

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

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

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

Performance of the Segments

Performance Materials

Performance Materials key data[1]

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

[1] Reference information calculated based on the organizational and reporting structure as of July 1, 2021.
[2] EBITDA and EBIT include the effect on earnings of intersegment sales.

Second Quarter of 2022

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

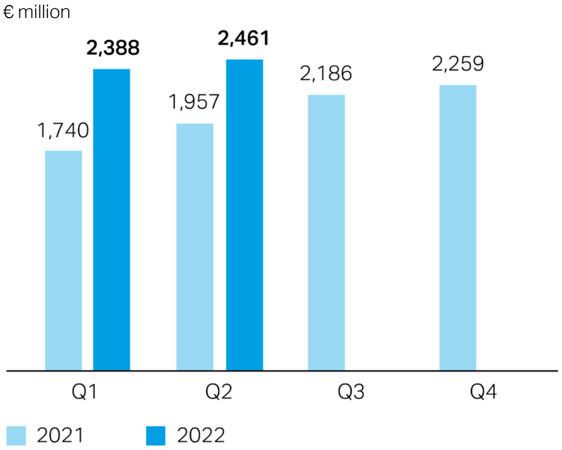
In the EMLA region, sales were up 31.4% to €1,255 million (previous year: €955 million). Higher average selling prices increased sales substantially. At the same time, an increase in total volumes sold as well as exchange rate movements each had a slightly positive impact on sales. In the NA region,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

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

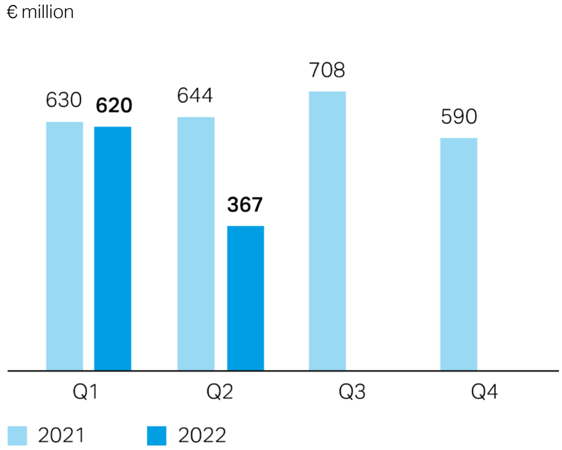
EBIT declined 59.4% to €204 million (previous year: €502 million).

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

Performance Materials
Quarterly Sales



Performance Materials
Quarterly EBITDA



First Half of 2022

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

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

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

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

Solutions & Specialties

Solutions & Specialties key data[1]

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

1 Reference information calculated based on the organizational and reporting structure as of July 1, 2021.
2 EBITDA and EBIT include the effect on earnings of intersegment sales.

Second Quarter of 2022

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

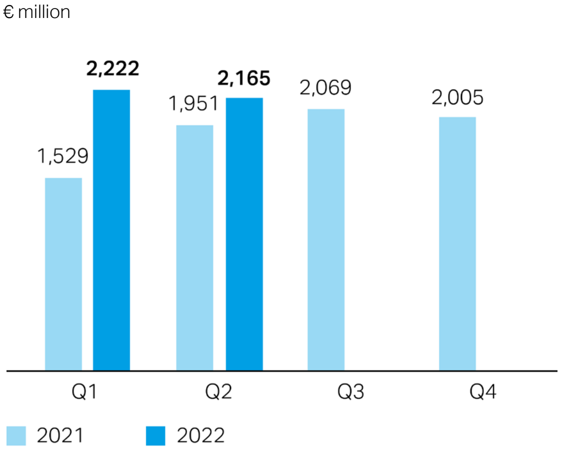
In the EMLA region, sales were up 10.2% to €851 million (previous year: €772 million). A rise in the selling price level increased sales significantly. A decline in volumes sold, in contrast, resulted in a considerable decrease in sales. On aggregate, exchange rate changes did not have any notable effect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

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

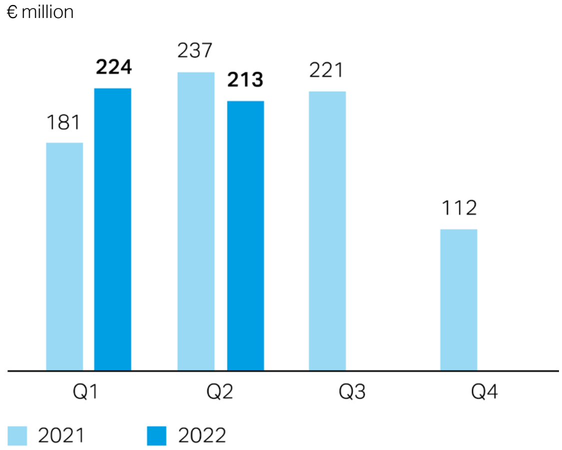
EBIT fell 18.2% to €139 million (previous year: €170 million).

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

Solutions & Specialties
Quarterly Sales



Solutions & Specialties
Quarterly EBITDA



First Half of 2022

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

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

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

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

REPORT ON FUTURE PERSPECTIVES AND ON OPPORTUNITIES AND RISKS

Economic Outlook

Global Economy

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

Economic growth[1]

	Growth 2021	Growth forecast 2022 (Annual Report 2021)	Growth forecast 2022
	%	%	%
World	**5.8**	**4.2**	**2.6**
Europe, Middle East, Latin America[2], Africa (EMLA)	**5.5**	**3.7**	**2.0**
of which Europe	5.5	3.7	1.2
of which Germany	2.9	3.8	1.7
of which Middle East	5.2	4.9	5.0
of which Latin America[2]	6.9	2.3	2.5
of which Africa	4.4	3.3	3.3
North America[3] (NA)	**5.5**	**4.0**	**1.6**
of which United States	5.7	4.1	1.4
Asia-Pacific (APAC)	**6.2**	**4.8**	**4.0**
of which China	8.1	5.4	4.0

1 Real growth of gross domestic product; source: IHS (Global Insight), "Growth 2021" and "Growth forecast 2022" as of July 2022.
2 Latin America (excluding Mexico).
3 North America (Canada, Mexico, United States).

Main Customer Industries

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

Growth in main customer industries[1]

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

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

Forecast for the Covestro Group

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

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

Forecast key management indicators

	2021	Forecast 2022 (Annual Report 2021)	Previous forecast 2022 (May 2, 2022)	Adjusted forecast 2022 (July 29, 2022)
EBITDA[1]	€3,085 million	Between €2,500 million and €3,000 million	Between €2,000 million and €2,500 million	Between €1,700 million and €2,200 million
Free operating cash flow[2]	€1,429 million	Between €1,000 million and €1,500 million	Between €400 million and €900 million	Between €0 million and €500 million
ROCE[3] above WACC[4]	12.9% points	Between 5% points and 9% points	Between 1% point and 5% points	Between –2% points and 2% points
Greenhouse gas emissions[5] (CO_2 equivalents)	5.2 million metric tons	Between 5.6 million metric tons and 6.1 million metric tons	Between 5.5 million metric tons and 6.0 million metric tons	Between 5.3 million metric tons and 5.8 million metric tons

1 Earnings before interest, taxes, depreciation and amortization (EBITDA): EBIT plus depreciation, amortization, and impairment losses; less impairment loss reversals on intangible assets and property, plant and equipment.
2 Free operating cash flow (FOCF): cash flows from operating activities less cash outflows for additions to property, plant, equipment and intangible assets.
3 Return on capital employed (ROCE): ratio of the adjusted operating result (EBIT) after imputed income taxes to capital employed.
4 Weighted average cost of capital (WACC): weighted average cost of capital reflecting the expected return on the company's equity and debt capital. A figure of 7.0% has been taken into account for the year 2022 (2021: 6.6%).
5 Greenhouse gas (GHG) emissions (Scope 1 and 2, GHG Protocol) at main production sites (responsible for more than 95% of our energy usage).

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

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

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

The Covestro Group's GHG emissions measured as CO_2 equivalents are now projected to be between 5.3 million and 5.8 million metric tons (previously: between 5.5 million and 6.0 million metric tons).

Opportunities and Risks

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

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

Changes in the Risk Situation

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

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

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

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

See note 26 "Legal Risks" in the Notes to the 2021 Consolidated Financial Statements for additional information.