1. Business Development of Covestro Group

Results of operations

In the first quarter of 2019, the Group’s core volumes declined by 1.8%, mainly due to lower volumes in the Polycarbonates segment, which were down by 6.3% from the prior-year period. Volumes in the Polyurethanes (–0.2%) and Coatings, Adhesives, Specialties (–0.1%) segments remained around the level of the prior-year quarter.

Group sales amounted to €3,175 million, down by 16.0% from the prior-year quarter (previous year: €3,779 million). The main factor here was the decline in selling prices, which had a negative impact of 18.3% on sales. This development was attributable to the Polyurethanes and Polycarbonates segments, whereas the trend in average selling prices in the Coatings, Adhesives, Specialties segment had a positive effect of 1.7% on sales. Total volumes sold impacted sales, which increased by 0.9%. Exchange rate movements had a positive impact of 2.4%. The change in the portfolio resulting from the sale of the U.S. sheets business in the Polycarbonates segment in the third quarter of 2018 impacted sales, which dipped by 1.0%.

In the first quarter of 2019, lower sales were attributable to the Polyurethanes and Polycarbonates segments. Sales in the Polyurethanes segment dropped by 24.3% to €1,476 million (previous year: €1,950 million), and in the Polycarbonates segment they were down by 16.7% to €860 million (previous year: €1,033 million). In the Coatings, Adhesives, Specialties segment, sales increased by 5.9% to €627 million (previous year: €592 million).

The Group's EBITDA declined by 58.4% to €442 million in the first quarter of 2019 (previous year: €1,063 million), in particular due to significantly lower margins. In contrast, higher volumes, a decrease in provisions for short-term, variable compensation, and the effects of applying the new financial reporting standard IFRS 16 Leases had a positive effect on EBITDA.

EBITDA in the Polyurethanes segment dropped by 75.4% to €157 million (previous year: €637 million), and in the Polycarbonates segment it was down by 48.8% to €155 million (previous year: €303 million). In the Coatings, Adhesives, Specialties segment, EBITDA rose by 7.4% to €146 million (previous year: €136 million).

In the first quarter of 2019, the Covestro Group’s EBIT was down by 70.9% to €264 million (previous year: €907 million).

Financial position

Operating cash flows decreased to €120 million from the prior-year quarter (previous year: €452 million), largely due to the significant drop in EBITDA. In contrast, the reduction in funds tied up in working capital had a positive effect.

Free operating cash flow declined to minus €45 million in the first quarter of 2019 (previous year: €364 million). This was mainly due to lower cash outflows from operating activities and the planned increase in cash outflows for additions to property, plant, equipment and intangible assets.

Net Financial Debt[1]

	Dec. 31, 2018[2]	Mar. 31, 2019
	€ million	€ million
Bonds	996	996
Liabilities to banks	24	28
Lease liabilities[3]	193	834
Liabilities from derivatives	12	22
Other financial liabilities	–	12
Receivables from derivatives	(12)	(22)
Financial liabilities	**1,213**	**1,870**
Cash and cash equivalents	(865)	(771)
Current financial assets	–	(40)
Net financial debt	**348**	**1,059**

[1] Net financial debt is not defined in the International Financial Reporting Standards and is calculated as shown in this table.
[2] Reference information was not restated; see section 6 "Changes in Accounting as a Result of the Initial Application of IFRS 16."
[3] As of March 31, 2019, this also contains the lease liabilities from initial application of IFRS 16.

In comparison with December 31, 2018, the Covestro Group's net financial debt increased by €711 million to reach €1,059 million as of March 31, 2019. This rise was mainly attributable to the initial application of the IFRS 16 financial reporting standard and the resulting increase in lease liabilities. The decrease in cash and cash equivalents is chiefly the result of higher cash outflows for additions to property, plant, equipment and intangible assets, which exceeded net cash provided by operations. In addition, an investment was made in short-term bank deposits.

2. Business Development by Segment

2.1 Polyurethanes

Polyurethanes Key Data

	1st quarter 2018[1]	1st quarter 2019	Change
	€ million	€ million	%
Core volume growth[2]	**–1.0%**	**–0.2%**	
Sales	**1,950**	**1,476**	**–24.3**
Change in sales			
Volume	–2.8%	+3.0%	
Price	+17.3%	–29.4%	
Currency	–7.4%	+2.1%	
Portfolio	0.0%	0.0%	
Sales by region			
EMLA	860	669	–22.2
NAFTA	475	411	–13.5
APAC	615	396	–35.6
EBITDA	**637**	**157**	**–75.4**
EBIT	**547**	**57**	**–89.6**
Operating cash flows	**176**	**4**	**–97.7**
Cash outflows for additions to property, plant, equipment and intangible assets	**46**	**102**	**>100**
Free operating cash flow	**130**	**(98)**	**.**

[1] Reference information was not restated; see section 6 "Changes in Accounting as a Result of the Initial Application of IFRS 16."
[2] Reference values calculated on the basis of the definition of the core business effective March 31, 2019

In the first quarter of 2019, core volumes in the Polyurethanes segment remained stable compared with the prior-year quarter.

Sales in the Polyurethanes segment declined by 24.3% to €1,476 million in the first quarter of 2019 (previous year: €1,950 million). The trend in selling prices impacted sales, which fell by 29.4% chiefly due to more intense competitive pressure. In contrast, total volumes sold had a positive effect on sales, which rose by 3.0%. Furthermore, exchange rate movements resulted in a 2.1% increase in sales.

In the EMLA region, sales were down by 22.2% to €669 million (previous year: €860 million) from the prior-year quarter due to the steep decline in selling prices. Conversely, total volumes sold saw a significant increase. The effect of exchange rate movements remained neutral. Sales in the NAFTA region decreased by 13.5% to €411 million (previous year: €475 million). Much lower selling prices and a considerable drop in total volumes sold combined to negatively impact sales. In contrast, changes in exchange rates had a significantly positive effect on sales figures. The APAC region's sales fell by 35.6% to €396 million (previous year: €615 million). Total volumes sold were substantially higher, while selling prices were down considerably. Exchange rate movements had a minor positive effect on sales.

Compared with the prior-year quarter, the Polyurethanes segment's EBITDA slid by 75.4% to €157 million in the first quarter of 2019 (previous year: €637 million). Greater competitive pressure led to a significant drop in margins, whereas volumes had a positive effect on EBITDA.

EBIT was down by 89.6% in the same period, dropping to €57 million (previous year: €547 million).

In the first quarter of 2019, free operating cash flow amounted to minus €98 million, down from the prior-year figure of €130 million. The main reasons for this development are the decline in EBITDA and greater cash outflows for property, plant and equipment, which stood in contrast to overall lower funds tied up in working capital.

2.2 Polycarbonates

Polycarbonates Key Data

	1st quarter 2018[1]	1st quarter 2019	Change
	€ million	€ million	%
Core volume growth[2]	**+2.7%**	**–6.3%**	
Sales	**1,033**	**860**	**–16.7**
Change in sales			
Volume	+0.2%	–2.9%	
Price	+16.3%	–12.8%	
Currency	–8.2%	+2.6%	
Portfolio	0.0%	–3.6%	
Sales by region			
EMLA	362	289	–20.2
NAFTA	203	188	–7.4
APAC	468	383	–18.2
EBITDA	**303**	**155**	**–48.8**
EBIT	**260**	**105**	**–59.6**
Operating cash flows	**79**	**138**	**+74.7**
Cash outflows for additions to property, plant, equipment and intangible assets	**23**	**39**	**+69.6**
Free operating cash flow	**56**	**99**	**+76.8**

[1] Reference information was not restated; see section 6 "Changes in Accounting as a Result of the Initial Application of IFRS 16."
[2] Reference values calculated on the basis of the definition of the core business effective March 31, 2019

In the first quarter of 2019, core volumes in the Polycarbonates segment were 6.3% lower than in the prior-year period.

The Polycarbonates segment's sales slipped by 16.7% to €860 million (previous year: €1,033 million) in the first quarter of 2019. Average selling prices impacted sales, which dropped by 12.8%, while the decline in total volumes sold resulted in sales dipping by 2.9%. Exchange rate fluctuations had a positive impact of 2.6%. Moreover, the portfolio effect from the sale of the U.S. sheets business in the third quarter of 2018 also impacted sales, which decreased by 3.6%.

The EMLA region's sales dropped by 20.2% to €289 million (previous year: €362 million) due to much lower total volumes sold and average selling prices. The effect of exchange rate developments remained neutral. In the NAFTA region, sales declined by 7.4% to €188 million (previous year: €203 million), chiefly due to the aforementioned portfolio effect, which resulted in sales in the region declining considerably. A slight drop in the average selling price level was more than balanced out by a significant increase in total volumes sold and the strongly positive effects of exchange rate movements. Sales in the APAC region declined by 18.2% to €383 million (previous year: €468 million), with lower average selling prices exerting a considerable negative effect on sales. Conversely, the slight increase in total volumes sold and minor positive effect of exchange rate fluctuations resulted in higher sales.

EBITDA in the Polycarbonates segment in the first quarter of 2019 decreased by 48.8% compared with the prior-year quarter, dropping to €155 million (previous year: €303 million). In view of stable raw material prices overall, a drop in selling prices led to lower margins. In addition, a downturn in volumes and the portfolio effect from the sale of the U.S. sheets business adversely affected EBITDA.

EBIT was down by 59.6% in the same period, dropping to €105 million (previous year: €260 million).

In contrast, free operating cash flow improved by 76.8% to €99 million in the first quarter of 2019 (previous year: €56 million). In particular, the overall greater availability of working capital more than compensated for the lower EBITDA.

2.3 Coatings, Adhesives, Specialties

Coatings, Adhesives, Specialties Key Data

	1st quarter 2018[1]	1st quarter 2019	Change
	€ million	€ million	%
Core volume growth[2]	**–1.3%**	**–0.1%**	
Sales	**592**	**627**	**+5.9**
Change in sales			
Volume	–2.2%	+1.1%	
Price	+1.0%	+1.7%	
Currency	–5.9%	+3.1%	
Portfolio	0.0%	0.0%	
Sales by region			
EMLA	298	294	–1.3
NAFTA	122	144	+18.0
APAC	172	189	+9.9
EBITDA	**136**	**146**	**+7.4**
EBIT	**113**	**118**	**+4.4**
Operating cash flows	**17**	**12**	**–29.4**
Cash outflows for additions to property, plant, equipment and intangible assets	**19**	**24**	**+26.3**
Free operating cash flow	**(2)**	**(12)**	**>500**

[1] Reference information was not restated; see section 6 "Changes in Accounting as a Result of the Initial Application of IFRS 16."
[2] Reference values calculated on the basis of the definition of the core business effective March 31, 2019

In the first quarter of 2019, core volumes in the Coatings, Adhesives, Specialties segment remained stable compared with the prior-year quarter.

The Coatings, Adhesives, Specialties segment's sales rose by 5.9% to €627 million (previous year: €592 million) in the first quarter of 2019. Total volumes sold and the increase in selling prices on average had positive effects on sales in the amount of 1.1% and 1.7%, respectively. The exchange rate trend also impacted sales, which improved by 3.1%.

In the EMLA region, sales were down by 1.3% to €294 million (previous year: €298 million). A light uptick in average selling prices could only partly offset the small drop in total volumes sold. The effect of exchange rate developments remained neutral. In the NAFTA region, sales rose by 18.0% to €144 million (previous year: €122 million). A slight increase in total volumes sold and a slight rise in average selling prices contributed positively to this sales growth. In addition, exchange rate fluctuations had the effect of boosting sales considerably. Sales in the APAC region grew by 9.9% to €189 million (previous year: €172 million). The trend in total volumes sold had a significantly positive effect on sales, although lower selling prices had a slightly negative impact on sales. Sales saw a small increase resulting from the effect of exchange rate movements.

EBITDA in the Coatings, Adhesives, Specialties segment in the first quarter of 2019 increased by 7.4% compared with the prior-year quarter, reaching €146 million (previous year: €136 million). The positive effect of higher volumes and increased margins contributed to this growth.

In the same period, EBIT climbed by 4.4% to €118 million (previous year: €113 million).

Free operating cash flow declined to minus €12 million in the first quarter of 2019 (previous year: minus €2 million). The increase in EBITDA stood in contrast to overall higher cash tied up in working capital and greater cash outflows for additions to property, plant, equipment and intangible assets.

3. Forecast

3.1 Economic Outlook

Economic Outlook

	Growth[1] 2018	Growth[1] forecast 2019 (Annual Report 2018)	Growth[1] forecast 2019
	%	%	%
World	**+3.1**	**+2.8**	**+2.6**
European Union	+2.0	+1.3	+1.2
of which Germany	+1.5	+1.0	+0.8
NAFTA	+2.7	+2.4	+2.2
of which United States	+2.9	+2.5	+2.3
Asia-Pacific	+4.9	+4.7	+4.6
of which China	+6.6	+6.3	+6.3

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

In 2019, we expect weaker global economic growth than in the previous year at 2.6%. Our current assessment of the macroeconomic environment and of developments in the individual regions is therefore slightly weaker than our outlook in the Annual Report 2018.

Compared with our expectations from the Annual Report 2018, we so far see only minor changes, or none at all, for the performance of our main customer industries, with the exception of the automotive sector, assuming no further global trade barriers. Growth in the automotive industry is anticipated to be weaker than presented in the Annual Report 2018.

3.2 Forecast for Key Data

On the basis of the business performance described in this quarterly statement and with consideration of the potential associated risks and opportunities, we confirm the forecast made in the Annual Report 2018 for the rest of the 2019 fiscal year.

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

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

For fiscal 2019, we expect ROCE[1] of between 8% and 13%.

[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 current and noncurrent assets less noninterest-bearing liabilities such as trade accounts payable.