1. Business Development Covestro Group

Results of operations

In the third quarter of 2018, the Group's core volumes (in kilotons) remained at the level of the prior-year quarter. The Coatings, Adhesives, Specialties and Polycarbonates segments saw volumes grow 7.2% and 2.6%, respectively, whereas the volumes sold by the Polyurethanes segment dropped 2.0% year over year.

Group sales amounted to €3,702 million, up 4.8% over the prior-year quarter (previous year: €3,532 million). An increase in selling prices contributed to this result, which had a positive effect on sales of 3.1%. This development was largely driven by the Polycarbonates segment. Total volumes increased sales by 3.0% over the same quarter in the previous year. Key drivers here were the Coatings, Adhesives, Specialties and Polycarbonates segments. Exchange rate movements and the effect of the portfolio change due to the sale of the U.S. polycarbonate sheet business drove down Group sales by 0.6% and 0.7%, respectively.

Mainly responsible for the sales increase in the third quarter of 2018 were the Polycarbonates and Coatings, Adhesives, Specialties segments. Sales climbed to €1,038 million (previous year: €933 million) in the Polycarbonates segment and to €606 million (previous year: €557 million) in the Coatings, Adhesives, Specialties segment. In the Polyurethanes segment, sales declined to €1,849 million (previous year: €1,871 million).

The Covestro Group's EBITDA in the third quarter of 2018 remained at the level of the prior-year period, at €859 million (previous year: €862 million). Volume growth and the gains from the aforementioned sale amounting to €36 million were offset by a decline in margins.

EBITDA in the Polycarbonates segment rose by 49.3% to €315 million (previous year: €211 million). In the Coatings, Adhesives, Specialties segment, it totaled €126 million, remaining at the level of the prior-year quarter (previous year: €125 million). EBITDA in the Polyurethanes segment dropped 21.5% to €432 million (previous year: €550 million).

The Covestro Group's EBIT also remained stable at the prior-year level in the third quarter of 2018, amounting to €707 million (previous year: €705 million).

Financial position

Compared with the prior-year quarter, operating cash flow decreased to €766 million (previous year: €775 million).

Free operating cash flow was down to €578 million in the third quarter of 2018 (previous year: €658 million). This was chiefly the result of the expected increase in cash outflows for additions to property, plant, equipment and intangible assets in the amount of €188 million (previous year: €117 million).

Net Financial Debt[1]

	Dec. 31, 2017	Sep. 30, 2018
	€ million	€ million
Bonds	1,495	996
Liabilities to banks	69	35
Liabilities under finance leases	223	197
Liabilities from derivatives	9	19
Receivables from derivatives	(15)	(10)
Financial liabilities	**1,781**	**1,237**
Cash and cash equivalents	(1,232)	(846)
Current financial assets	(266)	–
Net financial debt	**283**	**391**

[1] Net financial debt is not defined in the International Financial Reporting Standards and is calculated as shown in this table.

The Covestro Group's net financial debt increased by €108 million from December 31, 2017, to €391 million as of September 30, 2018. Cash and cash equivalents as well as cash inflows from operating activities and maturing short-term bank deposits were used to redeem the first tranche of the €500 million debt issuance program and for Covestro AG's dividend payment of €436 million. Moreover, additional shares with a total value of €974 million were purchased under the share buy-back program in the first three quarters of 2018. Covestro AG repurchased 12,391,524 shares between January 1, 2018, and September 30, 2018.

2. Business Development by Segment

2.1 Polyurethanes

Polyurethanes Key Data[1]

	3rd quarter 2017	3rd quarter 2018	Change	1st nine months 2017	1st nine months 2018	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth[2]	**+4.1%**	**–2.0%**		**+2.4%**	**+0.3%**	
Sales	**1,871**	**1,849**	**–1.2**	**5,510**	**5,765**	**+4.6**
Change in sales						
Volume	+2.6%	+0.1%		+2.3%	+0.2%	
Price	+31.0%	–0.5%		+28.9%	+8.6%	
Currency	–3.8%	–0.8%		–0.4%	–4.2%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
Sales by region						
EMLA	805	773	–4.0	2,360	2,504	+6.1
NAFTA	472	512	+8.5	1,426	1,473	+3.3
APAC	594	564	–5.1	1,724	1,788	+3.7
EBITDA	**550**	**432**	**–21.5**	**1,567**	**1,652**	**+5.4**
EBIT	**460**	**346**	**–24.8**	**1,297**	**1,385**	**+6.8**
Operating cash flows	**511**	**453**	**–11.4**	**757**	**993**	**+31.2**
Cash outflows for additions to property, plant, equipment and intangible assets	**60**	**113**	**+88.3**	**150**	**243**	**+62.0**
Free operating cash flow	**451**	**340**	**–24.6**	**607**	**750**	**+23.6**

[1] All prior-year figures have been adjusted to reflect the transfer of the specialty elastomers business from the Polyurethanes segment to the Coatings, Adhesives, Specialties segment as of January 1, 2018.
[2] Reference values calculated based on the definition of the core business effective March 31, 2018

In the third quarter of 2018, core volumes in the Polyurethanes segment were down 2.0% from the prior-year quarter.

Sales in the Polyurethanes segment declined 1.2% to €1,849 million in the third quarter of 2018 (previous year: €1,871 million). Total volumes matched the level of the prior-year quarter, whereas the changes in average selling prices and exchange rate movements reduced sales by 0.5% and 0.8%, respectively.

In the EMLA region, sales slid 4.0% to €773 million (previous year: €805 million). Despite selling prices that were stable as compared with the prior-year quarter, the changes in total volumes and exchange rates caused a moderate decline in sales. In the NAFTA region, sales grew 8.5% to €512 million (previous year: €472 million). A significant increase in selling prices and slightly higher total volumes had a positive effect on sales. The effects of exchange rate changes remained neutral. Sales in the APAC region declined by 5.1% to €564 million (previous year: €594 million). Total volumes were somewhat higher, while selling prices saw a considerable decrease. Exchange rate developments reduced sales slightly.

The Polyurethanes segment's EBITDA was down 21.5% in the third quarter of 2018 to €432 million (previous year: €550 million). The increase in raw material costs primarily contributed to the downward pressure on earnings, while average selling prices and volumes were stable.

EBIT declined 24.8% during the same period to €346 million (previous year: €460 million).

In the third quarter of 2018, free operating cash flow was €340 million, 24.6% below the previous year's figure of €451 million, which was mainly a result of the decline in EBITDA.

2.2 Polycarbonates

Polycarbonates Key Data

	3rd quarter 2017	3rd quarter 2018	Change	1st nine months 2017	1st nine months 2018	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth[1]	**+1.5%**	**+2.6%**		**+5.4%**	**+3.5%**	
Sales	**933**	**1,038**	**+11.3**	**2,798**	**3,127**	**+11.8**
Change in sales						
Volume	+4.4%	+5.1%		+7.9%	+3.6%	
Price	+9.4%	+9.6%		+6.2%	+13.7%	
Currency	–3.8%	–0.6%		–0.6%	–4.6%	
Portfolio	0.0%	–2.8%		0.0%	–0.9%	
Sales by region						
EMLA	299	331	+10.7	926	1,046	+13.0
NAFTA	212	205	–3.3	668	617	–7.6
APAC	422	502	+19.0	1,204	1,464	+21.6
EBITDA	**211**	**315**	**+49.3**	**640**	**903**	**+41.1**
EBIT	**167**	**272**	**+62.9**	**503**	**773**	**+53.7**
Operating cash flows	**170**	**185**	**+8.8**	**231**	**419**	**+81.4**
Cash outflows for additions to property, plant, equipment and intangible assets	**36**	**49**	**+36.1**	**81**	**116**	**+43.2**
Free operating cash flow	**134**	**136**	**+1.5**	**150**	**303**	**>100**

[1] Reference values calculated based on the definition of the core business effective March 31, 2018

In the third quarter of 2018, core volumes in the Polycarbonates segment were 2.6% higher than in the prior-year quarter.

The Polycarbonates segment saw sales climb 11.3% to €1,038 million in the third quarter of 2018 (previous year: €933 million). Key drivers here were higher average selling prices in all regions compared with the prior-year period, which increased sales by 9.6%. The development of total volumes lifted sales by 5.1%, whereas changes in exchange rates diminished sales by 0.6%. In addition, the portfolio effect from the sale of the U.S. polycarbonate sheet business had an adverse effect on sales of 2.8%.

In the EMLA region, sales grew 10.7% to €331 million (previous year: €299 million), primarily due to a considerable rise in selling prices and minimal increase in total volumes. The effect of exchange rate movements remained largely steady. In the NAFTA region, sales slid 3.3% to €205 million (previous year: €212 million). This was mainly due to the aforementioned portfolio effect, which had a significant negative effect on sales. In contrast, a significant jump in total volumes and a minimal increase in average selling prices positively affected sales. Exchange rate movements had a neutral effect. Sales in the APAC region were up 19.0% to €502 million (previous year: €422 million). Much higher average selling prices and a small rise in total volumes outweighed the slightly negative effect of exchange rate movements.

In the third quarter of 2018, EBITDA in the Polycarbonates segment increased by 49.3% compared with the prior-year quarter, to €315 million (previous year: €211 million). Larger margins, higher volumes, and income from the sale of the U.S. polycarbonate sheet business amounting to €36 million had a positive effect on earnings.

EBIT improved 62.9% during the same period to €272 million (previous year: €167 million).

Free operating cash flow was up 1.5% to €136 million in the third quarter of 2018 (previous year: €134 million). The higher EBITDA was able to more than compensate for factors such as an increase in funds tied up in working capital.

2.3 Coatings, Adhesives, Specialties

Coatings, Adhesives, Specialties Key Data[1]

	3rd quarter 2017	3rd quarter 2018	Change	1st nine months 2017	1st nine months 2018	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth[2]	**–3.1%**	**+7.2%**		**+2.3%**	**+3.8%**	
Sales	**557**	**606**	**+8.8**	**1,798**	**1,827**	**+1.6**
Change in sales						
Volume	–3.7%	+9.7%		+2.9%	+4.3%	
Price	+3.2%	–0.5%		+0.8%	+0.8%	
Currency	–2.8%	–0.4%		–0.1%	–3.5%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
Sales by region						
EMLA	264	280	+6.1	844	877	+3.9
NAFTA	118	131	+11.0	399	390	–2.3
APAC	175	195	+11.4	555	560	+0.9
EBITDA	**125**	**126**	**+0.8**	**406**	**401**	**–1.2**
EBIT	**103**	**103**	**–**	**340**	**332**	**–2.4**
Operating cash flows	**110**	**119**	**+8.2**	**194**	**202**	**+4.1**
Cash outflows for additions to property, plant, equipment and intangible assets	**20**	**26**	**+30.0**	**50**	**70**	**+40.0**
Free operating cash flow	**90**	**93**	**+3.3**	**144**	**132**	**–8.3**

[1] All prior-year figures have been adjusted to reflect the transfer of the specialty elastomers business from the Polyurethanes segment to the Coatings, Adhesives, Specialties segment as of January 1, 2018.
[2] Reference values calculated based on the definition of the core business effective March 31, 2018

In the third quarter of 2018, core volumes in the Coatings, Adhesives, Specialties segment were 7.2% higher than in the prior-year quarter.

In the Coatings, Adhesives, Specialties segment, sales were up 8.8% to €606 million in the third quarter of 2018 (previous year: €557 million). The key driver here was the expansion in total volumes, which increased sales by 9.7%. Average selling prices and exchange rates diminished sales by 0.5% and 0.4%, respectively.

In the EMLA region, sales grew 6.1% to €280 million (previous year: €264 million). The performance of total volumes sold had a considerably positive effect on sales, while selling prices remained steady. In the NAFTA region, sales grew 11.0% to €131 million (previous year: €118 million). A considerable rise in total volumes and slightly higher average selling prices had a positive impact on sales. Sales in the APAC region rose 11.4% to €195 million (previous year: €175 million). The performance of total volumes had a significant positive effect on sales, although lower selling prices resulted in a modest decline in sales. In all regions, the effect of exchange rate movements remained largely neutral.

EBITDA in the Coatings, Adhesives, Specialties segment remained stable at the previous year's level in the third quarter of 2018, amounting to €126 million (previous year: €125 million).

During the same period, EBIT was unchanged at €103 million (previous year: €103 million).

Free operating cash flow improved by 3.3% to €93 million in the third quarter of 2018 (previous year: €90 million).

3. Forecast Update Report

3.1 Economic Outlook

Economic Outlook

	Growth[1] 2017	Growth[1] forecast 2018 (Annual Report 2017)	Growth[1] forecast 2018
	%	%	%
World	**+3.3**	**+3.3**	**+3.2**
European Union	+2.5	+2.2	+2.0
of which Germany	+2.5	+2.8	+1.9
NAFTA	+2.3	+2.6	+2.7
of which United States	+2.2	+2.7	+2.9
Asia-Pacific	+5.0	+5.0	+5.0
of which China	+6.9	+6.6	+6.7

[1] Real growth of gross domestic product, source: IHS (Global Insight), Growth 2017 and Growth forecast 2018 as of October 2018

We expect the global economy to grow at the same pace as in the previous year, by slightly over 3% in 2018. Our current assessment of the macroeconomic environment and developments in the individual regions is therefore largely in line with our outlook in the Annual Report 2017, despite increasingly challenging economic conditions.

We also see only a minor change, or none at all, as compared with our expectations in the Annual Report 2017 for the performance of our main customer industries, not taking into account any adverse consequences arising from existing or potential future global trade barriers.

3.2 Forecast for Key Data

Based on the business performance described in this quarterly statement, along with our consideration of the potential associated risks and opportunities, we confirm the forecast for key data for the rest of the 2018 fiscal year made in the half-year financial report for 2018.

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

In fiscal 2018, free operating cash flow is expected to exceed €2 billion. We anticipate that free operating cash flow will be significantly above the previous year's level in the Polycarbonates segment, and slightly above the previous year's level in the Polyurethanes and Coatings, Adhesives, Specialties segments.

We expect ROCE[1] around the 2017 level in the 2018 fiscal year.

[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.