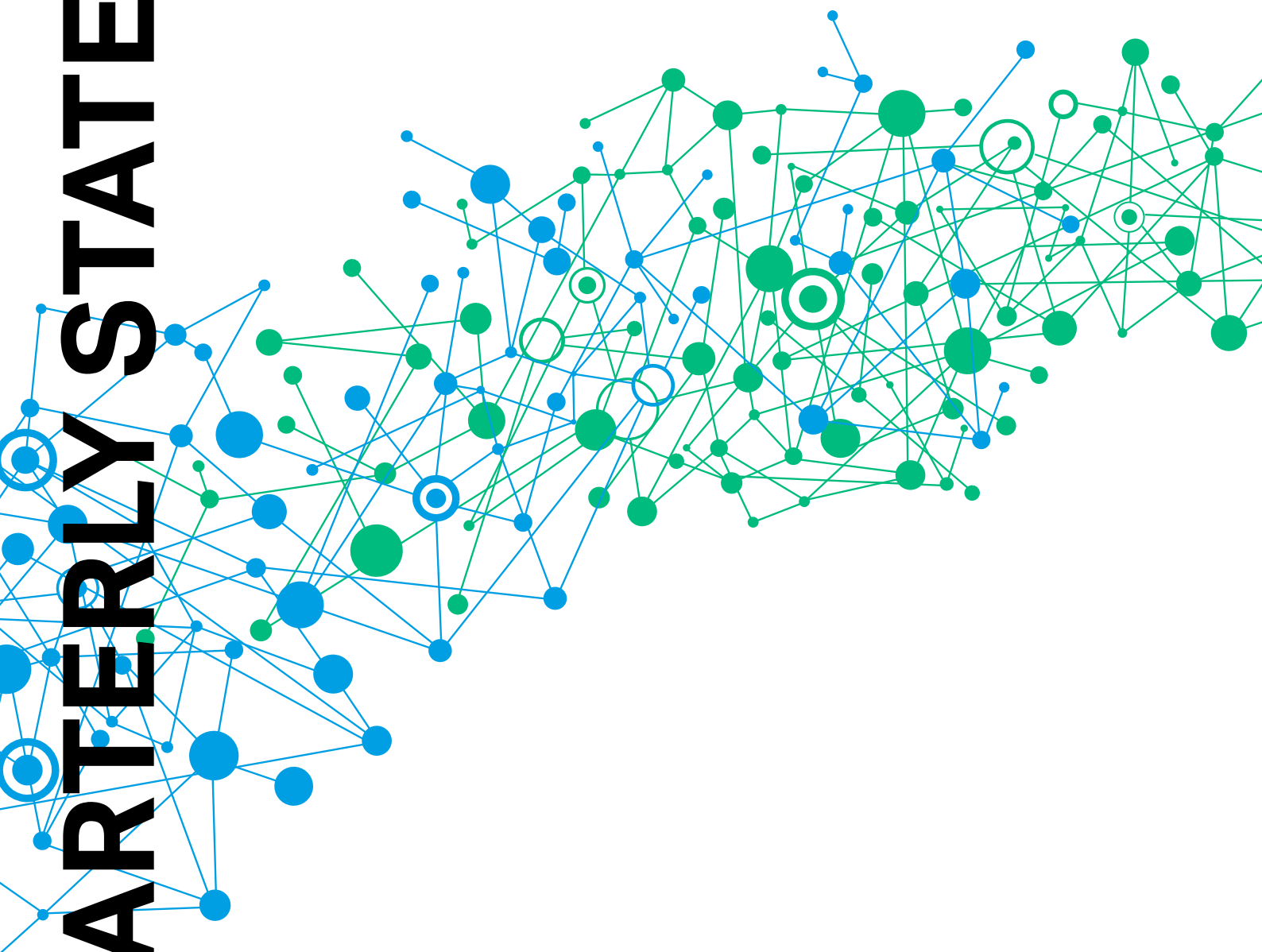


QUARTERLY STATEMENT

Interim Statement as of September 30, 2019
Third Quarter 2019



Key Data Covestro Group

	3rd quarter 2018 ¹	3rd quarter 2019	Change	1st nine months 2018 ¹	1st nine months 2019	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth^{2,3}	+0.2%	+5.3%		+1.5%	+1.5%	
Sales	3,702	3,162	-14.6	11,344	9,548	-15.8
Change in sales						
Volume	+3.0%	+2.1%		+2.1%	+1.3%	
Price	+3.1%	-18.5%		+9.1%	-18.5%	
Currency	-0.6%	+1.9%		-4.1%	+2.0%	
Portfolio	-0.7%	-0.1%		-0.2%	-0.6%	
Sales by region						
EMLA ⁴	1,541	1,317	-14.5	4,897	4,110	-16.1
NAFTA ⁵	896	812	-9.4	2,621	2,422	-7.6
APAC ⁶	1,265	1,033	-18.3	3,826	3,016	-21.2
EBITDA⁷	859	425	-50.5	2,907	1,326	-54.4
Changes in EBITDA						
of which volume	+7.8%	+4.9%		+5.8%	+2.8%	
of which price	+12.6%	-79.9%		+37.9%	-72.2%	
of which raw material price effect	-15.8%	+17.3%		-13.8%	+9.2%	
of which currency	+0.2%	+1.0%		-4.0%	+1.1%	
EBIT ⁸	707	221	-68.7	2,440	759	-68.9
Financial result	(25)	(19)	-24.0	(80)	(65)	-18.8
Net income ⁹	496	147	-70.4	1,744	515	-70.5
Earnings per share (€) ¹⁰	2.59	0.80	-69.1	8.92	2.82	-68.4
Operating cash flows ¹¹	766	462	-39.7	1,735	746	-57.0
Cash outflows for additions to property, plant, equipment and intangible assets	188	219	+16.5	429	603	+40.6
Free operating cash flow¹²	578	243	-58.0	1,306	143	-89.1

¹ Reference information was not restated; see section "Changes in Accounting as a Result of the Initial Application of IFRS 16."

² Core volume growth refers to the core products in the Polyurethanes, Polycarbonates and Coatings, Adhesives, Specialties segments. It is calculated as the percentage change in externally sold volumes in thousand metric tons compared with the prior year. Covestro also takes advantage of business opportunities outside its core business, for example the sale of precursors and by-products such as hydrochloric acid, sodium hydroxide solution and styrene. These transactions are not included in core volume growth.

³ Reference values calculated on the basis of the definition of the core business effective March 31, 2019.

⁴ EMLA: Europe, Middle East, Africa and Latin America (excluding Mexico) region

⁵ NAFTA: United States, Canada and Mexico region

⁶ APAC: Asia and Pacific region

⁷ EBITDA: EBIT plus the sum of depreciation, amortization, impairment losses and impairment loss reversals

⁸ EBIT: income after income taxes plus financial result and income taxes

⁹ Net income: income after income taxes attributable to the stockholders of Covestro AG

¹⁰ Earnings per share: according to IAS 33, earnings per share comprise net income divided by the weighted average number of outstanding no-par voting shares of Covestro AG. The calculation was based on 191,152,569 no-par shares for the third quarter of 2018 and on 195,524,586 no-par shares for the first nine months of 2018, and on 182,704,602 no-par shares for the third quarter of 2019, and for the first nine months of 2019.

¹¹ Operating cash flows: cash flows from operating activities according to IAS 7

¹² Free operating cash flow: operating cash flows less cash outflows for additions to property, plant, equipment and intangible assets

Covestro Share at a Glance

		3rd quarter 2018	3rd quarter 2019	1st nine months 2018	1st nine months 2019
High	€	82.36	45.40	95.00	55.32
Low	€	68.86	37.95	68.86	37.95
Closing date	€	69.86	45.40	69.86	45.40

Covestro closing prices Xetra®; source: Bloomberg

Covestro Group Consolidated Income Statement

	3rd quarter 2018 ¹	3rd quarter 2019	1st nine months 2018 ¹	1st nine months 2019
	€ million	€ million	€ million	€ million
Net sales	3,702	3,162	11,344	9,548
Cost of goods sold	(2,499)	(2,460)	(7,327)	(7,316)
Gross profit	1,203	702	4,017	2,232
Selling expenses	(346)	(347)	(1,054)	(1,037)
Research and development expenses	(65)	(64)	(201)	(200)
General administration expenses	(126)	(82)	(373)	(275)
Other operating income	62	28	85	81
Other operating expenses	(21)	(16)	(34)	(42)
EBIT²	707	221	2,440	759
Equity-method loss	(6)	(5)	(16)	(19)
Result from other affiliated companies	1	–	1	1
Interest income	8	11	20	30
Interest expense	(20)	(21)	(61)	(66)
Other financial result	(8)	(4)	(24)	(11)
Financial result	(25)	(19)	(80)	(65)
Income before income taxes	682	202	2,360	694
Income taxes	(185)	(53)	(611)	(175)
Income after income taxes	497	149	1,749	519
of which attributable to noncontrolling interest	1	2	5	4
of which attributable to Covestro AG stockholders (net income)	496	147	1,744	515
	€	€	€	€
Basic earnings per share³	2.59	0.80	8.92	2.82
Diluted earnings per share³	2.59	0.80	8.92	2.82

¹ Reference information was not restated; see section "Changes in Accounting as a Result of the Initial Application of IFRS 16."

² EBIT: income after income taxes plus financial result and income taxes

³ Earnings per share: according to IAS 33, earnings per share comprise net income divided by the weighted average number of outstanding no-par voting shares of Covestro AG. The calculation was based on 191,152,569 no-par shares for the third quarter of 2018 and on 195,524,586 no-par shares for the first nine months of 2018, and on 182,704,602 no-par shares for the third quarter of 2019, and for the first nine months of 2019.

Covestro Group Consolidated Statement of Comprehensive Income

	3rd quarter 2018 ¹	3rd quarter 2019	1st nine months 2018 ¹	1st nine months 2019
	€ million	€ million	€ million	€ million
Income after income taxes	497	149	1,749	519
Remeasurements of the net defined benefit liability for post-employment benefit plans	59	(303)	(35)	(523)
Income taxes	(16)	105	5	179
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans	43	(198)	(30)	(344)
Changes in fair values of equity instruments	–	–	–	(1)
Income taxes	–	–	–	–
Other comprehensive income from equity instruments	–	–	–	(1)
Other comprehensive income that will not be reclassified subsequently to profit or loss	43	(198)	(30)	(345)
Changes in exchange differences recognized on translation of operations outside the eurozone	(48)	101	16	150
Reclassified to profit or loss	–	–	–	–
Other comprehensive income from exchange differences	(48)	101	16	150
Other comprehensive income that may be reclassified subsequently to profit or loss, if certain conditions are met	(48)	101	16	150
Total other comprehensive income²	(5)	(97)	(14)	(195)
of which attributable to noncontrolling interest	–	1	1	2
of which attributable to Covestro AG stockholders	(5)	(98)	(15)	(197)
Total comprehensive income	492	52	1,735	324
of which attributable to noncontrolling interest	1	3	6	6
of which attributable to Covestro AG stockholders	491	49	1,729	318

¹ Reference information was not restated; see section "Changes in Accounting as a Result of the Initial Application of IFRS 16."

² Total change recognized in equity outside profit or loss

Covestro Group Consolidated Statement of Financial Position

	Sep. 30, 2018 ¹	Sep. 30, 2019	Dec. 31, 2018 ¹
	€ million	€ million	€ million
Noncurrent assets			
Goodwill	255	267	256
Other intangible assets	77	109	77
Property, plant and equipment ²	4,262	5,253	4,409
Investments accounted for using the equity method	211	199	214
Other financial assets	28	34	31
Other receivables	47	53	32
Deferred taxes	725	934	782
	5,605	6,849	5,801
Current assets			
Inventories	2,202	2,057	2,213
Trade accounts receivable	2,118	1,762	1,786
Other financial assets	14	19	17
Other receivables	357	336	346
Claims for income tax refunds	32	97	55
Cash and cash equivalents	846	422	865
Assets held for sale	–	69	1
	5,569	4,762	5,283
Total assets	11,174	11,611	11,084
Equity			
Capital stock of Covestro AG	188	183	183
Capital reserves of Covestro AG	3,806	3,480	3,480
Other reserves	1,667	1,547	1,679
Equity attributable to Covestro AG stockholders	5,661	5,210	5,342
Equity attributable to noncontrolling interest	32	47	33
	5,693	5,257	5,375
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	1,264	2,019	1,445
Other provisions	232	218	237
Financial liabilities ²	1,171	1,695	1,166
Income tax liabilities	99	118	107
Other liabilities	21	30	18
Deferred taxes	154	168	153
	2,941	4,248	3,126
Current liabilities			
Other provisions	447	260	493
Financial liabilities ²	76	149	59
Trade accounts payable	1,581	1,362	1,637
Income tax liabilities	170	89	172
Other liabilities	266	212	222
Liabilities directly related to assets held for sale	–	34	–
	2,540	2,106	2,583
Total equity and liabilities	11,174	11,611	11,084

¹ Reference information was not restated; see section "Changes in Accounting as a Result of the Initial Application of IFRS 16."

² As of September 30, 2019, this also contains the right-of-use assets and lease liabilities from initial application of IFRS 16.

Covestro Group Consolidated Statement of Cash Flows

	3rd quarter 2018 ¹	3rd quarter 2019	1st nine months 2018 ¹	1st nine months 2019
	€ million	€ million	€ million	€ million
Income after income taxes	497	149	1,749	519
Income taxes	185	53	611	175
Financial result	25	19	80	65
Income taxes paid	(170)	(42)	(505)	(265)
Depreciation, amortization and impairment losses and impairment loss reversals	152	204	467	567
Change in pension provisions	10	(3)	18	23
(Gains)/losses on retirements of noncurrent assets	(36)	1	(35)	(16)
Decrease/(increase) in inventories	(117)	52	(314)	200
Decrease/(increase) in trade accounts receivable	61	72	(238)	55
(Decrease)/increase in trade accounts payable	113	(78)	(16)	(307)
Changes in other working capital, other noncash items	46	35	(82)	(270)
Cash flows from operating activities	766	462	1,735	746
Cash outflows for additions to property, plant, equipment and intangible assets	(188)	(219)	(429)	(603)
Cash inflows from sales of property, plant, equipment and other assets	1	–	1	4
Cash inflows from divestitures	66	–	66	–
Cash outflows for noncurrent financial assets	(6)	(4)	(14)	(11)
Cash inflows from noncurrent financial assets	–	1	1	2
Cash outflows for acquisitions less acquired cash	–	(3)	–	(11)
Interest and dividends received	8	14	20	32
Cash inflows from/(outflows for) other current financial assets	62	(2)	263	1
Cash flows from investing activities	(57)	(213)	(92)	(586)
Reacquisition of treasury shares	(304)	–	(974)	–
Dividend payments and withholding tax on dividends	–	(1)	(440)	(442)
Issuances of debt	6	61	46	551
Retirements of debt	(19)	(503)	(608)	(656)
Interest paid	(20)	(25)	(53)	(64)
Cash flows from financing activities	(337)	(468)	(2,029)	(611)
Change in cash and cash equivalents due to business activities	372	(219)	(386)	(451)
Cash and cash equivalents at beginning of period	475	640	1,232	865
Change in cash and cash equivalents due to changes in scope of consolidation	–	–	–	(1)
Change in cash and cash equivalents due to exchange rate movements	(1)	1	–	9
Cash and cash equivalents at end of period	846	422	846	422

¹ Reference information was not restated; see section "Changes in Accounting as a Result of the Initial Application of IFRS 16."

Business Development of the Covestro Group

Results of operations

In the third quarter of 2019, the Group's core volumes were 5.3% higher than in the prior-year quarter. The Polycarbonates and Polyurethanes segments saw volume growth of 9.3% and 5.1%, respectively, whereas volumes in the Coatings, Adhesives, Specialties segment declined by 4.0%.

Group sales amounted to €3,162 million, down 14.6% from the prior-year quarter (previous year: €3,702 million). The main factor here was the decline in selling prices, which had a negative impact of 18.5% on sales. This development was attributable mainly to the Polyurethanes and Polycarbonates segments. Total volumes increased sales by 2.1%. The exchange rate trend also impacted sales, which improved by 1.9%. In contrast, the change in the portfolio reduced sales by 0.1%. The sale of the U.S. polycarbonate sheets business in the third quarter of 2018 had a negative effect on sales, while the gradual acquisition of shares of Japan-based DIC Covestro Polymer Ltd. in the second quarter of 2019 had a positive effect.

All segments saw sales drop in the third quarter of 2019. The Polyurethanes segment's sales were down by 20.1% to €1,478 million (previous year: €1,849 million) and the Polycarbonates segment saw sales decrease by 13.2% to €901 million (previous year: €1,038 million). In the Coatings, Adhesives, Specialties segment, sales declined by 3.0% to €588 million (previous year: €606 million).

The Group's EBITDA declined by 50.5% to €425 million in the third quarter of 2019 (previous year: €859 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 decreased by 54.6% to €196 million (previous year: €432 million), and in the Polycarbonates segment it was down 58.1% to €132 million (previous year: €315 million). In the Coatings, Adhesives, Specialties segment, EBITDA declined by 11.9% to €111 million (previous year: €126 million).

In the third quarter of 2019, the Covestro Group's EBIT decreased by 68.7% to €221 million (previous year: €707 million).

Financial position

Operating cash flows decreased against the prior-year quarter, reaching €462 million (previous year: €766 million), largely due to the significant drop in EBITDA. Lower income tax payments had a positive effect on cash flow.

Free operating cash flow declined to €243 million in the third quarter of 2019 (previous year: €578 million). This was mainly due to decreased cash inflows from operating activities and the planned increase in cash outflows for additions to property, plant, equipment and intangible assets.

Net Financial Debt

	Dec. 31, 2018 ¹	Sep. 30, 2019
	€ million	€ million
Bonds	996	997
Liabilities to banks	24	14
Lease liabilities ²	193	814
Liabilities from derivatives	12	20
Receivables from derivatives	(12)	(12)
Financial liabilities	1,213	1,833
Cash and cash equivalents	(865)	(422)
Net financial debt	348	1,411

¹ Reference information was not restated; see section "Changes in Accounting as a Result of the Initial Application of IFRS 16."

² As of September 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 €1,063 million to reach €1,411 million as of September 30, 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 decline in cash and cash equivalents is largely due to a reduction in cash inflows from operating activities and an increase in cash outflows for additions to property, plant, equipment and intangible assets.

Business Development by Segment

Polyurethanes

Polyurethanes Key Data

	3rd quarter 2018 ¹	3rd quarter 2019	Change	1st nine months 2018 ¹	1st nine months 2019	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth²	-2.0%	+5.1%		+0.3%	+1.9%	
Sales	1,849	1,478	-20.1	5,765	4,443	-22.9
Change in sales						
Volume	+0.1%	+2.5%		+0.2%	+2.1%	
Price	-0.5%	-24.4%		+8.6%	-26.9%	
Currency	-0.8%	+1.8%		-4.2%	+1.9%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
Sales by region						
EMLA	773	629	-18.6	2,504	1,941	-22.5
NAFTA	512	431	-15.8	1,473	1,286	-12.7
APAC	564	418	-25.9	1,788	1,216	-32.0
EBITDA	432	196	-54.6	1,652	525	-68.2
EBIT	346	97	-72.0	1,385	226	-83.7
Operating cash flows	453	173	-61.8	993	293	-70.5
Cash outflows for additions to property, plant, equipment and intangible assets	113	135	+19.5	243	375	+54.3
Free operating cash flow	340	38	-88.8	750	(82)	.

¹ Reference information was not restated; see section "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 third quarter of 2019, core volumes in the Polyurethanes segment were 5.1% higher than in the prior-year quarter. The upswing in volumes in the furniture and electrical/electronics industries, especially in household appliances, and in the construction sector more than offset weaker demand from the automotive industry.

Sales in the Polyurethanes segment were down 20.1% to €1,478 million in the third quarter of 2019 (previous year: €1,849 million). The trend in average selling prices had a negative impact on sales of 24.4%, chiefly due to more intense competitive pressure. Total volumes had a positive effect of 2.5% on sales. Moreover, exchange rate movements increased sales by 1.8%.

In the EMLA region, sales were down 18.6% from the prior-year quarter to €629 million (previous year: €773 million) on account of a significant decline in selling prices. In contrast, total volumes saw a slight increase. Changes in exchange rates had no notable overall effect on sales. Sales in the NAFTA region decreased by 15.8% to €431 million (previous year: €512 million). Much lower selling prices and a slight downturn in total volumes combined to impact sales, which declined. Conversely, exchange rate fluctuations had a slightly positive effect on sales. In the APAC region, sales decreased by 25.9% to €418 million (previous year: €564 million) due to a considerable drop in selling prices. Higher total volumes had a significant positive effect and changes in exchange rates had a mildly positive impact on sales.

In the third quarter of 2019, EBITDA in the Polyurethanes segment declined by 54.6% compared with the prior-year quarter, decreasing to €196 million (previous year: €432 million). Despite a decline in raw material prices, lower selling prices led to a significant drop in margins. In contrast, volumes had a positive effect on EBITDA.

EBIT was down by 72.0% in the reporting period, dropping to €97 million (previous year: €346 million).

In the third quarter of 2019, free operating cash flow decreased by 88.8% to €38 million (previous year: €340 million). This is mainly due to the decline in EBITDA and an overall build-up of funds tied up in working capital, especially in liabilities, as well as higher cash outflows for additions to property, plant, equipment and intangible assets.

Polycarbonates

Polycarbonates Key Data

	3rd quarter 2018 ¹	3rd quarter 2019	Change	1st nine months 2018 ¹	1st nine months 2019	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth²	+2.6%	+9.3%		+3.5%	+2.4%	
Sales	1,038	901	-13.2	3,127	2,659	-15.0
Change in sales						
Volume	+5.1%	+6.8%		+3.6%	+3.1%	
Price	+9.6%	-20.7%		+13.7%	-17.4%	
Currency	-0.6%	+2.0%		-4.6%	+2.1%	
Portfolio	-2.8%	-1.3%		-0.9%	-2.8%	
Sales by region						
EMLA	331	281	-15.1	1,046	876	-16.3
NAFTA	205	196	-4.4	617	574	-7.0
APAC	502	424	-15.5	1,464	1,209	-17.4
EBITDA	315	132	-58.1	903	441	-51.2
EBIT	272	57	-79.0	773	261	-66.2
Operating cash flows	185	178	-3.8	419	409	-2.4
Cash outflows for additions to property, plant, equipment and intangible assets	49	44	-10.2	116	125	+7.8
Free operating cash flow	136	134	-1.5	303	284	-6.3

¹ Reference information was not restated; see section "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 third quarter of 2019, core volumes in the Polycarbonates segment were 9.3% higher than in the prior-year quarter. The electrical and electronics industry and the construction sector were the main contributors to this growth.

Sales in the Polycarbonates segment were down 13.2% to €901 million in the third quarter of 2019 (previous year: €1,038 million). A decline in selling prices reduced sales by 20.7%, primarily because of greater competitive pressure. In contrast, total volumes and exchange rate movements accounted for 6.8% and 2.0% of sales growth, respectively. Moreover, the portfolio effect from the sale of the U.S. polycarbonate sheets business in the third quarter of 2018 had a negative effect of 1.3% on sales in the third quarter of 2019.

Sales in the EMLA region decreased by 15.1% to €281 million as a result of a considerable drop in selling prices (previous year: €331 million). In addition, total volumes had a mildly negative effect on sales. Exchange rate changes had no significant overall impact on sales figures. In the NAFTA region, sales were down 4.4% to €196 million (previous year: €205 million), due to a significant decline in average selling prices and the aforementioned portfolio effect, which had a substantially negative impact on sales. In contrast, total volumes had a significant positive effect, and exchange rate movements increased sales slightly. Sales in the APAC region declined by 15.5% to €424 million (previous year: €502 million). A lower selling price level considerably pushed down sales, whereas total volumes provided a strong boost. Changes in exchange rates had a somewhat positive effect on sales figures.

In the third quarter of 2019, EBITDA in the Polycarbonates segment decreased by 58.1% compared with the prior-year quarter, dropping to €132 million (previous year: €315 million), mostly on account of lower selling prices. The decrease in raw material prices and increase in sales volumes had a positive effect on EBITDA, however. Moreover, earnings in the previous year had been affected by non-recurring income of €36 million from the sale of the U.S. polycarbonate sheets business.

EBIT was down 79.0% to €57 million in the third quarter of 2019 (previous year: €272 million). Write-downs of assets amounting to €26 million in connection with the sale of the European polycarbonate sheets business had a negative effect on EBIT, with €21 million of those impairment charges attributable to noncurrent assets.

Free operating cash flow fell by 1.5% to €134 million in the third quarter of 2019 (previous year: €136 million). The decline in EBITDA stood in contrast to a greater release of funds in working capital, especially in inventories.

Coatings, Adhesives, Specialties

Coatings, Adhesives, Specialties Key Data

	3rd quarter 2018 ¹	3rd quarter 2019	Change	1st nine months 2018 ¹	1st nine months 2019	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth²	+7.2%	-4.0%		+3.7%	-3.0%	
Sales	606	588	-3.0	1,827	1,836	+0.5
Change in sales						
Volume	+9.7%	-4.7%		+4.3%	-2.7%	
Price	-0.5%	-2.1%		+0.8%	-0.3%	
Currency	-0.4%	+2.2%		-3.5%	+2.5%	
Portfolio	0.0%	+1.6%		0.0%	+1.0%	
Sales by region						
EMLA	280	257	-8.2	877	828	-5.6
NAFTA	131	145	+10.7	390	433	+11.0
APAC	195	186	-4.6	560	575	+2.7
EBITDA	126	111	-11.9	401	407	+1.5
EBIT	103	82	-20.4	332	320	-3.6
Operating cash flows	119	129	+8.4	202	179	-11.4
Cash outflows for additions to property, plant, equipment and intangible assets	26	39	+50.0	70	103	+47.1
Free operating cash flow	93	90	-3.2	132	76	-42.4

¹ Reference information was not restated; see section "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 third quarter of 2019, core volumes in the Coatings, Adhesives, Specialties segment were 4.0% lower than in the prior-year quarter. This development was mainly attributable to weaker demand for coating precursors from all key customer industries, particularly the automotive sector.

The Coatings, Adhesives, Specialties segment's sales decreased 3.0% to €588 million (previous year: €606 million) in the third quarter of 2019. A negative effect on sales by 4.7% and 2.1% was due, respectively, to total volumes and the decrease in selling prices on average. In contrast, exchange rate movements had a positive effect on sales, which rose by 2.2%. The gradual acquisition of shares in Japan-based DIC Covestro Polymer Ltd. also bumped up sales by 1.6%.

The EMLA region's sales dropped 8.2% to €257 million (previous year: €280 million) due to a considerable decline in total volumes. Average selling prices remained mostly stable, however. Exchange rate changes had no significant net effect on sales. In the NAFTA region, sales rose by 10.7% to €145 million (previous year: €131 million). The increase in total volumes, higher selling prices, and the effect of exchange rate movements were each responsible for the slight growth in sales. The APAC region's sales were down 4.6% to €186 million (previous year: €195 million). Changes in total volumes and average selling prices had a significant negative impact on sales. Conversely, the effect of exchange rate movements and the portfolio effect from the gradual acquisition of shares in Japan-based DIC Covestro Polymer Ltd. gave sales a modest boost.

In the third quarter of 2019, EBITDA in the Coatings, Adhesives, Specialties segment decreased 11.9% from the prior-year quarter to €111 million (previous year: €126 million). This was primarily due to negative volume effects and lower margins.

EBIT was down by 20.4% in the same period, dropping to €82 million (previous year: €103 million).

Free operating cash flow decreased by 3.2% to €90 million in the third quarter of 2019 (previous year: €93 million). The decline in EBITDA and increase in cash outflows for additions to property, plant, equipment and intangible assets were not offset by the overall greater release of funds in working capital.

Forecast

Economic Outlook

Economic Growth

	Growth ¹ 2018	Growth ¹ forecast 2019 (2018 Annual Report)	Growth ¹ forecast 2019
	%	%	%
World	+3.1	+2.8	+2.5
European Union	+2.0	+1.3	+1.3
of which Germany	+1.5	+1.0	+0.4
NAFTA	+2.8	+2.4	+2.1
of which United States	+2.9	+2.5	+2.3
Asia-Pacific	+4.8	+4.7	+4.4
of which China	+6.6	+6.3	+6.2

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

We expect global economic growth of 2.5% for 2019, slightly less positive than our outlook in the 2018 Annual Report. We likewise anticipate a slightly slower growth in the Asia-Pacific and NAFTA regions. The forecast for Germany has been downgraded considerably, while the expectations for the European Union as a whole remained largely unchanged. Overall, we expect to see ongoing difficult economic conditions due to such issues as political uncertainties in Europe and increasing global trade barriers.

Main customer industries

Compared with the expectations we expressed in the 2018 Annual Report, we so far see only minor changes, or none at all, for the performance of the construction sector and the electrical, electronics and household appliance industry, assuming no further trade barriers arise. Growth in the furniture industry is anticipated to be somewhat weaker than presented in the 2018 Annual Report. In contrast to our statements in the 2018 Annual Report, we now anticipate a significant downturn in the automotive industry.

Forecast for Key Data

On the basis of the business performance described in this quarterly statement, we confirm the Group forecast and, in consideration of the potential associated risks and opportunities, provide more specific bandwidths for the forecast for the rest of the 2019 fiscal year than those forecast to date in the 2018 Annual Report.

We now expect core volume growth for the Covestro Group in the low-single-digit-percentage range. This also applies to the Polyurethanes and Polycarbonates segments. For the Coatings, Adhesives, Specialties segment, we currently anticipate a drop in core volumes in the low-single-digit-percentage range (2018 Annual Report forecast: core volume growth in the low-to-mid-single-digit-percentage range for the Covestro Group as well as for the Polyurethanes, Polycarbonates and Coatings, Adhesives, Specialties segments).

For fiscal 2019, we anticipate free operating cash flow (FOCF) for the Group of between €300 million and €500 million (2018 Annual Report forecast: FOCF between €300 million and €700 million). For the Polyurethanes segment, we continue to assume an increase in cash outflows for additions to property, plant, equipment and intangible assets that will exceed the expected net cash provided by operations. FOCF is expected 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. In the Coatings, Adhesives, Specialties segment, FOCF is now projected to be slightly below the prior-year level (2018 Annual Report forecast: FOCF around the prior-year level).

For fiscal 2019, we expect ROCE¹ between 8% and 10% (2018 Annual Report forecast: ROCE 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 non-interest-bearing liabilities such as trade accounts payable.

Employees and Pension Obligations

As of September 30, 2019, the Covestro Group had 17,320 employees worldwide (December 31, 2018: 16,770). Personnel expenses in the first nine months of 2019 were down by €128 million from the prior-year period to €1,337 million (previous year: €1,465 million). This was mainly due to lower provisions for short-term variable compensation.

Employees by Corporate Function¹

	Dec. 31, 2018	Sep. 30, 2019
Production	10,479	11,158
Marketing and distribution	3,601	3,387
Research and development	1,123	1,234
General administration	1,567	1,541
Total	16,770	17,320

¹ The number of employees on either permanent or temporary contracts is stated in full-time equivalents (FTE). Part-time employees are included on a pro-rated basis in line with their contractual working hours. Employees in vocational training are not included.

Provisions for pensions and other post-employment benefits increased to €2,019 million as of September 30, 2019 (December 31, 2018: €1,445 million). In particular, this was attributable to a lower discount rate in Germany. A positive change in the value of plan assets partly compensated for this development.

Discount Rate for Pension Obligations

	Dec. 31, 2018	Sep. 30, 2019
	%	%
Germany	1.80	0.90
United States	4.00	2.90

Exchange Rates

In the reporting period, the following exchange rates were used for the major currencies of relevance to the Covestro Group:

Closing Rates for Major Currencies

		Closing rates		
€1/		Sep. 30, 2018	Dec. 31, 2018	Sep. 30, 2019
BRL	Brazil	4.65	4.44	4.53
CNY	China	7.96	7.87	7.78
HKD	Hong Kong	9.06	8.97	8.54
INR	India	83.92	79.73	77.16
JPY	Japan	131.23	125.85	117.59
MXN	Mexico	21.78	22.49	21.45
USD	United States	1.16	1.15	1.09

Average Rates for Major Currencies

		Average rates	
€1/		1st nine months 2018	1st nine months 2019
BRL	Brazil	4.27	4.36
CNY	China	7.77	7.72
HKD	Hong Kong	9.36	8.81
INR	India	80.10	78.82
JPY	Japan	130.93	122.60
MXN	Mexico	22.73	21.63
USD	United States	1.19	1.12

Changes in Accounting as a Result of the Initial Application of IFRS 16

The new financial reporting standard **IFRS 16 (Leases)** has been applied since January 1, 2019, and replaces the previous regulations addressing the topic of leases. IFRS 16 was applied using the modified retrospective approach. For this reason, the reference figures were not adjusted; these continue to be presented in accordance with the previous accounting rules (for further details, see the 2018 Annual Report, Notes 2.2 and 3).

The IFRS 16 transition rules stipulate that no new assessment must be made at the date of initial application as to whether an existing agreement meets the definition of a lease according to IFRS 16. Instead, existing assessments of leases can continue to be applied. Covestro made use of this exemption provision when applying IFRS 16 for the first time.

With regard to lessees, right-of-use assets required upon initial application of IFRS 16 were generally recognized by Covestro in the amount of the corresponding lease liabilities. In specific cases, the right-of-use asset was adjusted by the amount of the deferred advance payments or liabilities recognized in the financial statements as of the end of fiscal year 2018. The initial application did not affect equity. The corresponding lease liabilities were measured using the incremental borrowing rate at the date of initial application. In addition, Covestro took advantage of the optional exemptions regarding the carrying amount of short-term leases and leases on low-value assets.

The following reconciliations of the carrying amounts of the right-of-use assets and lease liabilities as of January 1, 2019, to the carrying amounts as of September 30, 2019, are broken down into the former finance leases already recognized in the statement of financial position under IAS 17 in conjunction with IFRIC 4 and the former operating leases recognized for the first time as a result of the adoption of IFRS 16.

Right-of-Use Assets

	Former finance leases	Former operating leases	Total
	€ million	€ million	€ million
Right-of-use assets, January 1, 2019	218	660	878
Additions	–	53	53
Retirements	–	(8)	(8)
Transfers (IFRS 5)	–	(1)	(1)
Depreciation	(25)	(91)	(116)
Other changes	3	26	29
Right-of-use assets, September 30, 2019	196	639	835

Lease Liabilities

	Former finance leases	Former operating leases	Total
	€ million	€ million	€ million
Lease liabilities, January 1, 2019	193	656	849
Additions	–	53	53
Retirements	–	(8)	(8)
Transfers (IFRS 5)	–	(4)	(4)
Repayment	(30)	(74)	(104)
thereof lease rate	(40)	(90)	(130)
thereof interest portion	10	16	26
Other changes	2	26	28
Lease liabilities, September 30, 2019	165	649	814

As of January 1, 2019, property, plant and equipment increased by €660 million, and financial liabilities by €656 million due to the initial application of IFRS 16. The underlying leases relate mainly to real estate leases and leases for production and logistics infrastructure. The principal additions in the first nine months of 2019 comprise new leases for transport vessels, rail cars, warehouse facilities and electric buses, and leases acquired as part of the initial consolidation of DIC Covestro Polymer Ltd., Tokyo (Japan).

Scope of Consolidation

Changes in the Scope of Consolidation

As of September 30, 2019, the scope of consolidation comprised Covestro AG and 48 consolidated companies (December 31, 2018: 49 companies).

OOO Covestro, Moscow (Russia), was reclassified as an immaterial subsidiary in the first quarter of 2019 for reasons including the fact that local production was halted. It has therefore no longer been consolidated since the first quarter of 2019.

Effective April 1, 2019, a further 30% of the shares in DIC Covestro Polymer Ltd. Tokyo (Japan), was acquired, and the company was subsequently consolidated. Previously, it was classified as a joint venture and accounted for using the equity method in accordance with IAS 28 (Investments in Associates and Joint Ventures).

Pure Salt Baytown LLC (Pure Salt), Houston (United States), which was previously included in the consolidated financial statements as a structured entity, has been classified as an immaterial associated company since the third quarter of 2019 and was subsequently deconsolidated. The basis of the relationship with Pure Salt has changed to such a degree due to contractual and economic factors that control is no longer exercised.

Acquisitions and Divestitures

Acquisitions

Covestro increased its interest in DIC Covestro Polymer Ltd. (DCP), Tokyo (Japan) effective April 1, 2019, through a gradual acquisition of shares. DCP is a Japanese producer of thermoplastic polyurethanes, which are used, for example, in the automotive, IT, electronics, health-care and sports sectors. The acquisition of DCP contributes to the goal of benefiting from the future growth potential of the thermoplastic polyurethanes (TPU) business in Japan. Covestro and DIC Corporation (DIC), Tokyo (Japan) previously operated this company as a joint venture in which each held a 50% interest. By acquiring a further 30% of the shares in DCP, Covestro increased its interest to 80% and thus gained control. As a result, DCP has been fully consolidated since April 1, 2019. The shares previously recognized using the equity method of accounting were remeasured at their fair value of €34 million. The remeasurement resulted in a gain of €19 million, which was recognized in other operating income. The carrying amount of the noncontrolling interest, which corresponds to the remaining 20% share held by DIC, was determined proportionately from the net assets of DCP less goodwill. It amounted to €11 million and was recognized in equity.

The consideration transferred was €21 million and was settled by a cash transfer. The acquired net assets amount to €66 million. The goodwill of €10 million included in the net assets reflects the anticipated sales synergies resulting from joint marketing of products over the relevant trading platforms. The goodwill is not tax deductible.

As of the date of acquisition, the above transaction had the following impact on the assets and liabilities of the Covestro Group in fiscal year 2019 and led to the following cash outflow after adjustment for the cash and cash equivalents acquired:

Acquired Assets and Assumed Liabilities (Fair Values at the Respective Acquisition Dates)

	DCP
	€ million
Goodwill	10
Other intangible assets	29
Property, plant and equipment	14
Other financial assets	3
Inventories	12
Trade accounts receivable	11
Cash and cash equivalents	13
Deferred tax assets	1
Other provisions	(1)
Financial liabilities	(4)
Trade accounts payable	(9)
Other liabilities	(1)
Deferred tax liabilities	(12)
Net assets	66
Noncontrolling interest	(11)
Fair value of pre-existing interest	(34)
Consideration transferred	21
Acquired cash and cash equivalents	(13)
Net cash outflow for acquisitions	8

Before the acquisition, Covestro and DCP engaged in operational goods and services transactions, which were recognized by Covestro as trade accounts receivable of €1 million. These accounts were settled when DCP was acquired. In addition, DIC was granted a put option on the remaining 20% shares still held by DIC. If it exercises this put option, the sale of these shares to Covestro would take effect in 2030. The put option is recognized in miscellaneous other financial liabilities while equity was reduced by the counter item recognized in retained earnings.

Since its consolidation as of April 1, 2019, DCP has contributed €20 million to net sales and a loss of €1 million to income after income taxes of the Covestro Group. Between January 1, 2019, and March 31, 2019, DCP generated sales of €9 million and income after income taxes of €1 million.

Divestitures

In the second quarter of 2019, Covestro's Polyurethanes segment signed an agreement to divest the assets and liabilities (disposal group) of the European systems house business to H.I.G. Capital, Miami (United States). The systems houses provide customers with tailored polyurethane systems. The European systems house business comprises systems houses in Denmark, Germany, the Netherlands and Spain, plus further activities in Italy. In connection with this divestiture, production-related assets and inventories amounting to €54 million and liabilities of €15 million were classified as "held for sale" in accordance with IFRS 5. This transaction should be completed in the fourth quarter of 2019 at the latest.

In the third quarter of 2019, Covestro's Polycarbonates segment signed an agreement to divest the assets and liabilities (disposal group) of the European polycarbonate sheets business to Serafin Group, Munich (Germany). Polycarbonate sheets are highly break-resistant and are mostly used in industrial protection, construction systems or signage applications. The European polycarbonate sheets business comprises manufacturing units in Belgium and Italy, as well as central management operations and sales support in Europe. In connection with this divestiture, production-related assets and inventories amounting to €15 million and liabilities of €19 million were classified as "held for sale" in accordance with IFRS 5. Impairment charges on the assets of the disposal group led to a loss totaling €26 million, which is reported in cost of goods sold, selling expenses and other operating expenses. This transaction should be completed in the first quarter of 2020 at the latest.

Segment Information

Segment Information 3rd Quarter¹

	Polyurethanes		Polycarbonates		Coatings, Adhesives, Specialties		Others/consolidation		Covestro Group	
	3rd quarter 2018	3rd quarter 2019	3rd quarter 2018	3rd quarter 2019	3rd quarter 2018	3rd quarter 2019	3rd quarter 2018	3rd quarter 2019	3rd quarter 2018	3rd quarter 2019
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales	1,849	1,478	1,038	901	606	588	209	195	3,702	3,162
Change in sales										
Volume	+0.1%	+2.5%	+5.1%	+6.8%	+9.7%	-4.7%	+2.5%	-4.4%	+3.0%	+2.1%
Price	-0.5%	-24.4%	+9.6%	-20.7%	-0.5%	-2.1%	+19.4%	-3.3%	+3.1%	-18.5%
Currency	-0.8%	+1.8%	-0.6%	+2.0%	-0.4%	+2.2%	+0.3%	+1.0%	-0.6%	+1.9%
Portfolio	0.0%	0.0%	-2.8%	-1.3%	0.0%	+1.6%	0.0%	0.0%	-0.7%	-0.1%
Core volume growth²	-2.0%	+5.1%	+2.6%	+9.3%	+7.2%	-4.0%			+0.2%	+5.3%
Sales by region										
EMLA	773	629	331	281	280	257	157	150	1,541	1,317
NAFTA	512	431	205	196	131	145	48	40	896	812
APAC	564	418	502	424	195	186	4	5	1,265	1,033
EBITDA	432	196	315	132	126	111	(14)	(14)	859	425
EBIT	346	97	272	57	103	82	(14)	(15)	707	221
Depreciation, amortization, impairment losses and impairment loss reversals	86	99	43	75	23	29	-	1	152	204
Operating cash flows	453	173	185	178	119	129	9	(18)	766	462
Cash outflows for additions to property, plant, equipment and intangible assets	113	135	49	44	26	39	-	1	188	219
Free operating cash flow	340	38	136	134	93	90	9	(19)	578	243
Working Capital ³	1,292	1,083	842	694	542	605	63	75	2,739	2,457

¹ Reference information was not restated; see section "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

³ Working capital comprises inventories plus trade accounts receivable, less trade accounts payable, as of September 30, 2019 and September 30, 2018 respectively.

Segment Information 1st Nine Months¹

	Polyurethanes		Polycarbonates		Coatings, Adhesives, Specialties		Others/consolidation		Covestro Group	
	1st nine months 2018	1st nine months 2019	1st nine months 2018	1st nine months 2019	1st nine months 2018	1st nine months 2019	1st nine months 2018	1st nine months 2019	1st nine months 2018	1st nine months 2019
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales	5,765	4,443	3,127	2,659	1,827	1,836	625	610	11,344	9,548
Change in sales										
Volume	+0.2%	+2.1%	+3.6%	+3.1%	+4.3%	-2.7%	+5.1%	-3.9%	+2.1%	+1.3%
Price	+8.6%	-26.9%	+13.7%	-17.4%	+0.8%	-0.3%	+19.5%	+0.1%	+9.1%	-18.5%
Currency	-4.2%	+1.9%	-4.6%	+2.1%	-3.5%	+2.5%	-2.1%	+1.4%	-4.1%	+2.0%
Portfolio	0.0%	0.0%	-0.9%	-2.8%	0.0%	+1.0%	0.0%	0.0%	-0.2%	-0.6%
Core volume growth²	+0.3%	+1.9%	+3.5%	+2.4%	+3.7%	-3.0%			+1.5%	+1.5%
Sales by region										
EMLA	2,504	1,941	1,046	876	877	828	470	465	4,897	4,110
NAFTA	1,473	1,286	617	574	390	433	141	129	2,621	2,422
APAC	1,788	1,216	1,464	1,209	560	575	14	16	3,826	3,016
EBITDA	1,652	525	903	441	401	407	(49)	(47)	2,907	1,326
EBIT	1,385	226	773	261	332	320	(50)	(48)	2,440	759
Depreciation, amortization, impairment losses and impairment loss reversals	267	299	130	180	69	87	1	1	467	567
Operating cash flows	993	293	419	409	202	179	121	(135)	1,735	746
Cash outflows for additions to property, plant, equipment and intangible assets	243	375	116	125	70	103	-	-	429	603
Free operating cash flow	750	(82)	303	284	132	76	121	(135)	1,306	143
Working Capital ³	1,292	1,083	842	694	542	605	63	75	2,739	2,457

¹ Reference information was not restated; see section "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, 2019³ Working capital comprises inventories plus trade accounts receivable, less trade accounts payable, as of September 30, 2019 and September 30, 2018 respectively.

Financial Calendar

Annual Report 2019	February 19, 2020
Annual General Meeting 2020	April 17, 2020
Q1 2020 Interim Statement	April 29, 2020
Half-Year Financial Report 2020.....	July 23, 2020

Reporting Principles

This Covestro AG Quarterly Statement was prepared in accordance with Section 53 of the Frankfurt Stock Exchange Rules and Regulations (Börsenordnung). This Statement is not an interim report within the meaning of IAS 34 or a set of financial statements within the meaning of IAS 1. It was not subjected to a review by an auditor. This Quarterly Statement should be read alongside the Interim Statement for the first quarter of 2019, the 2019 Half-Year Financial Report as well as the 2018 Annual Report, and the additional information about the company contained therein. The 2018 Annual Report is available on our website at www.covestro.com. Comparative information for prior years was not restated according to the new accounting standards; see "Changes in Accounting as a Result of the Initial Application of IFRS 16."

This Quarterly Statement was published in German and English on October 28, 2019. Only the German version is binding.

Forward-Looking Statements

This Quarterly Statement may contain forward-looking statements based on current assumptions and forecasts made by the management of Covestro AG. Various known and unknown risks, uncertainties and other factors could lead to material differences between the actual future results, financial situation, development or performance of the company and the estimates given here. These factors include those discussed in Covestro's public reports, which are available at www.covestro.com. The company assumes no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.

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Design and layout
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