

Significant Events

War in Ukraine

The Russian war against Ukraine, which began in February 2022, has had a notable impact on the global economy and also influenced Covestro's business situation. Currently, Covestro is not affected directly by the conflict, because less than 1% of Group sales are generated in Russia, Belarus and Ukraine combined. The existing trade accounts receivable were evaluated and impaired, if needed. Covestro does not operate any production facilities in these three countries, only a single sales support office with 12 employees in Russia. The sanctions imposed on Russia and Belarus by the international community therefore only minimally affect Covestro's business. The worldwide consequences for the energy and raw material markets and on supply chains do, however, influence Covestro's business.

See "Opportunities and Risks."

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 also has provided its companies in Slovakia and Poland an additional €40,000 to donate to local aid organizations.

Coronavirus Pandemic

Restrictive measures introduced by some countries to combat the coronavirus pandemic affected the global economy in the first quarter of 2022. The health, safety, and hygiene measures implemented by Covestro are regularly reviewed and modified to address current conditions. Depending on the local situation in each case, some staff, particularly employees in administrative departments, continue to work from home. Whereas employees in the EMLA and NA regions were gradually returning to the workplace, the situation in APAC, particularly China, has deteriorated, with stricter measures again in place. Production at our sites was not affected by the pandemic in the first quarter of 2022, although initial logistical bottlenecks emerged at the Shanghai (China) site at the end of the first quarter of 2022.

Share Buyback Program

On February 28, 2022, Covestro AG's Board of Management resolved to initiate a share buyback program in view of the company's successful business performance. The total volume of the program is approximately €500 million (not including ancillary transaction costs), and it is expected to be completed within two years. The repurchased shares will then be retired and the capital stock reduced accordingly. Share buybacks began in March 2022. By the end of the first quarter of 2022, Covestro AG had acquired 1,011,703 shares valued at €48 million.

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

New Climate Targets

In the course of Covestro's efforts to make plastics production fully circular, the company communicated new climate targets on March 1, 2022. The Group is striving to become climate neutral and to reach net-zero greenhouse gas (GHG) emissions* by the year 2035. Covestro plans to reduce direct GHG emissions from its own production activities (Scope 1) and indirect GHG emissions from external energy sources (Scope 2) by 60% to 2.2 million metric tons of CO₂ 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, CO₂ and hydrogen in its production processes. A target for the long-term reduction of indirect GHG emissions from upstream and downstream processes in the value chain (Scope 3) will follow in the year 2023.

Extension of the Revolving Credit Facility

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.

See "Financial Management" in the Annual Report 2021.

* 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 and Financial Position of the Covestro Group

Results of Operations

In the first quarter of 2022, Group sales grew by 41.6% to €4,683 million (previous year: €3,307 million). The main factors were much higher average selling prices, which had a positive impact on sales amounting to 22.9%. Moreover, 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 and exchange rate movements had positive effects on sales of 9.5% and 5.6%, respectively. The change in total volumes sold had a positive effect on sales amounting to 3.6%.

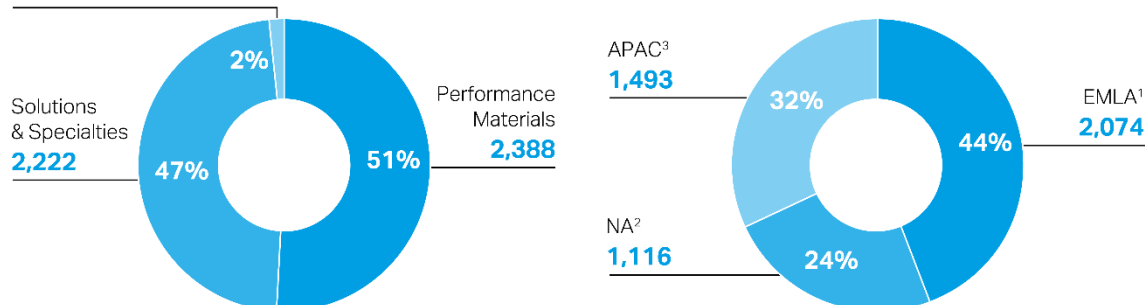
In the first quarter of 2022, sales rose by 37.2% to €2,388 million (previous year: €1,740 million) in the Performance Materials segment and 45.3% to €2,222 million (previous year: €1,529 million) in the Solutions & Specialties segment. Sales increased in all regions in the first quarter of 2022. In the EMLA region, sales climbed by 38.1% to €2,074 million (previous year: €1,502 million). Sales rose by 72.0% to €1,116 million (previous year: €649 million) in the region NA region and by 29.2% to €1,493 million (previous year: €1,156 million) in the APAC region.

Sales by segment and region

€ million

Others/Consolidation

73



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 improved by 8.5% to €806 million in the first quarter of 2022 (previous year: €743 million), primarily due to positive currency effects and an increase in total volumes sold. In addition, lower provisions for variable compensation and the acquisition of RFM in the second quarter of 2021 each had a positive effect on earnings. Margins were down in contrast as the result of a sharp rise in raw material and energy prices. However, a higher selling price level largely compensated for this development.

EBITDA in the Performance Materials segment decreased by 1.6% to €620 million (previous year: €630 million). In the Solutions & Specialties segment, EBITDA was up 23.8% to €224 million (previous year: €181 million).

The Covestro Group's EBIT was up by 5.9% to €589 million in the first quarter of 2022 (previous year: €556 million).

Financial Position

Cash flows from operating activities totaled €157 million in the first quarter of 2022 (previous year: €428 million). The lower cash inflows year-over-year are mainly due to an increase in cash tied up in working capital and higher income tax payments.

Free operating cash flow was down, amounting to €17 million in the first quarter of 2022 (previous year: €318 million), largely due to lower cash flows from operating activities.

Net financial debt

	Dec. 31, 2021	Mar. 31, 2022
	€ million	€ million
Bonds	1,492	1,492
Liabilities to banks	275	289
Lease liabilities	761	744
Liabilities from derivatives	11	26
Other financial liabilities	2	2
Receivables from derivatives	(34)	(28)
Financial debt	2,507	2,525
Cash and cash equivalents	(649)	(623)
Current financial assets	(453)	(434)
Net financial debt	1,405	1,468

In comparison with December 31, 2021, the Covestro Group's financial debt increased slightly, by €18 million to €2,525 million as of March 31, 2022.

Cash and cash equivalents declined in comparison with the figure on December 31, 2021, by €26 million to €623 million, mainly on account of cash outflows for additions to property, plant and equipment and the buyback of treasury shares as part of the share buyback program launched in March 2022. Conversely, cash flows from operating activities of €157 million increased cash and cash equivalents. The sale of money market fund units and net investments in short-term bank deposits decreased current financial assets by €19 million to €434 million.

Net financial debt grew by €63 million compared with the figure on December 31, 2021, to €1,468 million as of March 31, 2022.

Performance of the Segments

Performance Materials

Performance Materials key data¹

	1st quarter 2021	1st quarter 2022	Change
	€ million	€ million	%
Sales (external)	1,740	2,388	37.2
Intersegment sales	483	657	36.0
Sales (total)	2,223	3,045	37.0
Change in sales (external)			
Volume	-2.3%	5.5%	
Price	32.9%	26.4%	
Currency	-4.8%	5.3%	
Portfolio	0.0%	0.0%	
Sales by region (external)			
EMLA	890	1,142	28.3
NA	334	604	80.8
APAC	516	642	24.4
EBITDA²	630	620	-1.6
EBIT ²	489	475	-2.9
Cash flows from operating activities	337	206	-38.9
Cash outflows for additions to property, plant, equipment and intangible assets	78	94	20.5
Free operating cash flow	259	112	-56.8

¹ Reference information calculated based on the organizational and reporting structure as of July 1, 2021.

² EBITDA and EBIT each include the effect on earnings of intersegment sales.

Sales in the Performance Materials segment were up 37.2% to €2,388 million in the first quarter of 2022 (previous year: €1,740 million). Driven by a still advantageous competitive situation, average selling prices increased sales by 26.4%. The change in total volumes sold improved sales by 5.5%, and exchange rate movements had a positive effect on sales of 5.3%.

In the EMLA region, sales grew by 28.3% over the prior-year quarter to €1,142 million (previous year: €890 million) on account of a strong increase in the selling price levels. The growth in total volumes sold gave sales a slight boost. Exchange rate movements had no notable effect on sales. In the NA region, sales were up 80.8% to €604 million (previous year: €334 million). Higher average selling prices had a substantially positive effect on sales. The change in total volumes sold and in exchange rates increased sales significantly. Sales in the APAC region rose by 24.4% to €642 million (previous year: €516 million). An increase in the selling price level, the exchange rate movements, and higher total volumes sold each had a significant positive effect on the region's sales.

In the first quarter of 2022, EBITDA in Performance Materials decreased by 1.6% from the prior-year quarter, amounting to €620 million (previous year: €630 million). This was attributable mainly to a decline in margins, because higher selling prices were unable to fully offset the effect of increased raw material and energy prices.

EBIT decreased by 2.9% to €475 million (previous year: €489 million) in the first quarter of 2022.

Free operating cash flow was down by 56.8% to €112 million in the first quarter of 2022 (previous year: €259 million), chiefly as a result of the increase in cash tied up in working capital.

Solutions & Specialties

Solutions & Specialties key data¹

	1st quarter 2021	1st quarter 2022	Change
	€ million	€ million	%
Sales (external)	1,529	2,222	45.3
Intersegment sales	5	9	80.0
Sales (total)	1,534	2,231	45.4
Change in sales (external)			
Volume	10.8%	–0.5%	
Price	8.1%	19.4%	
Currency	–4.9%	5.9%	
Portfolio	0.0%	20.5%	
Sales by region (external)			
EMLA	583	873	49.7
NA	308	501	62.7
APAC	638	848	32.9
EBITDA²	181	224	23.8
EBIT ²	138	152	10.1
Cash flows from operating activities	43	(101)	.
Cash outflows for additions to property, plant, equipment and intangible assets	32	45	40.6
Free operating cash flow	11	(146)	.

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.

In the first quarter of 2022, sales in the Solutions & Specialties segment was up 45.3% to €2,222 million (previous year: €1,529 million). The portfolio effect resulting from the acquisition of RFM gave sales a 20.5% boost, while the rise in selling price levels due to a still advantageous competitive situation increased sales 19.4%. At the same time, exchange rate movements had a positive effect of 5.9%. Total volumes sold remained around the level of the prior-year quarter, reducing sales by 0.5%.

In the EMLA region, sales were up 49.7% to €873 million (previous year: €583 million). Key drivers here were the aforementioned portfolio effect and an increase in average selling prices, both of which substantially increased sales. In contrast, changes in total volumes sold had a slightly negative effect on sales. Exchange rate changes remained neutral overall with respect to sales. In the NA region, sales climbed by 62.7% to €501 million (previous year: €308 million). This was largely due to the increase in average selling prices and the aforementioned portfolio effect, both factors that increased sales substantially. At the same time, exchange rate movements had a significant positive effect on sales. Total volumes sold were up, which increased sales slightly. In the APAC region, sales grew by 32.9% to €848 million (previous year: €638 million). This was the result of an increase in average selling prices, the previously mentioned portfolio effect and exchange rate movements, each of which increased sales significantly. A decline in total volumes sold instead decreased sales slightly.

In the first quarter of 2022, EBITDA in Solutions & Specialties grew by 23.8% over the prior-year quarter to €224 million (previous year: €181 million), mostly on account of the acquisition of RFM. This stood in contrast to lower margins, which reduced earnings, since higher raw material and energy prices more than offset higher selling prices.

EBIT in the first quarter of 2022 was up by 10.1% to €152 million (previous year €138 million).

In the first quarter of 2022, free operating cash flow dropped to €–146 million (previous year: €11 million), mainly due to increased cash tied up in working capital year-over-year.

Forecast, Opportunities and Risks

Economic Outlook

Global Economy

The Russian war against Ukraine has fundamentally changed the geopolitical landscape and has had impact on the global economy. We anticipate additional consequences for global supply chains as a result of this conflict, along with rising raw material prices, higher inflation and weaker global economic growth. In addition, the zero-COVID strategy in China and the resulting lockdowns put the brakes on economic performance in the first quarter of 2022. The tight restrictions in China in reaction to the spread of the coronavirus hold risks for the global economy.

In contrast 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 3.1%. Due to the aforementioned effects, the estimates were also reduced for all three regions for the reporting year.

Economic growth¹

	Growth 2021	Growth forecast 2022 (Annual Report 2021)	Growth forecast 2022
	%	%	%
World	5.7	4.2	3.1
Europe, Middle East, Latin America², Africa (EMLA)	5.5	3.7	1.9
of which Europe	5.4	3.7	1.2
of which Germany	2.9	3.8	2.0
of which Middle East	5.1	4.9	5.0
of which Latin America ²	6.7	2.3	1.6
of which Africa	4.0	3.3	3.3
North America³ (NA)	5.5	4.0	2.9
of which United States	5.7	4.1	3.0
Asia-Pacific (APAC)	6.2	4.8	4.6
of which China	8.1	5.4	5.1

¹ Real growth of gross domestic product; source: IHS (Global Insight), "Growth 2021" and "Growth forecast 2022" as of April 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 be 6.1%, and therefore under the outlook presented in the Annual Report 2021. In addition, the projected growth rate for the furniture industry was reduced to 2.4%. In the electrical, electronics and household appliances industry, as well as the construction industry, we anticipate nearly unchanged growth rates as compared with the forecast in the Annual Report 2021.

Growth in main customer industries¹

	Growth 2021	Growth forecast 2022 (Annual Report 2021)	Growth forecast 2022
	%	%	%
Automotive	2.2	12.5	6.1
Construction	2.5	3.6	3.5
Electrical, electronics and household appliances	13.9	4.5	4.4
Furniture	8.6	3.7	2.4

¹ Covestro's estimate, based on the following sources: LMC Automotive Limited, B+L, CSIL (Centre for Industrial Studies), Oxford Economics. We limited the economic data of our "automotive and transportation" and "furniture and wood processing" main customer industries to the automotive and furniture segments (excluding the transportation or wood processing segments). As of: April 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 Quarterly Statement, the economic outlook outlined above, and consideration of our potential risks and opportunities. Our forecast does not include the potential effects of a supply bottleneck, e.g., as the result of a halt to Russian natural gas deliveries, or the possible tightening of restrictions to combat the coronavirus such as prolonged lockdowns in China.

Despite good business performance in the first quarter of 2022, Covestro adjusted the forecast for fiscal 2022. This resulted from the current pandemic-related lockdown in China, especially in the Shanghai region, continued significant increases in energy and raw material costs, as well as weaker than expected growth of the global economy. We now expect the following developments in our key management indicators for fiscal 2022:

Forecast key management indicators

	2021	Forecast 2022 (Annual Report 2021)	Adjusted forecast 2022 ¹
EBITDA ²	€3.085 million	Between €2,500 million and €3,000 million	Between €2,000 million and €2,500 million
Free operating cash flow ³	€1.429 million	Between €1,000 million and €1,500 million	Between €400 million and €900 million
ROCE ⁴ over WACC ⁵	12.9% points	Between 5% points and 9% points	Between 1% point and 5% points
Greenhouse gas emissions ⁶ (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

¹ Published on May 2, 2022.

² 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.

³ Free operating cash flow (FOCF): cash flows from operating activities less cash outflows for additions to property, plant, equipment and intangible assets.

⁴ Return on capital employed (ROCE): ratio of the adjusted operating result (EBIT) after imputed income taxes to capital employed.

⁵ 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%).

⁶ 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 forecast a figure between €2,000 million and €2,500 million. The Performance Materials segment's EBITDA is still expected to be significantly down on the amount for the year 2021. In the Solutions & Specialties segment, however, we continue to project an EBITDA well over the figure for the year 2021.

The Covestro Group's FOCF is forecast 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. In contrast, FOCF in the Solutions & Specialties segment is projected to significantly exceed FOCF in the year 2021.

We anticipate that ROCE above WACC will be between 1% point and 5% points.

The Covestro Group's GHG emissions measured as CO₂ equivalents are projected to be between 5.5 million and 6.0 million metric tons.

Opportunities and Risks

Geopolitical risks ramped up considerably in the first quarter of 2022, particularly due to the war waged by Russia against Ukraine. This conflict has the potential to negatively affect the supply of crude oil as well as natural gas and result in a significant increase in the prices of energy and petrochemical derivatives, the most important raw materials for our products. In contrast to the presentation in the Annual Report 2021, we have therefore identified another material individual risk for Covestro in the risk category production/value chain. If supplies of natural gas were to become scarce or halt entirely, this could necessitate the closure of certain production facilities, entire plants or product lines in the EMLA region. This could in turn result in production outages of certain chemical precursors, intermediates and by-products that are needed at other sites in the region.

In particular, the increasingly tight economic sanctions and export controls imposed on Russia and certain Russian companies and individuals as well as the associated countermeasures by the governments of Russia and other countries have sharply curtailed economic activity in these countries. Moreover, they have amplified volatility and uncertainty on global financial markets and have had an adverse impact on the business activities of Covestro's customers. The economic sanctions and export controls may exacerbate the growing inflationary trend, further increase energy and raw material prices and negatively affect global supply chains. The impact of volatility in energy and raw material prices on sales and EBITDA depend on the extent to which Covestro is in the position to pass higher raw material prices on to customers through higher selling prices without notable delays. This ability depends primarily on a stable demand situation.

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 possible impacts 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 Quarterly Statement was prepared, there were no risks that could endanger the Group's continued existence.