

QUARTERLY STATEMENT

THIRD QUARTER 2021



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Reporting Principles

This Covestro AG Quarterly Statement was prepared in accordance with Section 53 of the Stock Exchange Rules and Regulations (Börsenordnung) of the Frankfurt Stock Exchange. This Statement is not an interim report within the meaning of IAS 34 (Interim Financial Reporting) or a set of financial statements within the meaning of IAS 1 (Presentation of Financial Statements). It was not subjected to a review by an auditor. This Quarterly Statement should be read alongside the Annual Report 2020 and the additional information about the company contained therein, as well as the Half-Year Financial Report 2021. The Annual Report 2020 and the Half-Year Financial Report 2021 are available on our website at www.covestro.com.

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 Group and the estimates given here. These factors include those discussed in Covestro's public reports, which are available at our website www.covestro.com. The Group assumes no liability whatsoever to update such forward-looking statements or to conform them to future events or developments.

Acronyms and Abbreviations

Acronyms and abbreviations used in this Quarterly Statement are explained in this Quarterly Statement or in the Glossary provided in the 2020 Annual Report.

Inclusive Language

Diversity, equal opportunity, and inclusion are important to Covestro. We therefore strive to use gender-neutral language and avoid gender-specific terms in this Quarterly Statement. All terms should be taken to apply equally to all genders.

Rounding and Percentage Deviations

As the indicators in this Quarterly Statement are stated in accordance with commercial rounding principles totals and percentages may not always be exact.

Percentage deviations are only calculated and reported if they are no more than 100%. Larger deviations are reported as >100%, >200%, etc. If a deviation changes from positive to negative or vice versa, or if it is greater than 1,000%, this is shown by a period.

Publication

This Quarterly Statement was published in German and English on November 8, 2021. The German version is binding.

Covestro Group in Figures

Covestro Group key data

	3rd quarter 2020	3rd quarter 2021	Change	1st nine months 2020	1st nine months 2021	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth^{1, 2}	+2.9%	+0.8%		-7.9%	+11.9%	
Sales	2,760	4,302	+55.9	7,699	11,565	+50.2
Change in sales						
Volume	+1.0%	0.0%		-8.1%	+9.3%	
Price	-9.0%	+43.8%		-9.1%	+35.8%	
Currency	-3.3%	+1.6%		-0.8%	-2.6%	
Portfolio	-1.4%	+10.5%		-1.4%	+7.7%	
Sales by region						
EMLA ³	1,138	1,787	+57.0	3,312	5,054	+52.6
NA ⁴	648	1,011	+56.0	1,900	2,504	+31.8
APAC ⁵	974	1,504	+54.4	2,487	4,007	+61.1
EBITDA⁶	456	862	+89.0	835	2,422	>100
Changes in EBITDA						
Volume	-9.6%	+5.3%		-32.2%	+44.1%	
Price	-67.1%	+264.9%		-65.2%	+330.5%	
Raw material price	+65.6%	-138.6%		+45.9%	-124.1%	
Currency	-2.8%	+3.5%		-0.1%	-3.2%	
Other	+21.2%	-46.1%		+14.6%	-57.2%	
EBIT ⁷	265	654	>100	264	1,817	>500
Financial result	(22)	(20)	-9.1	(78)	(67)	-14.1
Net income ⁸	179	472	>100	147	1,314	>700
Earnings per share (€) ⁹	0.98	2.44	>100	0.80	6.80	>700
Cash flows from operating activities ¹⁰	538	564	+4.8	599	1,545	>100
Cash outflows for additions to property, plant, equipment and intangible assets	177	183	+3.4	463	472	+1.9
Free operating cash flow¹¹	361	381	+5.5	136	1,073	>600

¹ Core volume growth refers to the core products in the Performance Materials and Solutions & Specialties segments. It is calculated as the percentage change in externally sold volumes 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.

² Calculated on the basis of the definition of the core business effective March 31, 2021.

³ EMLA: Europe, Middle East, Latin America (excluding Mexico), Africa region.

⁴ NA: North America region (Canada, Mexico, United States).

⁵ APAC: Asia and Pacific region.

⁶ EBITDA: EBIT plus depreciation, amortization, and impairment losses; less impairment loss reversals on intangible assets and property, plant and equipment.

⁷ EBIT: income after income taxes plus financial result and income taxes.

⁸ Net income: income after income taxes attributable to the shareholders of Covestro AG.

⁹ Earnings per share: According to IAS 33 (Earnings per Share), 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 193,160,544 no-par shares for the third quarter of 2021 (previous year: 182,864,685 no-par shares) and on 193,160,544 no-par shares for the first nine months of 2021 (previous year: 182,864,685 no-par shares).

¹⁰ Cash flows from operating activities according to IAS 7 (Statement of Cash Flows).

¹¹ Free operating cash flow: cash flows from operating activities less cash outflows for additions to property, plant, equipment and intangible assets.

Covestro share at a glance

		3rd quarter 2020	3rd quarter 2021	1st nine months 2020	1st nine months 2021
High	€	46.83	59.34	46.83	62.48
Low	€	32.86	52.80	24.90	51.28
Closing date (Sep. 30)	€	42.35	59.34	42.35	59.34

Covestro closing prices Xetra; source: Deutsche Börse

Significant Events

Coronavirus Pandemic

The coronavirus pandemic continues to leave its mark on the global economy, although the impact is considerably less severe than in the previous year. Improvements in the overall situation are chiefly attributable to high vaccination rates and updated measures to combat the pandemic. Compared with the prior-year quarter, we have also observed a further upturn in demand, although this could not be met fully due to bottlenecks in global supply chains. The health, safety, and hygiene measures implemented by Covestro at an early stage last year remain in place. Covestro supports employee access to vaccinations against the coronavirus, including through cooperation with company health facilities. Depending on the local situation in each case, some staff, particularly employees in administrative departments, continue to work from home. Production at our sites was not affected by the pandemic in the first nine months of 2021.

Covestro is monitoring the development of the coronavirus pandemic worldwide on an ongoing basis. Existing measures are modified as required in line with recommendations and instructions issued by the relevant governments and committees of experts.

Other Events

In keeping with the first chapter of the strategy – “Become the best of who we are” – the Group restructured its organizational and reporting structure as of July 1, 2021. The Group’s three reportable segments to date (Polyurethanes, Polycarbonates and Coatings, Adhesives, Specialties) have been replaced with two new reportable segments: Performance Materials and Solutions & Specialties. The Performance Materials segment concentrates on reliably delivering standard products at competitive market prices. The focus of the Solutions & Specialties segment is on complex products with a high pace of innovation, which Covestro combines with application technology services. Other business activities that cannot be allocated to any of the aforementioned segments are reported under “Other/Consolidation.” Intersegment transactions are conducted at arm’s length and reported separately as net sales between segments. This Quarterly Statement marks the first time our reporting reflects the new segment structure; reference information for fiscal 2020 was restated accordingly.

On July 7, 2021, the euro bond placed in 2016 with a total volume of €500 million and maturing in October 2021 was fully repaid at par value ahead of schedule.

On July 26, 2021, Covestro completed the sale of its 51% interest in subsidiary Pearl Covestro Polyurethane Systems FZCO to co-shareholder Pearl Industries Overseas Ltd. The former subsidiary operates a system house business in Dubai (United Arab Emirates). The sale is part of an ongoing effort to optimize the portfolio and represents another step toward refocusing the Polyurethanes segment.

See “Divestitures.”

Results of Operations and Financial Position of the Covestro Group

Results of Operations

The business situation in the third quarter of 2021 improved further over the prior-year quarter, a development reflected above all in sales and earnings.

Core volumes sold by the Group saw year-over-year growth of 0.8%, mainly due to additional volumes from the the Resins & Functional Materials (RFM) business acquired from Koninklijke DSM N.V., Heerlen (Netherlands). However, our growth opportunities in the current quarter were curtailed by reduced product availability. Core volumes sold in the Performance Materials segment dropped by 11.6%, although core volumes sold were up 22.7% in the Solutions & Specialties segment.

In the third quarter of 2021, Group sales grew by 55.9% to €4,302 million (previous year: €2,760 million). The main factors here were higher average selling prices, which had a positive impact on sales amounting to 43.8%. Moreover, the portfolio change arising from the acquisition of the RFM business in the second quarter of 2021 and exchange rate movements had positive effects on sales of 10.5% and 1.6%, respectively. Changes in total volumes sold had no notable effect on sales.

In the third quarter of 2021, sales rose by 52.2% to €2,186 million (previous year: €1,436 million) in the Performance Materials segment and 60.6% to €2,069 million (previous year: €1,288 million) in the Solutions & Specialties segment.

The Group's EBITDA in the third quarter of 2021 improved by 89.0% to €862 million (previous year: €456 million), largely on account of significantly higher margins in the Performance Materials segment. This was mainly due to an advantageous competitive situation and a higher selling price level, which more than offset the rise in raw material prices. However, higher provisions for variable compensation reduced earnings.

EBITDA in the Performance Materials segment increased to €755 million (previous year: €288 million). In the Solutions & Specialties segment, EBITDA was down to €173 million (previous year: €207 million).

The Covestro Group's EBIT increased to €654 million in the third quarter of 2021 (previous year: €265 million).

Financial Position

Cash flows from operating activities increased compared with the prior-year quarter, rising to €564 million (previous year: €538 million). A higher EBITDA was the main factor here. Funds were tied up in working capital in contrast to funds freed up in the prior-year quarter. This, along with higher income tax payments, had a negative effect.

Free operating cash flow was up, amounting to €381 million in the third quarter of 2021 (previous year: €361 million), largely due to higher cash flows from operating activities.

Net financial debt

	Dec. 31, 2020	Sep. 30, 2021
	€ million	€ million
Bonds	1,990	1,491
Liabilities to banks	227	225
Lease liabilities	672	756
Liabilities from derivatives	9	21
Other financial liabilities	1	1
Receivables from derivatives	(13)	(22)
Financial debt	2,886	2,472
Cash and cash equivalents	(1,404)	(496)
Current financial assets	(1,126)	(720)
Net financial debt	356	1,256

The Covestro Group's financial debt decreased by €414 million as of December 31, 2020, to €2,472 million as of September 30, 2021. This was mainly due to the early repayment of the €500 million euro bond maturing in October 2021.

Cash and cash equivalents declined in comparison with the figure on December 31, 2020, by €908 million to €496 million. This development was driven primarily by the net purchase price payments for the acquisition of the Resins & Functional Materials (RFM) business amounting to €1,469 million and the early repayment of the aforementioned bond. Moreover, cash and cash equivalents declined on account of cash outflows for additions to property, plant, equipment, and intangible assets of €472 million and dividend payments of €259 million. In contrast, positive cash flows from operating activities of €1,545 million, the net sale of money market fund units of €270 million, and net proceeds of short-term bank deposits of €136 million increased cash and cash equivalents. The redemption of short-term bank deposits and net sale of money market fund units in particular decreased current financial assets, which were down €406 million to €720 million.

Net financial debt grew by €900 million compared with the figure on December 31, 2020, to €1,256 million as of September 30, 2021.

Performance of the Segments

Performance Materials

Performance Materials key data

	3rd quarter 2020 ¹	3rd quarter 2021	Change	1st nine months 2020 ¹	1st nine months 2021	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth²		-11.6%			+0.7%	
Sales (external)	1,436	2,186	+52.2	3,874	5,883	+51.9
Intersegment sales	334	768	>100	882	1,954	>100
Sales (total)	1,770	2,954	+66.9	4,756	7,837	+64.8
Change in sales						
Volume		-6.9%			+2.0%	
Price		+57.6%			+52.5%	
Currency		+1.5%			-2.6%	
Portfolio		0.0%			0.0%	
Sales by region						
EMLA	655	994	+51.8	1,813	2,839	+56.6
NA	344	565	+64.2	1,007	1,344	+33.5
APAC	437	627	+43.5	1,054	1,700	+61.3
EBITDA³	288	755	>100	458	2,053	>300
EBIT ³	145	614	>300	29	1,629	.
Cash flows from operating activities	372	410	+10.2	367	1,263	>200
Cash outflows for additions to property, plant, equipment and intangible assets	126	116	-7.9	329	319	-3.0
Free operating cash flow	246	294	+19.5	38	944	.

¹ Reference information based on fiscal 2019 is not presented here due to the new organizational structure.

² Calculated on the basis of the definition of the core business effective March 31, 2021.

³ EBITDA and EBIT include the effect on earnings of intersegment sales.

In the third quarter of 2021, core volumes sold in the Performance Materials segment were 11.6% lower than in the prior-year quarter. This was chiefly the result of a drop in core volumes sold in the furniture and wood processing industry as well as the construction industry, especially in the EMLA and APAC regions. Global demand was solid, but limited product availability due to the effects of unplanned production stoppages affected our ability to meet it. This restricted the potential for growth.

Sales in the Performance Materials segment were up 52.2% to €2,186 million in the third quarter of 2021 (previous year: €1,436 million). Driven by higher prices for raw materials and energy and a still advantageous competitive situation, average selling prices increased sales by 57.6%. The change in exchange rates had a positive effect on sales of 1.5%. Total volumes sold, however, had a negative effect of 6.9%.

In the EMLA region, sales grew by 51.8% over the prior-year quarter to €994 million (previous year: €655 million) on account of a strong increase in average selling prices. Exchange rate movements were neutral overall in terms of sales. In contrast, a decline in total volumes sold reduced sales considerably. In the NA region, sales were up 64.2% to €565 million (previous year: €344 million). This was mainly attributable to higher average selling prices, which resulted in a strong increase in sales. Exchange rate changes again remained neutral overall with respect to sales, but lower total volumes sold had a slightly negative effect on sales. Sales in the APAC region climbed by 43.5% to €627 million (previous year: €437 million), primarily due to an increase in selling price level, which gave sales a strong boost. Exchange rate changes had a slightly positive effect on sales. However, a decline in total volumes sold reduced sales considerably.

EBITDA in the Performance Materials segment grew over the prior-year quarter to €755 million in the third quarter of 2021 (previous year: €288 million). This was mainly due to a significant increase in margins, which resulted in part from intersegment business. Higher selling prices more than compensated for the countereffect of higher raw material prices. However, higher provisions for variable compensation had a negative effect on earnings.

In the third quarter of 2021, EBIT increased to €614 million (previous year: €145 million).

Free operating cash flow was up 19.5% to €294 million in the third quarter of 2021 (previous year: €246 million), chiefly as a result of the increase in EBITDA. Cash was tied up in working capital, whereas in the prior-year quarter funds had been freed up from working capital, which had a negative effect in the quarter under review.

Solutions & Specialties

Solutions & Specialties key data

	3rd quarter 2020 ¹	3rd quarter 2021	Change	1st nine months 2020 ¹	1st nine months 2021	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth²		+22.7%			+31.0%	
Sales (external)	1,288	2,069	+60.6	3,689	5,549	+50.4
Intersegment sales	7	8	+14.3	18	19	+5.6
Sales (total)	1,295	2,077	+60.4	3,707	5,568	+50.2
Change in sales						
Volume		+6.9%			+17.5%	
Price		+29.5%			+19.7%	
Currency		+1.8%			-2.8%	
Portfolio		+22.4%			+16.0%	
Sales by region						
EMLA	457	758	+65.9	1,395	2,113	+51.5
NA	297	437	+47.1	870	1,137	+30.7
APAC	534	874	+63.7	1,424	2,299	+61.4
EBITDA³	207	173	-16.4	522	568	+8.8
EBIT ³	161	106	-34.2	385	391	+1.6
Cash flows from operating activities	136	82	-39.7	345	189	-45.2
Cash outflows for additions to property, plant, equipment and intangible assets	51	66	+29.4	133	151	+13.5
Free operating cash flow	85	16	-81.2	212	38	-82.1

¹ Reference information based on fiscal 2019 is not presented here due to the new organizational structure.

² Calculated on the basis of the definition of the core business effective March 31, 2021.

³ EBITDA and EBIT include the effect on earnings of intersegment sales.

In the third quarter of 2021, core volumes sold in the Solutions & Specialties segment rose by 22.7% over the prior-year quarter. This development was mainly due to additional volumes from the acquisition of the Resins & Functional Materials (RFM) business. At the same time, reduced product availability, for instance due to raw material bottlenecks, had a negative impact on core volumes sold and therefore limited our growth opportunities.

In the third quarter of 2021, sales in the Solutions & Specialties segment grew by 60.6% to €2,069 million (previous year: €1,288 million). An increase in average selling prices caused by higher raw material and energy prices and an advantageous competitive situation increased sales by 29.5%. At the same time, the portfolio effect stemming from the RFM acquisition gave sales a 22.4% boost. Growth in total volumes sold also had a positive effect on sales of 6.9%. Exchange rate changes increased sales by 1.8%.

In the EMLA region, sales were up 65.9% to €758 million (previous year: €457 million). Key drivers here were the aforementioned portfolio effect and an increase in average selling prices, both of which substantially increased sales. Higher total volumes sold likewise triggered significant sales growth. Exchange rate movements had no notable effect on sales. In the NA region, sales were up 47.1% to €437 million (previous year: €297 million), mainly on account of the aforementioned portfolio effect. Increases in selling prices and total volumes sold both caused sales to rise considerably. Exchange rate changes remained neutral overall with respect to sales. In the APAC region, sales were up 63.7% to €874 million (previous year: €534 million). Changes in average selling prices had a strong positive effect on sales. The aforementioned portfolio effect also increased sales considerably. At the same time, exchange rate movements and an increase in total volumes sold each had a slightly positive impact on sales.

In the third quarter of 2021, EBITDA in the Solutions & Specialties segment declined by 16.4% from the prior-year quarter, decreasing to €173 million (previous year: €207 million). Increased raw material prices, for instance from the intersegment business, offset higher selling prices and led to lower margins, which reduced earnings. At the same time, higher provisions for variable compensation had a negative effect on EBITDA. Besides, total volumes sold were up, which increased earnings.

EBIT was down by 34.2% to €106 million in the third quarter of 2021 (previous year: €161 million).

In the third quarter of 2021, free operating cash flow dropped by 81.2% to €16 million (previous year: €85 million). Contributing factors here included the decline in EBITDA and a year-over-year increase in funds tied up in working capital.

Forecast

Economic Outlook

Global Economy

The end of the first half of 2021 saw a new record high in worldwide economic output, although the impact of the coronavirus pandemic is still evident in some segments of the global economy. Thanks to a sharp upturn in vaccination rates and the subsequent launch of controlled measures to fight the coronavirus pandemic, we anticipate very positive economic growth rates in all regions the 2021 fiscal year as a whole. The potential spread of new coronavirus variants raises the possibility of additional waves of the pandemic, which could have a negative impact on supply chains, product availability, and therefore growth. For this reason, economic growth remains dependent on vaccination progress and pandemic-fighting measures taken by various countries going forward. Pandemic-related logistics problems and progress in the transition to sustainable energy are currently pushing up energy prices, which is in turn putting downward pressure on global economic growth. Minimal short-term production growth, inflation, and interest rate hikes also could have a negative effect on the remaining growth in 2021. In contrast to the outlook we published in the Annual Report 2020, we still anticipate robust growth in the global economy and a resulting increase in economic performance of 5.5%.

We revised our estimates for all regions upward, principally due to substantially higher production volumes and consumer spending. In the NA region, we anticipate a more significant increase in expected economic growth compared with our outlook published in the Annual Report 2020. This is due to factors including expansion of the US economic stimulus package, continued expansive monetary policy, and the demand for services in excess of expectations to date. Another overall economic situation significantly better than the assessment we presented in our Annual Report 2020 is taking shape in the EMLA region. This is mostly due to rising vaccination rates, the progressive lifting of pandemic-related restrictions, the strong labor market, and the spending of savings amassed by households during the coronavirus pandemic. In the APAC region, we expect the economic recovery to proceed slightly faster than stated in our outlook in the Annual Report 2020, driven mainly by growth in China coming in stronger than expected.

Economic growth¹

	Growth 2020	Growth forecast 2021 (Annual Report 2020)	Growth forecast 2021
	%	%	%
World	-3.6	+4.4	+5.5
Europe, Middle East, Latin America², Africa (EMLA)	-5.7	+3.4	+4.9
of which Europe	-6.0	+3.2	+5.0
of which Germany	-4.9	+2.8	+2.8
of which Middle East	-3.5	+4.5	+4.4
of which Latin America ²	-7.5	+3.7	+5.6
of which Africa	-2.5	+2.4	+3.5
North America³ (NA)	-3.8	+4.0	+5.4
of which United States	-3.4	+4.0	+5.4
Asia-Pacific (APAC)	-1.1	+5.7	+6.1
of which China	+2.3	+7.6	+8.2

¹ Real growth of gross domestic product; source: IHS (Global Insight), "Growth 2020" and "Growth forecast 2021" as of October 2021.

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 2021. However, we expect the pace of growth to differ in the individual industries. Growth in the automotive industry is projected to be 2.8%, down from outlook presented in the Annual Report 2020. This is chiefly due to bottlenecks in the supply of semiconductors and petrochemical by-products, and the resulting limitations in car manufacturing. At 2.2%, growth in the construction industry will likely exceed our expectations presented in the Annual Report 2020, however. We anticipate the growth rate in the electrical, electronics and household appliances industry to come in at 13.2%, higher than expected in the Annual Report 2020, on account of the growth in consumer expenditure persisting throughout the coronavirus pandemic. The projected growth rate for the furniture industry was raised to 4.8%.

Growth in main customer industries¹

	Growth 2020	Growth forecast 2021 (Annual Report 2020)	Growth forecast 2021
	%	%	%
Automotive	-15.9	+17.3	+2.8
Construction	-1.8	+0.6	+2.2
Electrical, electronics and household appliances	+4.5	+6.3	+13.2
Furniture	-4.8	+4.6	+4.8

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 (not the transportation or wood processing segments). As of: October 2021.

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. There has been no fundamental change in the risk situation from the presentation in the Annual Report 2020. At the time this Quarterly Statement was prepared, there were no risks that could endanger the Group's continued existence. The acquisition completed on April 1, 2021, and integration of the Resins & Functional Materials (RFM) business of Koninklijke DSM N.V., Heerlen (Netherlands), has been factored into this forecast.

Covestro adjusted the forecast presented in the Annual Report 2020 on April 13, 2021, as a result of business development that has been better than previously expected. An increasingly positive outlook led to the forecast being raised again on July 12, 2021. Taking into account current business performance, we once again adjusted our forecast on November 8, 2021, and currently expect the following developments in our key management indicators for fiscal 2021:

Forecast key management indicators

	2020	Forecast 2021 (Annual Report 2020)	Previous forecast 2021 (July 12, 2021)	Adjusted forecast 2021 (November 8, 2021)
Core volume growth	-5.6%	Between 10% and 15%	Between 10% and 15%	Between 10% and 12%
Free operating cash flow (FOCF)	€530 million	Between €900 million and €1,400 million	Between €1,600 million and €2,000 million	Between €1,400 million and €1,700 million
Return on capital employed (ROCE) ¹	+7.0%	Between 7% and 12%	Between 16% and 20%	Between 19% and 21%

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

We currently anticipate that core volume growth for the Covestro Group will be between 10% and 12% (previously: between 10% and 15%), with around 6 percentage points attributable to the acquisition of the RFM business. We assume that core volume growth in the Performance Materials segment will come in between 0% and 2%. However, the Solutions & Specialties segment is anticipated to generate growth well above the range expected for the Group.

FOCF is currently forecast to be in the range between €1,400 million and €1,700 million this year (previously: between €1,600 million and €2,000 million). In contrast with the forecast to date, we anticipate an increase in funds tied up in working capital, which affects FOCF negatively. The Performance Materials segment is expected to produce FOCF well over the prior-year figure, while FOCF in the Solutions & Specialties segment will likely be slightly under the prior-year figure.

For fiscal 2021, we now expect a ROCE of between 19% and 21% (previously: 16% and 20%).

Covestro Group Consolidated Income Statement

	3rd quarter 2020	3rd quarter 2021	1st nine months 2020	1st nine months 2021
	€ million	€ million	€ million	€ million
Sales	2,760	4,302	7,699	11,565
Cost of goods sold	(2,057)	(3,066)	(6,106)	(8,140)
Gross profit	703	1,236	1,593	3,425
Selling expenses	(294)	(375)	(883)	(1,045)
Research and development expenses	(63)	(95)	(187)	(255)
General administration expenses	(79)	(104)	(239)	(307)
Other operating income	9	14	26	66
Other operating expenses	(11)	(22)	(46)	(67)
EBIT¹	265	654	264	1,817
Equity-method loss	(3)	(4)	(11)	(11)
Result from other affiliated companies	1	–	1	1
Interest income	4	9	19	24
Interest expense	(20)	(18)	(57)	(59)
Other financial result	(4)	(7)	(30)	(22)
Financial result	(22)	(20)	(78)	(67)
Income before income taxes	243	634	186	1,750
Income taxes	(63)	(161)	(38)	(432)
Income after income taxes	180	473	148	1,318
of which attributable to noncontrolling interest	1	1	1	4
of which attributable to Covestro AG shareholders (net income)	179	472	147	1,314
	€	€	€	€
Basic earnings per share²	0.98	2.44	0.80	6.80
Diluted earnings per share²	0.98	2.44	0.80	6.80

¹ EBIT: income after income taxes plus financial result and income taxes.

² Earnings per share: According to IAS 33 (Earnings per Share), 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 193,160,544 no-par shares for the third quarter of 2021 (previous year: 182,864,685 no-par shares) and on 193,160,544 no-par shares for the first nine months of 2021 (previous year: 182,864,685 no-par shares).

Covestro Group Consolidated Statement of Comprehensive Income

	3rd quarter 2020	3rd quarter 2021	1st nine months 2020	1st nine months 2021
	€ million	€ million	€ million	€ million
Income after income taxes	180	473	148	1,318
Remeasurements of the net defined benefit liability for post-employment benefit plans	(147)	7	(35)	491
Income taxes	53	(2)	15	(156)
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans	(94)	5	(20)	335
Changes in fair values of equity instruments	1	14	1	14
Income taxes	–	(4)	–	(4)
Other comprehensive income from equity instruments	1	10	1	10
Other comprehensive income that will not be reclassified subsequently to profit or loss	(93)	15	(19)	345
Exchange differences of foreign operations	(104)	98	(144)	198
Reclassified to profit or loss	–	–	–	–
Other comprehensive income from exchange differences	(104)	98	(144)	198
Other comprehensive income that may be reclassified subsequently to profit or loss	(104)	98	(144)	198
Total other comprehensive income¹	(197)	113	(163)	543
of which attributable to noncontrolling interest	(1)	1	(1)	1
of which attributable to Covestro AG shareholders	(196)	112	(162)	542
Total comprehensive income	(17)	586	(15)	1,861
of which attributable to noncontrolling interest	–	2	–	5
of which attributable to Covestro AG shareholders	(17)	584	(15)	1,856

¹ Total change recognized in equity outside profit or loss.

Covestro Group Consolidated Statement of Financial Position

	Sep. 30, 2020	Sep. 30, 2021	Dec. 31, 2020
	€ million	€ million	€ million
Noncurrent assets			
Goodwill	260	745	255
Other intangible assets	108	711	109
Property, plant and equipment	5,165	5,824	5,175
Investments accounted for using the equity method	180	172	173
Other financial assets	35	49	32
Other receivables	93	100	65
Deferred taxes	919	804	925
	6,760	8,405	6,734
Current assets			
Inventories	1,656	2,626	1,663
Trade accounts receivable	1,539	2,357	1,593
Other financial assets	606	747	1,144
Other receivables	314	409	295
Claims for income tax refunds	105	96	55
Cash and cash equivalents	1,157	496	1,404
Assets held for sale	1	22	36
	5,378	6,753	6,190
Total assets	12,138	15,158	12,924
Equity			
Capital stock of Covestro AG	183	193	193
Capital reserves of Covestro AG	3,487	3,925	3,925
Other reserves	1,303	3,094	1,489
Equity attributable to Covestro AG shareholders	4,973	7,212	5,607
Equity attributable to noncontrolling interest	45	67	37
	5,018	7,279	5,644
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	2,031	1,706	2,123
Other provisions	210	227	218
Financial liabilities	2,788	2,348	2,277
Income tax liabilities	97	109	88
Other liabilities	29	31	31
Deferred taxes	190	295	179
	5,345	4,716	4,916
Current liabilities			
Other provisions	214	583	155
Financial liabilities	139	146	622
Trade accounts payable ¹	1,102	1,801	1,241
Income tax liabilities	63	277	74
Other liabilities ¹	257	356	262
Liabilities directly related to assets held for sale	–	–	10
	1,775	3,163	2,364
Total equity and liabilities	12,138	15,158	12,924

¹ Reference information was restated accordingly, see note 4.1 "Change in presentation of rebates granted to customers" in the Annual Report 2020.

Covestro Group Consolidated Statement of Cash Flows

	3rd quarter 2020	3rd quarter 2021	1st nine months 2020	1st nine months 2021
	€ million	€ million	€ million	€ million
Income after income taxes	180	473	148	1,318
Income taxes	63	161	38	432
Financial result	22	20	78	67
Income taxes paid	(13)	(133)	(115)	(309)
Depreciation, amortization and impairment losses and impairment loss reversals	191	208	571	605
Change in pension provisions	9	9	26	30
(Gains)/losses on retirements of noncurrent assets	1	4	2	(4)
Decrease/(increase) in inventories	227	(245)	206	(773)
Decrease/(increase) in trade accounts receivable	(251)	(52)	(12)	(498)
(Decrease)/increase in trade accounts payable ¹	92	(59)	(313)	335
Changes in other working capital, other noncash items ¹	17	178	(30)	342
Cash flows from operating activities	538	564	599	1,545
Cash outflows for additions to property, plant, equipment and intangible assets	(177)	(183)	(463)	(472)
Cash inflows from sales of property, plant, equipment and other assets	–	–	–	10
Cash inflows from divestments less divested cash	–	12	(3)	12
Cash outflows for noncurrent financial assets	(2)	(7)	(11)	(29)
Cash inflows from noncurrent financial assets	–	20	1	22
Cash outflows for acquisitions less acquired cash	–	–	–	(1,469)
Interest and dividends received	6	10	23	27
Cash inflows from other current financial assets/cash outflows for other current financial assets	(40)	(204)	(552)	402
Cash flows from investing activities	(213)	(352)	(1,005)	(1,497)
Dividend payments and withholding tax on dividends	(219)	(2)	(221)	(259)
Issuances of debt	6	(1)	1,774	1
Retirements of debt	(431)	(538)	(665)	(636)
Interest paid	(23)	(27)	(61)	(69)
Cash flows from financing activities	(667)	(568)	827	(963)
Change in cash and cash equivalents due to business activities	(342)	(356)	421	(915)
Cash and cash equivalents at beginning of period	1,504	856	748	1,404
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	(5)	(4)	(13)	7
Cash and cash equivalents at end of period	1,157	496	1,157	496

¹ Reference information was restated accordingly, see note 4.1 "Change in presentation of rebates granted to customers" in the Annual Report 2020.

Employees and Pension Obligations

As of September 30, 2021, the Covestro Group had 17,883 employees worldwide (December 31, 2020: 16,501). Personnel expenses were up by €221 million from the prior-year quarter to €610 million in the third quarter of 2021 (previous year: €389 million). This was due to an increase in expenses arising from provisions for short-term variable compensation and the higher headcount as a result of the acquisition of the Resins & Functional Materials (RFM) business from Koninklijke DSM N.V., Heerlen (Netherlands), on April 1, 2021.

Employees by division¹

	Dec. 31, 2020	Sep. 30, 2021
Production	10,753	11,469
Marketing and distribution	3,101	3,336
Research and development	1,205	1,518
General administration	1,442	1,560
Total	16,501	17,883

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 decreased to €1,706 million as of September 30, 2021 (December 31, 2020: €2,123 million). In particular, this was attributable to a higher discount rate in Germany and the United States.

Discount rate for pension obligations

	Dec. 31, 2020	Sep. 30, 2021
	%	%
Germany	0.70	1.20
United States	2.10	2.50

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, 2020	Dec. 31, 2020	Sep. 30, 2021
BRL	Brazil	6.63	6.37	6.26
CNY	China	7.97	7.98	7.49
HKD	Hong Kong	9.07	9.51	9.02
INR	India	86.30	89.66	86.08
JPY	Japan	123.76	126.49	129.67
MXN	Mexico	26.18	24.42	23.74
USD	United States	1.17	1.23	1.16

Average rates for major currencies

		Average rates	
€1/		1st nine months 2020	1st nine months 2021
BRL	Brazil	5.61	6.37
CNY	China	7.86	7.74
HKD	Hong Kong	8.71	9.29
INR	India	83.30	88.04
JPY	Japan	120.78	129.77
MXN	Mexico	24.29	24.07
USD	United States	1.12	1.20

Scope of Consolidation

Changes in the Scope of Consolidation

As of September 30, 2021, the scope of consolidation comprised Covestro AG and 68 (December 31, 2020: 47) consolidated companies.

In the third quarter of 2021, the number of consolidated companies was down due to the sale of Pearl Polyurethane Systems FZCO, Dubai (United Arab Emirates), and Pearl Polyurethane Systems L.L.C, Dubai (United Arab Emirates), as part of completion of the sale of the polyurethane systems house business in the Middle East. In addition, Asellion B.V., Amsterdam (Netherlands); DSM NeoResins Holdings B.V., Waalwijk (Netherlands); and DSM Resins Holding (Netherlands) B.V., Zwolle (Netherlands), merged with Covestro (Netherlands) B.V., Nieuwegein (Netherlands), and Healthy Nest Inc., Wilmington, Delaware (USA) merged with Covestro LLC, Pittsburgh, Pennsylvania (USA).

The changes in the scope of consolidation in the first half of fiscal 2021 are described in note 4.1 "Changes in the Scope of Consolidation" in the Half-Year Financial Report 2021.

Acquisitions and Divestitures

Acquisitions

No reportable acquisitions were made in the third quarter of 2021. There were no significant developments to report in the third quarter regarding the acquisition of the Resins & Functional Materials business (RFM) from Koninklijke DSM N.V., Heerlen (Netherlands).

Divestitures

On July 26, 2021, Covestro successfully completed the sale of the assets and liabilities (disposal group) of the system house business in the Middle East to the former co-shareholder Pearl Industries Overseas Ltd., Dubai (United Arab Emirates). The sale of this systems house business is part of Covestro's portfolio optimization process, during the course of which Covestro sold the only North American systems house in April 2017 and the European systems house business in November 2019. The systems house business was part of the Solutions & Specialties segment and offers customer-specific polyurethane systems to the construction sector in particular. The transaction was structured as a share deal. The selling price expected in the fourth quarter of 2020 was lower than the value of the net assets to be sold, which were written down accordingly. Impairment charges led to a loss totaling €16 million reported in manufacturing costs, selling expenses, and general administration expenses in fiscal 2020. In connection with this disposal, current assets amounting to €55 million and liabilities of €22 million were sold. The loss of €1 million on the disposal was recognized in the other operating result and led to an insignificant negative effect on earnings due to impairment charges on the assets in the previous year.

On July 31, 2021, the sale of assets (disposal group) in Taoyuan (Taiwan) to Evermore Chemical Industry Co. Ltd., Nantou (Taiwan), was completed successfully. These were part of the RFM acquisition and therefore attributable to the Solutions & Specialties segment. Production-related assets totaling €12 million were sold. Inventories, which are measured separately, were also transferred. The loss of €1 million on the disposal was recognized in the other operating result and led to an insignificant negative effect on earnings due to remeasurement of the purchase price allocation.

Segment Information

Segment information 3rd quarter

	Performance Materials		Solutions & Specialties		Others/consolidation		Covestro Group	
	3rd quarter 2020 ¹	3rd quarter 2021	3rd quarter 2020 ¹	3rd quarter 2021	3rd quarter 2020 ¹	3rd quarter 2021	3rd quarter 2020	3rd quarter 2021
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales (external)	1,436	2,186	1,288	2,069	36	47	2,760	4,302
Intersegment sales	334	768	7	8	(341)	(776)	–	–
Sales (total)	1,770	2,954	1,295	2,077	(305)	(729)	2,760	4,302
Change in sales								
Volume		–6.9%		+6.9%		+30.9%	+1.0%	0.0%
Price		+57.6%		+29.5%		0.0%	–9.0%	+43.8%
Currency		+1.5%		+1.8%		–0.3%	–3.3%	+1.6%
Portfolio		0.0%		+22.4%		0.0%	–1.4%	+10.5%
Core volume growth²		–11.6%		+22.7%			+2.9%	+0.8%
Sales by region								
EMLA	655	994	457	758	26	35	1,138	1,787
NA	344	565	297	437	7	9	648	1,011
APAC	437	627	534	874	3	3	974	1,504
EBITDA³	288	755	207	173	(39)	(66)	456	862
EBIT ³	145	614	161	106	(41)	(66)	265	654
Depreciation, amortization, impairment losses and impairment loss reversals	143	141	46	67	2	–	191	208
Cash flows from operating activities	372	410	136	82	30	72	538	564
Cash outflows for additions to property, plant, equipment and intangible assets	126	116	51	66	–	1	177	183
Free operating cash flow	246	294	85	16	30	71	361	381
Trade working capital ⁴	935	1,523	1,104	1,608	2	(24)	2,041	3,107

¹ Reference information based on fiscal 2019 is not presented here due to the new organizational structure.

² Calculated on the basis of the definition of the core business effective March 31, 2021.

³ The Performance Materials and Solutions & Specialties reporting segments include the effect on earnings of intersegment sales.

⁴ Trade working capital includes inventories plus trade accounts receivable and contract assets, less trade accounts payable, contract liabilities, and refund liabilities as of September 30, 2020/2021. Reference information was restated accordingly, see note 4 "Change in presentation for rebates granted to customers and trade working capital" in the Annual Report 2020.

Segment information first nine months

	Performance Materials		Solutions & Specialties		Others/consolidation		Covestro Group	
	1st nine months 2020 ¹	1st nine months 2021	1st nine months 2020 ¹	1st nine months 2021	1st nine months 2020 ¹	1st nine months 2021	1st nine months 2020	1st nine months 2021
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales (external)	3,874	5,883	3,689	5,549	136	133	7,699	11,565
Intersegment sales	882	1,954	18	19	(900)	(1,973)	–	–
Sales (total)	4,756	7,837	3,707	5,568	(764)	(1,840)	7,699	11,565
Change in sales								
Volume		+2.0%		+17.5%		–1.1%	–8.1%	+9.3%
Price		+52.5%		+19.7%		0.0%	–9.1%	+35.8%
Currency		–2.6%		–2.8%		–1.1%	–0.8%	–2.6%
Portfolio		0.0%		+16.0%		0.0%	–1.4%	+7.7%
Core volume growth²		+0.7%		+31.0%			–7.9%	+11.9%
Sales by region								
EMEA	1,813	2,839	1,395	2,113	104	102	3,312	5,054
NA	1,007	1,344	870	1,137	23	23	1,900	2,504
APAC	1,054	1,700	1,424	2,299	9	8	2,487	4,007
EBITDA³	458	2,053	522	568	(145)	(199)	835	2,422
EBIT ³	29	1,629	385	391	(150)	(203)	264	1,817
Depreciation, amortization, impairment losses and impairment loss reversals	429	424	137	177	5	4	571	605
Cash flows from operating activities	367	1,263	345	189	(113)	93	599	1,545
Cash outflows for additions to property, plant, equipment and intangible assets	329	319	133	151	1	2	463	472
Free operating cash flow	38	944	212	38	(114)	91	136	1,073
Trade working capital ⁴	935	1,523	1,104	1,608	2	(24)	2,041	3,107

¹ Reference information based on fiscal 2019 is not presented here due to the new organizational structure.

² Calculated on the basis of the definition of the core business effective March 31, 2021.

³ The Performance Materials and Solutions & Specialties reporting segments include the effect on earnings of intersegment sales.

⁴ Trade working capital includes inventories plus trade accounts receivable and contract assets, less trade accounts payable, contract liabilities, and refund liabilities as of September 30, 2020/2021. Reference information was restated accordingly, see note 4 "Change in presentation for rebates granted to customers and trade working capital" in the Annual Report 2020.

Financial Calendar

Annual Report 2021	March 1, 2022
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