Significant Events

War in Ukraine

The Russian war against Ukraine, which began in February 2022, has had a notable impact on the global economy. The worldwide consequences for the energy and raw material markets also influenced Covestro's business situation. Covestro ceased all business activities with Russia and Belarus in the first half of 2022 and has now closed the sales support office in Russia; the Russian company is currently undergoing an official liquidation process. This means that Covestro does not operate any locations in the countries affected by the war (Russia, Belarus, and Ukraine) so that the international sanctions imposed on Russia and Belarus are having only an indirect effect on Covestro's business.

Energy Crisis

The tense situation on the energy markets, especially in the EMLA region, exacerbated further in the third quarter of 2022 and led to a substantial rise in energy prices, particularly in Europe.

Covestro is an energy-intensive company and depends to a large extent on gas. It is predominantly used as a source of energy and as process gas in chemical reactions and there is no comprehensive short-term substitute for gas in the production processes. For this reason, Covestro, along with large parts of the chemical industry, is majorly affected by the persistently high and volatile energy prices, which can at present be passed on to customers only to a small extent.

Covestro continued to receive gas supplies to meet its demand in the third quarter of 2022, thus ensuring supplies at our production locations. There is, however, uncertainty about future supplies: if the gas supply to companies is rationed, this may have considerable consequences for all of Covestro's locations in Europe, depending on the scale of the reduction.

See "Opportunities and Risks."

Coronavirus Pandemic

The coronavirus pandemic did not have any major impact on Covestro's business situation in the third quarter of 2022. Production at our sites was again not affected by the pandemic. Unlike in the first half of 2022, there were no more logistical bottlenecks at the location in Shanghai (China) either.

Sale of Additive Manufacturing Business

On August 5, 2022, Covestro signed an agreement for the sale of its additive manufacturing business to Stratasys, a U.S.-Israeli manufacturer of 3D printers and 3D production systems. The selling price is €43 million. In addition, the agreement specifies a variable earn-out of up to €37 million, which depends on the achievement of various success factors. The business offers material solutions for common polymer 3D printing processes. The portfolio of the additive manufacturing business also comprises products of the Resins & Functional Materials business acquired from Koninklijke DSM N.V., Heerlen (Netherlands), in fiscal 2021. The transaction is expected to be completed in the first quarter of 2023.

See "Divestitures."

Issuance of a European Commercial Paper Program (ECPP)

On August 26, 2022, Covestro established a European Commercial Paper Program (ECPP) with a potential total volume of €1.5 billion in order to allow the company to issue notes in different currencies and tenors of up to one year on a flexible basis. In September 2022, Covestro issued commercial paper in an amount of €150 million under the ECPP.

Further information at: www.covestro.com/en/investors/debt/european-commercial-paper-program

Results of Operations and Financial Position of the Covestro Group

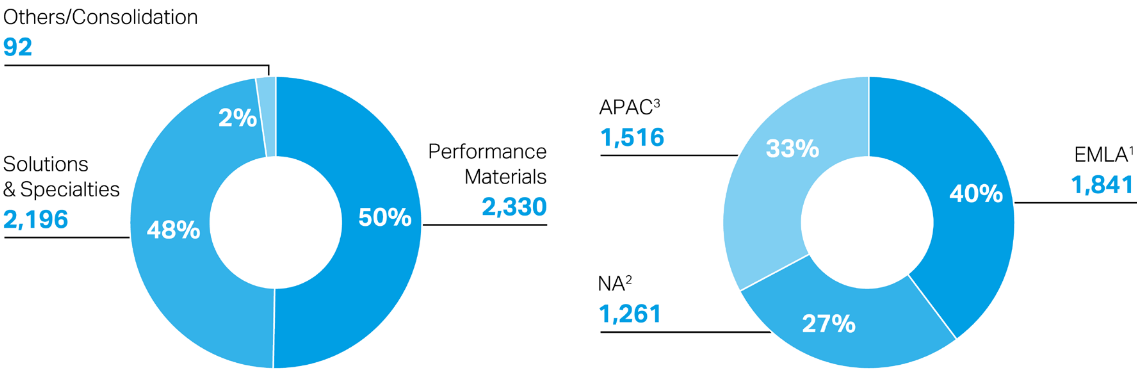
Results of Operations

Group sales grew by 7.3% in the third quarter of 2022, to €4,618 million (previous year: €4,302 million). Exchange rate movements had a positive effect of 7.6% on sales while a considerable increase in price levels, especially in the EMLA region, accounted for a 5.4% rise. The volumes sold, however, declined because of a downturn in demand, and this reduced sales by 5.7%, again affecting above all the EMLA region.

In the third quarter of 2022, sales rose by 6.6% to €2,330 million (previous year: €2,186 million) in the Performance Materials segment and by 6.1% to €2,196 million (previous year: €2,069 million) in the Solutions & Specialties segment. Sales increased in all three regions in the third quarter of 2022. In the EMLA region, sales climbed by 3.0% to €1,841 million (previous year: €1,787 million). Sales rose by 24.7% to €1,261 million (previous year: €1,011 million) in the NA region, and by 0.8% to €1,516 million (previous year: €1,504 million) in the APAC region.

Sales by segment and region

€ million



[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 declined by 65.0% to €302 million in the third quarter of 2022 (previous year: €862 million), primarily due to lower margins. They resulted from a considerable rise in raw material and energy prices, offset only to a small extent by the higher selling price level. The reduction in total volumes sold also led to lower earnings. In contrast, lower provisions for variable compensation, business development subsidies in a mid-double-digit million euro amount received in China, and positive currency effects had a beneficial effect on EBITDA.

EBITDA in the Performance Materials segment decreased by 92.5% to €53 million (previous year: €708 million). In contrast, EBITDA rose by 26.7% to €280 million (previous year: €221 million) in the Solutions & Specialties segment.

The Covestro Group's EBIT was down by 89.9% to €66 million in the third quarter of 2022 (previous year: €654 million).

Financial Position

Cash flows from operating activities totaled €246 million in the third quarter of 2022 (previous year: €564 million). The lower cash inflows year-over-year are mainly due to the decline in EBITDA. Cash tied up in working capital in the prior-year quarter is set against cash freed up in the quarter under review, which had a positive effect. Lower income tax payments also had a positive effect.

Free operating cash flow was down, amounting to €33 million in the third quarter of 2022 (previous year: €381 million), largely due to lower cash flows from operating activities.

Net financial debt

	Dec. 31, 2021	Sep. 30, 2022
	€ million	€ million
Bonds	1,492	1,493
Liabilities to banks	275	729
Lease liabilities	761	765
Liabilities from derivatives	11	51
Other financial liabilities	2	151
Receivables from derivatives	(34)	(21)
Financial debt	**2,507**	**3,168**
Cash and cash equivalents	(649)	(292)
Current financial assets	(453)	(15)
Net financial debt	**1,405**	**2,861**

The Covestro Group's financial debt amounted to €3,168 million on September 30, 2022, an increase of €661 million compared with December 31, 2021, due in particular to the €454 million increase in liabilities to banks. Other financial liabilities were up due to the issuance of commercial paper of €150 million under the European Commercial Paper Program (ECPP).

Cash and cash equivalents declined in comparison with the figure on December 31, 2021, by €357 million to €292 million. This is mainly attributable to dividend payments of €653 million and cash outflows of €543 million for additions to property, plant, equipment and intangible assets. Cash and cash equivalents also decreased because of the purchase of treasury shares worth €150 million in connection with the share buyback program in the first half of 2022. In contrast, net cash inflows of €484 million from an increase in liabilities and cash inflows of €131 million from operating activities increased cash and cash equivalents. In addition, net proceeds of short-term bank deposits maturing in an amount of €373 million and cash inflows of €65 million from the net sale of money market fund units also increased this item. At the same time, they reduced current financial assets by €438 million to €15 million.

Net financial debt therefore grew by €1,456 million compared with the figure on December 31, 2021, to €2,861 million as of September 30, 2022.

Performance of the Segments

Performance Materials

Performance Materials key data

	3rd quarter 2021	3rd quarter 2022	Change	1st nine months 2021	1st nine months 2022	Change
	€ million	€ million	%	€ million	€ million	%
Sales (external)	**2,186**	**2,330**	**6.6**	**5,883**	**7,179**	**22.0**
Intersegment sales[1]	733	760	3.7	1,912	2,323	21.5
Sales (total)	**2,919**	**3,090**	**5.9**	**7,795**	**9,502**	**21.9**
Change in sales (external)						
Volume	–6.9%	–6.2%		2.0%	–0.2%	
Price	57.6%	5.2%		52.5%	15.6%	
Currency	1.5%	7.6%		–2.6%	6.6%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
Sales by region (external)						
EMLA	994	970	–2.4	2,839	3,367	18.6
NA	565	702	24.2	1,344	1,931	43.7
APAC	627	658	4.9	1,700	1,881	10.6
EBITDA[2, 3]	**708**	**53**	**–92.5**	**1,982**	**1,040**	**–47.5**
EBIT[2, 3]	567	(107)	.	1,558	572	–63.3
Cash flows from operating activities[3]	375	227	–39.5	1,210	528	–56.4
Cash outflows for additions to property, plant, equipment and intangible assets	117	134	14.5	320	360	12.5
Free operating cash flow[3]	**258**	**93**	**–64.0**	**890**	**168**	**–81.1**

1 In accordance with internal reporting to the Board of Management since July 1, 2022, these figures also include sales recognized in the amount of cost of goods sold. To ensure comparability, the segment data is presented on a consistent basis.
2 EBITDA and EBIT include the effect on earnings of intersegment sales.
3 The values were recalculated retroactively as of October 1, 2021, based on a change in the underlying market prices for compensation for transactions between the Performance Materials and Solutions & Specialties segments and the reference information restated accordingly.

Sales in the Performance Materials segment were up 6.6% to €2,330 million in the third quarter of 2022 (previous year: €2,186 million). Changes in exchange rates increased sales by 7.6% and a higher selling price level added 5.2% to sales. In contrast, a drop in total volumes sold – driven primarily by a downturn in demand – had a negative effect of 6.2% on sales.

Sales in the EMLA region fell by 2.4% from the prior-year quarter to €970 million (previous year: €994 million), mainly on account of a substantial drop in volumes sold. However, higher average selling prices increased sales considerably. Exchange rate movements had no notable effect on sales. In the NA region, sales were up 24.2% to €702 million (previous year: €565 million). This was mainly attributable to the change in exchange rates and a higher selling price level, both of which boosted sales significantly. The change in total volumes sold remained stable compared with the prior-year period. Sales in the APAC region were up 4.9% to €658 million (previous year: €627 million). The increase in total volumes sold and changes in exchange rates both boosted sales considerably. In contrast, changes in average selling prices had a significant negative effect on sales.

In the third quarter of 2022, the Performance Materials segment's EBITDA was down 92.5% on the prior-year quarter, declining to €53 million (previous year: €708 million). This was mainly attributable to a decline in margins, since higher selling prices offset increased raw material and energy prices only to a small extent. This change was primarily attributable to the energy crisis, which is affecting Europe in particular. At the same time, the drop in volumes sold also had a negative effect on earnings. In contrast, lower provisions for short-term variable compensation and exchange rate movements both boosted earnings.

In the third quarter of 2022, EBIT turned negative, decreasing to €–107 million (previous year: €567 million).

Free operating cash flow in the third quarter of 2022 declined by 64.0% to €93 million (previous year: €258 million), driven in particular by the decline in EBITDA. Working capital, by contrast, had a positive effect on free operating cash flow, where cash tied up in the prior-year quarter is set against cash freed up in the current quarter.

Solutions & Specialties

Solutions & Specialties key data

	3rd quarter 2021	3rd quarter 2022	Change	1st nine months 2021	1st nine months 2022	Change
	€ million	€ million	%	€ million	€ million	%
Sales (external)	**2,069**	**2,196**	**6.1**	**5,549**	**6,583**	**18.6**
Intersegment sales[1]	8	11	37.5	19	28	47.4
Sales (total)	**2,077**	**2,207**	**6.3**	**5,568**	**6,611**	**18.7**
Change in sales (external)						
Volume	6.9%	–7.2%		17.5%	–5.4%	
Price	29.5%	5.7%		19.7%	11.6%	
Currency	1.8%	7.6%		–2.8%	6.7%	
Portfolio	22.4%	0.0%		16.0%	5.7%	
Sales by region (external)						
EMLA	758	798	5.3	2,113	2,522	19.4
NA	437	543	24.3	1,137	1,607	41.3
APAC	874	855	–2.2	2,299	2,454	6.7
EBITDA[2, 3]	**221**	**280**	**26.7**	**639**	**717**	**12.2**
EBIT[2, 3]	154	207	34.4	462	498	7.8
Cash flows from operating activities[3]	118	142	20.3	243	(42)	.
Cash outflows for additions to property, plant, equipment and intangible assets	66	77	16.7	151	178	17.9
Free operating cash flow[3]	**52**	**65**	**25.0**	**92**	**(220)**	**.**

1 In accordance with internal reporting to the Board of Management since July 1, 2022, these figures also include sales recognized in the amount of cost of goods sold. To ensure comparability, the segment data is presented on a consistent basis.
2 EBITDA and EBIT include the effect on earnings of intersegment sales.
3 The values were recalculated retroactively as of October 1, 2021, based on a change in the underlying market prices for compensation for transactions between the Performance Materials and Solutions & Specialties segments and the reference information restated accordingly.

Sales in the Solutions & Specialties segment increased by 6.1% to €2,196 million in the third quarter of 2022 (previous year: €2,069 million). This is attributable to changes in exchange rates, which increased sales by 7.6%, and a higher selling price level, which added 5.7% to sales. In contrast, total volumes sold – driven primarily by a downturn in demand – had a negative effect of 7.2% on sales.

Sales in the EMLA region were up 5.3% to €798 million (previous year: €758 million). Higher average selling prices increased sales considerably, set against a drop in volumes sold, which had a significant negative effect on sales. Exchange rate movements had no notable effect. In the NA region, sales were up 24.3% to €543 million (previous year: €437 million). This is attributable to exchange rate movements and a higher selling price level, both of which drove up sales considerably. A decline in total volumes sold had a significant negative impact on sales, in contrast. Sales in the APAC region were down by 2.2% to €855 million (previous year: €874 million). Sales were driven down considerably by a decline in average selling prices, while lower volumes sold had a slight effect. Exchange rate movements, in contrast, had a significant positive effect.

In the third quarter of 2022, EBITDA in the Solutions & Specialties segment was up 26.7% on the prior-year quarter, rising to €280 million (previous year: €221 million). Lower provisions for short-term variable compensation, the share of business development subsidies received in China attributable to the segment, and exchange rate movements were factors contributing to the increase in EBITDA. The margins remained stable at the prior year's level, since higher selling prices offset raw material and energy prices, which had been driven up by the energy crisis in particular. In contrast, a decline in volumes sold reduced earnings.

In the third quarter of 2022, EBIT rose by 34.4% to €207 million (previous year: €154 million).

Free operating cash flow was up 25.0% to €65 million in the third quarter of 2022 (previous year: €52 million), driven in particular by the increase in EBITDA. In contrast, a year-over-year increase in cash tied up in working capital as well as cash outflows for additions to property, plant, and equipment had a negative effect on free operating cash flow.

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 therefore expect continuing high prices for sources of energy and certain raw materials in the EMLA region, higher inflation, as well as slower global economic growth. In addition, the zero-COVID strategy in China and the resulting lockdowns put the brakes on economic performance in the first half of 2022. The restrictions in China in reaction to the spread of the coronavirus hold risks for the global economy, albeit not to the same extent as in the first half of 2022.

Compared 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 2.9%. Due to the aforementioned effects, the estimates were also reduced for all three regions for the year 2022.

Economic growth[1]

	Growth 2021	Growth forecast 2022 (Annual Report 2021)	Growth forecast 2022
	%	%	%
World	**5.8**	**4.2**	**2.9**
Europe, Middle East, Latin America[2], Africa (EMLA)	**5.5**	**3.7**	**2.9**
of which Europe	5.5	3.7	2.0
of which Germany	2.9	3.8	1.5
of which Middle East	5.2	4.9	5.9
of which Latin America[2]	6.9	2.3	3.6
of which Africa	4.4	3.3	3.4
North America[3] (NA)	**5.5**	**4.0**	**1.8**
of which United States	5.7	4.1	1.7
Asia-Pacific (APAC)	**6.2**	**4.8**	**3.4**
of which China	8.1	5.4	3.0

1 Real growth of gross domestic product; source: IHS (Global Insight), "Growth 2021" and "Growth forecast 2022" as of October 2022.
2 Latin America (excluding Mexico).
3 North America (Canada, Mexico, United States).

Main Customer Industries

In the automotive, construction, electrical, electronics, and household appliances industry, we continue to expect positive growth in the year 2022, with the strongest rise in the automotive industry. Although this will probably be considerably below the outlook presented in the Annual Report 2021, it will exceed the outlook presented in the Half-Year Financial Report 2022 (previously: 6.0%). Following strong growth in the previous year, a decline of 1.1% is anticipated for the furniture industry.

Growth in main customer industries[1]

	Growth 2021	Growth forecast 2022 (Annual Report 2021)	Growth forecast 2022
	%	%	%
Automotive	2.9	12.5	7.1
Construction	3.1	3.6	2.2
Electrical, electronics and household appliances	12.2	4.5	1.6
Furniture	8.0	3.7	–1.1

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: October 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.

Due to the impact of the energy crisis on economic performance and a global economy that remains subdued, Covestro has narrowed the guidance for the 2022 fiscal year. We now expect the following developments in our key management indicators:

Forecast key management indicators

	2021	Forecast 2022 (Annual Report 2021)	Previous forecast 2022 (July 29, 2022)	Adjusted forecast 2022 (October 25, 2022)
EBITDA[1]	€3,085 million	Between €2,500 million and €3,000 million	Between €1,700 million and €2,200 million	Between €1,700 million and €1,800 million
Free operating cash flow[2]	€1,429 million	Between €1,000 million and €1,500 million	Between €0 million and €500 million	Between €0 million and €100 million
ROCE[3] above WACC[4]	12.9% points	Between 5% points and 9% points	Between –2% points and 2% points	Between –2% points and –1% point
Greenhouse gas emissions[5] (CO_2 equivalents)	5.2 million metric tons	Between 5.6 million metric tons and 6.1 million metric tons	Between 5.3 million metric tons and 5.8 million metric tons	Between 5.0 million metric tons and 5.4 million metric tons

[1] 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.
[2] Free operating cash flow (FOCF): cash flows from operating activities less cash outflows for additions to property, plant, equipment and intangible assets.
[3] Return on capital employed (ROCE): ratio of the adjusted operating result (EBIT) after imputed income taxes to capital employed.
[4] 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%).
[5] Greenhouse gas 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 now forecast a figure between €1,700 million and €1,800 million (previously: between €1,700 million and €2,200 million). The Performance Materials segment's EBITDA is still expected to be significantly down on the prior-year amount. In the Solutions & Specialties segment, we continue to project an EBITDA slightly above the prior-year figure.

The Covestro Group's FOCF is now forecast to total between €0 million and €100 million (previously: between €0 million and €500 million). For the Performance Materials segment, we still expect FOCF to fall significantly short of the figure for the year 2021. For the Solutions & Specialties segment, we are now forecasting FOCF to be considerably above the prior-year figure (previously: FOCF well below the prior-year figure).

We now forecast ROCE above WACC of between –2% points and –1% point (previously: between –2% points and 2% points).

The Covestro Group's GHG emissions measured as CO_2 equivalents are now projected to be between 5.0 million metric tons and 5.4 million metric tons (previously: between 5.3 million metric tons and 5.8 million metric tons).

Opportunities and Risks

Geopolitical developments, in particular the Russian war against Ukraine, and their impact on gas supply and energy prices are having a considerable influence on Covestro's business, especially in the EMLA region. Covestro has to date received gas supplies to meet its demand, although there is uncertainty about future supplies because, if the gas supply to companies were to be rationed, this could necessitate the closure of entire production locations or of certain production facilities of Covestro in Germany, depending on the scale of the reduction. This could in turn result in production outages of certain chemical precursors, intermediates, and by-products that are needed at other sites in the EMLA region.

The tense situation on the energy markets, especially in the EMLA region, exacerbated further in the third quarter of 2022 and led to a substantial rise in energy prices, particularly in Europe. If energy prices remain at this price level, this would pose a risk to the global competitiveness of European production locations and could lead to production facilities being decommissioned in the short term or being closed down altogether in the medium to long term.

Several teams of experts in the company are monitoring the current situation closely, studying the consequences in detail, and working on mitigation plans. The potential losses 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.