

QUARTERLY STATEMENT



Interim Statement as of September 30, 2018
Third Quarter 2018



Covestro Group Key Data

	3rd quarter 2017	3rd quarter 2018	Change	1st nine months 2017	1st nine months 2018	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth^{1,2}	+2.6%	+0.2%		+3.2%	+1.5%	
Sales	3,532	3,702	+4.8	10,616	11,344	+6.9
Change in sales						
Volume	+2.0%	+3.0%		+4.2%	+2.1%	
Price	+18.4%	+3.1%		+15.7%	+9.1%	
Currency	-3.5%	-0.6%		-0.4%	-4.1%	
Portfolio	0.0%	-0.7%		0.0%	-0.2%	
Sales by region						
EMLA ³	1,500	1,541	+2.7	4,522	4,897	+8.3
NAFTA ⁴	836	896	+7.2	2,597	2,621	+0.9
APAC ⁵	1,196	1,265	+5.8	3,497	3,826	+9.4
EBITDA^{6,7}	862	859	-0.3	2,556	2,907	+13.7
Changes in EBITDA						
of which volume	5.2%	7.8%		10.5%	5.8%	
of which price	96.7%	12.6%		86.1%	37.9%	
of which raw material costs	-35.2%	-15.8%		-34.1%	-13.8%	
of which currency	-5.9%	0.2%		-1.3%	-4.0%	
EBIT^{8,9}	705	707	+0.3	2,080	2,440	+17.3
Financial result	(35)	(25)	-28.6	(123)	(80)	-35.0
Net income¹⁰	491	496	+1.0	1,443	1,744	+20.9
Operating cash flows¹¹	775	766	-1.2	1,471	1,735	+17.9
Cash outflows for additions to property, plant, equipment and intangible assets	117	188	+60.7	283	429	+51.6
Free operating cash flow¹²	658	578	-12.2	1,188	1,306	+9.9

¹ Core volume growth refers to the core products in the Polyurethanes, Polycarbonates and Coatings, Adhesives, Specialties segments. It is calculated as the percentage change in externally sold volumes in thousand metric tons compared with the prior year. Covestro also takes advantage of business opportunities outside its core business, for example the sale of raw materials and by-products such as hydrochloric acid, sodium hydroxide solution and styrene. These transactions are not included in core volume growth.

² Reference values calculated based on the definition of the core business effective March 31, 2018

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

⁴ NAFTA: United States, Canada and Mexico region

⁵ APAC: Asia and Pacific region

⁶ EBITDA: EBIT plus the sum of depreciation, amortization, impairment losses and impairment loss reversals

⁷ Adjusted EBITDA is not reported because no income or expense items were recognized as special items either in the reporting period or in the corresponding prior-year period.

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

⁹ Adjusted EBIT is not reported because no income or expense items were recognized as special items either in the reporting period or in the corresponding prior-year period.

¹⁰ Net income: income after income taxes attributable to the stockholders of Covestro AG

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

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

Covestro Share at a Glance

		3rd quarter 2017	3rd quarter 2018	1st nine months 2017	1st nine months 2018
High	€	72.75	82.36	76.22	95.00
Low	€	62.83	68.86	62.07	68.86
Closing date	€	72.75	69.86	72.75	69.86

Covestro closing prices Xetra®; source: Bloomberg

Covestro Group Consolidated Income Statement

	3rd quarter 2017 ¹	3rd quarter 2018	1st nine months 2017 ¹	1st nine months 2018
	€ million	€ million	€ million	€ million
Sales	3,532	3,702	10,616	11,344
Cost of goods sold	(2,298)	(2,499)	(7,044)	(7,327)
Gross profit	1,234	1,203	3,572	4,017
Selling expenses	(327)	(346)	(1,017)	(1,054)
Research and development expenses	(68)	(65)	(200)	(201)
General administration expenses	(120)	(126)	(347)	(373)
Other operating income	6	62	117	85
Other operating expenses	(20)	(21)	(45)	(34)
EBIT²	705	707	2,080	2,440
Equity-method loss	(6)	(6)	(18)	(16)
Result from other affiliated companies	-	1	-	1
Interest income	5	8	16	20
Interest expense	(27)	(20)	(98)	(61)
Other financial result	(7)	(8)	(23)	(24)
Financial result	(35)	(25)	(123)	(80)
Income before income taxes	670	682	1,957	2,360
Income taxes	(177)	(185)	(509)	(611)
Income after income taxes	493	497	1,448	1,749
of which attributable to noncontrolling interest	2	1	5	5
of which attributable to Covestro AG stockholders (net income)	491	496	1,443	1,744
	€	€	€	€
Basic earnings per share³	2.43	2.59	7.13	8.92
Diluted earnings per share³	2.43	2.59	7.13	8.92

¹ Reference information has not been adjusted, see section 6 "Changes in Accounting as a Result of the Initial Application of IFRS 9 and IFRS 15."

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

³ The weighted average number of outstanding no-par voting shares of Covestro AG amounted to 195,524,586 in the first nine months of 2018 (previous year: 202,500,000) and 191,152,569 in the third quarter of 2018 (previous year: 202,500,000).

Covestro Group Consolidated Statement of Comprehensive Income

	3rd quarter 2017 ¹	3rd quarter 2018	1st nine months 2017 ¹	1st nine months 2018
	€ million	€ million	€ million	€ million
Income after income taxes	493	497	1,448	1,749
Remeasurements of the net defined benefit liability for post-employment benefit plans	(57)	59	4	(35)
Income taxes	18	(16)	(3)	5
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans	(39)	43	1	(30)
Other comprehensive income that will not be reclassified subsequently to profit or loss	(39)	43	1	(30)
Changes in exchange differences recognized on translation of operations outside the eurozone	(68)	(48)	(259)	16
Reclassified to profit or loss	-	-	-	-
Other comprehensive income from exchange differences	(68)	(48)	(259)	16
Other comprehensive income that may be reclassified subsequently to profit or loss, if certain conditions are met	(68)	(48)	(259)	16
Total other comprehensive income²	(107)	(5)	(258)	(14)
of which attributable to noncontrolling interest	(1)	-	(2)	1
of which attributable to Covestro AG stockholders	(106)	(5)	(256)	(15)
Total comprehensive income	386	492	1,190	1,735
of which attributable to noncontrolling interest	1	1	3	6
of which attributable to Covestro AG stockholders	385	491	1,187	1,729

¹ Reference information has not been adjusted, see section 6 "Changes in Accounting as a Result of the Initial Application of IFRS 9 and IFRS 15."

² Total change recognized in equity outside profit or loss

Covestro Group Consolidated Statement of Financial Position

	Sep. 30, 2017 ¹	Sep. 30, 2018	Dec. 31, 2017 ¹
	€ million	€ million	€ million
Noncurrent assets			
Goodwill	254	255	253
Other intangible assets	79	77	81
Property, plant and equipment	4,230	4,262	4,296
Investments accounted for using the equity method	213	211	208
Other financial assets	31	28	31
Other receivables ²	39	47	35
Deferred taxes	661	725	702
	5,507	5,605	5,606
Current assets			
Inventories	1,827	2,202	1,913
Trade accounts receivable	1,967	2,118	1,882
Other financial assets	665	14	285
Other receivables ²	303	357	281
Claims for income tax refunds	52	32	138
Cash and cash equivalents	637	846	1,232
Assets held for sale	3	–	4
	5,454	5,569	5,735
Total assets	10,961	11,174	11,341
Equity			
Capital stock of Covestro AG	203	188	201
Capital reserves of Covestro AG	4,908	3,806	4,767
Other reserves	(8)	1,667	367
Equity attributable to Covestro AG stockholders	5,103	5,661	5,335
Equity attributable to noncontrolling interest	29	32	30
	5,132	5,693	5,365
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	1,208	1,264	1,187
Other provisions	291	232	229
Financial liabilities	1,233	1,171	1,213
Income tax liabilities	44	99	74
Other liabilities ²	16	21	21
Deferred taxes	169	154	161
	2,961	2,941	2,885
Current liabilities			
Other provisions	490	447	529
Financial liabilities	607	76	583
Trade accounts payable	1,393	1,581	1,618
Income tax liabilities	199	170	161
Other liabilities ²	179	266	200
	2,868	2,540	3,091
Total equity and liabilities	10,961	11,174	11,341

¹ Reference information has not been adjusted, see section 6 "Changes in Accounting as a Result of the Initial Application of IFRS 9 and IFRS 15."

² As of September 30, 2018, this contains the contract assets, contract liabilities, and refund liabilities from initial application of IFRS 15.

Covestro Group Consolidated Statement of Cash Flows

	3rd quarter 2017 ¹	3rd quarter 2018	1st nine months 2017 ¹	1st nine months 2018
	€ million	€ million	€ million	€ million
Income after income taxes	493	497	1,448	1,749
Income taxes	177	185	509	611
Financial result	35	25	123	80
Income taxes paid	(207)	(170)	(269)	(505)
Depreciation, amortization and impairment losses and impairment loss reversals	157	152	476	467
Change in pension provisions	(13)	10	13	18
(Gains)/losses on retirements of noncurrent assets	–	(36)	(45)	(35)
Decrease/(increase) in inventories	(13)	(117)	(213)	(314)
Decrease/(increase) in trade accounts receivable	(13)	61	(395)	(238)
(Decrease)/increase in trade accounts payable	51	113	(77)	(16)
Changes in other working capital, other noncash items	108	46	(99)	(82)
Cash flows from operating activities	775	766	1,471	1,735
Cash outflows for additions to property, plant, equipment and intangible assets	(117)	(188)	(283)	(429)
Cash inflows from sales of property, plant, equipment and other assets	–	1	12	1
Cash inflows from divestitures	–	66	47	66
Cash outflows for noncurrent financial assets	(11)	(6)	(28)	(14)
Cash inflows from noncurrent financial assets	–	–	1	1
Cash outflows for acquisitions less acquired cash	–	–	(4)	–
Interest and dividends received	7	8	25	20
Cash inflows from/(outflows for) other current financial assets	(177)	62	(445)	263
Cash flows from investing activities	(298)	(57)	(675)	(92)
Reacquisition of treasury shares	–	(304)	–	(974)
Dividend payments and withholding tax on dividends	–	–	(274)	(440)
Issuances of debt	27	6	183	46
Retirements of debt	(123)	(19)	(222)	(608)
Interest paid	(39)	(20)	(102)	(53)
Cash flows from financing activities	(135)	(337)	(415)	(2,029)
Change in cash and cash equivalents due to business activities	342	372	381	(386)
Cash and cash equivalents at beginning of period	300	475	267	1,232
Change in cash and cash equivalents due to exchange rate movements	(5)	(1)	(11)	–
Cash and cash equivalents at end of period	637	846	637	846

¹ Reference information has not been adjusted; see section 6 "Changes in Accounting as a Result of the Initial Application of IFRS 9 and IFRS 15."

1. Business Development Covestro Group

Results of operations

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

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

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

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

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

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

Financial position

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

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

Net Financial Debt¹

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

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

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

2. Business Development by Segment

2.1 Polyurethanes

Polyurethanes Key Data¹

	3rd quarter 2017	3rd quarter 2018	Change	1st nine months 2017	1st nine months 2018	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth²	+4.1%	-2.0%		+2.4%	+0.3%	
Sales	1,871	1,849	-1.2	5,510	5,765	+4.6
Change in sales						
Volume	+2.6%	+0.1%		+2.3%	+0.2%	
Price	+31.0%	-0.5%		+28.9%	+8.6%	
Currency	-3.8%	-0.8%		-0.4%	-4.2%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
Sales by region						
EMLA	805	773	-4.0	2,360	2,504	+6.1
NAFTA	472	512	+8.5	1,426	1,473	+3.3
APAC	594	564	-5.1	1,724	1,788	+3.7
EBITDA	550	432	-21.5	1,567	1,652	+5.4
EBIT	460	346	-24.8	1,297	1,385	+6.8
Operating cash flows	511	453	-11.4	757	993	+31.2
Cash outflows for additions to property, plant, equipment and intangible assets	60	113	+88.3	150	243	+62.0
Free operating cash flow	451	340	-24.6	607	750	+23.6

¹ All prior-year figures have been adjusted to reflect the transfer of the specialty elastomers business from the Polyurethanes segment to the Coatings, Adhesives, Specialties segment as of January 1, 2018.

² Reference values calculated based on the definition of the core business effective March 31, 2018

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

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

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

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

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

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

2.2 Polycarbonates

Polycarbonates Key Data

	3rd quarter 2017	3rd quarter 2018	Change	1st nine months 2017	1st nine months 2018	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth¹	+1.5%	+2.6%		+5.4%	+3.5%	
Sales	933	1,038	+11.3	2,798	3,127	+11.8
Change in sales						
Volume	+4.4%	+5.1%		+7.9%	+3.6%	
Price	+9.4%	+9.6%		+6.2%	+13.7%	
Currency	-3.8%	-0.6%		-0.6%	-4.6%	
Portfolio	0.0%	-2.8%		0.0%	-0.9%	
Sales by region						
EMLA	299	331	+10.7	926	1,046	+13.0
NAFTA	212	205	-3.3	668	617	-7.6
APAC	422	502	+19.0	1,204	1,464	+21.6
EBITDA	211	315	+49.3	640	903	+41.1
EBIT	167	272	+62.9	503	773	+53.7
Operating cash flows	170	185	+8.8	231	419	+81.4
Cash outflows for additions to property, plant, equipment and intangible assets	36	49	+36.1	81	116	+43.2
Free operating cash flow	134	136	+1.5	150	303	>100

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

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

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

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

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

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

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

2.3 Coatings, Adhesives, Specialties

Coatings, Adhesives, Specialties Key Data¹

	3rd quarter 2017	3rd quarter 2018	Change	1st nine months 2017	1st nine months 2018	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth²	-3.1%	+7.2%		+2.3%	+3.8%	
Sales	557	606	+8.8	1,798	1,827	+1.6
Change in sales						
Volume	-3.7%	+9.7%		+2.9%	+4.3%	
Price	+3.2%	-0.5%		+0.8%	+0.8%	
Currency	-2.8%	-0.4%		-0.1%	-3.5%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
Sales by region						
EMLA	264	280	+6.1	844	877	+3.9
NAFTA	118	131	+11.0	399	390	-2.3
APAC	175	195	+11.4	555	560	+0.9
EBITDA	125	126	+0.8	406	401	-1.2
EBIT	103	103	-	340	332	-2.4
Operating cash flows	110	119	+8.2	194	202	+4.1
Cash outflows for additions to property, plant, equipment and intangible assets	20	26	+30.0	50	70	+40.0
Free operating cash flow	90	93	+3.3	144	132	-8.3

¹ All prior-year figures have been adjusted to reflect the transfer of the specialty elastomers business from the Polyurethanes segment to the Coatings, Adhesives, Specialties segment as of January 1, 2018.

² Reference values calculated based on the definition of the core business effective March 31, 2018

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

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

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

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

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

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

3. Forecast Update Report

3.1 Economic Outlook

Economic Outlook

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

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

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

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

3.2 Forecast for Key Data

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

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

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

We expect ROCE¹ around the 2017 level in the 2018 fiscal year.

¹ ROCE: The return on capital employed is calculated as the ratio of EBIT after taxes to capital employed. Capital employed is the capital used by the company. It is the sum of current and noncurrent assets less noninterest-bearing liabilities such as trade accounts payable.

4. Employees and Pension Obligations

As of September 30, 2018, the Covestro Group had 16,648 employees worldwide (December 31, 2017: 16,176). Personnel expenses rose by €29 million to €1,465 million in the first nine months of 2018 (previous year: €1,436 million).

Employees by Corporate Function¹

	Dec. 31, 2017	Sep. 30, 2018
Production	10,115	10,247
Marketing and distribution	3,476	3,594
Research and development	1,072	1,122
General administration	1,513	1,685
Total	16,176	16,648

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

Provisions for pensions and other post-employment benefits increased to €1,264 million as of September 30, 2018 (December 31, 2017: €1,187 million), mainly due to the adverse change in plan assets. In part, this development was balanced out by actuarial gains following an increase in the discount rate for pension obligations in the United States.

Discount Rate for Pension Obligations

	Dec. 31, 2017	Sep. 30, 2018
	%	%
Germany	1.90	1.90
United States	3.40	4.00

5. 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

€1/		Closing rates		
		Sep. 30, 2017	Dec. 31, 2017	Sep. 30, 2018
BRL	Brazil	3.76	3.97	4.65
CNY	China	7.84	7.81	7.96
HKD	Hong Kong	9.22	9.37	9.06
INR	India	77.07	76.61	83.92
JPY	Japan	132.82	135.01	131.23
MXN	Mexico	21.46	23.66	21.78
USD	United States	1.18	1.20	1.16

Average Rates for Major Currencies

€1/		Average rates	
		1st nine months 2017	1st nine months 2018
BRL	Brazil	3.52	4.27
CNY	China	7.55	7.77
HKD	Hong Kong	8.65	9.36
INR	India	72.48	80.10
JPY	Japan	124.36	130.93
MXN	Mexico	20.97	22.73
USD	United States	1.11	1.19

6. Changes in Accounting as a Result of the Initial Application of IFRS 9 and IFRS 15

6.1 Accounting for Financial Instruments in Accordance with IFRS 9

The new **IFRS 9 (Financial Instruments)** accounting standard, which replaces the rules on financial instruments in place previously, has been applied since January 1, 2018. Covestro applied IFRS 9 retrospectively without adjusting prior-year figures. As a result, the effects of initial application as of January 1, 2018, are recognized cumulatively in equity, and the figures for the reference period continue to be presented in accordance with the previous rules (for additional details, see the Annual Report 2017, Notes 2.2 and 3). The cumulative negative effect of initial application of the standard amounts to €7 million.

The changes at Covestro resulted from the new impairment model and the amended classification and measurement rules stipulated by the new IFRS 9 standard. The new impairment rules increase provisions to account for defaults of financial instruments by recognizing expected credit losses, particularly for trade accounts receivable. In the case of equity investments that were not held for trading as of January 1, 2018, Covestro opted to recognize future changes in their fair value in other comprehensive income and to continue recognizing these in equity on disposal. Additional information about the new accounting rules and the effects of initial application is provided in the half-year financial report as of June 30, 2018, Note 2.1.

6.2 Accounting for Sales in Accordance with IFRS 15

The new **IFRS 15 (Revenue from Contracts with Customers)** accounting standard, which replaces the rules in place previously for the recognition of sales, has been applied since January 1, 2018. IFRS 15 was introduced at Covestro using the modified retrospective approach. As a result, there is no requirement to adjust figures from prior periods, so these continue to be presented in accordance with the previously applicable accounting rules in IAS 11 and IAS 18 (for additional information, see the Annual Report 2017, Notes 2.2 and 3). The positive cumulative effect of initially applying the standard as of January 1, 2018, totals €14 million and is recognized in equity.

According to IFRS 15, sales are recognized using a five-step model with the new principles affecting parameters including the point in time or time period when sales are recognized and resulting in new balance sheet items such as contract assets, contract liabilities, and refund liabilities, which Covestro reports in other receivables or in other liabilities. For Covestro, the application of IFRS 15 resulted in changes in the recognition of sales in particular from consignment warehousing agreements, transportation clauses, contracts with provisional prices, licenses, and customer-specific products. Additional information about the new accounting rules and the effects of initial application is provided in the half-year financial report as of June 30, 2018, Note 2.1.

7. Scope of Consolidation

7.1 Changes in the Scope of Consolidation

In the third quarter of 2018, the scope of consolidation did not change.

7.2 Acquisitions and Divestitures

On August 1, 2018, Covestro's Polycarbonates segment signed an asset deal to divest the assets and liabilities (disposal group) of the U.S. polycarbonate sheet business to Plaskolite LLC, Columbus (United States) for a selling price of €62 million. Production-related assets and inventories of €29 million and liabilities of €3 million were transferred to the buyer. The gain on the disposal of this business totaling €36 million was recognized in the other operating result.

8. Segment Information

Segment Reporting 3rd Quarter

				Other /Consolidation		Covestro Group
	Polyurethanes ¹	Polycarbonates	Coatings, Adhesives, Specialties ¹	All other segments	Corporate Center and reconciliation	
	€ million	€ million	€ million	€ million	€ million	€ million
3rd quarter 2018						
Net sales	1,849	1,038	606	209	-	3,702
Change in sales						
Volume	+0.1%	+5.1%	+9.7%	+2.5%	-	+3.0%
Price	-0.5%	+9.6%	-0.5%	+19.4%	-	+3.1%
Currency	-0.8%	-0.6%	-0.4%	+0.3%	-	-0.6%
Portfolio	0.0%	-2.8%	0.0%	0.0%	-	-0.7%
Core volume growth²	-2.0%	+2.6%	+7.2%	-	-	+0.2%
Sales by region						
EMLA	773	331	280	157	-	1,541
NAFTA	512	205	131	48	-	896
APAC	564	502	195	4	-	1,265
EBITDA	432	315	126	6	(20)	859
EBIT	346	272	103	6	(20)	707
Depreciation, amortization, impairment losses and impairment loss reversals	86	43	23	-	-	152
Operating cash flows	453	185	119	32	(23)	766
Cash outflows for additions to property, plant, equipment and intangible assets	113	49	26	(1)	1	188
Free operating cash flow	340	136	93	33	(24)	578
Working capital³	1,292	842	542	84	(21)	2,739
3rd quarter 2017						
Net sales	1,871	933	557	171	-	3,532
Change in sales						
Volume	+2.6%	+4.4%	-3.7%	+5.2%	-	+2.0%
Price	+31.0%	+9.4%	+3.2%	+5.6%	-	+18.4%
Currency	-3.8%	-3.8%	-2.8%	-1.2%	-	-3.5%
Portfolio	0.0%	0.0%	0.0%	0.0%	-	0.0%
Core volume growth²	+4.1%	+1.5%	-3.1%	-	-	+2.6%
Sales by region						
EMLA	805	299	264	132	-	1,500
NAFTA	472	212	118	34	-	836
APAC	594	422	175	5	-	1,196
EBITDA	550	211	125	(1)	(23)	862
EBIT	460	167	103	(2)	(23)	705
Depreciation, amortization, impairment losses and impairment loss reversals	90	44	22	1	-	157
Operating cash flows	511	170	110	(1)	(15)	775
Cash outflows for additions to property, plant, equipment and intangible assets	60	36	20	2	(1)	117
Free operating cash flow	451	134	90	(3)	(14)	658
Working capital³	1,145	677	513	70	(4)	2,401

¹ All prior-year figures have been adjusted to reflect the transfer of the specialty elastomers business from the Polyurethanes segment to the Coatings, Adhesives, Specialties segment as of January 1, 2018.

² Reference values calculated based on the definition of the core business effective March 31, 2018

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

Segment Reporting 1st Nine Months

				Other / Consolidation		Covestro Group
	Polyurethanes ¹	Polycarbonates	Coatings, Adhesives, Specialties ¹	All other segments	Corporate Center and reconciliation	
	€ million	€ million	€ million	€ million	€ million	€ million
1st nine months 2018						
Net sales	5,765	3,127	1,827	625	-	11,344
Change in sales						
Volume	+0.2%	+3.6%	+4.3%	+5.1%	-	+2.1%
Price	+8.6%	+13.7%	+0.8%	+19.5%	-	+9.1%
Currency	-4.2%	-4.6%	-3.5%	-2.1%	-	-4.1%
Portfolio	0.0%	-0.9%	0.0%	0.0%	-	-0.2%
Core volume growth²	+0.3%	+3.5%	+3.8%	-	-	+1.5%
Sales by region						
EMLA	2,504	1,046	877	470	-	4,897
NAFTA	1,473	617	390	141	-	2,621
APAC	1,788	1,464	560	14	-	3,826
EBITDA	1,652	903	401	20	(69)	2,907
EBIT	1,385	773	332	19	(69)	2,440
Depreciation, amortization, impairment losses and impairment loss reversals	267	130	69	1	-	467
Operating cash flows	993	419	202	178	(57)	1,735
Cash outflows for additions to property, plant, equipment and intangible assets	243	116	70	-	-	429
Free operating cash flow	750	303	132	178	(57)	1,306
Working capital³	1,292	842	542	84	(21)	2,739
1st nine months 2017						
Net sales	5,510	2,798	1,798	510	-	10,616
Change in sales						
Volume	+2.3%	+7.9%	+2.9%	+4.1%	-	+4.2%
Price	+28.9%	+6.2%	+0.8%	+3.0%	-	+15.7%
Currency	-0.4%	-0.6%	-0.1%	0.0%	-	-0.4%
Portfolio	0.0%	0.0%	0.0%	0.0%	-	0.0%
Core volume growth²	+2.4%	+5.4%	+2.3%	-	-	+3.2%
Sales by region						
EMLA	2,360	926	844	392	-	4,522
NAFTA	1,426	668	399	104	-	2,597
APAC	1,724	1,204	555	14	-	3,497
EBITDA	1,567	640	406	8	(65)	2,556
EBIT	1,297	503	340	5	(65)	2,080
Depreciation, amortization, impairment losses and impairment loss reversals	270	137	66	3	-	476
Operating cash flows	757	231	194	352	(63)	1,471
Cash outflows for additions to property, plant, equipment and intangible assets	150	81	50	2	-	283
Free operating cash flow	607	150	144	350	(63)	1,188
Working capital³	1,145	677	513	70	(4)	2,401

¹ All prior-year figures have been adjusted to reflect the transfer of the specialty elastomers business from the Polyurethanes segment to the Coatings, Adhesives, Specialties segment as of January 1, 2018.

² Reference values calculated based on the definition of the core business effective March 31, 2018.

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

Financial Calendar

Annual Report 2018.....	February 25, 2019
Annual General Meeting 2019	April 12, 2019
Q1 2019 Interim Statement	April 29, 2019
Half-Year Financial Report 2019	July 24, 2019

Reporting Principles

This Covestro AG Quarterly Statement was prepared in accordance with Section 53 of the Stock Exchange Rules and Regulations (Börsenordnung). This Statement is not an interim report within the meaning of IAS 34 or set of financial statements within the meaning of IAS 1. It was not subjected to a review by an auditor. This Quarterly Statement should be read alongside the Annual Report for the 2017 fiscal year and the additional information about the company contained therein. The Annual Report 2017 is available on our website at www.covestro.com. Comparative information relating to the 2017 fiscal year has not been adjusted according to the new accounting standards; see section 6 "Changes in Accounting as a Result of the Initial Application of IFRS 9 and IFRS 15."

This Quarterly Statement was published in German and English on October 25, 2018. Only the German version is binding.

Forward-Looking Statements

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

Publishing Information

Published by

Local Court of Cologne
HRB 85281
VAT No. DE815579850

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Translation

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Design and layout

TERRITORY CTR GmbH
Leverkusen, Germany

Quarterly Statement produced with firesys



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