

QUARTERLY STATEMENT



Interim Statement as of September 30, 2017
Third Quarter 2017



Covestro Group Key Data

	3rd quarter 2016	3rd quarter 2017	Change	1st nine months 2016	1st nine months 2017	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth^{1,2}	+9.1%	+2.6%		+8.4%	+3.2%	
Sales	3,022	3,532	+16.9	8,887	10,616	+19.5
Change in sales						
Volume	+6.3%	+2.0%		+5.3%	+4.2%	
Price	-5.1%	+18.4%		-8.1%	+15.7%	
Currency	-1.1%	-3.5%		-1.5%	-0.4%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
Sales by region						
EMLA ³	1,288	1,500	+16.5	3,929	4,522	+15.1
NAFTA ⁴	816	836	+2.5	2,385	2,597	+8.9
APAC ⁵	918	1,196	+30.3	2,573	3,497	+35.9
EBITDA^{6,7}	574	862	+50.2	1,624	2,556	+57.4
EBIT^{8,9}	406	705	+73.6	1,110	2,080	+87.4
Financial result	(41)	(35)	-14.6	(164)	(123)	-25.0
Net income¹⁰	259	491	+89.6	671	1,443	>100
Operating cash flows¹¹	736	775	+5.3	1,176	1,471	+25.1
Cash outflows for additions to property, plant, equipment and intangible assets	90	117	+30.0	216	283	+31.0
Free operating cash flow¹²	646	658	+1.9	960	1,188	+23.8

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 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, 2017

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 depreciation and amortization

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 2016	3rd quarter 2017	1st nine months 2016	1st nine months 2017
High	€	52.63	72.75	52.63	76.22
Low	€	38.95	62.83	25.48	62.07
Closing date	€	52.63	72.75	52.63	72.75

Covestro closing prices Xetra®; source: Bloomberg

Reporting Principles

This Covestro AG Quarterly Statement was prepared in accordance with Section 50 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 together with the Annual Report for the 2016 fiscal year along with the additional information about the company contained therein. The Annual Report 2016 is available on our website at www.covestro.com.

This Quarterly Statement was published in German and English on October 24, 2017. Only the German version is binding.

Covestro Group Consolidated Income Statement

	3rd quarter 2016	3rd quarter 2017	1st nine months 2016	1st nine months 2017
	€ million	€ million	€ million	€ million
Sales	3,022	3,532	8,887	10,616
Cost of goods sold	(2,136)	(2,298)	(6,356)	(7,044)
Gross profit	886	1,234	2,531	3,572
Selling expenses	(330)	(327)	(988)	(1,017)
Research and development expenses	(67)	(68)	(192)	(200)
General administration expenses	(103)	(120)	(317)	(347)
Other operating income	29	6	114	117
Other operating expenses	(9)	(20)	(38)	(45)
EBIT¹	406	705	1,110	2,080
Equity-method loss	(3)	(6)	(13)	(18)
Interest income ²	5	5	10	16
Interest expense ²	(29)	(27)	(110)	(98)
Other financial result ²	(14)	(7)	(51)	(23)
Financial result	(41)	(35)	(164)	(123)
Income before income taxes	365	670	946	1,957
Income taxes	(104)	(177)	(268)	(509)
Income after income taxes	261	493	678	1,448
of which attributable to noncontrolling interest	2	2	7	5
of which attributable to Covestro AG stockholders (net income)	259	491	671	1,443
	€	€	€	€
Basic earnings per share³	1.28	2.43	3.31	7.13
Diluted earnings per share³	1.28	2.43	3.31	7.13

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

² The previous year's figures were adjusted retroactively to reflect the change in the accounting treatment of forward exchange contracts. See section 6 "Change in Accounting for Forward Exchange Contracts" for additional information

³ Weighted average number of no-par voting shares of Covestro AG in issue: 202,500,000

Covestro Group Consolidated Statement of Comprehensive Income

	3rd quarter 2016	3rd quarter 2017	1st nine months 2016	1st nine months 2017
	€ million	€ million	€ million	€ million
Income after income taxes	261	493	678	1,448
Remeasurements of the net defined benefit liability for post-employment benefit plans	(65)	(57)	(688)	4
Income taxes	19	18	221	(3)
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans	(46)	(39)	(467)	1
Other comprehensive income that will not be reclassified subsequently to profit or loss	(46)	(39)	(467)	1
Changes in exchange differences recognized on translation of operations outside the eurozone	(8)	(68)	(62)	(259)
Reclassified to profit or loss	–	–	–	–
Other comprehensive income from exchange differences	(8)	(68)	(62)	(259)
Other comprehensive income that may be reclassified subsequently to profit or loss	(8)	(68)	(62)	(259)
Total other comprehensive income¹	(54)	(107)	(529)	(258)
of which attributable to noncontrolling interest	–	(1)	1	(2)
of which attributable to Covestro AG stockholders	(54)	(106)	(530)	(256)
Total comprehensive income	207	386	149	1,190
of which attributable to noncontrolling interest	2	1	8	3
of which attributable to Covestro AG stockholders	205	385	141	1,187

¹ Total changes recognized outside profit or loss

Covestro Group Consolidated Statement of Financial Position

	Sep. 30, 2016	Sep. 30, 2017	Dec. 31, 2016
	€ million	€ million	€ million
Noncurrent assets			
Goodwill	258	254	264
Other intangible assets	101	79	97
Property, plant and equipment	4,527	4,230	4,655
Investments accounted for using the equity method	221	213	230
Other financial assets	36	31	31
Other receivables	48	39	41
Deferred taxes	814	661	648
	6,005	5,507	5,966
Current assets			
Inventories	1,712	1,827	1,721
Trade accounts receivable	1,710	1,967	1,674
Other financial assets	468	665	171
Other receivables	316	303	316
Claims for income tax refunds	33	52	119
Cash and cash equivalents	175	637	267
Assets held for sale	–	3	–
	4,414	5,454	4,268
Total assets	10,419	10,961	10,234
Equity			
Capital stock of Covestro AG	203	203	203
Capital reserves of Covestro AG	4,908	4,908	4,908
Other reserves	(1,516)	(8)	(922)
Equity attributable to Covestro AG stockholders	3,595	5,103	4,189
Equity attributable to noncontrolling interest	23	29	27
	3,618	5,132	4,216
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	2,171	1,208	1,209
Other provisions	302	291	319
Financial liabilities	1,814	1,233	1,796
Income tax liabilities	–	44	36
Other liabilities	26	16	26
Deferred taxes	151	169	158
	4,464	2,961	3,544
Current liabilities			
Other provisions	519	490	569
Financial liabilities	232	607	135
Trade accounts payable	1,339	1,393	1,536
Income tax liabilities	73	199	37
Other liabilities	174	179	197
	2,337	2,868	2,474
Total equity and liabilities	10,419	10,961	10,234

Covestro Group Consolidated Statement of Cash Flows

	3rd quarter 2016	3rd quarter 2017	1st nine months 2016	1st nine months 2017
	€ million	€ million	€ million	€ million
Income after income taxes	261	493	678	1,448
Income taxes	104	177	268	509
Financial result	41	35	164	123
Income taxes paid	(58)	(207)	(259)	(269)
Depreciation, amortization and impairments	168	157	514	476
Change in pension provisions	(1)	(13)	(3)	13
(Gains)/losses on retirements of noncurrent assets	1	–	1	(45)
Decrease/(increase) in inventories	(31)	(13)	45	(213)
Decrease/(increase) in trade accounts receivable	60	(13)	(242)	(395)
(Decrease)/increase in trade accounts payable	78	51	(53)	(77)
Changes in other working capital, other noncash items	113	108	63	(99)
Cash flows from operating activities	736	775	1,176	1,471
Cash outflows for additions to property, plant, equipment and intangible assets	(90)	(117)	(216)	(283)
Cash inflows from sales of property, plant, equipment and other assets	1	–	4	12
Cash inflows from divestitures	–	–	–	47
Cash outflows for noncurrent financial assets	(7)	(11)	(14)	(28)
Cash inflows from noncurrent financial assets	1	–	3	1
Cash outflows for acquisitions less acquired cash	–	–	–	(4)
Interest and dividends received ¹	5	7	14	25
Cash inflows from/(outflows for) other current financial assets ¹	(439)	(177)	(394)	(445)
Cash flows from investing activities¹	(529)	(298)	(603)	(675)
Dividend payments and withholding tax on dividends	–	–	(143)	(274)
Issuances of debt	29	27	1,769	183
Retirements of debt	(167)	(123)	(2,559)	(222)
Interest paid ¹	(41)	(39)	(104)	(102)
Cash flows from financing activities¹	(179)	(135)	(1,037)	(415)
Change in cash and cash equivalents due to business activities	28	342	(464)	381
Cash and cash equivalents at beginning of period	151	300	642	267
Change in cash and cash equivalents due to exchange rate movements	(4)	(5)	(3)	(11)
Cash and cash equivalents at end of period	175	637	175	637

¹ The previous year's figures were adjusted retroactively to reflect the change in the accounting treatment of forward exchange contracts. See section 6 "Change in Accounting for Forward Exchange Contracts" for additional information

1. Business Development Covestro Group

Results of operations

In the third quarter of 2017, the Group's core volumes (in kilotons) increased from the prior-year quarter, by 2.6%. With a growth rate of 4.3%, the Polyurethanes segment was the primary driver here. Core volumes in the Polycarbonates segment also rose, by 1.5%. In the Coatings, Adhesives, Specialties segment, core volumes were 5.0% lower than in the prior-year period.

Group sales amounted to €3,532 million, up 16.9% compared with the prior-year quarter (previous year: €3,022 million), due to the ongoing robust demand in our main customer industries. An increase in selling prices had a positive effect on sales of 18.4%, a rise mainly attributable to the Polyurethanes segment. Total volumes sold nudged up sales by 2.0% in the third quarter. The Polycarbonates and Polyurethanes segments contributed to this result. Moreover, exchange rate movements had a negative effect of 3.5% on Group sales.

The Polyurethanes and Polycarbonates segments helped boost sales in the third quarter. Sales in the Polyurethanes segment climbed to €1,938 million (previous year: €1,503 million). In the Polycarbonates segment, sales grew to €933 million (previous year: €848 million). Coatings, Adhesives, Specialties saw sales decline to €490 million (previous year: €515 million).

The Group's EBITDA increased by 50.2% in the third quarter of 2017, from €574 million in the prior-year quarter to €862 million. The improvement in earnings was primarily the result of higher margins.

In the Polyurethanes segment, EBITDA more than doubled to €556 million (previous year: €263 million). EBITDA in the Polycarbonates segment grew 8.8% to €211 million (previous year: €194 million), and in the Coatings, Adhesives, Specialties segment, this figure dropped 12.5% to €119 million (previous year: €136 million).

In the third quarter of 2017, the Covestro Group improved EBIT by 73.6% to €705 million (previous year: €406 million).

Financial position

Operating cash flows amounted to €775 million, up from the prior-year quarter (previous year: €736 million). Whereas EBITDA grew, income tax payments also rose and a larger amount of cash was tied up in working capital; this development was driven chiefly by an increase in trade accounts receivable.

In the third quarter of 2017, free operating cash flow was up to €658 million (previous year: €646 million) due to improved operating cash flows. As expected, higher cash outflows for additions to property, plant, equipment, and intangible assets of €117 million (previous year: €90 million) had the opposite effect.

Net Financial Debt¹

	Dec. 31, 2016	Sep. 30, 2017
	€ million	€ million
Bonds	1,494	1,495
Liabilities to banks	133	109
Liabilities under finance leases	265	229
Liabilities from derivatives	33	7
Other financial liabilities	6	–
Receivables from derivatives	(15)	(10)
Financial liabilities	1,916	1,830
Cash and cash equivalents	(267)	(637)
Current financial assets	(150)	(651)
Net financial debt	1,499	542

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 declined by €957 million from December 31, 2016, to €542 million as of September 30, 2017. This significant decrease is principally the result of higher cash inflows from operations. To a large degree, these cash inflows were invested in additional short-term bank deposits and in government bonds with maturities up to October 2017.

2. Business Development by Segment

2.1 Polyurethanes

Polyurethanes Key Data

	3rd quarter 2016	3rd quarter 2017	Change	1st nine months 2016	1st nine months 2017	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth¹	+9.0%	+4.3%		+9.4%	+2.8%	
Sales	1,503	1,938	+28.9	4,387	5,721	+30.4
Change in sales						
Volume	+6.7%	+3.0%		+6.6%	+3.3%	
Price	-6.2%	+29.7%		-11.7%	+27.5%	
Currency	-1.1%	-3.8%		-1.6%	-0.4%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
Sales by region						
EMLA	633	825	+30.3	1,901	2,422	+27.4
NAFTA	472	487	+3.2	1,368	1,477	+8.0
APAC	398	626	+57.3	1,118	1,822	+63.0
EBITDA	263	556	>100	705	1,594	>100
EBIT	168	466	>100	409	1,322	>200
Operating cash flows	288	522	+81.3	439	771	+75.6
Cash outflows for additions to property, plant, equipment and intangible assets	45	63	+40.0	115	155	+34.8
Free operating cash flow	243	459	+88.9	324	616	+90.1

¹ Reference values calculated based on the definition of the core business effective March 31, 2017

In the third quarter of 2017, core volumes in Polyurethanes increased by 4.3% from the prior-year quarter. The TDI product group was the main driver of this development.

The segment expanded sales by 28.9% to €1,938 million (previous year: €1,503 million). This was primarily due to a 29.7% increase in selling prices due to an overall positive supply and demand situation. Selling prices were up considerably in all regions. The change in total volumes sold had a positive effect on sales of 3.0%, whereas exchange rate movements reduced sales by 3.8%.

Sales were bumped up 30.3% to €825 million in the EMLA region, a change attributable to a significant increase in selling prices. As compared with the prior-year period, total volumes sold had a slightly positive effect on sales. The NAFTA region's sales grew 3.2% to €487 million. The effect of the sharp increase in selling prices outweighed the effect of the modest decline in volumes. Exchange rate changes led to a slight reduction in sales. In the APAC region, sales increased by 57.3% to €626 million. Higher selling prices along with larger volumes sold led to considerable sales growth. In contrast, exchange rate movements significantly reduced sales.

EBITDA in the Polyurethanes segment amounted to €556 million in the third quarter of 2017, more than doubling from the prior-year quarter (previous year: €263 million). The improvement in earnings is largely due to higher margins.

EBIT rose to €466 million (previous year: €168 million).

Free operating cash flow grew to €459 million (previous year: €243 million) for reasons primarily including the increase in EBITDA. Moreover, an increase in cash released from working capital had a positive effect.

2.2 Polycarbonates

Polycarbonates Key Data

	3rd quarter 2016	3rd quarter 2017	Change	1st nine months 2016	1st nine months 2017	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth¹	+11.6%	+1.5%		+9.6%	+5.4%	
Sales	848	933	+10.0	2,465	2,798	+13.5
Change in sales						
Volume	+10.3%	+4.4%		+9.1%	+7.9%	
Price	-5.0%	+9.4%		-4.9%	+6.2%	
Currency	-1.8%	-3.8%		-2.0%	-0.6%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
Sales by region						
EMLA	282	299	+6.0	867	926	+6.8
NAFTA	196	212	+8.2	581	668	+15.0
APAC	370	422	+14.1	1,017	1,204	+18.4
EBITDA	194	211	+8.8	562	640	+13.9
EBIT	145	167	+15.2	414	503	+21.5
Operating cash flows	209	170	-18.7	392	231	-41.1
Cash outflows for additions to property, plant, equipment and intangible assets	27	36	+33.3	58	81	+39.7
Free operating cash flow	182	134	-26.4	334	150	-55.1

¹ Reference values calculated based on the definition of the core business effective March 31, 2017

In the third quarter of 2017, core volumes in Polycarbonates increased by 1.5% from the prior-year quarter. As expected, growth was at the level of the second quarter of 2017.

Sales in the segment climbed by 10.0% in the third quarter to €933 million (previous year: €848 million). In total, selling prices increased sales by 9.4% thanks to sustainable product portfolio improvements and an advantageous supply and demand situation. In all regions, the change in selling prices had a strongly positive effect on sales. Total volumes sold had a positive impact of 4.4% on sales. The APAC region above all contributed to this development. Exchange rate changes reduced sales by 3.8%.

In the third quarter, sales rose considerably compared with the prior-year period in all regions. Sales in the EMLA region were up 6.0% to €299 million, chiefly due to a significant rise in selling prices. A decline in volumes decreased sales slightly. Sales in the NAFTA region rose by 8.2% to €212 million, mainly as a result of a significant increase in selling prices and slightly higher sales volumes, whereas exchange rate developments had a slightly negative impact. The APAC region saw sales increase by 14.1% to €422 million. A marked increase in margins and sales volumes outweighed the significant negative effects of exchange rate changes.

In the third quarter of 2017, EBITDA in the Polycarbonates segment increased 8.8% over the prior-year quarter, growing to €211 million (previous year: €194 million). An increase in volumes and higher margins positively affected earnings.

In the same period, EBIT rose by 15.2% to €167 million (previous year: €145 million).

Free operating cash flow dropped to €134 million (previous year: €182 million). This decline was primarily due to an overall increase of cash tied up in working capital despite improved EBITDA.

2.3 Coatings, Adhesives, Specialties

Coatings, Adhesives, Specialties Key Data

	3rd quarter 2016	3rd quarter 2017	Change	1st nine months 2016	1st nine months 2017	Change
	€ million	€ million	%	€ million	€ million	%
Core volume growth¹	+3.5%	-5.0%		-0.4%	-0.1%	
Sales	515	490	-4.9	1,559	1,587	+1.8
Change in sales						
Volume	+2.5%	-6.0%		+0.1%	+0.6%	
Price	-2.7%	+3.8%		-2.6%	+1.4%	
Currency	-0.6%	-2.7%		-1.0%	-0.2%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
Sales by region						
EMLA	255	244	-4.3	789	782	-0.9
NAFTA	116	103	-11.2	347	348	+0.3
APAC	144	143	-0.7	423	457	+8.0
EBITDA	136	119	-12.5	417	379	-9.1
EBIT	114	97	-14.9	352	315	-10.5
Operating cash flows	168	99	-41.1	294	180	-38.8
Cash outflows for additions to property, plant, equipment and intangible assets	18	17	-5.6	43	45	+4.7
Free operating cash flow	150	82	-45.3	251	135	-46.2

¹ Reference values calculated based on the definition of the core business effective March 31, 2017

In the third quarter of 2017, core volumes in the Coatings, Adhesives, Specialties segment declined by 5.0% from the prior-year quarter as a result of a challenging competitive environment.

Sales in the segment were down by 4.9% from the prior-year quarter to €490 million (previous year: €515 million). This was primarily due to a decrease in volumes of 6.0%, which was offset in part by the 3.8% increase in selling prices. Exchange rate changes had a negative effect of 2.7%.

Compared with the prior-year period, sales in the EMLA region slid 4.3% to €244 million. The effect of the significant decline in volumes outweighed the effect of a slight increase in selling prices on average. In the NAFTA region, sales decreased by 11.2% to €103 million. The significant drop in volumes and mildly negative effects of exchange rate movements more than offset the slight increase in sales arising from higher selling prices. In the APAC region, sales remained at the previous year's level of €143 million because considerably higher selling prices and the effects of change rate movements more or less balanced each other out. Total volumes sold in this region hovered at the level of the prior-year quarter.

EBITDA in Coatings, Adhesives, Specialties was down by 12.5% to €119 million in the third quarter of 2017 (previous year: €136 million), mostly due to lower volumes.

In the same period, EBIT declined by 14.9% to €97 million (previous year: €114 million).

Free operating cash flow decreased to €82 million in the third quarter of 2017 (previous year: €150 million). The main drivers here were a lower EBITDA figure and more cash tied up in working capital.

3. Forecast Update Report

3.1 Economic Outlook

Economic Outlook

	Growth ¹ 2016	Growth ¹ forecast 2017 (Annual Report 2016)	Growth ¹ forecast 2017
	%	%	%
World	+2.5	+2.8	+3.1
European Union	+1.9	+1.6	+2.2
of which Germany	+1.9	+1.9	+2.3
United States	+1.5	+2.3	+2.2
Asia	+4.6	+4.7	+4.9
of which China	+6.7	+6.5	+6.8

¹ Real growth of gross domestic product, source: IHS (Global Insight), Growth 2016 and Growth forecast 2017 as of October 2017

In 2017, we expect the global economy to grow at a pace of 3.1%, still faster overall than in the previous year. Our current assessment of the macroeconomic environment and performance in the regions is therefore slightly improved overall compared with our outlook in the Annual Report 2016.

As for the performance of our main customer industries, we see only a minor change, or none at all, in comparison with our expectations in the Annual Report 2016. In fiscal 2017, we expect the global automotive industry to expand much more slowly than in the previous year, by just over 2%. For the global construction industry, we project growth of around 3%, slightly higher than in the previous year. Our forecasts also indicate a modest increase in growth for the global electrical and electronics industry. We expect this expansion to amount to approximately 4%. In the global furniture industry, we anticipate stable growth of some 3% worldwide.

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 the Group in the 2017 Half-Year Financial Report for the rest of the 2017 fiscal year.

Core volume growth is still projected to be in the low-to-mid-single-digit-percentage range. This projection applies to the Covestro Group as well as the Polyurethanes and Polycarbonates segments. The Polycarbonates segment is expected to perform somewhat better than the Polyurethanes segment. We now anticipate core volumes in the Coatings, Adhesives, Specialties segment at the previous year's level (forecast in the 2017 Half-Year Financial Report: core volume growth in the low-to-mid-single-digit-percentage range).

In 2017, we still anticipate free operating cash flow to be significantly above the average of the last three years. In the Polycarbonates and Polyurethanes segments, we forecast free operating cash flow over the average of the last three years. The Polycarbonates segment is expected to slightly outperform the Polyurethanes segment. For the Coatings, Adhesives, Specialties segment, we now anticipate free operating cash flow slightly below the average of the last three years (forecast in the 2017 Half-Year Financial Report: free operating cash flow at the level of the average of the last three years).

In fiscal 2017, we continue to expect ROCE¹ to be significantly above the 2016 level.

¹ ROCE: The return on capital employed measures the efficiency with which a company uses capital. This figure is calculated as the ratio of EBIT after taxes to capital employed. The capital employed is the capital used by the company and corresponds to the sum of noncurrent and current assets less noninterest-bearing liabilities such as trade accounts payable.

4. Employees and Pension Obligations

As of September 30, 2017, the Covestro Group had 16,101 employees worldwide (December 31, 2016: 15,579). Personnel expenses rose by €14 million to €1,436 million in the first nine months of 2017 (previous year: €1,422 million).

Employees by Corporate Function¹

	Dec. 31, 2016	Sep. 30, 2017
Production	9,830	10,098
Marketing and distribution	3,463	3,462
Research and development	1,016	1,069
General administration	1,270	1,472
Total	15,579	16,101

¹ The number of employees on either permanent or temporary contracts is stated in full-time equivalents. Part-time employees are included on a pro-rated basis in line with their contractual working hours.

Provisions for pensions and other post-employment benefits amounted to €1,208 million as of September 30, 2017, remaining stable as against the reference period (December 31, 2016: €1,209 million). The effects of a lower discount rate in the United States were almost completely offset by currency effects and other changes.

Discount Rate for Pension Obligations

	Dec. 31, 2016	Sep. 30, 2017
	%	%
Germany	2.00	2.00
United States	3.70	3.50

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, 2016	Dec. 31, 2016	Sep. 30, 2017
BRL	Brazil	3.62	3.43	3.76
CNY	China	7.45	7.35	7.84
HKD	Hong Kong	8.65	8.18	9.22
INR	India	74.37	71.59	77.07
JPY	Japan	113.09	123.40	132.82
MXN	Mexico	21.74	21.77	21.46
USD	United States	1.12	1.05	1.18

Average Rates for Major Currencies

€1/		Average rates	
		1st nine months 2016	1st nine months 2017
BRL	Brazil	3.94	3.52
CNY	China	7.35	7.55
HKD	Hong Kong	8.66	8.65
INR	India	74.87	72.48
JPY	Japan	120.85	124.36
MXN	Mexico	20.38	20.97
USD	United States	1.12	1.11

6. Change in Accounting for Forward Exchange Contracts

Since January 1, 2017, the effect on earnings of forward exchange contracts for the purpose of hedging foreign exchange risks has been divided into an interest and a currency component to improve the transparency of presentation of the results of operations. The interest component comprises interest rate-induced changes in the fair value of forward exchange contracts and the forward element, which reflects the interest rate differences between two currency areas at the time the transaction is entered into. For this reason, the interest component is no longer reported in other financial result, but instead in interest income or expense. Net interest therefore provides a more comprehensive picture of financing costs. In addition, there will no longer be any interest rate-induced effects in the currency position included in the other financial result.

In accordance with IAS 8.22, the changes have been applied retroactively. The following table illustrates the effects of the change in accounting for forward exchange contracts:

Accounting Changes Income Statement

	1st nine months 2016 pre- change	Accounting change	1st nine months 2016 post- change	1st nine months 2017 pre- change	Accounting change	1st nine months 2017 post- change
	€ million	€ million	€ million	€ million	€ million	€ million
Equity-method income (loss)	(13)	–	(13)	(18)	–	(18)
Interest income	4	6	10	5	11	16
Interest expense	(41)	(69)	(110)	(32)	(66)	(98)
Other financial result	(114)	63	(51)	(78)	55	(23)
Financial result	(164)	–	(164)	(123)	–	(123)

7. Scope of Consolidation

7.1 Changes in the Scope of Consolidation

The group of companies consolidated has not changed in the third quarter of 2017.

7.2 Acquisitions and Divestitures

No reportable acquisitions or divestitures were made in the third quarter of 2017.

8. Segment Information

Segment Reporting 3rd Quarter

				Other/Consolidation		Covestro Group
	Polyurethanes	Polycarbonates	Coatings, Adhesives, Specialties	All other segments	Corporate Center and reconciliation	
	€ million	€ million	€ million	€ million	€ million	€ million
3rd quarter 2017						
Net sales	1,938	933	490	171	-	3,532
Change in sales						
Volume	+3.0%	+4.4%	-6.0%	+5.2%	-	+2.0%
Price	+29.7%	+9.4%	+3.8%	+5.6%	-	+18.4%
Currency	-3.8%	-3.8%	-2.7%	-1.2%	-	-3.5%
Portfolio	0.0%	0.0%	0.0%	0.0%	-	0.0%
Core volume growth¹	+4.3%	+1.5%	-5.0%	-	-	+2.6%
Sales by region						
EMLA	825	299	244	132	-	1,500
NAFTA	487	212	103	34	-	836
APAC	626	422	143	5	-	1,196
EBITDA	556	211	119	(1)	(23)	862
EBIT	466	167	97	(2)	(23)	705
Depreciation, amortization, impairment losses and impairment loss reversals	90	44	22	1	-	157
Operating cash flows	522	170	99	(1)	(15)	775
Cash outflows for property, plant, equipment and intangible assets	63	36	17	2	(1)	117
Free operating cash flow	459	134	82	(3)	(14)	658
Working capital²	1,211	677	447	70	(4)	2,401
3rd quarter 2016						
Net sales	1,503	848	515	156	-	3,022
Change in sales						
Volume	+6.7%	+10.3%	+2.5%	-4.9%	-	+6.3%
Price	-6.2%	-5.0%	-2.7%	-3.0%	-	-5.1%
Currency	-1.1%	-1.8%	-0.6%	-0.3%	-	-1.1%
Portfolio	0.0%	0.0%	0.0%	0.0%	-	0.0%
Core volume growth¹	+9.0%	+11.6%	+3.5%	-	-	+9.1%
Sales by region						
EMLA	633	282	255	118	-	1,288
NAFTA	472	196	116	32	-	816
APAC	398	370	144	6	-	918
EBITDA	263	194	136	-	(19)	574
EBIT	168	145	114	(2)	(19)	406
Depreciation, amortization, impairment losses and impairment loss reversals	95	49	22	2	-	168
Operating cash flows	288	209	168	78	(7)	736
Cash outflows for property, plant, equipment and intangible assets	45	27	18	(1)	1	90
Free operating cash flow	243	182	150	79	(8)	646
Working capital²	1,092	528	406	60	(3)	2,083

¹ Reference values calculated based on the definition of the core business effective March 31, 2017

² Working capital comprises inventories plus trade accounts receivable and less trade accounts payable, as of September 30, 2017.

Segment Reporting 1st Nine Months

				Other/Consolidation		Covestro Group
	Polyurethanes	Polycarbonates	Coatings, Adhesives, Specialties	All other segments	Corporate Center and reconciliation	
	€ million	€ million	€ million	€ million	€ million	€ million
1st nine months 2017						
Net sales	5,721	2,798	1,587	510	-	10,616
Change in sales						
Volume	+3.3%	+7.9%	+0.6%	+4.1%	-	+4.2%
Price	+27.5%	+6.2%	+1.4%	+3.0%	-	+15.7%
Currency	-0.4%	-0.6%	-0.2%	0.0%	-	-0.4%
Portfolio	0.0%	0.0%	0.0%	0.0%	-	0.0%
Core volume growth¹	+2.8%	+5.4%	-0.1%	-	-	+3.2%
Sales by region						
EMLA	2,422	926	782	392	-	4,522
NAFTA	1,477	668	348	104	-	2,597
APAC	1,822	1,204	457	14	-	3,497
EBITDA	1,594	640	379	8	(65)	2,556
EBIT	1,322	503	315	5	(65)	2,080
Depreciation, amortization, impairment losses and impairment loss reversals	272	137	64	3	-	476
Operating cash flows	771	231	180	352	(63)	1,471
Cash outflows for property, plant, equipment and intangible assets	155	81	45	2	-	283
Free operating cash flow	616	150	135	350	(63)	1,188
Working capital²	1,211	677	447	70	(4)	2,401
1st nine months 2016						
Net sales	4,387	2,465	1,559	476	-	8,887
Change in sales						
Volume	+6.6%	+9.1%	+0.1%	-6.1%	-	+5.3%
Price	-11.7%	-4.9%	-2.6%	-7.4%	-	-8.1%
Currency	-1.6%	-2.0%	-1.0%	-0.3%	-	-1.5%
Portfolio	0.0%	0.0%	0.0%	0.0%	-	0.0%
Core volume growth¹	+9.4%	+9.6%	-0.4%	-	-	+8.4%
Sales by region						
EMLA	1,901	867	789	372	-	3,929
NAFTA	1,368	581	347	89	-	2,385
APAC	1,118	1,017	423	15	-	2,573
EBITDA	705	562	417	(2)	(58)	1,624
EBIT	409	414	352	(7)	(58)	1,110
Depreciation, amortization, impairment losses and impairment loss reversals	296	148	65	5	-	514
Operating cash flows	439	392	294	94	(43)	1,176
Cash outflows for property, plant, equipment and intangible assets	115	58	43	(1)	1	216
Free operating cash flow	324	334	251	95	(44)	960
Working capital²	1,092	528	406	60	(3)	2,083

¹ Reference values calculated based on the definition of the core business effective March 31, 2017

² Working capital comprises inventories plus trade accounts receivable and less trade accounts payable, as of September 30, 2017.

Financial Calendar

Annual Report 2017	February 20, 2018
Annual General Meeting 2018	April 13, 2018
Q1 2018 Interim Statement	April 26, 2018
Half-Year Financial Report 2018	July 26, 2018

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 on the Covestro website at www.covestro.com. The Group assumes no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.

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