

QUARTERLY STATEMENT FIRST QUARTER 2021



Content

Table of contents

Covestro Group in Figures.....	3
Significant Events.....	4
Results of Operations and Financial Position of the Covestro Group.....	5
Performance of the Reportable Segments.....	7
Forecast.....	10
Covestro Group Consolidated Income Statement.....	12
Covestro Group Consolidated Statement of Comprehensive Income.....	13
Covestro Group Consolidated Statement of Financial Position.....	14
Covestro Group Consolidated Statement of Cash Flows.....	15
Employees and Pension Obligations.....	16
Exchange Rates.....	16
Scope of Consolidation.....	17
Segment Information.....	18
Financial Calendar.....	19

Reporting principles

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

Forward-looking statements

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

Acronyms and abbreviations

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

Equal treatment

We consider equal treatment to be important. To ensure better readability, this report avoids gender-specific wordings. All terms should be taken to apply equally to all genders.

Rounding and percentage deviations

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

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

Publication

This Quarterly Statement was published in German and English on April 28, 2021. The German version is binding.

Covestro Group in Figures

Covestro Group key data

	1st quarter 2020	1st quarter 2021	Change
	€ million	€ million	%
Core volume growth^{1,2}	-4.1%	+5.3%	
Sales	2,783	3,307	+18.8
Change in sales			
Volume	-2.7%	+3.4%	
Price	-9.1%	+20.2%	
Currency	+0.8%	-4.8%	
Portfolio	-1.3%	0.0%	
Sales by region			
EMLA ³	1,300	1,502	+15.5
NA ⁴	744	649	-12.8
APAC ⁵	739	1,156	+56.4
EBITDA⁶	254	743	>100
Changes in EBITDA			
Volume	-12.2%	+14.6%	
Price	-65.6%	>+200%	
Raw material price effect	+31.7%	-1.2%	
Currency	+0.9%	-9.1%	
EBIT ⁷	67	556	>700
Financial result	(39)	(29)	-25.6
Net income ⁸	20	393	.
Earnings per share (€) ⁹	0.11	2.03	.
Cash flows from operating activities ¹⁰	(110)	428	.
Cash outflows for additions to property, plant, equipment and intangible assets	139	110	-20.9
Free operating cash flow¹¹	(249)	318	.

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 compared with the prior year. Covestro also takes advantage of business opportunities outside its core business, for example the sale of precursors and by-products such as hydrochloric acid, sodium hydroxide solution and styrene. These transactions are not included in core volume growth.

² Reference values calculated on the basis of the definition of the core business effective March 31, 2021.

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

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

⁵ APAC: Asia and Pacific region.

⁶ EBITDA: EBIT plus depreciation, amortization, and impairment losses; less impairment loss reversals.

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

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

⁹ Earnings per share: According to IAS 33 (Earnings per Share), earnings per share comprise net income divided by the weighted average number of outstanding no-par voting shares of Covestro AG. The calculation for the first quarter of 2021 was based on 193,160,544 no-par shares (previous year: 182,864,685 no-par shares).

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

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

Covestro share at a glance

		1st quarter 2020	1st quarter 2021
High	€	42.18	62.48
Low	€	24.90	51.28
Closing date (March 31)	€	27.87	57.34

Covestro closing prices Xetra; source: Deutsche Börse

Significant Events

Coronavirus pandemic

Due to the lingering coronavirus pandemic, fiscal 2021 is expected to remain a challenging year for the global economy. The growing availability of vaccines and increasing options for fighting the pandemic are having a positive effect, however. In parallel, we are observing a significant recovery in demand compared with the prior-year quarter. The steps taken by Covestro early on last year to protect the health of all employees will stay in place, so far-reaching health, safety, and hygiene measures are still in effect at our sites. Depending on the local situation in each case, some of our staff, particularly employees in administrative departments, are working from home. Production at our sites was not affected by the pandemic in the first quarter of 2021.

Covestro is monitoring the development of the coronavirus pandemic worldwide on an ongoing basis to ensure that we can react quickly when necessary. Existing measures are modified and continually expanded as required in line with recommendations and instructions issued by the relevant governments and committees of experts.

Other events

On February 25, 2021, Covestro signed an agreement on the sale of its 51% equity investment in subsidiary Pearl Covestro Polyurethane Systems FZCO, which operates the systems house business in Dubai (United Arab Emirates), to current co-shareholder Pearl Industries Overseas Ltd. The proceeds of the sale total an amount in the mid-single-digit millions of euro. The sale is part of an ongoing effort to optimize the portfolio and represents another step toward strategically refocusing the Polyurethanes segment. Subject to approval by the responsible authorities, the transaction will close in the second quarter of 2021.

See "Divestitures."

On April 1, 2021, Covestro completed the acquisition of the Resins & Functional Materials (RFM) business from Koninklijke DSM N.V., Heerlen (Netherlands). Completion of this acquisition of RFM in the Coatings, Adhesives, Specialties segment makes Covestro one of the world's leading suppliers of sustainable coating resins.

See "Acquisitions."

Results of Operations and Financial Position of the Covestro Group

Results of Operations

Business picked up again considerably in the first quarter of 2021 after the initial effects of the coronavirus pandemic led to a decline in demand in the prior-year quarter, particularly in the APAC region. As a result, the Group's core volumes sold increased by 5.3%. In the automotive and transportation industry and the electrical, electronics and household appliances industry, growth was particularly significant. This is attributable mainly to a strong resurgence in demand in the APAC region, where a massive drop in volumes was recorded in the prior-year quarter due to the coronavirus pandemic. However, our growth opportunities in the quarter under review were limited due to unplanned weather-related production stoppages in the NA region and raw material bottlenecks, which led to an overall reduction in product availability. Core volumes sold in the Polyurethanes and Polycarbonates segments rose by 2.5% and 11.6%, respectively. In the Coatings, Adhesives, Specialties segment, core volumes sold were up by 7.1% over the prior-year quarter.

In the first quarter of 2021, Group sales were up by 18.8% to €3,307 million (previous year: €2,783 million). The main factors contributing to this result included a rise in average selling prices, which had a positive effect on sales amounting to 20.2%. This development was mainly driven by the advantageous competitive situation in the Polyurethanes and Polycarbonates segments. Total volumes sold had a positive effect on sales of 3.4%, while exchange rate movements had a negative impact amounting to 4.8%.

In the Polyurethanes segment, sales rose by 30.7% to €1,665 million (previous year: €1,274 million), and the Polycarbonates segment's sales grew by 21.3% to €889 million (previous year: €733 million). In the Coatings, Adhesives, Specialties segment, sales increased by 4.0% to €595 million (previous year: €572 million).

The Group's EBITDA in the first quarter of 2021 improved to €743 million (previous year: €254 million), largely on account of a considerably higher selling price level. Also contributing positively to earnings were the effect of total volumes sold and lower selling and general administrative costs, which were achieved mainly by implementing cost-cutting measures. Higher provisions for variable compensation and a temporary increase in cost of goods sold, mainly due to unplanned production stoppages, reduced earnings.

In the Polyurethanes segment, EBITDA rose to €443 million (previous year: €50 million), and the Polycarbonates segment's EBITDA grew to €222 million (previous year: €109 million). In the Coatings, Adhesives, Specialties segment, EBITDA decreased by 12.3% to €114 million (previous year: €130 million).

The Covestro Group's EBIT increased to €556 million in the first quarter of 2021 (previous year: €67 million).

Financial Position

At €428 million, cash flows from operating activities were up from the prior-year quarter (previous year: €-110 million), largely due to an increase in EBITDA. At the same time, lower income tax payments and an overall reduction in funds tied up in working capital compared with the prior-year quarter had a positive effect.

Free operating cash flow rose to €318 million in the first quarter of 2021 (previous year: €-249 million). This is attributable to the increase in cash flows from operating activities and reduction in cash outflows for additions to property, plant and equipment compared with the prior-year quarter.

Net financial debt

	Dec. 31, 2020	Mar. 31, 2021
	€ million	€ million
Bonds	1,990	1,990
Liabilities to banks	227	226
Lease liabilities	672	691
Liabilities from derivatives	9	18
Other financial liabilities	1	1
Receivables from derivatives	(13)	(15)
Financial debt	2,886	2,911
Cash and cash equivalents	(1,404)	(2,106)
Current financial assets	(1,126)	(710)
Net financial debt	356	95

In comparison with December 31, 2020, the Covestro Group's financial debt increased slightly by €25 million to €2,911 million as of March 31, 2021.

Cash and cash equivalents rose in comparison with the figure on December 31, 2020, by €702 million to €2,106 million. In addition to positive cash flows from operating activities of €428 million, this was the result of short-term bank deposits totaling €355 million maturing and the sale of money market fund units totaling €61 million. In contrast, cash outflows for additions to property, plant, equipment and intangible assets at €110 million reduced cash and cash equivalents. This led to an overall drop in current financial assets by €416 million to €710 million.

The increased balance of cash and cash equivalents at the end of the quarter is earmarked for financing the price of acquiring the Resins & Functional Materials (RFM) business from Koninklijke DSM N.V., Heerlen (Netherlands).

See "Acquisitions."

Net financial debt declined by €261 million compared with the figure on December 31, 2020, to €95 million as of March 31, 2021.

Performance of the Reportable Segments

Polyurethanes

Polyurethanes key data

	1st quarter 2020	1st quarter 2021	Change
	€ million	€ million	%
Core volume growth¹	-3.6%	+2.5%	
Sales	1,274	1,665	+30.7
Change in sales			
Volume	-2.5%	+0.2%	
Price	-10.8%	+36.1%	
Currency	+0.7%	-5.6%	
Portfolio	-1.1%	0.0%	
Sales by region			
EMLA	589	804	+36.5
NA	395	357	-9.6
APAC	290	504	+73.8
EBITDA	50	443	>700
EBIT	(51)	340	.
Cash flows from operating activities	(86)	202	.
Cash outflows for additions to property, plant, equipment and intangible assets	84	71	-15.5
Free operating cash flow	(170)	131	.

¹ Reference values calculated on the basis of the definition of the core business effective March 31, 2021.

In the first quarter of 2021, the core volumes sold in the Polyurethanes segment increased by 2.5% over the prior-year quarter. Contributing factors here primarily included the positive volume development in the electrical, electronics and household appliances industry and in the automotive and transportation industry, chiefly due to greater demand in the APAC region. The prior-year quarter was marked by the effects of the coronavirus pandemic, particularly in the APAC region. At the same time, unplanned weather-related production stoppages in the Polyurethanes segment's NA region in the current quarter led to reduced product availability and limited potential growth.

The Polyurethanes segment's sales were up by 30.7% to €1,665 million in the first quarter of 2021 (previous year: €1,274 million). The key driver here was the higher selling price level, mainly due to an advantageous competitive situation. This increased sales by 36.1%. The development of total volumes sold had a positive effect on sales of 0.2%. Exchange rate movements, however, had a negative effect of 5.6%.

In the EMLA region, sales grew by 36.5% over the prior-year quarter to €804 million (previous year: €589 million) on account of a sharp increase in average selling prices. A decline in total volumes sold there and the change in exchange rates each had a slightly negative effect on sales. In the NA region, sales dropped by 9.6% to €357 million (previous year: €395 million). The key factors here were the development in total volumes sold and in exchange rates, each of which put significant downward pressure on sales. In contrast, an increased selling price level had a strong positive effect on sales. Sales in the APAC region climbed by 73.8% to €504 million (previous year: €290 million). This was due to factors including a rise in average selling prices and higher total volumes sold, both of which gave sales a significant boost. In contrast, exchange rate movements had a considerable negative impact on sales.

EBITDA in the Polyurethanes segment was up over the prior-year quarter to €443 million in the first quarter of 2021 (previous year: €50 million). The key drivers here were the higher selling price level and lower selling and general administrative costs, which were achieved mainly by implementing cost-cutting measures. In contrast, higher provisions for variable compensation and a temporary increase in cost of goods sold, mainly due to unplanned production stoppages, reduced earnings.

In the first quarter of 2021, EBIT jumped to €340 million (previous year: €-51 million).

Free operating cash flow rose to €131 million in the first quarter of 2021 (previous year: €-170 million), mainly on account of the increase in EBITDA and lower cash outflows for additions to property, plant and equipment.

Polycarbonates

Polycarbonates key data

	1st quarter 2020	1st quarter 2021	Change
	€ million	€ million	%
Core volume growth¹	-4.8%	+11.6%	
Sales	733	889	+21.3
Change in sales			
Volume	-2.6%	+12.5%	
Price	-9.6%	+13.8%	
Currency	+1.0%	-5.0%	
Portfolio	-3.6%	0.0%	
Sales by region			
EMLA	262	292	+11.5
NA	181	147	-18.8
APAC	290	450	+55.2
EBITDA	109	222	>100
EBIT	54	168	>200
Cash flows from operating activities	35	105	>200
Cash outflows for additions to property, plant, equipment and intangible assets	29	16	-44.8
Free operating cash flow	6	89	.

¹ Reference values calculated on the basis of the definition of the core business effective March 31, 2021.

In the first quarter of 2021, core volumes sold by the Polycarbonates segment increased by 11.6% over the prior-year quarter. The key driver of this development was a strong resurgence of demand that had begun in the second half of 2020. Demand had declined substantially in the prior-year quarter as a result of the coronavirus pandemic, particularly in the APAC region. The upsurge in demand led to an increase in core volumes sold in the electrical, electronics and household appliances industry and in the automotive and transportation industry, especially in the APAC region. At the same time, unplanned weather-related production stoppages in the Polycarbonates segment's NA region led to reduced product availability and limited our growth potential.

In the first quarter of 2021, sales in the Polycarbonates segment were up by 21.3% to €889 million (previous year: €733 million). Higher average selling prices due to an advantageous competitive situation as well as an increase in total volumes sold led to positive effects on sales of 13.8% and 12.5%, respectively. Exchange rate movements reduced sales by 5.0% in contrast.

In the EMLA region, sales were up by 11.5% to €292 million (previous year: €262 million). The change in total volumes sold had a significant positive impact on sales, while higher selling prices lifted sales slightly. However, exchange rate movements were neutral overall in terms of sales. In the NA region, sales dropped by 18.8% to €147 million (previous year: €181 million). Contributing factors here were the decline in total volumes sold and exchange rate movements, both of which had a considerable adverse effect on sales. The average selling price level remained stable in this region compared with the prior-year quarter. In the APAC region, sales climbed by 55.2% to €450 million (previous year: €290 million). The changes in selling prices and total volumes sold each contributed to very strong sales growth. However, exchange rate movements reduced sales considerably.

EBITDA in the Polycarbonates segment grew over the prior-year quarter, amounting to €222 million in the first quarter of 2021 (previous year: €109 million). The increase in selling prices and decrease in raw material prices led to significantly higher margins, which bumped up earnings. Growth in total volumes sold also had a positive effect on EBITDA. However, higher provisions for variable compensation reduced earnings.

In the first quarter of 2021, EBIT increased to €168 million (previous year: €54 million).

Free operating cash flow was up, amounting to €89 million in the first quarter of 2021 (previous year: €6 million), largely due to the improvement in EBITDA. The year-over-year increase in funds tied up in working capital was offset by decreased cash outflows for additions to property, plant and equipment.

Coatings, Adhesives, Specialties

Coatings, Adhesives, Specialties key data

	1st quarter 2020	1st quarter 2021	Change
	€ million	€ million	%
Core volume growth¹	-5.2%	+7.1%	
Sales	572	595	+4.0
Change in sales			
Volume	-7.1%	+5.6%	
Price	-3.9%	+2.4%	
Currency	+1.1%	-4.0%	
Portfolio	+1.1%	0.0%	
Sales by region			
EMLA	279	268	-3.9
NA	139	127	-8.6
APAC	154	200	+29.9
EBITDA	130	114	-12.3
EBIT	100	85	-15.0
Cash flows from operating activities	40	45	+12.5
Cash outflows for additions to property, plant, equipment and intangible assets	25	23	-8.0
Free operating cash flow	15	22	+46.7

¹ Reference values calculated on the basis of the definition of the core business effective March 31, 2021.

In the first quarter of 2021, core volumes sold in the Coatings, Adhesives, Specialties segment rose by 7.1% over the prior-year quarter, which had been adversely affected by the coronavirus pandemic, especially in the APAC region. Volumes grew in all main customer industries, especially the furniture and wood processing industry. The main contributor to this trend was positive volume growth in the APAC region. At the same time, raw material bottlenecks in the Coatings, Adhesives, Specialties segment in the quarter under review led to reduced availability of products and curtailed growth opportunities.

In the first quarter of 2021, sales in the Coatings, Adhesives, Specialties segment rose by 4.0% to €595 million (previous year: €572 million). An increase in total volumes sold and higher selling prices had a positive effect on sales of 5.6% and 2.4%, respectively. This stood in contrast to a change in exchange rates, which reduced sales by 4.0%.

Sales in the EMLA region were down by 3.9% to €268 million (previous year: €279 million), chiefly due to a slight decrease in total volumes sold. In contrast, higher average selling prices modestly improved sales. Exchange rate movements were neutral overall in terms of sales. In the NA region, sales dropped by 8.6% to €127 million (previous year: €139 million). Changes in exchange rates, which put significant downward pressure on sales, was the main contributor to this development. In addition, a slight negative effect was exerted on sales by the decline in total volumes sold. The development of the selling price level lifted sales somewhat in contrast. Sales in the APAC region rose by 29.9% to €200 million (previous year: €154 million), mainly because of a considerable increase in total volumes sold. Moreover, higher average selling prices caused sales to rise slightly. However, the change in exchange rates brought down sales substantially.

EBITDA in the Coatings, Adhesives, Specialties segment declined by 12.3% from the prior-year quarter to €114 million in the first quarter of 2021 (previous year: €130 million). Higher provisions for variable compensation and a temporary increase in cost of goods sold, mainly due to unplanned production bottlenecks, resulted in a reduction in earnings. In contrast, a higher selling price level and a positive volume effect contributed to increasing earnings.

In the first quarter of 2021, EBIT dropped by 15.0% to €85 million (previous year: €100 million).

Free operating cash flow grew by 46.7% to €22 million in the first quarter of 2021 (previous year: €15 million). The decrease in funds tied up in working capital compared to the prior-year quarter and lower cash outflows for additions to property, plant and equipment had a positive effect on free operating cash flow. This stood in contrast to a decline in EBITDA, which had a negative effect.

Forecast

Economic Outlook

Global economy

The lingering coronavirus pandemic is likely to make the year 2021 another challenging one for the global economy. Likewise, the spread of coronavirus variants raise the possibility of new waves of the pandemic, which could affect growth negatively. However, as a result of the increasing availability of vaccines and the start of a controlled approach to fighting the pandemic, we continue to expect a return to positive growth rates in all regions. In contrast to the outlook we published in the 2020 Annual Report, we now anticipate a faster recovery of the global economy and a resulting greater increase in economic performance of 5.3%.

We revised our estimates for all regions upward, principally due to expected higher production volumes and consumer spending. In the NA region, we anticipate a significant increase in expected economic growth compared with our outlook published in the 2020 Annual Report. This is attributable to factors including the increase in the U.S. economic stimulus package to USD 1.9 trillion. In contrast to the projection in the 2020 Annual Report, the overall economic situation in the EMLA and APAC regions appears to be improving somewhat, which led to an upward revision of the expected growth there.

Economic growth¹

	Growth 2020	Growth forecast 2021 (2020 Annual Report)	Growth forecast 2021
	%	%	%
World	-3.7	+4.4	+5.3
Europe, Middle East, Latin America², Africa (EMLA)	-5.9	+3.4	+3.8
of which Europe	-6.2	+3.2	+3.8
of which Germany	-5.3	+2.8	+3.5
of which Middle East	-4.2	+4.5	+4.4
of which Latin America ²	-7.5	+3.7	+3.5
of which Africa	-2.6	+2.4	+3.2
North America³ (NA)	-3.9	+4.0	+6.1
of which United States	-3.5	+4.0	+6.2
Asia-Pacific (APAC)	-1.2	+5.7	+6.2
of which China	+2.3	+7.6	+7.9

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

² Latin America (excluding Mexico).

³ North America (Canada, Mexico, United States).

Main customer industries

In all main customer industries, we continue to forecast positive growth for the year 2021. However, we expect the pace of growth to differ in the individual industries.

Growth in main customer industries¹

	Growth 2020	Growth forecast 2021 (2020 Annual Report)	Growth forecast 2021
	%	%	%
Automotive	-15.9	+17.3	+15.7
Construction	+2.0	+0.6	+1.1
Electrical, electronics and household appliances	+4.5	+6.3	+8.7
Furniture	-6.8	+4.6	+4.5

¹ Covestro's estimate, based on the following sources: LMC Automotive Limited, B+L, CSIL (Centre for Industrial Studies), Oxford Economics. We limited the economic data of our "automotive and transportation" and "furniture and wood processing" main customer industries to the automotive and furniture segments (not the transportation or wood processing segments). As of: April 2021.

Growth in the automotive industry is projected to be 15.7%, down from the outlook presented in the 2020 Annual Report. The growth expected for the furniture industry was also corrected slightly downward. In contrast, we anticipate an increase in the growth rate of the electrical, electronics and household appliances industry to 8.7%, up from our forecast in the 2020 Annual Report. At 1.1%, growth in the construction industry will likely exceed the projection in the 2020 Annual Report.

Forecast for the Covestro Group

The analysis of the development of our key management indicators is based on the business performance described in this Quarterly Statement, the economic outlook outlined above, and consideration of our potential risks and opportunities. There have been no fundamental changes in the risk situation from the presentation in the 2020 Annual Report. At the time this Quarterly Statement was prepared, there were no risks that could endanger the Group's continued existence. The acquisition completed on April 1, 2021, and the integration of the Resins & Functional Materials (RFM) business of Koninklijke DSM N.V., Heerlen (Netherlands), into the Coatings, Adhesives, Specialties segment has been factored into this forecast. One-time costs that could arise in conjunction with the LEAP transformation program have not been considered.

Covestro adjusted the forecast presented in the 2020 Annual Report on April 13, 2021, as a result of business development that has been better than expected to date. We now expect the following changes in our key management indicators over the course of the rest of fiscal 2021:

Forecast for key management indicators

	2020	Forecast 2021 (2020 Annual Report)	Adjusted Forecast 2021
Core volume growth	-5.6%	Between 10% and 15%	Between 10% and 15%
Free operating cash flow (FOCF)	€530 million	Between €900 million and €1,400 million	Between €1,300 million and €1,800 million
Return on capital employed (ROCE) ¹	+7.0%	Between 7% and 12%	Between 12% and 17%

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

We still anticipate that core volume growth for the Covestro Group will be between 10% and 15%, with around 6 percentage points attributable to the acquisition of the RFM business. We also continue to project growth for the Coatings, Adhesives, Specialties segment significantly above the corridor expected for the Group. For the Polyurethanes and Polycarbonates segments, our growth projection remains in the mid- to high-single-digit percentage range.

This year, FOCF is forecast to fall between €1,300 million and €1,800 million. Owing to one-time expenses in conjunction with the RFM acquisition, we continue to expect FOCF in the Coatings, Adhesives, Specialties segment to be significantly below the prior-year value. In contrast, FOCF in the Polyurethanes and Polycarbonates segments is still anticipated to come in well above the prior-year levels.

For fiscal year 2021, we now expect a ROCE of between 12% and 17%.

Covestro Group Consolidated Income Statement

	1st quarter 2020	1st quarter 2021
	€ million	€ million
Sales	2,783	3,307
Cost of goods sold	(2,232)	(2,261)
Gross profit	551	1,046
Selling expenses	(321)	(313)
Research and development expenses	(65)	(73)
General administration expenses	(92)	(98)
Other operating income	9	12
Other operating expenses	(15)	(18)
EBIT¹	67	556
Equity-method loss	(4)	(3)
Result from other affiliated companies	–	1
Interest income	8	6
Interest expense	(19)	(19)
Other financial result	(24)	(14)
Financial result	(39)	(29)
Income before income taxes	28	527
Income taxes	(7)	(132)
Income after income taxes	21	395
of which attributable to noncontrolling interest	1	2
of which attributable to Covestro AG shareholders (net income)	20	393
	€	€
Basic earnings per share²	0.11	2.03
Diluted earnings per share²	0.11	2.03

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

² Earnings per share: According to IAS 33 (Earnings per Share), earnings per share comprise net income divided by the weighted average number of outstanding no-par voting shares of Covestro AG. The calculation for the first quarter of 2021 was based on 193,160,544 no-par shares (previous year: 182,864,685 no-par shares).

Covestro Group Consolidated Statement of Comprehensive Income

	1st quarter 2020	1st quarter 2021
	€ million	€ million
Income after income taxes	21	395
Remeasurements of the net defined benefit liability for post-employment benefit plans	549	371
Income taxes	(174)	(108)
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans	375	263
Other comprehensive income that will not be reclassified subsequently to profit or loss	375	263
Exchange differences of foreign operations	(4)	130
Reclassified to profit or loss	–	–
Other comprehensive income from exchange differences	(4)	130
Other comprehensive income that may be reclassified subsequently to profit or loss, if certain conditions are met	(4)	130
Total other comprehensive income¹	371	393
of which attributable to noncontrolling interest	–	–
of which attributable to Covestro AG shareholders	371	393
Total comprehensive income	392	788
of which attributable to noncontrolling interest	1	2
of which attributable to Covestro AG shareholders	391	786

¹ Total change recognized in equity outside profit or loss.

Covestro Group Consolidated Statement of Financial Position

	Mar. 31, 2020	Mar. 31, 2021	Dec. 31, 2020
	€ million	€ million	€ million
Noncurrent assets			
Goodwill	266	258	255
Other intangible assets	112	109	109
Property, plant and equipment	5,282	5,234	5,175
Investments accounted for using the equity method	194	173	173
Other financial assets	35	32	32
Other receivables	55	72	65
Deferred taxes	704	797	925
	6,648	6,675	6,734
Current assets			
Inventories	2,031	1,928	1,663
Trade accounts receivable	1,639	1,880	1,593
Other financial assets	32	733	1,144
Other receivables	329	308	295
Claims for income tax refunds	125	54	55
Cash and cash equivalents	1,200	2,106	1,404
Assets held for sale	-	42	36
	5,356	7,051	6,190
Total assets	12,004	13,726	12,924
Equity			
Capital stock of Covestro AG	183	193	193
Capital reserves of Covestro AG	3,487	3,925	3,925
Other reserves	1,928	2,275	1,489
Equity attributable to Covestro AG shareholders	5,598	6,393	5,607
Equity attributable to noncontrolling interest	48	39	37
	5,646	6,432	5,644
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	1,435	1,775	2,123
Other provisions	209	313	218
Financial liabilities	1,850	2,288	2,277
Income tax liabilities	95	92	88
Other liabilities	28	31	31
Deferred taxes	198	168	179
	3,815	4,667	4,916
Current liabilities			
Other provisions	250	201	155
Financial liabilities	667	638	622
Trade accounts payable ¹	1,380	1,407	1,241
Income tax liabilities	48	146	74
Other liabilities ¹	198	223	262
Liabilities directly related to assets held for sale	-	12	10
	2,543	2,627	2,364
Total equity and liabilities	12,004	13,726	12,924

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

Covestro Group Consolidated Statement of Cash Flows

	1st quarter 2020	1st quarter 2021
	€ million	€ million
Income after income taxes	21	395
Income taxes	7	132
Financial result	39	29
Income taxes paid	(90)	(50)
Depreciation, amortization and impairment losses and impairment loss reversals	187	187
Change in pension provisions	11	9
(Gains)/losses on retirements of noncurrent assets	2	–
Decrease/(increase) in inventories	(115)	(230)
Decrease/(increase) in trade accounts receivable	(69)	(255)
(Decrease)/increase in trade accounts payable ¹	(58)	139
Changes in other working capital, other noncash items ¹	(45)	72
Cash flows from operating activities	(110)	428
Cash outflows for additions to property, plant, equipment and intangible assets	(139)	(110)
Cash inflows from divestments less divested cash	(3)	–
Cash outflows for noncurrent financial assets	(7)	–
Interest and dividends received	10	6
Cash inflows from/(outflows for) other current financial assets	7	431
Cash flows from investing activities	(132)	327
Issuances of debt	757	1
Retirements of debt	(36)	(35)
Interest paid	(22)	(20)
Cash flows from financing activities	699	(54)
Change in cash and cash equivalents due to business activities	457	701
Cash and cash equivalents at beginning of period	748	1,404
Change in cash and cash equivalents due to changes in scope of consolidation	1	0
Change in cash and cash equivalents due to exchange rate movements	(6)	1
Cash and cash equivalents at end of period	1,200	2,106

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

Employees and Pension Obligations

As of March 31, 2021, the Covestro Group had 16,395 employees worldwide (December 31, 2020: 16,501). Personnel expenses rose by €70 million from the prior-year quarter to €553 million in the first quarter of 2021 (previous year: €483 million), largely due to higher expenses for provisions for short-term and long-term variable compensation.

Employees by division¹

	Dec. 31, 2020	Mar. 31, 2021
Production	10,752	10,701
Marketing and distribution	3,101	3,079
Research and development	1,205	1,198
General administration	1,443	1,417
Total	16,501	16,395

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 declined to €1,775 million as of March 31, 2021 (December 31, 2020: €2,123 million), mainly on account of the increase in the discount rate in Germany and the United States. This development was partly offset by negative performance of plan assets.

Discount rate for pension obligations

	Dec. 31, 2020	Mar. 31, 2021
	%	%
Germany	0.70	1.10
United States	2.10	2.90

Exchange Rates

In the reporting period, the following exchange rates were used for the major currencies of relevance to the Covestro Group:

Closing rates for major currencies

		Closing rates		
€1/		Mar. 31, 2020	Dec. 31, 2020	Mar. 31, 2021
BRL	Brazil	5.70	6.37	6.74
CNY	China	7.79	7.98	7.69
HKD	Hong Kong	8.49	9.51	9.12
INR	India	82.90	89.66	85.81
JPY	Japan	118.90	126.49	129.91
MXN	Mexico	26.18	24.42	24.05
USD	United States	1.10	1.23	1.17

Average rates for major currencies

		Average rates	
€1/		1st quarter 2020	1st quarter 2021
BRL	Brazil	4.87	6.59
CNY	China	7.71	7.81
HKD	Hong Kong	8.57	9.35
INR	India	79.82	87.92
JPY	Japan	120.16	127.72
MXN	Mexico	21.82	24.52
USD	United States	1.10	1.21

Scope of Consolidation

Changes in the Scope of Consolidation

As of March 31, 2021, the scope of consolidation comprised Covestro AG and 47 consolidated companies (December 31, 2020: 47 companies) and was therefore unchanged in the first quarter of 2021 compared to the end of fiscal 2020.

Acquisitions and Divestitures

Acquisitions

On April 1, 2021, Covestro successfully completed the acquisition of the Resins & Functional Materials (RFM) business from Koninklijke DSM N.V., Heerlen (Netherlands). The responsible authorities approved the transaction after Covestro and Koninklijke DSM N.V. reached an agreement on the purchase at the end of September 2020. The acquisition of RFM makes the Coatings, Adhesives, Specialties segment a leading supplier of sustainable coating resins. A due to the acquisition even more comprehensive and highly innovative product portfolio will offer customers clear added value. The transaction covers innovative projects such as Additive Manufacturing, Advanced Solar Coatings, and Niaga. Covestro and Koninklijke DSM N.V. agreed on a preliminary purchase price of €1,624 million, which was paid in cash.

Divestitures

On February 25, 2021, Covestro signed an agreement to sell the assets and liabilities (disposal group) of the systems house business in the Middle East to the current co-shareholder Pearl Industries Overseas Ltd., Dubai (United Arab Emirates). The sale of this systems house business is part of Covestro's portfolio optimization process, during the course of which Covestro sold the only North American systems house in April 2017 and Covestro's European systems house business in November 2019. The systems house business is part of the company's Polyurethanes segment and offers customer-specific polyurethane systems to the construction sector in particular. The transaction is structured as a share deal. The expected selling price was lower than the value of the net assets to be sold, which were written down accordingly. Impairment charges led to a loss totaling €16 million reported in production costs, selling expenses, and general administration expenses in fiscal 2020. In connection with this sale, current assets amounting to €25 million and liabilities of €12 million were classified as "held for sale" in accordance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations). This transaction is expected to close in the second quarter of 2021 and is subject to approval by regulators.

Segment Information

Segment information 1st quarter

	Polyurethanes		Polycarbonates		Coatings, Adhesives, Specialties		Others/consolidation		Covestro Group	
	1st quarter 2020	1st quarter 2021	1st quarter 2020	1st quarter 2021	1st quarter 2020	1st quarter 2021	1st quarter 2020	1st quarter 2021	1st quarter 2020	1st quarter 2021
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales	1,274	1,665	733	889	572	595	204	158	2,783	3,307
Change in sales										
Volume	-2.5%	+0.2%	-2.6%	+12.5%	-7.1%	+5.6%	+7.4%	-16.2%	-2.7%	+3.4%
Price	-10.8%	+36.1%	-9.6%	+13.8%	-3.9%	+2.4%	-11.6%	-5.5%	-9.1%	+20.2%
Currency	+0.7%	-5.6%	+1.0%	-5.0%	+1.1%	-4.0%	+0.4%	-0.8%	+0.8%	-4.8%
Portfolio	-1.1%	0.0%	-3.6%	0.0%	+1.1%	0.0%	0.0%	0.0%	-1.3%	0.0%
Core volume growth¹	-3.6%	+2.5%	-4.8%	+11.6%	-5.2%	+7.1%			-4.1%	+5.3%
Sales by region										
EMLA	589	804	262	292	279	268	170	138	1,300	1,502
NA	395	357	181	147	139	127	29	18	744	649
APAC	290	504	290	450	154	200	5	2	739	1,156
EBITDA	50	443	109	222	130	114	(35)	(36)	254	743
EBIT	(51)	340	54	168	100	85	(36)	(37)	67	556
Depreciation, amortization, impairment losses and impairment loss reversals	101	103	55	54	30	29	1	1	187	187
Cash flows from operating activities	(86)	202	35	105	40	45	(99)	76	(110)	428
Cash outflows for additions to property, plant, equipment and intangible assets	84	71	29	16	25	23	1	-	139	110
Free operating cash flow	(170)	131	6	89	15	22	(100)	76	(249)	318
Trade working capital ²	972	1,118	642	666	541	521	88	68	2,243	2,373

¹ Reference values calculated on the basis of the definition of the core business effective March 31, 2021.

² Trade working capital includes inventories plus trade accounts receivable and contract assets, less trade accounts payable, contract liabilities, and refund liabilities as of March 31, 2020/2021. Reference information was restated accordingly, see note 4 "Change in presentation for rebates granted to customers and trade working capital" in the 2020 Annual Report.

Financial Calendar

Half-Year Financial Report 2021 August 6, 2021

Quarterly Statement Third Quarter 2021 November 8, 2021

Publishing Information

Published by

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Translation

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Unterhaching, Germany

Design and layout

nexxar GmbH
Vienna, Austria

