INTERIM GROUP MANAGEMENT REPORT

REPORT ON ECONOMIC POSITION

Significant Events

Events within the Company

Start of Negotiations with ADNOC about a Possible Transaction

On the basis of the without-prejudice discussions with the Abu Dhabi National Oil Company (ADNOC) held up to then, the Board of Management of Covestro AG resolved on June 24, 2024, after consultations with the Supervisory Board, to enter into concrete negotiations with ADNOC about a possible transaction and the possible conclusion of an investment agreement and to enable an adequate exchange of corporate information to confirm assumptions (confirmatory due diligence).

The starting point of the negotiations is the prospect of a potential offer price of €62 per Covestro share indicated to Covestro by ADNOC, which is subject to, among other things, the results of the confirmatory due diligence as well as agreement on the substance of an investment agreement.

Global Transformation Program

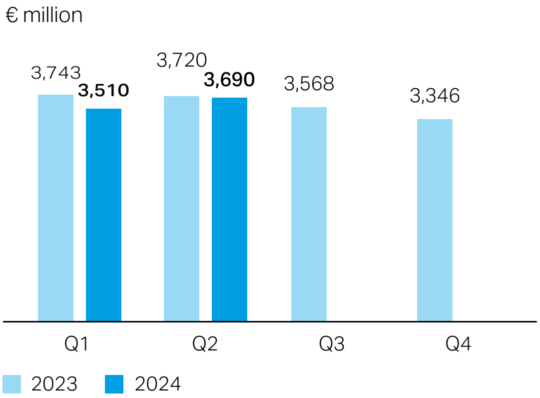
In the face of rapid changes in the market environment, Covestro has launched the global transformation program "STRONG." STRONG is aimed at making the company even more effective and efficient and at driving digitalization. The Group is planning to realize global annual savings in non-labor and personnel costs of €400 million by the year 2028; of that total, €190 million will be attributable to Germany. In this context, expenses in the low double-digit million euro range were incurred for the implementation of the transformation program in the second quarter of 2024.

Another step in this transformation program was the Board of Management's decision to discontinue operations at the production site in Augusta, Georgia (United States). In this context, impairment losses of €21 million were recognized on property, plant and equipment, primarily plant installations and machinery, in the Solutions & Specialties segment in the second quarter of 2024. Products for the powder coatings business will be manufactured at the production site in Augusta, Georgia (United States), until its closure. The customer business with powder coatings in the NA region will continue irrespective of the closure of the production site.

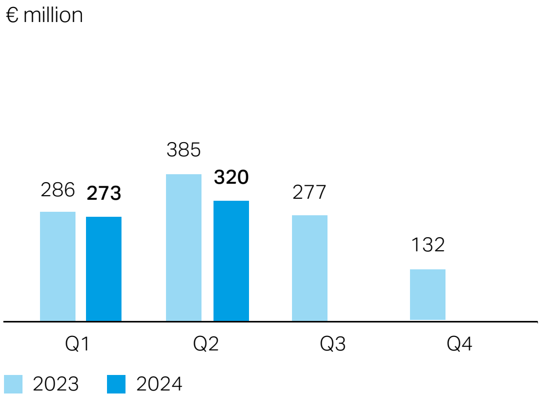
Results of Operations, Financial Position, and Net Assets of the Covestro Group

Results of Operations

Covestro Group Quarterly Sales



Covestro Group Quarterly EBITDA

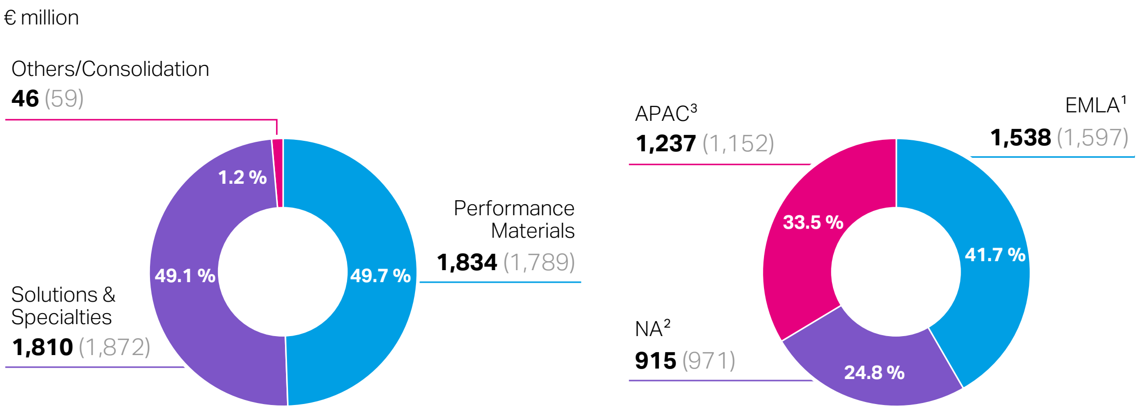


Second Quarter of 2024

Group sales declined by 0.8% in the second quarter of 2024, to €3,690 million (previous year: €3,720 million). The decrease in sales was mainly a consequence of selling price levels, which were lower in all regions for demand-related reasons, combined with a decline in raw material prices being passed on to customers; these factors had a diminishing effect on sales of 9.7%. In contrast, an increase in volumes sold, especially in the APAC and EMLA regions, had a positive effect on sales of 9.3%. In addition, exchange rate movements had a reducing effect on sales of 0.4%.

Sales in the Performance Materials segment rose by 2.5% in the second quarter of 2024 to €1,834 million (previous year: €1,789 million). Sales in the Solutions & Specialties segment decreased by 3.3% to €1,810 million (previous year: €1,872 million).

Sales by segment and region in the second quarter of 2024



[1] EMLA: Europe, Middle East, Latin America (excluding Mexico), Africa region.
[2] NA: North America region (Canada, Mexico, United States).
[3] APAC: Asia and Pacific region.

In the EMLA region, sales were 3.7% lower, at €1,538 million (previous year: €1,597 million), and sales in the NA region were down 5.8% to €915 million (previous year: €971 million). The APAC region saw sales climb by 7.4% to €1,237 million (previous year: €1,152 million).

In the second quarter of 2024, the Group's EBITDA decreased by 16.9% to €320 million (previous year: €385 million), mainly due to a demand-related decline in average selling prices, which lower raw material prices offset only to some extent. The resulting drop in margins therefore reduced earnings.

The second quarter of 2023 had additionally been affected by a non-recurring positive effect from the sale of the additive manufacturing business, which had increased prior-year earnings by €35 million. In connection with the "STRONG" transformation program, expenses in the low double-digit million euro range were additionally incurred in the second quarter of 2024 for the implementation of the program.

The rise in volumes sold, in contrast, had the effect of boosting earnings. Furthermore, the supplementary government subsidies of €24 million to compensate for electricity prices in Germany and lower provisions of €26 million for variable compensation had a beneficial impact on earnings.

Depreciation, amortization, impairment losses, and impairment loss reversals went up by 9.1% to €239 million in the second quarter of 2024 (previous year: €219 million), of which €219 million (previous year: €198 million) was attributable to property, plant and equipment and €20 million (previous year: €21 million) to intangible assets. In this context, as a result of the planned closure of the production site in Augusta, Georgia (United States), impairment losses of €21 million were recognized on property, plant and equipment, primarily plant installations and machinery, in the second quarter of 2024.

In the second quarter of 2024, the Covestro Group's EBIT decreased by 51.2% to €81 million (previous year: €166 million).

Taking into account a financial result of €–29 million (previous year: €–36 million), income before income taxes fell to €52 million compared with the prior-year quarter (previous year: €130 million). The tax expense incurred in the second quarter of 2024 was €126 million (previous year: €85 million), resulting in a net loss after taxes totaling €74 million (previous year: net income of €45 million). After noncontrolling interests, the net loss amounted to €72 million (previous year: net income of €46 million). Compared to the prior-year quarter, earnings per share fell to €–0.38 (previous year: €0.24).

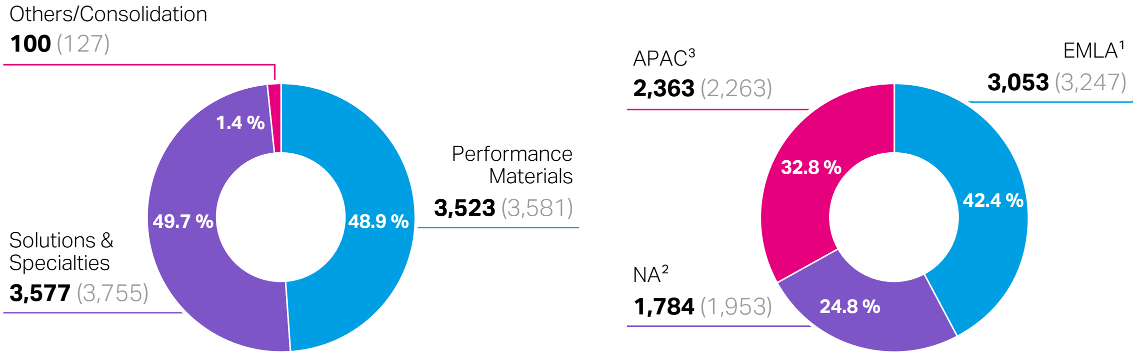
First Half of 2024

Group sales declined by 3.5% in the first six months of 2024, to €7,200 million (previous year: €7,463 million). The decrease was mainly due to demand-related lower selling price levels as well as to a decline in raw material prices being passed on to customers; these factors had an adverse effect on sales of 12.5%. This was set against higher volumes sold, especially in the APAC and EMLA regions, which had a positive effect on sales of 10.0%. In addition, exchange rate movements had an unfavorable impact of 1.0% on sales.

Both segments saw sales decline in the first half of 2024. In the Performance Materials segment, sales fell by 1.6% to €3,523 million (previous year: €3,581 million), while the Solutions & Specialties segment recorded a decrease of 4.7% to €3,577 million (previous year: €3,755 million).

Sales by segment and region in the first half of 2024

€ million



[1] EMLA: Europe, Middle East, Latin America (excluding Mexico), Africa region.
[2] NA: North America region (Canada, Mexico, United States).
[3] APAC: Asia and Pacific region.

In the EMLA region, sales were 6.0% lower, at €3,053 million (previous year: €3,247 million), and sales in the NA region were down 8.7% to €1,784 million (previous year: €1,953 million). Sales in the APAC region were up by 4.4% to €2,363 million (previous year: €2,263 million).

The Group’s EBITDA contracted by 11.6% to €593 million in the first half of 2024 compared with the prior-year period (€671 million). This was mainly attributable to a demand-related decline in the selling price level, which lower raw material prices offset only to some extent. In particular the resulting drop in margins had a negative impact on earnings.

Another reason for the year-on-year decline in sales was a non-recurring positive effect from the sale of the additive manufacturing business, which had increased earnings by €35 million in the first half of 2023. In connection with the "STRONG" transformation program, expenses in the low double-digit million euro range were additionally incurred for the implementation of the program in the first half of 2024.

In contrast, a rise in volumes sold boosted earnings. Furthermore, the supplementary government subsidies of €24 million to compensate for electricity prices in Germany and lower provisions of €31 million for variable compensation had a beneficial impact on earnings.

Depreciation, amortization, impairment losses, and impairment loss reversals went down by 3.2% to €451 million in the first half of 2024 (previous year: €466 million), of which €412 million (previous year: €409 million) was attributable to property, plant and equipment and €39 million (previous year: €57 million) to intangible assets. In this context, as a result of the planned closure of the production site in Augusta, Georgia (United States), impairment losses of €21 million were recognized on property, plant and equipment, primarily plant installations and machinery, in the first half of 2024.

The Covestro Group’s EBIT was down 30.7% to €142 million in the first half of 2024 (previous year: €205 million).

Taking into account a financial result of €–59 million (previous year: €–65 million), income before income taxes went down to €83 million compared with the previous year (€140 million). After deduction of the tax expense of €194 million for the first half of 2024 (previous year: €122 million), the net loss after taxes totaled €111 million (previous year: net income of €18 million). After noncontrolling interests, the net loss amounted to €107 million (previous year: net income of €20 million). In the first half of 2024, earnings per share decreased to €–0.57 (previous year: €0.11).

Financial Position

Summary statement of cash flows

	2nd quarter 2023	2nd quarter 2024	1st half 2023	1st half 2024
	€ million	€ million	€ million	€ million
EBITDA	**385**	**320**	**671**	**593**
Income taxes paid	(95)	(42)	(117)	(80)
Change in pension provisions	(7)	(8)	(17)	(19)
(Gains)/losses on retirements of noncurrent assets	(34)	(4)	(34)	(7)
Change in working capital/other noncash items	(100)	(247)	(373)	(491)
Cash flows from operating activities	**149**	**19**	**130**	**(4)**
Cash outflows for additions to property, plant, equipment and intangible assets	(159)	(166)	(279)	(272)
Free operating cash flow	**(10)**	**(147)**	**(149)**	**(276)**
Cash flows from investing activities	**(179)**	**(375)**	**(458)**	**(218)**
Cash flows from financing activities	**(173)**	**244**	**(126)**	**169**
Change in cash and cash equivalents due to business activities	**(203)**	**(112)**	**(454)**	**(53)**
Cash and cash equivalents at beginning of period	**949**	**684**	**1,198**	**625**
Change in cash and cash equivalents due to exchange rate movements	(5)	(3)	(3)	(3)
Cash and cash equivalents at end of period	**741**	**569**	**741**	**569**

Cash Flows from Operating Activities/Free Operating Cash Flow

In the second quarter of 2024, net cash inflows from the Covestro Group's operating activities amounted to €19 million (previous year: €149 million). A higher amount of funds tied up in working capital and a decline in EBITDA were only partially offset by lower income tax payments. The change in working capital was impacted especially by the payment of short-term variable compensation in an amount of €105 million for fiscal 2023. In the year 2023, no short-term variable compensation was paid for fiscal 2022. After deduction of cash outflows of €166 million for additions to property, plant and equipment and intangible assets (previous year: €159 million), free operating cash flow in the second quarter of 2024 totaled €–147 million (previous year: €–10 million).

Cash flows from operating activities in the first half of 2024 accounted for net outflows of €4 million (previous year: cash inflows of €130 million). That was predominantly attributable to a higher amount of cash tied up in working capital and the decrease in EBITDA. Lower income tax payments, on the other hand, had a positive effect on cash flows from operating activities. After deduction of cash outflows of €272 million for additions to property, plant and equipment and intangible assets (previous year: €279 million), free operating cash flow totaled €–276 million (previous year: €–149 million).

Cash Flows from Investing Activities

Net cash outflow for investing activities in the second quarter of 2024 totaled €375 million (previous year: €179 million). That was mainly due to net cash outflows of €198 million (previous year: €85 million) for short-term bank deposits and cash outflows of €166 million (previous year: €159 million) for additions to property, plant, equipment and intangible assets.

In the first half of 2024, the net cash outflow from investing activities totaled €218 million (previous year: €458 million). This was mainly due to cash outflows of €272 million (previous year: €279 million) for additions to property, plant and equipment and intangible assets. This was offset in particular by net inflows of €54 million for short-term bank deposits (previous year: net outflows of €272 million).

Cash Flows from Financing Activities

In the second quarter of 2024, the Covestro Group's net cash inflow from financing activities totaled €244 million (previous year: net cash outflow of €173 million), mainly because of loans raised in the amount of €215 million as well as net proceeds of €116 million from current liabilities to banks in China. Outflows resulted primarily from lease payments of €39 million and interest payments of €34 million.

→ See note 8 "Financial Instruments" in the Notes to the Consolidated Interim Financial Statements.

In the first half of 2024, financing activities gave rise to a net cash inflow of €169 million (previous year: net cash outflow of €126 million). These cash inflows were above all attributable to the above-mentioned loans and the net proceeds from current liabilities to banks in China. Outflows resulted mainly from lease payments of €78 million and interest payments of €60 million.

Net financial debt

	Dec. 31, 2023	June 30, 2024
	€ million	€ million
Bonds	1,990	1,991
Liabilities to banks	657	965
Lease liabilities	743	769
Liabilities from derivatives	15	5
Other financial liabilities	2	2
Receivables from derivatives	(19)	(15)
Gross financial debt	**3,388**	**3,717**
Cash and cash equivalents	(625)	(569)
Current financial assets	(276)	(220)
Net financial debt	**2,487**	**2,928**

Gross financial debt grew by €329 million compared with the figure on December 31, 2023, to €3,717 million as of June 30, 2024. In addition to the increase of €308 million in liabilities to banks, this was also due to a rise of €26 million in lease liabilities. The rise in liabilities to banks was driven in particular by the loans described in the "Cash Flows from Financing Activities" section and by net proceeds from current liabilities to banks in China.

Cash and cash equivalents decreased in comparison with the figure on December 31, 2023, by €56 million to 569 million. This was mainly due to cash outflows of €272 million for additions to property, plant and equipment and intangible assets, set against cash inflows from financing activities of €169 million. Moreover, the net inflows for short-term bank deposits described in the "Cash Flows from Investing Activities" section raised cash and cash equivalents and led to a reduction in current financial assets.

In comparison with December 31, 2023, the Covestro Group's net financial debt rose by €441 million to €2,928 million as of June 30, 2024.

Net Assets

Summary statement of financial position

	Dec. 31, 2023	June 30, 2024
	€ million	€ million
Noncurrent assets	7,746	7,773
Current assets	5,891	6,198
Total assets	**13,637**	**13,971**
Equity	**6,618**	**6,674**
Noncurrent liabilities	3,721	3,664
Current liabilities	3,298	3,633
Liabilities	**7,019**	**7,297**
Total equity and liabilities	**13,637**	**13,971**

Total assets were up €334 million as compared with December 31, 2023, to €13,971 million as of June 30, 2024.

Noncurrent assets increased by €27 million to €7,773 million (December 31, 2023: €7,746 million). This is predominantly due to a rise in other noncurrent receivables. Offsetting factors included primarily impairment losses on deferred tax assets. At the same time, current assets also went up by €307 million to €6,198 million (December 31, 2023: €5,891 million). This change is primarily attributable to higher inventories and trade accounts receivable. The reduction in cash and cash equivalents and in other current financial assets were the main factors with an offsetting effect.

Equity increased by €56 million to €6,674 million, compared with €6,618 million as of December 31, 2023. The rise in equity is mainly the result of actuarial gains on the remeasurement of pension obligations and positive effects of foreign exchange differences. This was offset by the negative net income after income taxes for the first half of 2024.

Noncurrent liabilities were down €57 million to €3,664 million as of June 30, 2024 (December 31, 2023: €3,721 million). This is mainly attributable to a decline in provisions for pensions and other post-employment benefits. Offsetting effects included in particular a rise in deferred tax liabilities.

Net defined benefit liability for post-employment benefit plans

	Dec. 31, 2023	June 30, 2024
	€ million	€ million
Provisions for pensions and other post-employment benefits	464	363
Net defined benefit asset	(66)	(98)
Net defined benefit liability	**398**	**265**

The net defined benefit liability for post-employment benefits (provisions for pensions and other post-employment benefits less net defined benefit asset) was down by €133 million in the first half of 2024 to €265 million (previous year: €398 million). This was largely due to actuarial gains attributable to an increase in the discount rate in Germany and the United States.

Current liabilities were up €335 million to €3,633 million as of the reporting date (December 31, 2023: €3,298 million). The main factors driving this development were an increase in current financial debt and in trade accounts payable.

Performance of the Segments

Performance Materials

Performance Materials key data

	2nd quarter 2023	2nd quarter 2024	Change	1st half 2023	1st half 2024	Change
Sales (external)	**€1,789 million**	**€1,834 million**	**2.5%**	**€3,581 million**	**€3,523 million**	**–1.6%**
Intersegment sales	€557 million	€571 million	2.5%	€1,164 million	€1,127 million	–3.2%
Sales (total)	**€2,346 million**	**€2,405 million**	**2.5%**	**€4,745 million**	**€4,650 million**	**–2.0%**
Change in sales (external)						
Volume	–10.3%	15.0%		–14.4%	16.2%	
Price	–15.3%	–12.0%		–11.2%	–16.7%	
Currency	–1.7%	–0.5%		–0.5%	–1.1%	
Sales by region (external)						
EMLA	€813 million	€822 million	1.1%	€1,652 million	€1,584 million	–4.1%
NA	€476 million	€451 million	–5.3%	€965 million	€868 million	–10.1%
APAC	€500 million	€561 million	12.2%	€964 million	€1,071 million	11.1%
EBITDA[1]	**€302 million**	**€196 million**	**–35.1%**	**€475 million**	**€299 million**	**–37.1%**
EBIT[1]	€158 million	€59 million	–62.7%	€187 million	€24 million	–87.2%
Cash flows from operating activities	€26 million	€19 million	–26.9%	€45 million	€20 million	–55.6%
Cash outflows for additions to property, plant, equipment and intangible assets	€103 million	€108 million	4.9%	€179 million	€182 million	1.7%
Free operating cash flow	**(€77 million)**	**(€89 million)**	**15.6%**	**(€134 million)**	**(€162 million)**	**20.9%**

[1] EBITDA and EBIT include the effect on earnings of intersegment sales.

Second Quarter of 2024

Compared to the corresponding prior-year quarter, sales in the Performance Materials segment went up by 2.5% to €1,834 million (previous year: €1,789 million). This was largely driven by higher volumes sold, which had an increasing effect on sales of 15.0%. This was set against a demand induced decline in average selling prices as well as lower raw material prices, which were passed on to customers; these factors had a negative effect on sales of 12.0%. At the same time, exchange rate movements also had a decreasing effect of 0.5% on sales.

In the EMLA region, sales rose by 1.1% to €822 million (previous year: €813 million). This is attributable above all to a significant increase in volumes sold, although this was largely offset by considerably lower selling price levels. Exchange rate changes had a neutral effect on sales overall. In the NA region, sales were down 5.3% to €451 million (previous year: €476 million). The main driver of this trend was a significant decrease in average selling prices, which was only partially offset by a considerable rise in volumes sold. Exchange rate movements drove up sales slightly. Sales in the APAC region were up 12.2% to €561 million (previous year: €500 million), mainly because of a rise in volumes sold, which boosted sales significantly. This contrasted with a decrease in the selling price level and exchange rate movements, both of which contributed slightly to lower sales.

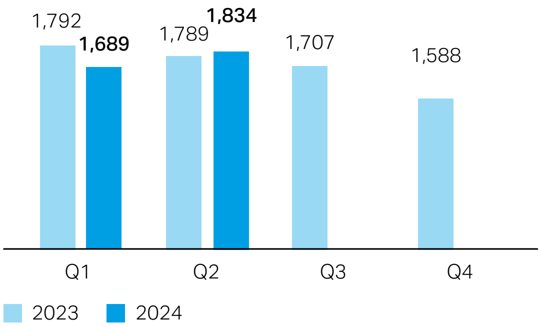
In the second quarter of 2024, the Performance Materials segment’s EBITDA was down 35.1% on the prior-year quarter, dropping to €196 million (previous year: €302 million). This was mainly driven by reduced margins, as lower raw material prices offset the demand induced decline in selling prices only to some extent. In addition, exchange rate movements also weighed on earnings. This was set against higher volumes sold, which boosted earnings. Furthermore, the supplementary government subsidy of €24 million to compensate for electricity prices in Germany and lower provisions for variable compensation had a beneficial impact on earnings.

EBIT dropped by 62.7% to €59 million (previous year: €158 million).

Free operating cash flow stood at €–89 million (previous year: €–77 million). Most of the decrease in EBITDA was offset by a lower amount of cash tied up in working capital, which was achieved above all by a smaller amount of cash tied up in trade accounts payable.

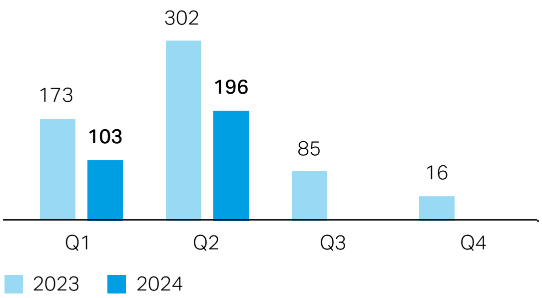
Performance Materials Quarterly Sales

€ million



Performance Materials Quarterly EBITDA

€ million



First Half of 2024

Sales in the Performance Materials segment decreased by 1.6% to €3,523 million in the first half of 2024 (previous year: €3,581 million). This was to a large extent driven by a demand induced decline in average selling prices as well as to lower raw material prices being passed on to customers, which had a negative effect on sales of 16.7%. An increase in volumes sold, on the other hand, had a positive impact on sales of 16.2%. In addition, exchange rate movements had an adverse effect on sales of 1.1%.

EBITDA was down 37.1% to €299 million in the first half of 2024 (previous year: €475 million). This was mainly driven by reduced margins, as lower raw material prices offset the demand induced decline in selling prices only to some extent. Exchange rate movements were an additional negative factor weighing on earnings. This was set against higher volumes sold, which boosted earnings. Furthermore, the supplementary government subsidy to compensate for electricity prices in Germany and lower provisions for variable compensation had a beneficial impact on earnings.

EBIT dropped by 87.2% to €24 million (previous year: €187 million).

Free operating cash flow stood at €–162 million (previous year: €–134 million). The decrease in EBITDA was partially offset by a smaller amount of cash tied up in working capital.

Solutions & Specialties

Solutions & Specialties key data

	2nd quarter 2023	2nd quarter 2024	Change	1st half 2023	1st half 2024	Change
Sales (external)	**€1,872 million**	**€1,810 million**	**–3.3%**	**€3,755 million**	**€3,577 million**	**–4.7%**
Intersegment sales	€7 million	€6 million	–14.3%	€15 million	€13 million	–13.3%
Sales (total)	**€1,879 million**	**€1,816 million**	**–3.4%**	**€3,770 million**	**€3,590 million**	**–4.8%**
Change in sales (external)						
Volume	–4.7%	4.8%		–10.1%	5.3%	
Price	–6.6%	–7.7%		–3.5%	–9.0%	
Currency	–2.2%	–0.4%		–0.8%	–1.0%	
Sales by region (external)						
EMLA	€736 million	€679 million	–7.7%	€1,491 million	€1,389 million	–6.8%
NA	€487 million	€457 million	–6.2%	€972 million	€901 million	–7.3%
APAC	€649 million	€674 million	3.9%	€1,292 million	€1,287 million	–0.4%
EBITDA[1]	**€221 million**	**€174 million**	**–21.3%**	**€386 million**	**€382 million**	**–1.0%**
EBIT[1]	€149 million	€75 million	–49.7%	€212 million	€210 million	–0.9%
Cash flows from operating activities	€205 million	€88 million	–57.1%	€200 million	€141 million	–29.5%
Cash outflows for additions to property, plant, equipment and intangible assets	€55 million	€52 million	–5.5%	€98 million	€83 million	–15.3%
Free operating cash flow	**€150 million**	**€36 million**	**–76.0%**	**€102 million**	**€58 million**	**–43.1%**

[1] EBITDA and EBIT include the effect on earnings of intersegment sales.

Second Quarter of 2024

Sales in the Solutions & Specialties segment were down 3.3% to €1,810 million in the second quarter of 2024 (previous year: €1,872 million). Contributing factors were above all a demand induced decline in selling price levels, combined with lower raw material prices, which were passed on to customers; these factors had a diminishing effect on sales of 7.7%. An increase in volumes sold, on the other hand, had a positive impact on sales of 4.8%. At the same time, exchange rate movements had a negative effect on sales of 0.4%.

In the EMLA region, sales fell by 7.7% to €679 million (previous year: €736 million). In particular, a drop in the selling price level had a significant adverse impact on sales. In contrast, the expansion of volumes sold had a slight positive effect on sales. However, exchange rate movements had a neutral impact on sales. Sales in the NA region went down by 6.2% to €457 million (previous year: €487 million), mainly because of lower average selling prices, which had a significant adverse impact on sales. A drop in volumes sold had an additional, slightly negative effect on sales. On the other hand, exchange rate movements drove sales slightly upward. In the APAC region, sales increased by 3.9% to €674 million (previous year: €649 million), mainly because of a rise in volumes sold, and this boosted sales significantly. In contrast, a decline in the selling price level had a considerable negative effect on sales, while the impact of exchange rate movements was slightly negative.

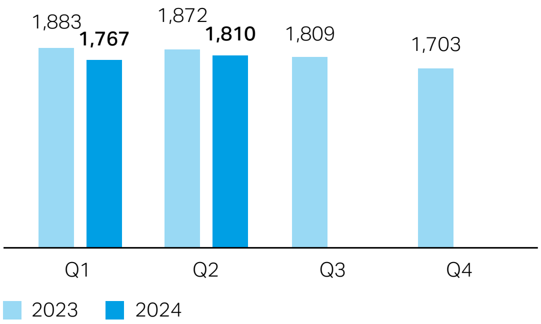
In the second quarter of 2024, the Solutions & Specialties segment's EBITDA was down 21.3% on the prior-year quarter, declining to €174 million (previous year: €221 million). The comparative prior-year quarter had in this context been affected by a non-recurring positive effect from the sale of the additive manufacturing business, which had increased prior-year earnings by €35 million. In connection with the "STRONG" transformation program, expenses in the low double-digit million euro range were additionally incurred for the implementation of the program in the second quarter of 2024. Another negative factor weighing on earnings was the decline in margins, although lower raw material and energy prices partially offset the demand-induced reduction in selling prices. The rise in volumes sold, in contrast, had the effect of boosting earnings, while changes in exchange rates had no notable impact on EBITDA.

EBIT dropped by 49.7% to €75 million (previous year: €149 million). This included impairment losses of €21 million on property, plant and equipment, primarily plant installations and machinery, as a result of the planned closure of the production site in Augusta, Georgia (United States).

Free operating cash flow fell to €36 million (previous year: €150 million), largely driven by higher funds tied up in working capital and a decline in EBITDA.

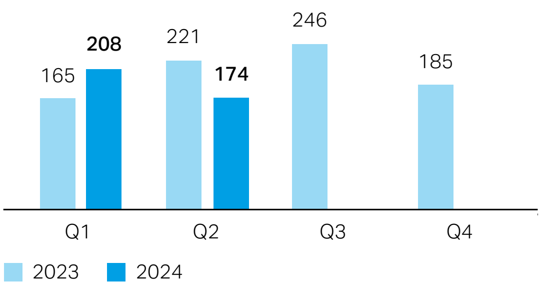
Solutions & Specialties Quarterly Sales

€ million



Solutions & Specialties Quarterly EBITDA

€ million



First Half of 2024

Sales in the Solutions & Specialties segment were down 4.7% to €3,577 million in the first half of 2024 (previous year: €3,755 million). A demand induced reduction in average selling prices combined with a decline in raw material prices, which was passed on to customers, had a diminishing effect on sales of 9.0%. An increase in volumes sold, on the other hand, had a positive impact on sales of 5.3%. Exchange rate movements also had a decreasing effect of 1.0% on sales.

EBITDA in the Solutions & Specialties segment declined by 1.0% in the first half of 2024, declining to €382 million (previous year: €386 million). This decrease was attributable in particular to the above-mentioned non-recurring effect from the sale of the additive manufacturing business in the previous year as well as to expenses for implementing the transformation program "STRONG." Furthermore, lower margins and adverse exchange rate movements had a negative impact on EBITDA. The rise in volumes sold, on the other hand, had a positive effect on EBITDA and almost completely offset the above-mentioned negative factors.

EBIT dropped by 0.9% to €210 million (previous year: €212 million). This included impairment losses of €21 million on property, plant and equipment, primarily plant installations and machinery, as a result of the planned closure of the production site in Augusta, Georgia (United States).

Free operating cash flow fell to €58 million (previous year: €102 million), largely driven by higher funds tied up in working capital. This was set against a decrease in cash outflows for additions to property, plant, equipment and intangible assets.

REPORT ON FUTURE PERSPECTIVES AND ON OPPORTUNITIES AND RISKS

Economic Outlook

Global Economy

Compared with the outlook given in the Annual Report 2023, we expect a slight improvement in global economic growth to 2.6% in fiscal 2024. Despite the continuing reluctance to take economic stimulus measures and the restrictive monetary policy, which have a detrimental impact on consumption and industries sensitive to interest rates, we expect a moderate, but positive growth momentum. We anticipate that monetary policy will be gradually relaxed in the second half of 2024, as inflation expectations stabilize.

We forecast that, at 1.4%, the EMLA region's economic growth will be slower than that of the global economy in the year 2024. Compared with the outlook published in the Annual Report 2023, the forecast has, however, been adjusted slightly upward. A number of economic indicators continue to point to a gradual recovery for the year 2024, driven by rising private consumption, despite continuing inflationary pressures.

For the NA region, we project expansion of 2.2% in fiscal 2024, slightly lower than the outlook for the global economy. The growth expectations for this region have also improved slightly from the outlook presented in the Annual Report 2023. Despite mixed signals from the labor market, the risk of recession is considered low. As wage growth and rentals cool, inflation data is expected to improve in the second half of 2024.

For the APAC region, we anticipate growth of 3.9% – faster global economic expansion – in the year 2024. This projection is therefore slightly better than the outlook published in the Annual Report 2023. China's above-average production output at the beginning of this year is set to continue into the second half of 2024, with support expected from a stable export situation and economic stimulus measures.

Economic growth[1]

	Growth 2023	Growth forecast 2024 (Annual Report 2023)	Growth forecast 2024
	%	%	%
World	**2.7**	**2.4**	**2.6**
Europe, Middle East, Latin America[2], Africa (EMLA)	**1.3**	**1.2**	**1.4**
of which Europe	1.0	0.9	1.3
of which Germany	0.0	–0.1	0.1
of which Middle East	1.7	3.0	2.1
of which Latin America[2]	1.9	0.7	1.0
of which Africa	2.8	2.8	3.1
North America[3] (NA)	**2.5**	**2.1**	**2.2**
of which United States	2.5	2.3	2.4
Asia-Pacific (APAC)	**4.4**	**3.6**	**3.9**
of which China	5.2	4.4	4.7

1 Real growth of gross domestic product; source: Oxford Economics, "Growth 2023" and "Growth forecast 2024" as of July 2024.
2 Latin America (excluding Mexico).
3 North America (Canada, Mexico, United States).

Main Customer Industries

The growth expectations for the construction, and furniture industries are largely the same or slightly better than the outlook presented in the Annual Report 2023.

We now expect growth of 0.3% for the global automotive industry. The decline compared to the original forecast is driven by weaker demand for electric vehicles.

We anticipate that the global construction industry will see negative growth of 2.2% in the year 2024, which is still attributable to high interest rates and material costs.

For the electrical, electronics and household appliances industry, we are now forecasting growth of 3.4%, driven by the bounce-back of the computer and office equipment segment.

We anticipate that the furniture industry will edge up by 0.1% in the year 2024. The macroeconomic conditions have not changed from the previous forecast.

Growth in main customer industries[1]

	Growth 2023	Growth forecast 2024 (Annual Report 2023)	Growth forecast 2024
	%	%	%
Automotive	10.3	0.8	0.3
Construction	–2,3	–2,5	–2.2
Electrical, electronics and household appliances	–1,8	1.5	3.4
Furniture	–3,7	0.1	0.1

[1] Covestro's estimate, based on the following sources: GlobalData Plc, B+L, CSIL (Centre for Industrial Studies), Oxford Economics. We limit the economic data of our "automotive and transportation" and "furniture and wood processing" main customer industries to the automotive and furniture segments (excluding the transportation or wood processing segments). As of: July 2024.

Forecast for the Covestro Group

The analysis of the development of our key management indicators is based on the business performance described in this Half-Year Financial Report and consideration of our potential risks and opportunities.

Compared with the estimates presented in the Annual Report 2023, we continue to expect challenging economic conditions, and for this reason we have narrowed the guidance for EBITDA and ROCE above WACC and adjusted the free operating cash flow for fiscal 2024. We now expect the key performance indicators to develop as follows:

Forecast key management indicators

	2023	Forecast 2024 (Annual Report 2023)	Forecast 2024 (July 30, 2024)
EBITDA[1]	€1,080 million	Between €1,000 million and €1,600 million	Between €1,000 million and €1,400 million
Free operating cash flow[2]	€232 million	Between 0 million and €300 million	Between €–100 million and €100 million
ROCE above WACC[3, 4]	–6.1% points	Between –7% points and –2% points	Between –7% points and –4% points
Greenhouse gas emissions[5] (CO_2 equivalents)	4.9 million metric tons	Between 4.4 million metric tons and 5.0 million metric tons	Between 4.4 million metric tons and 5.0 million metric tons

1 Earnings before interest, taxes, depreciation and amortization (EBITDA): EBIT plus depreciation, amortization, and impairment losses; less impairment loss reversals on property, plant and equipment and intangible assets.
2 Free operating cash flow (FOCF): cash flows from operating activities less cash outflows for additions to property, plant and equipment and intangible assets.
3 Return on capital employed (ROCE): ratio of the adjusted operating result (EBIT) after imputed income taxes to capital employed.
4 Weighted average cost of capital (WACC): weighted average cost of capital reflecting the expected return on the company's equity and debt capital. A figure of 8.1% has been taken into account for the year 2024 (2023: 7.6%).
5 Greenhouse gas emissions (Scope 1 and Scope 2, GHG Protocol) at main production sites (responsible for more than 95% of our energy usage).

For the Covestro Group's EBITDA, we now forecast a figure of between €1,000 million and €1,400 million (previously: between €1,000 million and €1,600 million). We anticipate the Performance Materials segment's EBITDA to total between €400 million and €700 million (previously: between €400 million and €800 million). For the Solutions & Specialties segment, we are projecting EBITDA on a level with the year 2023* (previously: significantly up on the figure for the year 2023).

The Covestro Group's FOCF is now forecast to total between €–100 million and €100 million (previously: between €0 million and €300 million). In the Performance Materials segment, we continue to expect FOCF to be significantly down on the amount of the year 2023 (€162 million). In the Solutions & Specialties segment, we also continue to forecast FOCF to be significantly lower than in the year 2023 (€551 million).

We now expect ROCE above WACC of between –7% points and –4% points (previously: between –7% points and –2% points).

The Covestro Group's GHG emissions measured as CO_2 equivalents are still projected to be between 4.4 million metric tons and 5.0 million metric tons.

* This may entail a variance in the single-digit percentage range from the figure for the year 2023 (€817 million).

Opportunities and Risks

As a company with global operations and a diversified portfolio, the Covestro Group is subject to a number of opportunities and risks.

Opportunity and risk management at Covestro is an integral part of the Group's corporate governance system. See the "Opportunities and Risks Report" in the Combined Management Report in the Annual Report 2023 for a detailed explanation of our opportunity and risk management system and opportunity and risk situation.

→ See the "Opportunities and Risks Report" in the Annual Report 2023 for additional information.

No Changes in the Risk Situation

With regard to the Covestro Group's other opportunity or risk factors, no material changes have been made to the presentation of risk categories in the Annual Report 2023. At the time this Half-Year Financial Report was prepared, there were again no risks that could endanger the Group's continued existence.

No new material developments have occurred in the legal proceedings presented in the Annual Report 2023, and no new material legal proceedings are pending.

→ See note 9 "Legal Risks" in the Notes to the Consolidated Interim Financial Statements for additional information.