

Results of Operations and Financial Position of the Covestro Group

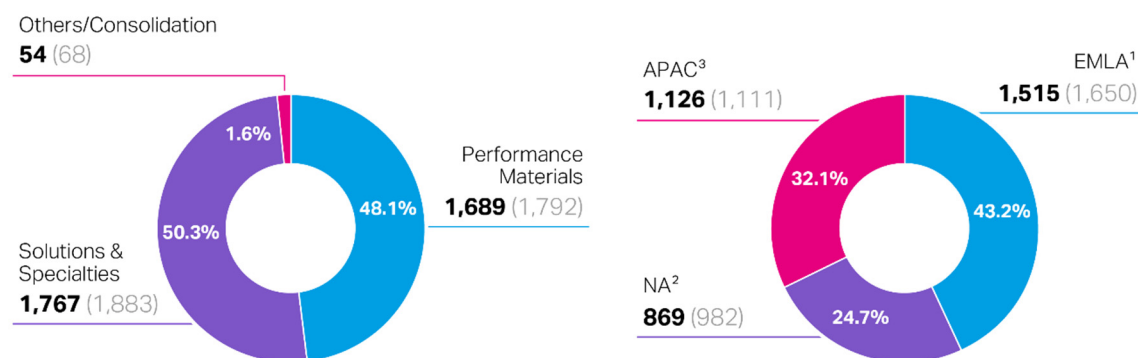
Results of Operations

Group sales declined by 6.2% in the first quarter of 2024, to €3,510 million (previous year: €3,743 million). The decrease in sales was mainly due to lower selling price levels in all regions as well as to a decline in raw material prices being passed on to customers; these factors had a diminishing effect on sales of 15.4%. In contrast, an increase in volumes sold, especially in the EMLA and APAC regions, had a positive effect on sales of 10.9%. This was boosted by higher plant availability, especially in the EMLA region. Exchange rate movements had a negative impact of 1.7% on sales.

In the first quarter of 2024, sales decreased by 5.7% to €1,689 million (previous year: €1,792 million) in the Performance Materials segment and by 6.2% to €1,767 million (previous year: €1,883 million) in the Solutions & Specialties segment. In the EMLA region, sales were 8.2% lower, at €1.515 million (previous year: €1.650 million), in the first quarter of 2024, while sales in the NA region were down 11.5% to €869 million (previous year: €982 million). In the APAC region, in contrast, sales climbed by 1.4% to €1,126 million (previous year: €1,111 million).

Sales by segment and region

€ million, prior-year figures in brackets



¹ EMLA: Europe, Middle East, Latin America (excluding Mexico), Africa region.

² NA: North America region (Canada, Mexico, United States).

³ APAC: Asia and Pacific region.

The Group's EBITDA was down 4.5% to €273 million in the first quarter of 2024 (previous year: €286 million), largely because of lower margins. The decline in the selling price level was partially offset by lower raw material and energy prices. The rise in volumes sold had a positive effect on earnings, but the effect of exchange rate movements was negative.

EBITDA dropped by 40.5% to €103 million (previous year: €173 million) in the Performance Materials segment and increased by 26.1% to €208 million (previous year: €165 million) in the Solutions & Specialties segment.

The Covestro Group's EBIT improved by 56.4% to €61 million in the first quarter (previous year: €39 million).

Financial Position

In the first quarter of 2024 cash outflows from operating activities amounted to €23 million (previous year: €19 million). This reflects higher income tax payments and a decline in EBITDA, which had a negative impact on cash flows from operating activities. On the other hand, less cash tied up in working capital had a beneficial effect on cash flows from operating activities.

Free operating cash flow improved, amounting to €-129 million in the first quarter of 2024 (previous year: €-139 million), largely due to a decline in cash outflows for additions to property, plant, equipment and intangible assets.

Net financial debt

| | Dec. 31, 2023 | Mar. 31, 2024 |
|------------------------------|---------------|---------------|
| | € million | € million |
| Bonds | 1,990 | 1,991 |
| Liabilities to banks | 657 | 647 |
| Lease liabilities | 743 | 783 |
| Liabilities from derivatives | 15 | 16 |
| Other financial liabilities | 2 | 2 |
| Receivables from derivatives | (19) | (8) |
| Gross financial debt | 3,388 | 3,431 |
| Cash and cash equivalents | (625) | (684) |
| Current financial assets | (276) | (24) |
| Net financial debt | 2,487 | 2,723 |

In comparison with December 31, 2023, the Covestro Group's gross financial debt rose by €43 million to €3,431 million as of March 31, 2024. This was mainly due to a €40 million rise in lease liabilities.

Cash and cash equivalents were up €59 million in comparison with the figure on December 31, 2023, to €684 million. This was primarily attributable to net proceeds of €252 million from short-term bank deposits. Conversely, cash outflows of €106 million for additions to property, plant, equipment and intangible assets as well as negative cash flows of €75 million from financing activities and of €23 million from operating activities caused cash and cash equivalents to decline. The net proceeds from short-term bank deposits mentioned earlier led to a decrease in current financial assets by €252 million to €24 million.

Net financial debt therefore grew by €236 million compared with the figure on December 31, 2023, to €2,723 million as of March 31, 2024.

Performance of the Segments

Performance Materials

Performance Materials key data

| | 1st quarter 2023 | 1st quarter 2024 | Change |
|---|-----------------------|-----------------------|---------------|
| Sales (external) | €1,792 million | €1,689 million | -5.7% |
| Intersegment sales | €607 million | €556 million | -8.4% |
| Sales (total) | €2,399 million | €2,245 million | -6.4% |
| Change in sales (external) | | | |
| Volume | -18.6% | 17.3% | |
| Price | -7.1% | -21.3% | |
| Currency | 0.7% | -1.7% | |
| Sales by region (external) | | | |
| EMLA | €839 million | €762 million | -9.2% |
| NA | €489 million | €417 million | -14.7% |
| APAC | €464 million | €510 million | 9.9% |
| EBITDA¹ | €173 million | €103 million | -40.5% |
| EBIT ¹ | €29 million | (€35 million) | . |
| Cash flows from operating activities | €19 million | €1 million | -94.7% |
| Cash outflows for additions to property, plant, equipment and intangible assets | €76 million | €74 million | -2.6% |
| Free operating cash flow | (€57 million) | (€73 million) | 28.1% |

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

In the Performance Materials segment, first-quarter sales in 2024 were down 5.7% to €1,689 million (previous year: €1,792 million). This was primarily driven by the 21.3% decline in average selling prices, which coincided with lower raw material prices being passed on to customers. This was set against a rise in volumes sold, which had a sales-increasing effect of 17.3% and was also facilitated by higher plant availability in the EMLA region. Exchange rate movements also had a decreasing effect of 1.7% on sales.

Sales in the EMLA region were down by 9.2% from the prior-year quarter to €762 million (previous year: €839 million), driven by a significant drop in the selling price level. On the other hand, changes in volumes sold drove sales significantly upward. Exchange rates had no notable effect on sales. The NA region's sales decreased 14.7% to €417 million (previous year: €489 million), principally because of a considerable decline in average selling prices. In contrast, higher volumes sold had the effect of increasing sales slightly. Exchange rate movements had a neutral impact on sales. Sales in the APAC region were up 9.9% to €510 million (previous year: €464 million), mainly because of a significant rise in volumes sold. Changes in exchange rates and a lower selling price level, on the other hand, both had a significant reducing impact on sales.

In the first quarter of 2024, the Performance Materials segment's EBITDA was down 40.5% on the prior-year quarter, dropping to €103 million (previous year: €173 million). This was primarily driven by lower margins, with a decline in average selling prices being partially offset by a drop in raw material and energy prices. At the same time, higher fixed costs and exchange rate movements weighed on earnings. On the other hand, the rise in volumes sold had a beneficial effect on EBITDA.

In the first quarter of 2024, EBIT decreased to €-35 million (previous year: €29 million).

Free operating cash flow amounted to €-73 million in the first quarter of 2024 (previous year: €-57 million). The decrease in EBITDA was partially offset by a smaller amount of cash tied up in working capital than in the prior-year quarter.

Solutions & Specialties

Solutions & Specialties key data

| | 1st quarter 2023 | 1st quarter 2024 | Change |
|---|-----------------------|-----------------------|--------------|
| Sales (external) | €1,883 million | €1,767 million | -6.2% |
| Intersegment sales | €8 million | €7 million | -12.5% |
| Sales (total) | €1,891 million | €1,774 million | -6.2% |
| Change in sales (external) | | | |
| Volume | -15.4% | 5.9% | |
| Price | -0.5% | -10.4% | |
| Currency | 0.6% | -1.7% | |
| Sales by region (external) | | | |
| EMLA | €755 million | €710 million | -6.0% |
| NA | €485 million | €444 million | -8.5% |
| APAC | €643 million | €613 million | -4.7% |
| EBITDA¹ | €165 million | €208 million | 26.1% |
| EBIT ¹ | €63 million | €135 million | 114.3% |
| Cash flows from operating activities | (€5 million) | €53 million | . |
| Cash outflows for additions to property, plant, equipment and intangible assets | €43 million | €31 million | -27.9% |
| Free operating cash flow | (€48 million) | €22 million | . |

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

In the Solutions & Specialties segment, first-quarter sales in 2024 were down 6.2% to €1,767 million (previous year: €1,883 million). The main driver of this trend was a 10.4% drop in average selling prices, offset by an increase in volumes sold, which had a beneficial effect on sales of 5.9%. At the same time, exchange rate movements resulted in a decreasing effect on sales of 1.7%.

The EMLA region's sales decreased 6.0% to €710 million (previous year: €755 million), driven by significantly lower average selling prices. Conversely, the rise in volumes pushed up sales considerably. Exchange rate movements had no notable effect on sales. In the NA region, sales were down 8.5% to €444 million (previous year: €485 million), mainly on account of a considerable drop in the selling price level and a slight decline in volumes sold. Exchange rate movements had no notable effect on sales. Sales in the APAC region declined by 4.7% to 613 million (previous year: €643 million). The main drivers of this development were lower average selling prices and a slight negative trend in exchange rates. On the other hand, higher volumes sold boosted sales significantly.

In the first quarter of 2024, EBITDA in the Solutions & Specialties segment climbed by 26.1% over the prior-year quarter to €208 million (previous year: €165 million), largely due to higher sales volumes. In addition, the margins boosted earnings slightly, since the decline in selling prices was more than offset by lower raw material and energy costs. On the other hand, exchange rate movements had a slightly negative effect on EBITDA.

In the first quarter of 2024, EBIT jumped by 114.3% to €135 million (previous year: €63 million).

Free operating cash flow improved to €22 million in the first quarter of 2024 (previous year: €-48 million), driven primarily by the rise in EBITDA. At the same time, less cash tied up in working capital than in the prior-year quarter and lower cash outflows for additions to property, plant, equipment and intangible assets had a beneficial effect on free operating cash flow.

Forecast, Opportunities, and Risks

Economic Outlook

Global Economy

Compared to the year 2023, we continue to forecast slower, but positive, global economic growth of 2.5% for fiscal 2024. We expect growth rates in all regions to be at similar levels to the outlook published in the Annual Report 2023. As part of this forecast, we consider the continuing reluctance to take economic stimulus measures and the still restrictive monetary policy to be key drivers of these moderate growth dynamics. The latter is expected to have an adverse effect on consumer spending and the development of industries sensitive to interest rates, such as the construction industry.

For the EMLA region, we anticipate growth of 1.2% and therefore below the global rate of expansion. Due to low consumer spending, high interest rates, and higher energy prices than in other regions, we expect the economy in the EMLA region to expand only modestly.

For the NA region, we project growth of 2.4%, virtually on a level with the global growth outlook. Persistently high consumer spending and the strong performance of the labor market are having a beneficial effect on economic expansion in the NA region. Based on the expectation of interest rate cuts in the second half of 2024, we anticipate that the investing activities of companies in interest-sensitive industries will also recover.

Economic growth in the APAC region will likely exceed the global growth rate. We anticipate economic growth of 3.8% for this region in fiscal 2024. For China, there are continuing signs of weak growth performance compared with the previous year for reasons that include the crisis in the real estate market and poor labor market prospects. In our forecast, we have assumed that the Chinese government's measures intended to stimulate consumption, tax reductions, and supply-side support for the manufacturing industry will boost economic growth in the region.

Economic growth¹

| | Growth 2023 | Growth forecast 2024 (Annual Report 2023) | Growth forecast 2024 |
|--|-------------|---|----------------------|
| | % | % | % |
| World | 2.7 | 2.4 | 2.5 |
| Europe, Middle East, Latin America², Africa (EMLA) | 1.2 | 1.2 | 1.2 |
| of which Europe | 0.9 | 0.9 | 1.0 |
| of which Germany | -0.1 | -0.1 | 0.0 |
| of which Middle East | 1.5 | 3.0 | 2.2 |
| of which Latin America ² | 1.9 | 0.7 | 0.8 |
| of which Africa | 2.7 | 2.8 | 3.0 |
| North America³ (NA) | 2.5 | 2.1 | 2.4 |
| of which United States | 2.5 | 2.3 | 2.7 |
| Asia-Pacific (APAC) | 4.4 | 3.6 | 3.8 |
| 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 April 2024.

² Latin America (excluding Mexico).

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

Main Customer Industries

Compared to the forecast given in the Annual Report 2023, growth expectations for the main customer industries, with the exception of the electrical, electronics and household appliances industry, largely remain unchanged.

We anticipate negative growth of 2.5% in the global construction industry. The sector continues to be impacted by the high cost of construction materials, persistent labor shortages, and high construction loan interest rates. Growth in the global automotive industry is expected to amount to 1.0%, in an environment of weak demand. We anticipate expansion of 0.1% in the global furniture industry in the year 2024. Limited economic expansion, low investments in the housing sector, and sluggish consumer demand will again have a dampening effect on growth prospects in the year 2024. For the electrical, electronics and household appliances industry, we are forecasting growth of 1.9%, and therefore slightly above the outlook given in the Annual Report 2023.

Growth in main customer industries¹

| | Growth 2023 | Growth forecast 2024 (Annual Report 2023) | Growth forecast 2024 |
|--|-------------|--|----------------------|
| | % | % | % |
| Automotive | 10.2 | 0.8 | 1.0 |
| Construction | -2.4 | -2.5 | -2.5 |
| Electrical, electronics and household appliances | -1.3 | 1.5 | 1.9 |
| Furniture | -3.7 | 0.1 | 0.1 |

¹ Covestro's estimate, based on the following sources: LMC Automotive Limited, B+L, CSIL (Centre for Industrial Studies), Oxford Economics. We limited the economic data of our "automotive and transportation" and "furniture and wood processing" main customer industries to the automotive and furniture segments (excluding the transportation or wood processing segments). As of: April 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 Quarterly Statement, the economic outlook outlined above, and consideration of our potential risks and opportunities. For the rest of fiscal 2024, we confirm the key management indicators that we forecast in the Annual Report 2023.

Forecast for key management indicators

| | 2023 | Forecast 2024 |
|--|-------------------------|---|
| EBITDA ¹ | €1,080 million | Between €1,000 million and €1,600 million |
| Free operating cash flow ² | €232 million | Between 0 million and €300 million |
| ROCE above WACC ^{3,4} | -6.1% points | Between -7% points and -2% 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 |

¹ EBITDA: EBIT plus depreciation, amortization, and impairment losses; less impairment loss reversals on intangible assets and property, plant and equipment.

² Free operating cash flow (FOCF): cash flows from operating activities less cash outflows for additions to property, plant, equipment and intangible assets.

³ ROCE: ratio of EBIT after imputed income taxes to capital employed. Imputed income taxes are calculated by multiplying an imputed tax rate of 25% by EBIT.

⁴ 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 GHG 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 project a figure between €1,000 million and €1,600 million. Covestro anticipates that the Performance Materials segment's EBITDA will be €400 million to €800 million. In the Solutions & Specialties segment, we expect EBITDA to be significantly higher than the amount of the year 2023 (€817 million).

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

ROCE above WACC is anticipated in a range between -7% points and -2% points.

The Covestro Group's GHG emissions, measured as CO₂ equivalents, are projected to be between 4.4 million metric tons and 5.0 million metric tons.

Opportunities and Risks

With regard to the Covestro Group's 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 Quarterly Statement was prepared, there were no risks that could endanger the Group's continued existence.