

QUARTERLY STATEMENT



Interim Statement as of March 31, 2018
First Quarter 2018

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Covestro Group Key Data

	1st quarter 2017	1st quarter 2018	Change
	€ million	€ million	%
Core volume growth^{1,2}	+8.9%	0.0%	
Sales	3,586	3,779	+5.4
Change in sales			
Volume	+9.9%	-1.7%	
Price	+13.4%	+14.3%	
Currency	+1.4%	-7.2%	
Portfolio	0.0%	0.0%	
Sales by region			
EMLA ³	1,526	1,679	+10.0
NAFTA ⁴	883	840	-4.9
APAC ⁵	1,177	1,260	+7.1
EBITDA^{6,7}	846	1,063	+25.7
EBIT^{8,9}	688	907	+31.8
Financial result	(54)	(28)	-48.1
Net income¹⁰	468	644	+37.6
Operating cash flows¹¹	285	452	+58.6
Cash outflows for additions to property, plant, equipment and intangible assets	74	88	+18.9
Free operating cash flow¹²	211	364	+72.5

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

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

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

⁴ NAFTA: United States, Canada and Mexico region

⁵ APAC: Asia and Pacific region

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

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

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

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

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

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

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

Covestro Share at a Glance

		1st quarter 2017	1st quarter 2018
High	€	72.48	95.00
Low	€	62.07	79.44
Closing date	€	72.16	79.86

Covestro closing prices Xetra®; source: Bloomberg

Reporting Principles

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

This Quarterly Statement was published in German and English on April 26, 2018. Only the German version is binding.

Covestro Group Consolidated Income Statement

	1st quarter 2017 ¹	1st quarter 2018
	€ million	€ million
Sales	3,586	3,779
Cost of goods sold	(2,388)	(2,348)
Gross profit	1,198	1,431
Selling expenses	(346)	(344)
Research and development expenses	(64)	(68)
General administration expenses	(113)	(115)
Other operating income	24	12
Other operating expenses	(11)	(9)
EBIT²	688	907
Equity-method loss	(6)	(4)
Interest income	3	5
Interest expense	(41)	(20)
Other financial result	(10)	(9)
Financial result	(54)	(28)
Income before income taxes	634	879
Income taxes	(165)	(233)
Income after income taxes	469	646
of which attributable to noncontrolling interest	1	2
of which attributable to Covestro AG stockholders (net income)	468	644
	€	€
Basic earnings per share³	2.31	3.24
Diluted earnings per share³	2.31	3.24

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

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

³ Weighted average number of no-par voting shares of Covestro AG in issue: 198,901,329 (previous year: 202,500,000)

Covestro Group Consolidated Statement of Comprehensive Income

	1st quarter 2017 ¹	1st quarter 2018
	€ million	€ million
Income after income taxes	469	646
Remeasurements of the net defined benefit liability for post-employment benefit plans	79	(100)
Income taxes	(27)	34
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans	52	(66)
Other comprehensive income that will not be reclassified subsequently to profit or loss	52	(66)
Changes in fair values of debt instruments	-	-
Reclassified to profit or loss	-	(1)
Income taxes	-	-
Other comprehensive income from debt instruments	-	(1)
Changes in exchange differences recognized on translation of operations outside the eurozone	(16)	(8)
Reclassified to profit or loss	-	-
Other comprehensive income from exchange differences	(16)	(8)
Other comprehensive income that may be reclassified subsequently to profit or loss	(16)	(9)
Total other comprehensive income²	36	(75)
of which attributable to noncontrolling interest	-	1
of which attributable to Covestro AG stockholders	36	(76)
Total comprehensive income	505	571
of which attributable to noncontrolling interest	1	3
of which attributable to Covestro AG stockholders	504	568

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

² Total changes recognized outside profit or loss

Covestro Group Consolidated Statement of Financial Position

	Mar. 31, 2017 ¹	Mar. 31, 2018	Dec. 31, 2017 ¹
	€ million	€ million	€ million
Noncurrent assets			
Goodwill	262	250	253
Other intangible assets	90	78	81
Property, plant and equipment	4,562	4,216	4,296
Investments accounted for using the equity method	234	203	208
Other financial assets	33	31	31
Other receivables ²	48	51	35
Deferred taxes	642	759	702
	5,871	5,588	5,606
Current assets			
Inventories	1,868	2,011	1,913
Trade accounts receivable	1,998	2,108	1,882
Other financial assets	201	180	285
Other receivables ²	302	318	281
Claims for income tax refunds	98	101	138
Cash and cash equivalents	434	926	1,232
Assets held for sale	12	30	4
	4,913	5,674	5,735
Total assets	10,784	11,262	11,341
Equity			
Capital stock of Covestro AG	203	198	201
Capital reserves of Covestro AG	4,908	4,513	4,767
Other reserves	(418)	942	367
Equity attributable to Covestro AG stockholders	4,693	5,653	5,335
Equity attributable to noncontrolling interest	28	33	30
	4,721	5,686	5,365
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	1,144	1,293	1,187
Other provisions	309	243	229
Financial liabilities	1,280	1,204	1,213
Income tax liabilities	39	79	74
Other liabilities ²	19	26	21
Deferred taxes	193	154	161
	2,984	2,999	2,885
Current liabilities			
Other provisions	509	490	529
Financial liabilities	690	83	583
Trade accounts payable	1,577	1,442	1,618
Income tax liabilities	133	330	161
Other liabilities ²	170	231	200
Liabilities directly related to assets held for sale	–	1	–
	3,079	2,577	3,091
Total equity and liabilities	10,784	11,262	11,341

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

² Contains the contract assets, contract liabilities, and refund liabilities from the initial application of IFRS 15, as of March 31, 2018

Covestro Group Consolidated Statement of Cash Flows

	1st quarter 2017 ¹	1st quarter 2018
	€ million	€ million
Income after income taxes	469	646
Income taxes	165	233
Financial result	54	28
Income taxes paid	(29)	(56)
Depreciation, amortization and impairment losses and impairment loss reversals	158	156
Change in pension provisions	10	8
(Gains)/losses on retirements of noncurrent assets	(7)	1
Decrease/(increase) in inventories	(157)	(149)
Decrease/(increase) in trade accounts receivable	(328)	(258)
(Decrease)/increase in trade accounts payable	44	(137)
Changes in other working capital, other noncash items	(94)	(20)
Cash flows from operating activities	285	452
Cash outflows for additions to property, plant, equipment and intangible assets	(74)	(88)
Cash inflows from sales of property, plant, equipment and other assets	12	–
Cash outflows for noncurrent financial assets	(13)	(4)
Interest and dividends received	9	5
Cash inflows from/(outflows for) other current financial assets	(61)	117
Cash flows from investing activities	(127)	30
Reacquisition of treasury shares	–	(257)
Issuances of debt	75	6
Retirements of debt	(35)	(525)
Interest paid	(31)	(13)
Cash flows from financing activities	9	(789)
Change in cash and cash equivalents due to business activities	167	(307)
Cash and cash equivalents at beginning of period	267	1,232
Change in cash and cash equivalents due to exchange rate movements	–	1
Cash and cash equivalents at end of period	434	926

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

1. Business Development Covestro Group

Results of operations

The Group's core volumes (in kilotons) in the first quarter of 2018 remained at the prior-year level. At 2.7%, volume growth in the Polycarbonates segment was able to compensate for the decline in volumes in the other two segments. Compared with the prior-year period, core volumes were down 1.0% in the Polyurethanes segment and down 1.3% in the Coatings, Adhesives, Specialties segment.

Group sales totaled €3,779 million, up 5.4% from the prior-year quarter's figure of €3,586 million. Contributing to this development was the increase in selling prices, which had a positive effect on sales of 14.3%. This trend was mainly driven by the Polyurethanes and Polycarbonates segments. Total volumes sold decreased sales by 1.7% compared with the same quarter in the previous year. Exchange rate movements also had a negative effect of 7.2% on Group sales.

The Polyurethanes and Polycarbonates segments were the main contributors to sales growth in the first quarter of 2018. Sales climbed to €1,950 million (previous year: €1,821 million) in the Polyurethanes segment and to €1,033 million in the Polycarbonates segment (previous year: €954 million). Coatings, Adhesives, Specialties saw sales recede to €592 million (previous year: €637 million).

The Group's EBITDA increased by 25.7% in the first quarter of 2018, from €846 million in the prior-year quarter to €1,063 million. Above all, the improved earnings figure was due to higher margins, whereas exchange rate movements had a negative effect on earnings.

The Polyurethanes segment's EBITDA increased by 36.1% to €637 million (previous year: €468 million). EBITDA in the Polycarbonates segment rose 30.6% to €303 million (previous year: €232 million). In the Coatings, Adhesives, Specialties segment, this figure dropped by 15.0% to €136 million (previous year: €160 million).

In the first quarter of 2018, the Covestro Group improved EBIT by 31.8% to €907 million (previous year: €688 million).

Financial position

Compared with the prior-year quarter, operating cash flow increased to €452 million (previous year: €285 million). A sharp rise in EBITDA was the main factor in the improvement. This contrasted with higher income tax payments and an increase in cash tied up in working capital.

Driven by the improved operating cash flows, free operating cash flow grew to €364 million in the first quarter of 2018 (previous year: €211 million). As expected, higher cash outflows for additions to property, plant, equipment and intangible assets in the amount of €88 million (previous year: €74 million) offset this development slightly.

Net Financial Debt¹

	Dec. 31, 2017	Mar. 31, 2018
	€ million	€ million
Bonds	1,495	995
Liabilities to banks	69	60
Liabilities under finance leases	223	220
Liabilities from derivatives	9	12
Receivables from derivatives	(15)	(6)
Financial liabilities	1,781	1,281
Cash and cash equivalents	(1,232)	(926)
Current financial assets	(266)	(168)
Net financial debt	283	187

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

The Covestro Group's net financial debt declined by €96 million from December 31, 2017, to €187 million as of March 31, 2018. In March 2018, cash and net cash provided by operations were used to repay the first tranche of the Debt Issuance Program in the amount of €500 million. Moreover, additional shares amounting to €257 million were acquired as part of the share buy-back program in the first quarter of 2018. Covestro AG bought back 2,839,240 shares in the period from January 2 to February 28, 2018. On October 24, 2017, Covestro AG's Board of Management resolved to buy back treasury shares totaling up to €1.5 billion, or up to 10% of the company's capital stock, whichever comes first. The first tranche of the share buy-back program began on November 21, 2017, and was completed on February 28, 2018. During this period, Covestro purchased a total of 4,507,752 shares with a total value of €400 million. This corresponds to 2.2% of the capital stock.

2. Business Development by Segment

2.1 Polyurethanes

Polyurethanes Key Data¹

	1st quarter 2017	1st quarter 2018	Change
	€ million	€ million	%
Core volume growth²	+6.3%	-1.0%	
Sales	1,821	1,950	+7.1
Change in sales			
Volume	+6.6%	-2.8%	
Price	+27.1%	+17.3%	
Currency	+1.5%	-7.4%	
Portfolio	0.0%	0.0%	
Sales by region			
EMLA	777	860	+10.7
NAFTA	472	475	+0.6
APAC	572	615	+7.5
EBITDA	468	637	+36.1
EBIT	383	547	+42.8
Operating cash flows	36	176	>300
Cash outflows for additions to property, plant, equipment and intangible assets	40	46	+15.0
Free operating cash flow	(4)	130	.

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

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

In the first quarter of 2018, core volumes in Polyurethanes decreased by 1.0% compared with the prior-year quarter.

Sales in the Polyurethanes segment rose 7.1% to €1,950 million in the first quarter of 2018 (previous year: €1,821 million). This development was largely driven by a 17.3% increase in selling prices, which was passed on in all regions thanks to an advantageous supply/demand situation. The decrease in total volumes sold had a negative effect of 2.8% on sales. Moreover, exchange rate changes reduced sales by 7.4%.

In all regions, higher selling prices had a significantly positive effect on sales. Sales in the EMLA region grew by 10.7% to €860 million (previous year: €777 million), although the performance of total volumes sold and exchange rates reduced sales slightly. The NAFTA region's sales remained mostly stable with growth of 0.6% to €475 million (previous year: €472 million). In this region, total volumes sold had a moderately negative effect and exchange rate movements had a significantly negative effect on sales. In the APAC region, sales grew 7.5% to €615 million (previous year: €572 million). The much higher selling price level was enough to more than offset the deeply negative effect of exchange rate changes. Total volumes sold decreased slightly from the prior-year quarter.

In the first quarter of 2018, EBITDA in the Polyurethanes segment increased 36.1% over the prior-year quarter, growing to €637 million (previous year: €468 million). Higher margins had a positive effect on earnings and more than compensated for negative exchange rate effects and lower volumes sold.

EBIT rose by 42.8% to €547 million during the same period (previous year: €383 million).

Free operating cash flow jumped to €130 million in the first quarter of 2018 (previous year: minus €4 million), which was largely due to the increase in EBITDA.

2.2 Polycarbonates

Polycarbonates Key Data

	1st quarter 2017	1st quarter 2018	Change
	€ million	€ million	%
Core volume growth¹	+14.7%	+2.7%	
Sales	954	1,033	+8.3
Change in sales			
Volume	+17.2%	+0.2%	
Price	+2.9%	+16.3%	
Currency	+1.3%	-8.2%	
Portfolio	0.0%	0.0%	
Sales by region			
EMLA	322	362	+12.4
NAFTA	231	203	-12.1
APAC	401	468	+16.7
EBITDA	232	303	+30.6
EBIT	184	260	+41.3
Operating cash flows	60	79	+31.7
Cash outflows for additions to property, plant, equipment and intangible assets	19	23	+21.1
Free operating cash flow	41	56	+36.6

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

In the first quarter of 2018, core volumes in the Polycarbonates segment were up 2.7% over the prior-year quarter.

The Polycarbonates segment's first-quarter sales climbed 8.3% to €1,033 million (previous year: €954 million). The very positive development of selling prices in all regions increased sales by 16.3%, driven by an advantageous supply/demand situation. Growth in total volumes sold had an effect of 0.2% on sales, which therefore remained around the previous year's level. Exchange rate movements reduced sales by 8.2%.

Sales in the EMLA region jumped 12.4% to €362 million (previous year: €322 million), primarily due to a significantly higher selling price level and a slight increase in total volumes sold. Exchange rates remained mostly stable. In the NAFTA region, sales declined 12.1% to €203 million (previous year: €231 million). The strongly positive effect on sales stemming from the change in selling prices was able to offset the effect of significantly lower volumes. Exchange rate developments had a strongly negative impact on sales. In the APAC region, sales grew 16.7% to €468 million (previous year: €401 million). Considerably higher selling prices and a modest increase in volumes outweighed the significantly negative effect of exchange rate changes.

EBITDA in the Polycarbonates segment grew 30.6% over the prior-year quarter, rising to €303 million in the first quarter of 2018 (previous year: €232 million). Higher margins were also the main factor positively affecting earnings.

EBIT was up 41.3% to €260 million in the same period (previous year: €184 million).

In the first quarter of 2018, free operating cash flow totaled €56 million, up 36.6% over the previous year's figure of €41 million. The key driver here was improved EBITDA, which more than offset the overall higher cash tied up in working capital.

2.3 Coatings, Adhesives, Specialties

Coatings, Adhesives, Specialties Key Data¹

	1st quarter 2017	1st quarter 2018	Change
	€ million	€ million	%
Core volume growth²	+10.8%	-1.3%	
Sales	637	592	-7.1
Change in sales			
Volume	+11.3%	-2.2%	
Price	-0.8%	+1.0%	
Currency	+1.6%	-5.9%	
Portfolio	0.0%	0.0%	
Sales by region			
EMLA	295	298	+1.0
NAFTA	143	122	-14.7
APAC	199	172	-13.6
EBITDA	160	136	-15.0
EBIT	136	113	-16.9
Operating cash flows	34	17	-50.0
Cash outflows for additions to property, plant, equipment and intangible assets	14	19	+35.7
Free operating cash flow	20	(2)	.

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

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

In the first quarter of 2018, core volumes in the Coatings, Adhesives, Specialties segment were down 1.3% from the prior-year quarter.

Sales in the Coating, Adhesives, Specialties segment declined 7.1% from the same quarter in the previous year to €592 million (previous year: €637 million). The downturn in volumes cut sales by 2.2%, whereas selling prices had a positive effect on sales of 1.0%. Exchange rate developments had a negative impact on sales totaling 5.9%.

In the EMLA region, sales grew 1.0% to €298 million (previous year: €295 million). A slightly positive effect from the change in selling prices outweighed the effect of a minor decrease in total volumes sold. Exchange rates remained mostly stable at the previous year's level. In the NAFTA region, sales declined 14.7% to €122 million (previous year: €143 million). A slight decline in total volumes sold and the significant negative effects stemming from exchange rate changes outweighed the minimally positive effect on sales of the development in selling prices. The APAC region's sales declined 13.6% to €172 million (previous year: €199 million). The changes in total volumes sold and selling prices reduced sales slightly. In addition, exchange rate movements had a significantly negative effect on sales.

EBITDA in Coatings, Adhesives, Specialties was down by 15.0% to €136 million in the first quarter of 2018 (previous year: €160 million). Factors reducing earnings were lower volumes sold, negative exchange rate effects and increased raw material costs, which were balanced out only in part by the overall increase in selling prices.

EBIT was down 16.9% to €113 million in the same period (previous year: €136 million).

Driven by the decline in EBITDA, free operating cash flow decreased to minus €2 million in the first quarter of 2018 (previous year: €20 million).

3. Forecast Update Report

3.1 Economic Outlook

Economic Outlook

	Growth ¹ 2017	Growth ¹ forecast 2018 (Annual Report 2017)	Growth ¹ forecast 2018
	%	%	%
World	+3.3	+3.3	+3.4
European Union	+2.5	+2.2	+2.3
of which Germany	+2.5	+2.8	+2.6
NAFTA	+2.3	+2.6	+2.6
of which United States	+2.3	+2.7	+2.7
Asia-Pacific	+5.0	+5.0	+5.0
of which China	+6.9	+6.6	+6.7

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

In 2018, we continue to expect the global economy to grow at a pace of 3.4% as in the previous year. Our current assessment of the macroeconomic environment and developments in the regions therefore conforms overall to the outlook in the Annual Report 2017.

As for the performance of our main customer industries, we see no material changes as compared with our expectations in the Annual Report 2017.

3.2 Forecast for Key Data

Based on the business performance described in this quarterly statement along with our consideration of the potential associated opportunities and risks, we confirm the forecast in the Annual Report 2017 for the rest of the 2018 fiscal year.

We expect core volume growth in the low-to-mid-single-digit-percentage range. This projection applies to the Covestro Group as well as the Polyurethanes, Polycarbonates and Coatings, Adhesives, Specialties segments. The Polycarbonates segment is expected to perform somewhat better than the other two segments.

In fiscal 2018, free operating cash flow is expected to be significantly above the average of the last three years. This trend is forecast for both the Group and for the Polyurethanes and Polycarbonates segments. The Coatings, Adhesives, Specialties segment is anticipated to generate free operating cash flow slightly below the average of the last three years.

In 2018, we expect ROCE to approach the 2017 level.

4. Employees and Pension Obligations

As of March 31, 2018, the Covestro Group had 16,451 employees worldwide (December 31, 2017: 16,176). Personnel expenses rose by €5 million to €493 million in the first quarter of 2018 (previous year: €488 million).

Employees by Corporate Function¹

	Dec. 31, 2017	Mar. 31, 2018
Production	10,115	10,299
Marketing and distribution	3,476	3,546
Research and development	1,072	1,086
General administration	1,513	1,520
Total	16,176	16,451

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

Provisions for pensions and other post-employment benefits increased to €1,293 million as of March 31, 2018 (December 31, 2017: €1,187 million). This is largely due to a negative change in plan assets and actuarial losses as the result of a slightly lower discount rate for the pension obligations in Germany.

Discount Rate for Pension Obligations

	Dec. 31, 2017	Mar. 31, 2018
	%	%
Germany	+1.90	+1.80
United States	+3.40	+3.80

5. Exchange Rates

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

Closing Rates for Major Currencies

		Closing rates		
€1/		Mar. 31, 2017	Dec. 31, 2017	Mar. 31, 2018
BRL	Brazil	3.38	3.97	4.09
CNY	China	7.35	7.81	7.73
HKD	Hong Kong	8.31	9.37	9.67
INR	India	69.40	76.61	80.30
JPY	Japan	119.55	135.01	131.15
MXN	Mexico	20.02	23.66	22.52
USD	United States	1.07	1.20	1.23

Average Rates for Major Currencies

		Average rates	
€1/		1st quarter 2017	1st quarter 2018
BRL	Brazil	3.35	3.99
CNY	China	7.31	7.81
HKD	Hong Kong	8.26	9.61
INR	India	71.30	79.03
JPY	Japan	121.07	133.20
MXN	Mexico	21.60	23.05
USD	United States	1.06	1.23

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

6.1 Accounting for Financial Instruments According to IFRS 9

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

The changes at Covestro resulted from the new impairment model and the amended classification and measurement rules stipulated by the new IFRS 9 standard. The new impairment rules increase provisions to account for defaults of financial instruments by recognizing expected credit losses, particularly for trade accounts receivable. In the case of equity investments that are not held for trading as of January 1, 2018, Covestro opted to recognize future changes in their fair value in other comprehensive income and to continue recognizing these in equity on disposal.

6.2 Accounting for Sales under IFRS 15

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

According to IFRS 15, sales are recognized using a five-step model with the new principles affecting parameters including the point in time or time period when sales are recognized and resulting in new balance sheet items such as contract assets, contract liabilities, and refund liabilities, which Covestro reports in other receivables or in other liabilities. For Covestro, the application of IFRS 15 resulted in sales being recognized in the financial statements differently than before in particular from consignment warehouse agreements, transportation clauses, and individual contractual agreements.

7. Scope of Consolidation

7.1 Changes in the Scope of Consolidation

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

7.2 Acquisitions and Divestitures

In the Polycarbonates segment, Covestro signed an agreement on March 14, 2018, on the sale of assets and liabilities (disposal group) of the North American polycarbonate sheet business to Plaskolite LLC, Columbus (United States). In connection with the sale, assets and inventories used in production totaling €26 million and liabilities of €1 million were classified as "held for sale" in accordance with IFRS 5. The transaction should be completed no later than in the third quarter of 2018.

8. Segment Information

Segment Reporting 1st Quarter

				Other / Consolidation		Covestro Group
	Polyurethanes ¹	Polycarbonates	Coatings, Adhesives, Specialties ¹	All other segments	Corporate Center and reconciliation	
	€ million	€ million	€ million	€ million	€ million	€ million
1st quarter 2018						
Net sales	1,950	1,033	592	204	-	3,779
Change in sales						
Volume	-2.8%	+0.2%	-2.2%	+0.4%	-	-1.7%
Price	+17.3%	+16.3%	+1.0%	+20.5%	-	+14.3%
Currency	-7.4%	-8.2%	-5.9%	-3.7%	-	-7.2%
Portfolio	0.0%	0.0%	0.0%	0.0%	-	0.0%
Core volume growth²	-1.0%	+2.7%	-1.3%	-	-	-
Sales by region						
EMLA	860	362	298	159	-	1,679
NAFTA	475	203	122	40	-	840
APAC	615	468	172	5	-	1,260
EBITDA	637	303	136	7	(20)	1,063
EBIT	547	260	113	7	(20)	907
Depreciation, amortization, impairment losses and impairment loss reversals	90	43	23	-	-	156
Operating cash flows	176	79	17	187	(7)	452
Cash outflows for additions to property, plant, equipment and intangible assets	46	23	19	-	-	88
Free operating cash flow	130	56	(2)	187	(7)	364
Working capital³	1,291	773	536	79	(2)	2,677
1st quarter 2017						
Net sales	1,821	954	637	174	-	3,586
Change in sales						
Volume	+6.6%	+17.2%	+11.3%	-1.6%	-	+9.9%
Price	+27.1%	+2.9%	-0.8%	+1.0%	-	+13.4%
Currency	+1.5%	+1.3%	+1.6%	+0.6%	-	+1.4%
Portfolio	0.0%	0.0%	0.0%	0.0%	-	0.0%
Core volume growth²	+6.3%	+14.7%	+10.8%	-	-	+8.9%
Sales by region						
EMLA	777	322	295	132	-	1,526
NAFTA	472	231	143	37	-	883
APAC	572	401	199	5	-	1,177
EBITDA	468	232	160	7	(21)	846
EBIT	383	184	136	6	(21)	688
Depreciation, amortization, impairment losses and impairment loss reversals	85	48	24	1	-	158
Operating cash flows	36	60	34	179	(24)	285
Cash outflows for additions to property, plant, equipment and intangible assets	40	19	14	1	-	74
Free operating cash flow	(4)	41	20	178	(24)	211
Working capital³	1,140	567	522	65	(5)	2,289

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

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

³ Working capital comprises inventories plus trade accounts receivable and less trade accounts payable, as of March 31, 2018.

Financial Calendar

Half-Year Financial Report 2018	July 26, 2018
Q3 2018 Interim Statement	October 25, 2018
Annual Report 2018	February 25, 2019
Annual General Meeting 2019	April 12, 2019

Forward-Looking Statements

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

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