



Raising the outlook

Roadshow Presentation

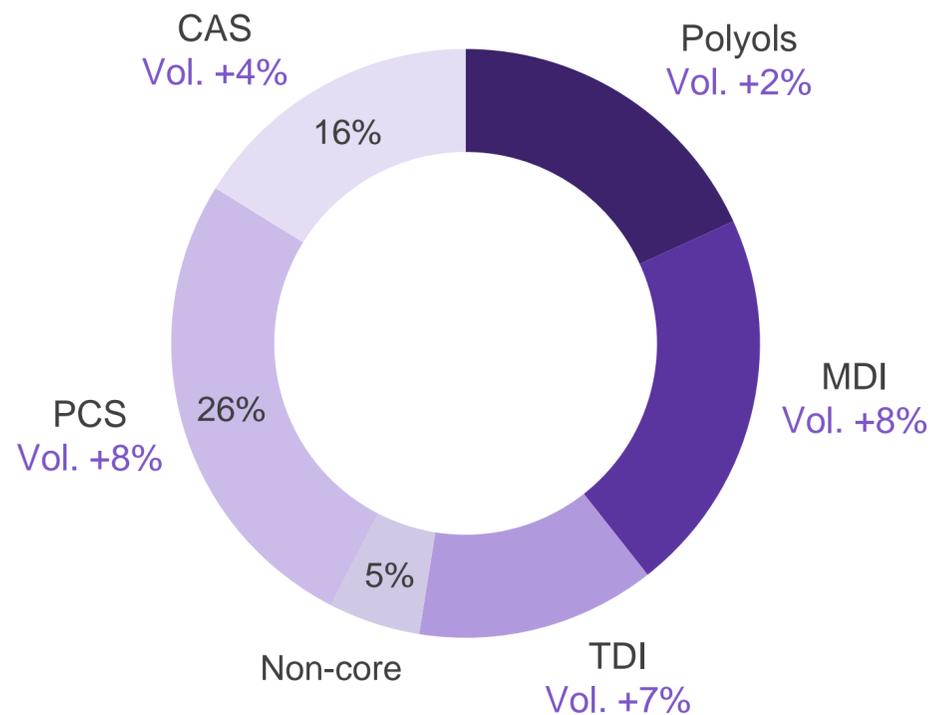
Global leader in high-tech material solutions

Covestro at a glance



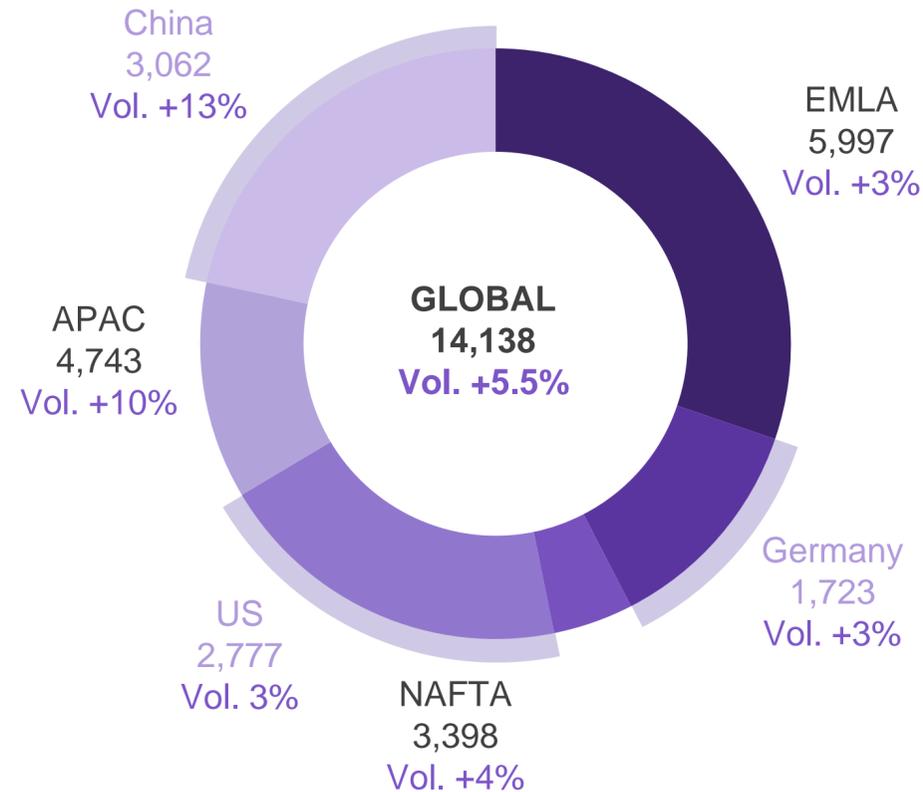
Sales split by segments

% of 2017 Group sales
Core volume growth, CAGR 2015-2017



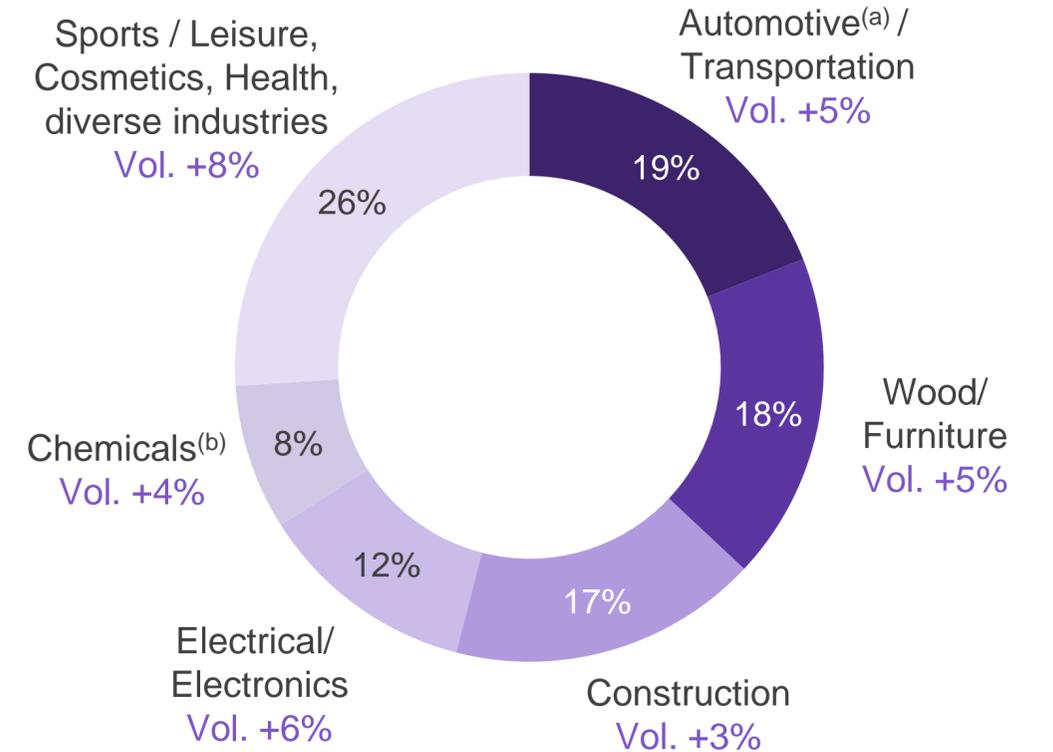
Sales split by regions

2017 Group sales in € million
Core volume growth in %, CAGR 2015-2017



Sales split by end-markets

% of 2017 Group sales
Core volume growth in %, CAGR 2015-2017



~5 million tons

PUR and PCS nameplate capacity

Employees: ~16,000 FTEs

Headquarters in Leverkusen, Germany

From €3.4bn EBITDA to €1.8bn FOCF

High cash conversion

Notes: Based on Covestro Annual Report 2017; EMLA = Europe, Middle East, Africa, Latin America; NAFTA = USA, Canada, Mexico; APAC = Asia, Pacific
Adjusted prior-year figures to reflect the transfer of the specialty elastomers business from the Polyurethanes segment to the Coatings, Adhesives, Specialties segment as of January 1, 2018
(a) Automotive with core volume CAGR 2015-2017 of +7%, (b) Growth of core and non-core volumes

Innovation and sustainability driving growth

Covestro key investment highlights



1 Above GDP volume growth
driven by innovation and sustainability trends, embodied also by non-financial targets

2 Leading and defendable global industry positions
as innovation and cost leader

3 More than half of sales generated by resilient businesses
as global leader in highly attractive niches

4 Balanced supply and demand outlook for all our businesses
inline with mid-term debottlenecking plans and preparation of world-scale investment

5 Attractive growth fuels solid cash generation
with use of cash focused on shareholder value

Higher global GDP expectation leads to higher industry growth

Structural growth drivers



UN SDGs^(a)

related to climate change:



related to increasing mobility:



related to growing population:



related to increasing urbanization:



Needs to be served

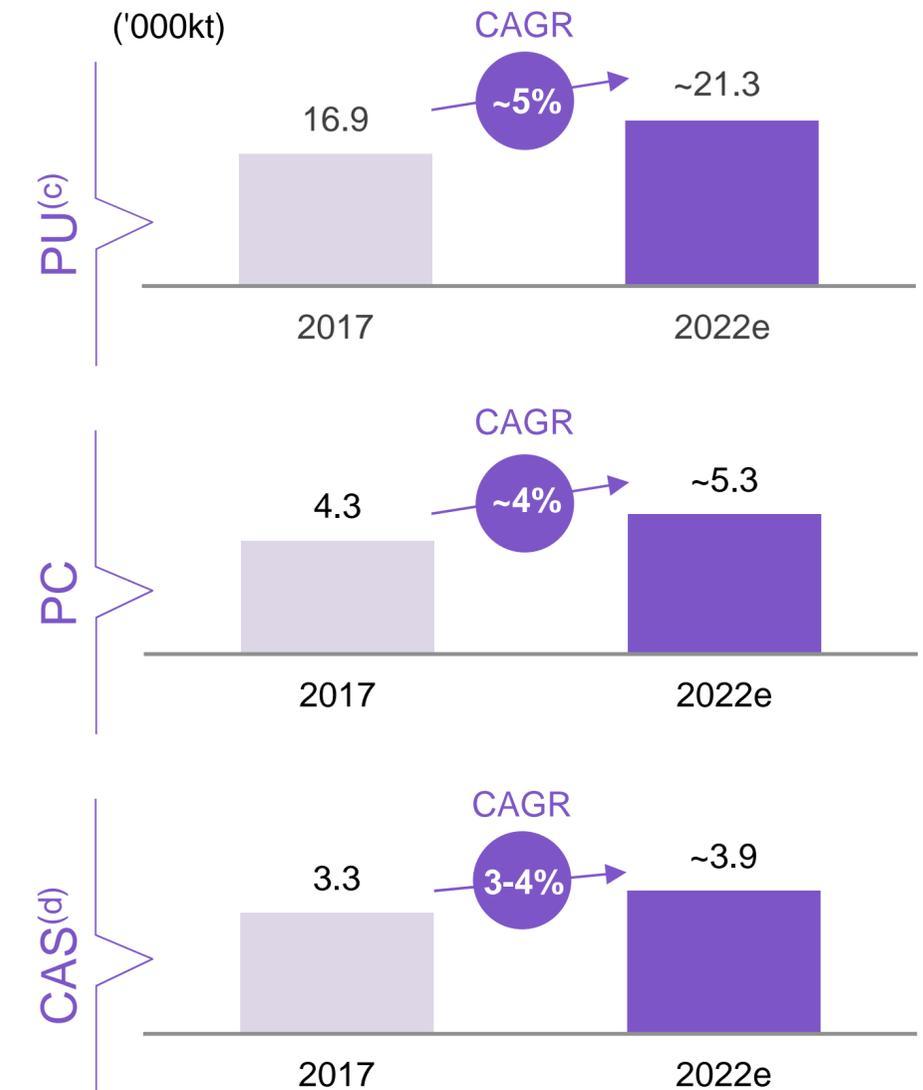
- Zero emission concepts
- Low-energy buildings

- Energy-efficient mobility
- Lightweight transportation
- E-mobility, autonomous driving

- Food preservation
- Low-cost durable goods
- Medical applications

- Affordable housing
- Living comfort
- Public infrastructure

Industry demand outlook^(b) 2017 – 2022e



Notes:

(a) Most impacted goals out of 17 Sustainable Development Goals, set by the United Nations' "2030 Agenda for Sustainable Development"

(b) Assumes global GDP CAGR 2017–2022e of ~3% as per Covestro estimates; (c) Comprises MDI, TDI and polyether polyols

(d) Shows PU raw materials industry demand in coatings, adhesives and sealants; additionally TPU, elastomers and PC/TPU films

Non-financial ambition supports growth strategy

Covestro non-financial targets 2025



1 Our R&D project portfolio is aligned with UN Sustainable Development Goals

2 100% of suppliers compliant with our sustainability requirements



3 Reduce specific greenhouse gas emissions by 50% by 2025



4 Ten million people in underserved markets benefit from our business solutions



5 Getting the most out of carbon



Product innovation as long-term growth driver

Addressing ever-changing customer needs for new material solutions



Need		Overall market	Relevant market	2015-2017	Covestro solutions
More durable and economical wind power plants		Energy consumption CAGR: ~3%	Offshore wind energy CAGR: ~19%	Covestro CAGR: 29%	Novel materials for wind power plants: PU resins for rotor blades, PU-based coatings, elastomers for sea cables
Energy- and cost-efficient buildings		Construction CAGR: ~2%	Polyurethane insulation CAGR: ~5%	Covestro CAGR: 3%	Raw materials for PU foam (rigid and in spray form) enabling highly efficient insulation
Reduction of high energy consumption of lighting		Luminaire CAGR: ~3%	Luminaire LED CAGR: ~12%	Covestro CAGR: 122%	Polycarbonates in LED lenses, light guides, heat sinks
Eco-friendly produced furniture		Coating ind. furniture CAGR: ~3%	Water-based ind. furniture CAGR: ~5%	Covestro CAGR: 10%	New bio-based hardener for water-based wood coatings
Sustainable and functional fashion		Textile coating CAGR: ~6%	Relevant textile coating CAGR: ~11%	Covestro CAGR: 7%	Waterborne, solvent-free materials for functionalized textiles in diverse applications
More and better cooling devices		Refrigerators CAGR: ~3%	Refrigeration insulation foam CAGR: ~8%	Covestro CAGR: 12%	Raw materials for particularly effective insulating foams: 40% smaller pores allow up to 10% better insulation
Reduced weight and increased comfort		Global car production CAGR: ~3%	Relevant car applications CAGR: ~5%	Covestro CAGR: 7%	Attractive alternatives to conventional materials: polymers to replace glass and metal

Global leader across its entire portfolio

Production capacities and world-wide industry positions



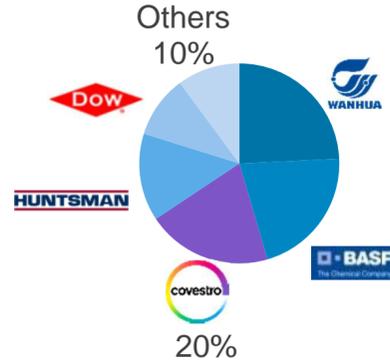
#1 in Polyurethanes

#1 in Polycarbonates

#1 in Coatings, Adhesives, Specialties

Capacity share in 2017^(a)

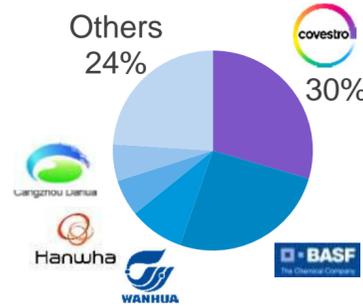
MDI



Top 5: 90%

2022e: Top 5 share expected to remain stable at 90%

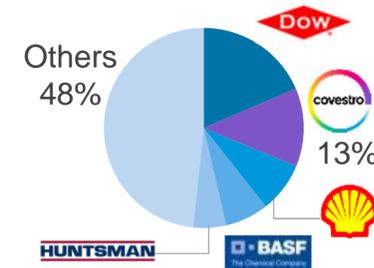
TDI



Top 5: 76%

2022e: Top 5 share expected to remain stable at 76%

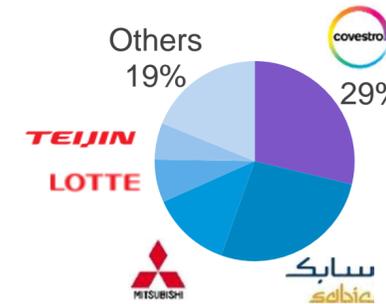
Polyether polyols



Top 5: 52%

2022e: Further consolidation expected, especially in China

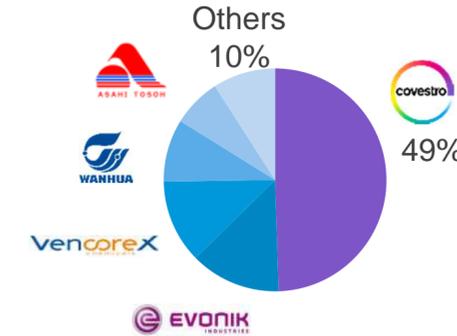
PC



Top 5: 81%

2022e: Top 5 expected to account for ~70%

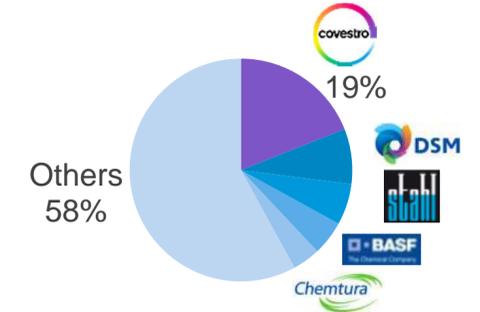
Aliphatic isocyanate derivatives



Top 5: 90%

2022e: Industry structure expected to remain stable

Polyurethane dispersions



Top 5: 42%

2022e: Industry structure expected to remain stable

Covestro^(a)

Global #3

1,450kt

6 sites

Global #1

750kt

3 sites

Global #2

1,330kt

9 sites

Global #1

1,480kt

5 sites

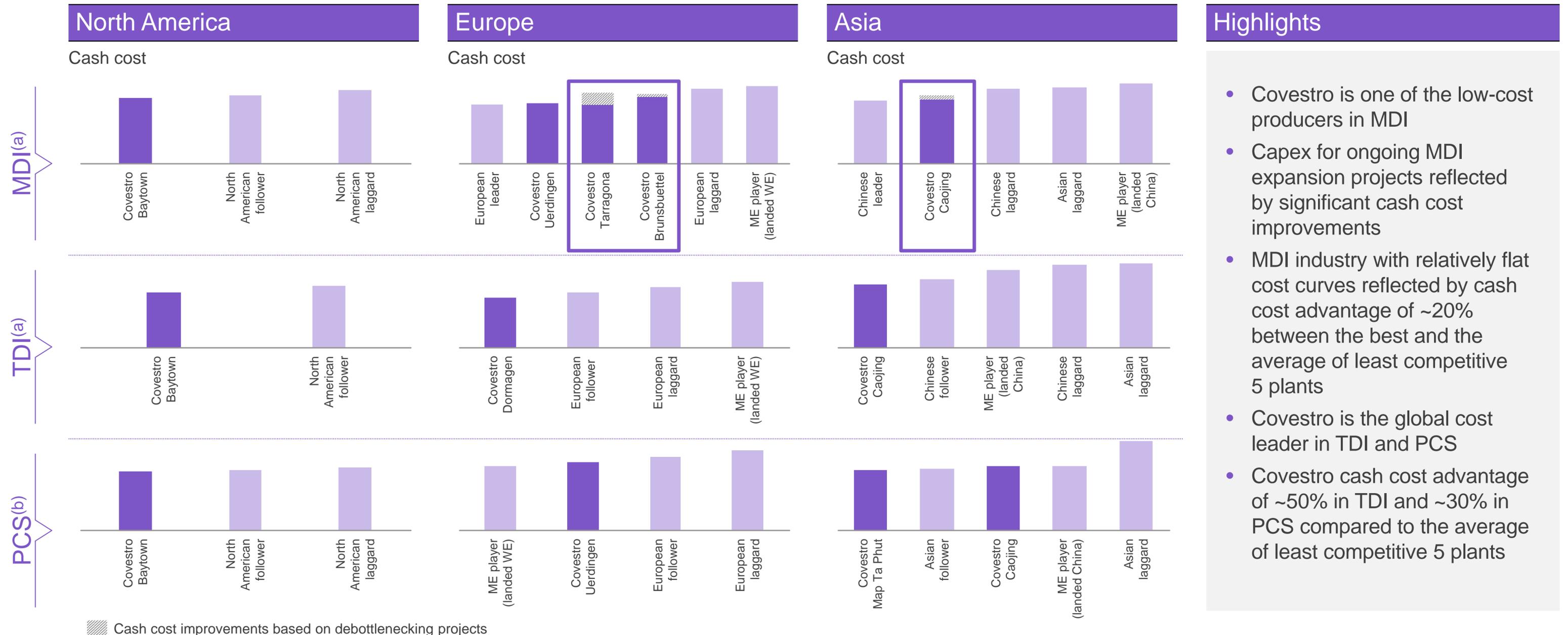
Entry requirements

- Economies of scope
- Formulation and application know-how
- Close customer relationships and long-term R&D collaborations
- Operation of global business platform

Leading cost positions across business segments and regions



Cash cost positions



▨ Cash cost improvements based on debottlenecking projects

Notes: (a) Cost of production based on total raw material costs less co-product credits, variable and fixed conversion costs at 100% utilization based on nameplate capacity for FY 2017
 (b) FY2017 Cash cost ex gate, 82% utilization rate for all plants based on nameplate capacity. Integrated players are shown without any margins for BPA, phenol, acetone, etc.

Synergies in scale, process technology and chemical know-how

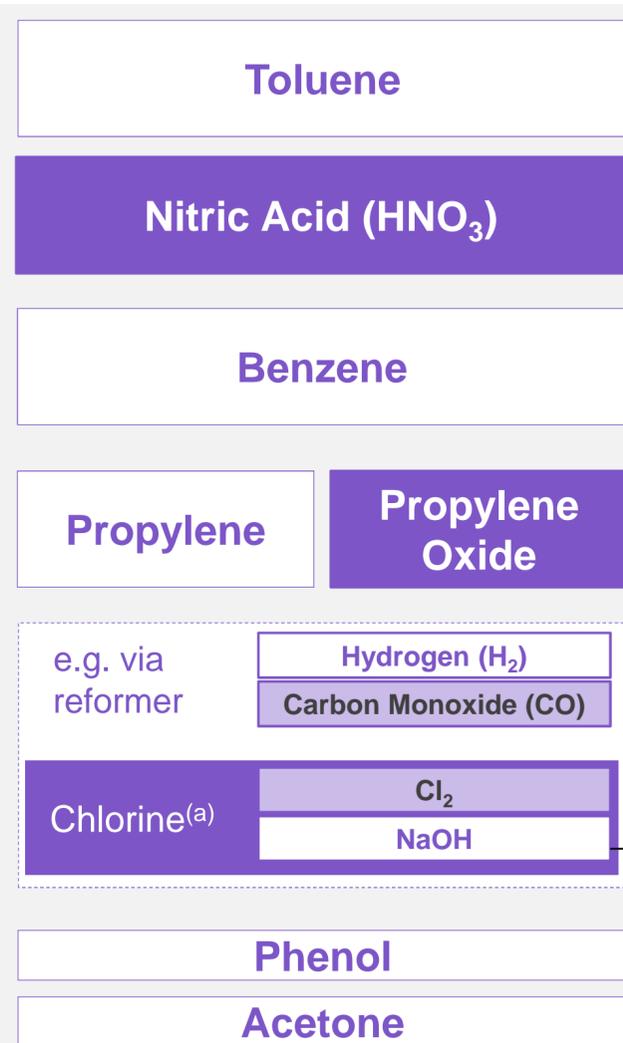


One chemical backbone across all segments

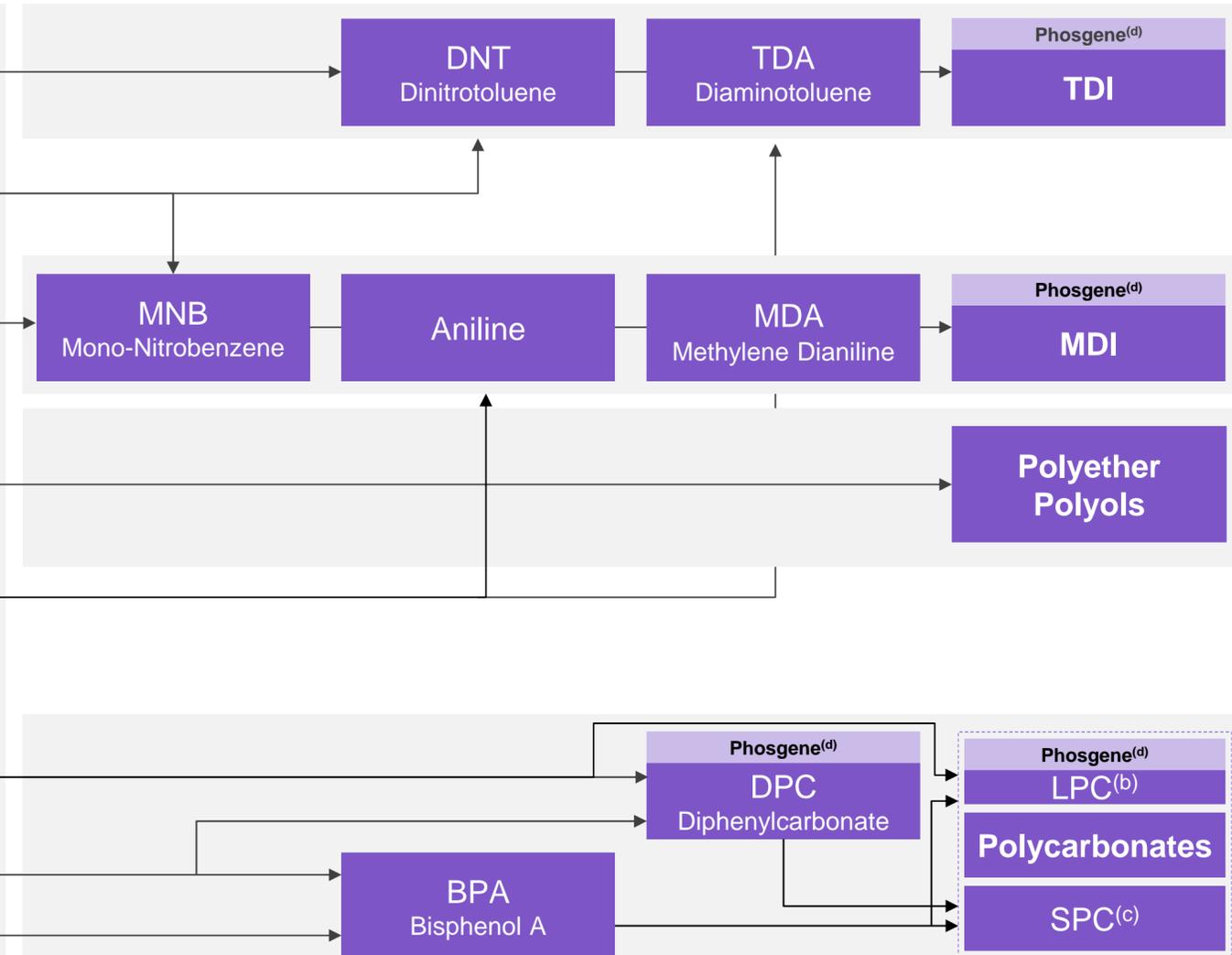
► Infrastructure

- Premises
- Site development
- Streets
- Pipeline bridges
- Storage tanks
- Jetties
- Power supply & distribution
- Waste management
- Safety

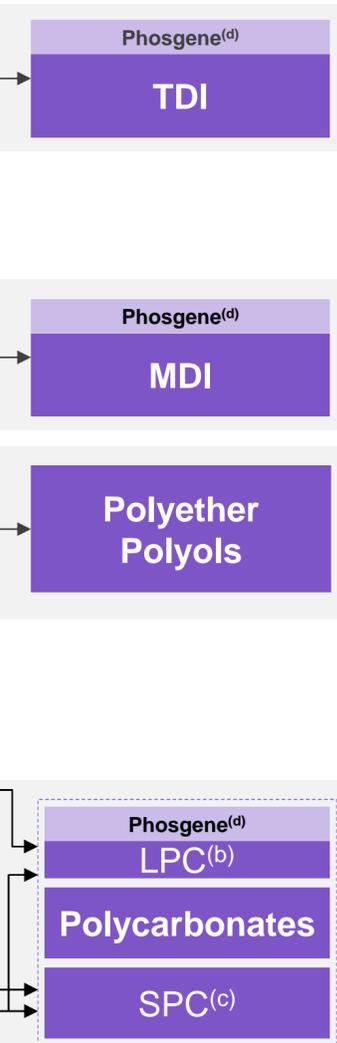
► Raw Materials



► Core Units / Technology



► Final product



□ Purchased raw materials

■ Covestro activities

Highlights

- State-of-the-art asset base with leading process technology
- 8 main sites with world-scale production facilities
- Critical raw materials with no or limited merchant market sourced internally
- Synergies at all steps along the value chain

Sales 2017

- Core = ~€12.5bn (volumes: ~5,000kt)
- Non-core = ~€2bn (volumes: ~7,800kt)

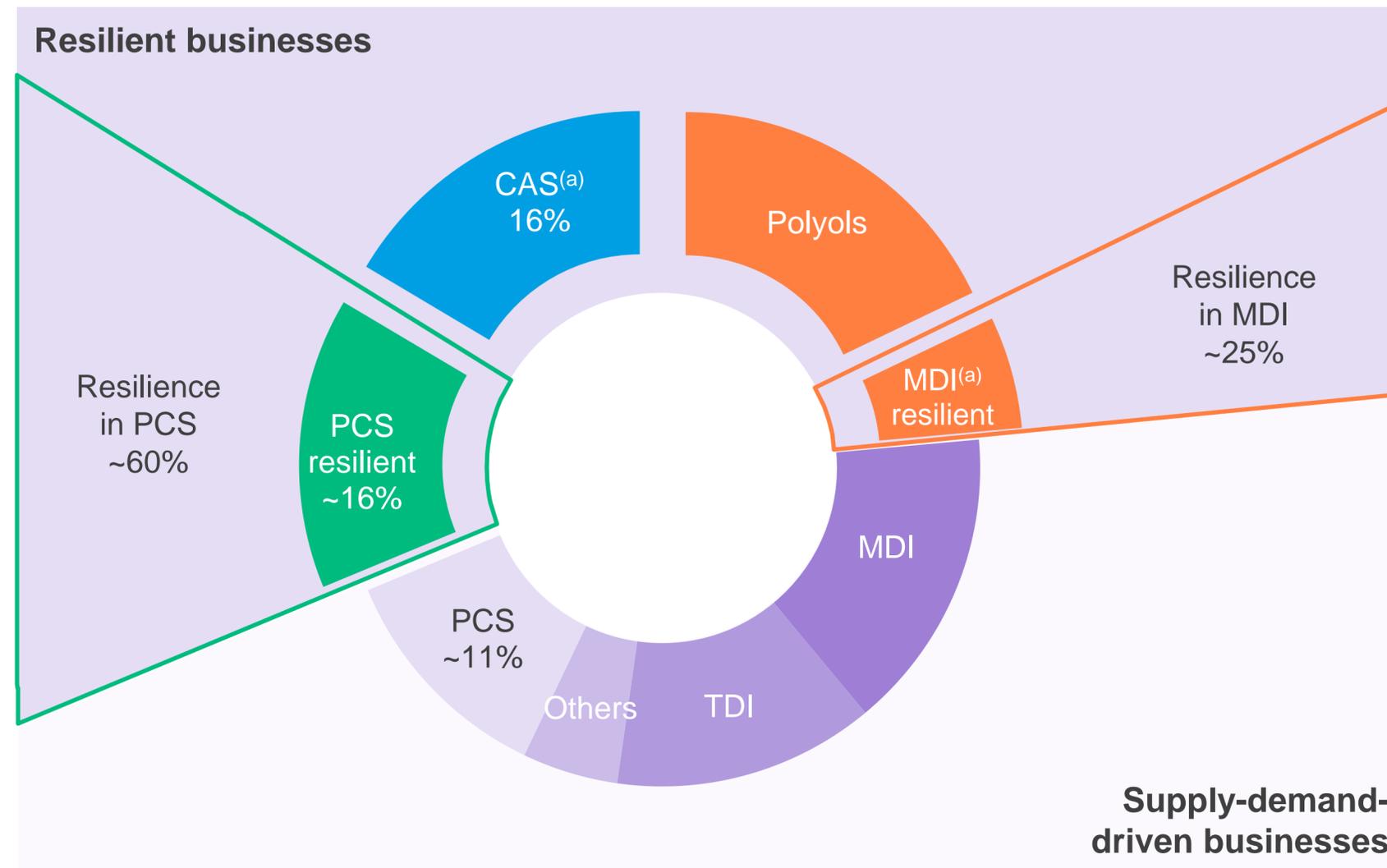
Over 50% of sales generated with resilient businesses



Product portfolio overview

Sales by segments

% of 2017 Group sales



Highlights

- **CAS** business is resilient in sales and earnings due to characteristics of niche ingredient chemicals
- Resilient portion of **PCS** business is driven by high-end industry applications e.g. automotive, electrical, healthcare
- **Polyols** business is resilient in sales and earnings as demonstrated over the last decade
- Resilient portion of **MDI** business consists of special grades for downstream products that require formulation know-how and customer interaction along the value chain

Stable margins driven by differentiated product portfolio

CAS at a glance



2,700+

Products based primarily on 6 monomers

5,000+

Customers in 10+ high-end industries

3.7%

Core volume CAGR in 2015-2017

€2.3bn

Sales 2017^(a)

€249m

FOCF 2017^(a)



Ingredients for **surface coatings**



Ingredients for **adhesives and sealants**



Ingredients for **specialties**

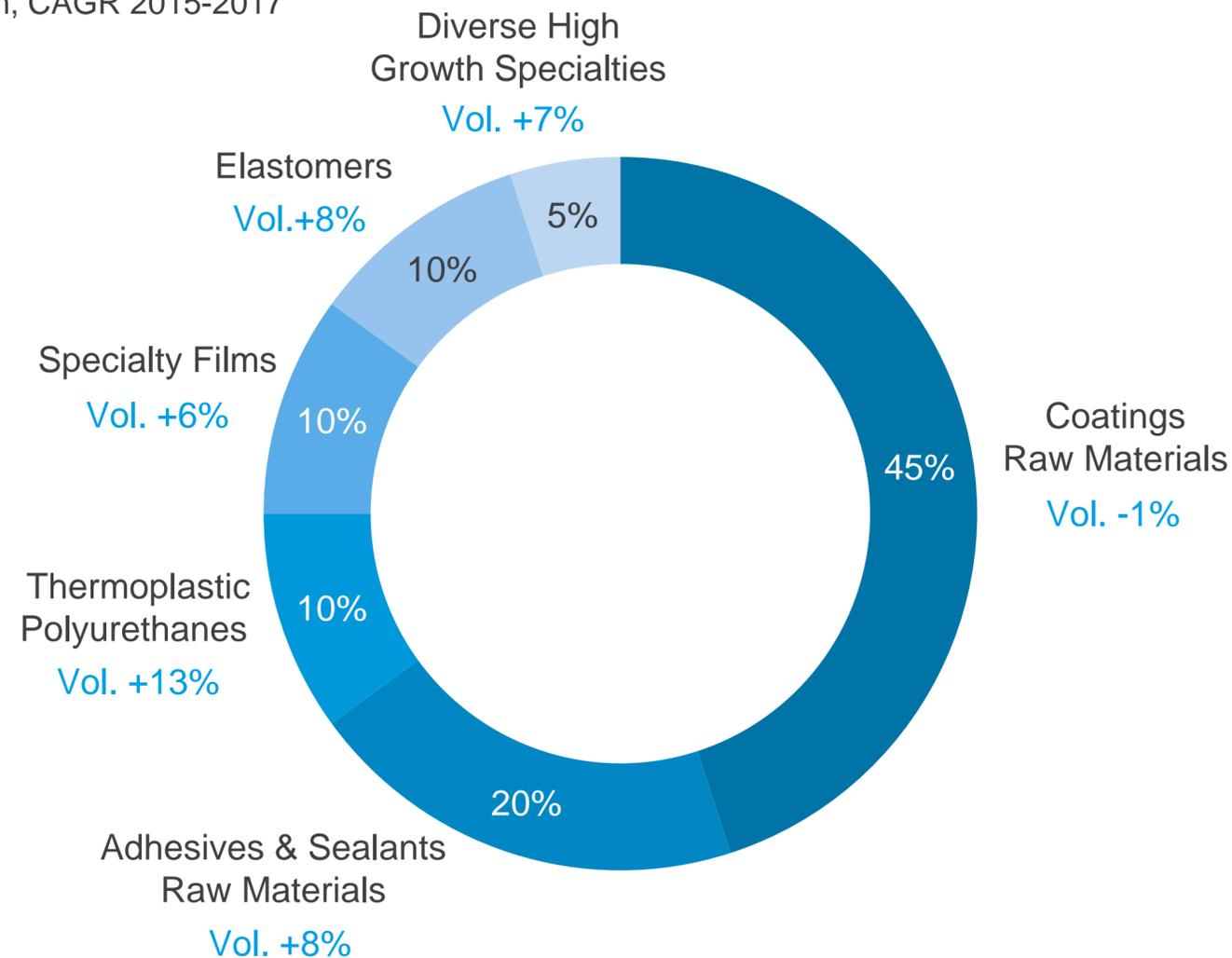
CAS demonstrated solid underlying growth of ~4% p.a.

High Growth Specialties businesses



CAS sales split by businesses

Covestro sales share FY 2017^(a), rounded
Core volume growth, CAGR 2015-2017



Highlights

- Adjusted core volume growth of 3.7% CAGR in 2015-2017^(a)
- Growth driven by all businesses except coatings raw materials
- High Growth Specialties businesses generate ~35% of sales: Thermoplastic Polyurethanes (TPU), Specialty Films and Elastomers
- Coatings raw materials businesses burdened by weak end markets like marine, oil and gas as well as refinishing

Strategic focus on increasing resilience

PCS at a glance



1,000

PC grades for
broadest offering



Mobility
e.g. exterior

#1

Producer and inventor
of PC globally^(a)



Electronics
e.g. robot housing

7.6%

Core volume
CAGR in 2015-2017



Consumer electronics
e.g. adapter

€3.7bn

Sales
2017



Electrical
e.g. LED street
lamp

€321m

FOCF
2017



Mobility
e.g. charging
station



Healthcare
e.g. drug delivery

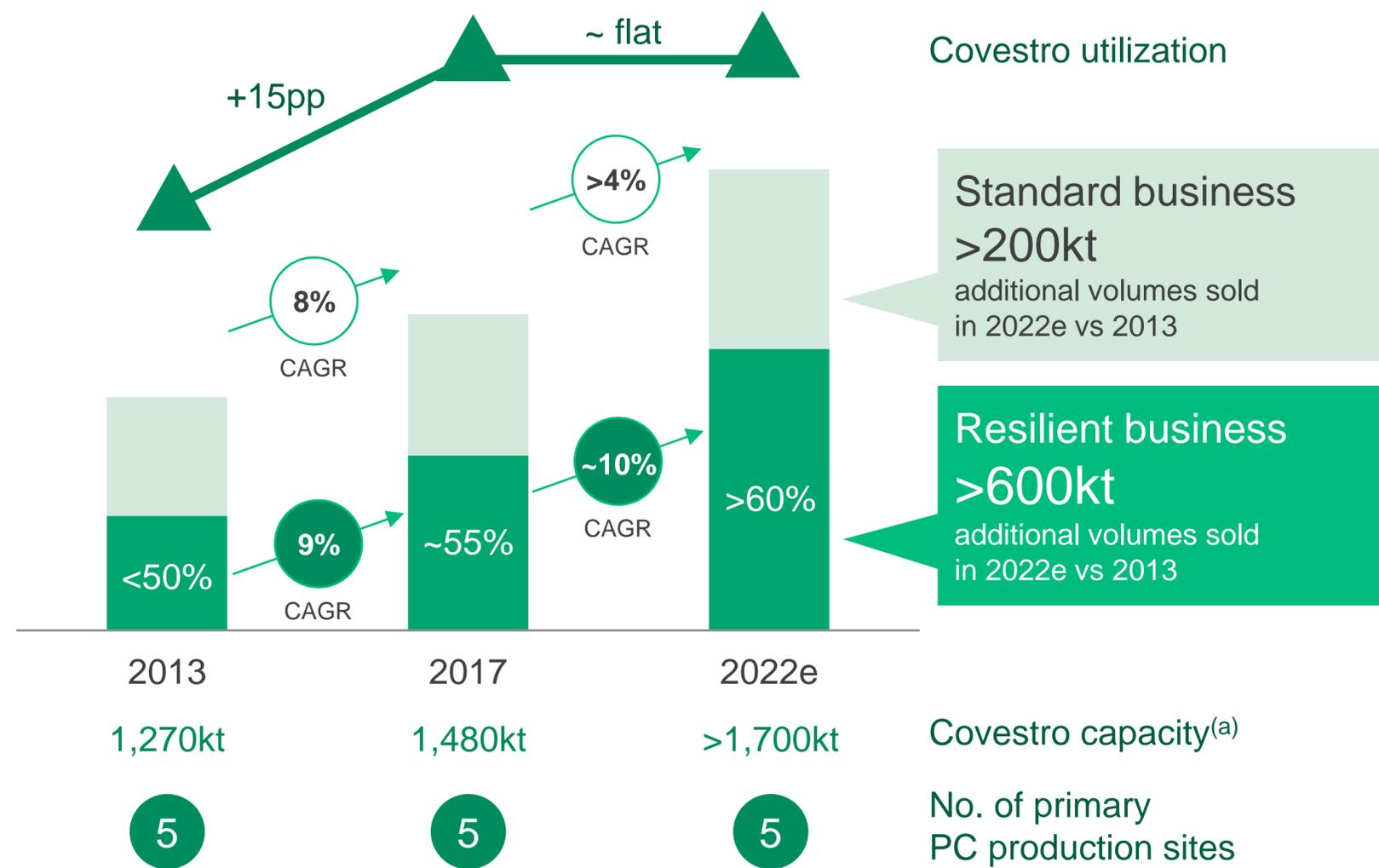
Growing share of resilient business to 65% long term

PCS product portfolio



Development of resilient portion of PCS volumes

Covestro sales volumes in kt



Covestro highlights

Product portfolio improvement

- Goal to increase resilient portion of PC volumes to 65% long term
- Capacity growth and increasing share of resilient business result in significantly higher volumes in differentiated, high-requirement applications
- Structural improvement of average contribution margin

Higher asset utilization

- Volume leverage through significant improvement of capacity utilization by ~15 percentage points
- Significantly higher output from unchanged number of primary production sites

Almost half of sales in resilient businesses

PUR at a glance



1,000

Polyols grades
for differentiation



Cold chain
e.g. refrigerator

#1

Producer and inventor
of PU globally^(a)



Construction
e.g. metal panel

5.3%

Core volume
CAGR in 2015-2017



Cost leadership
e.g. process
technology

€7.4bn

Sales
2017^(b)



Comfort
e.g. furniture
upholstery

€1.1bn

FOCF
2017^(b)



Automotive
e.g. instrument
panel



Sustainability
e.g. CO₂-based
polyether polyols

Polyether polyols demonstrate inherently stable margins

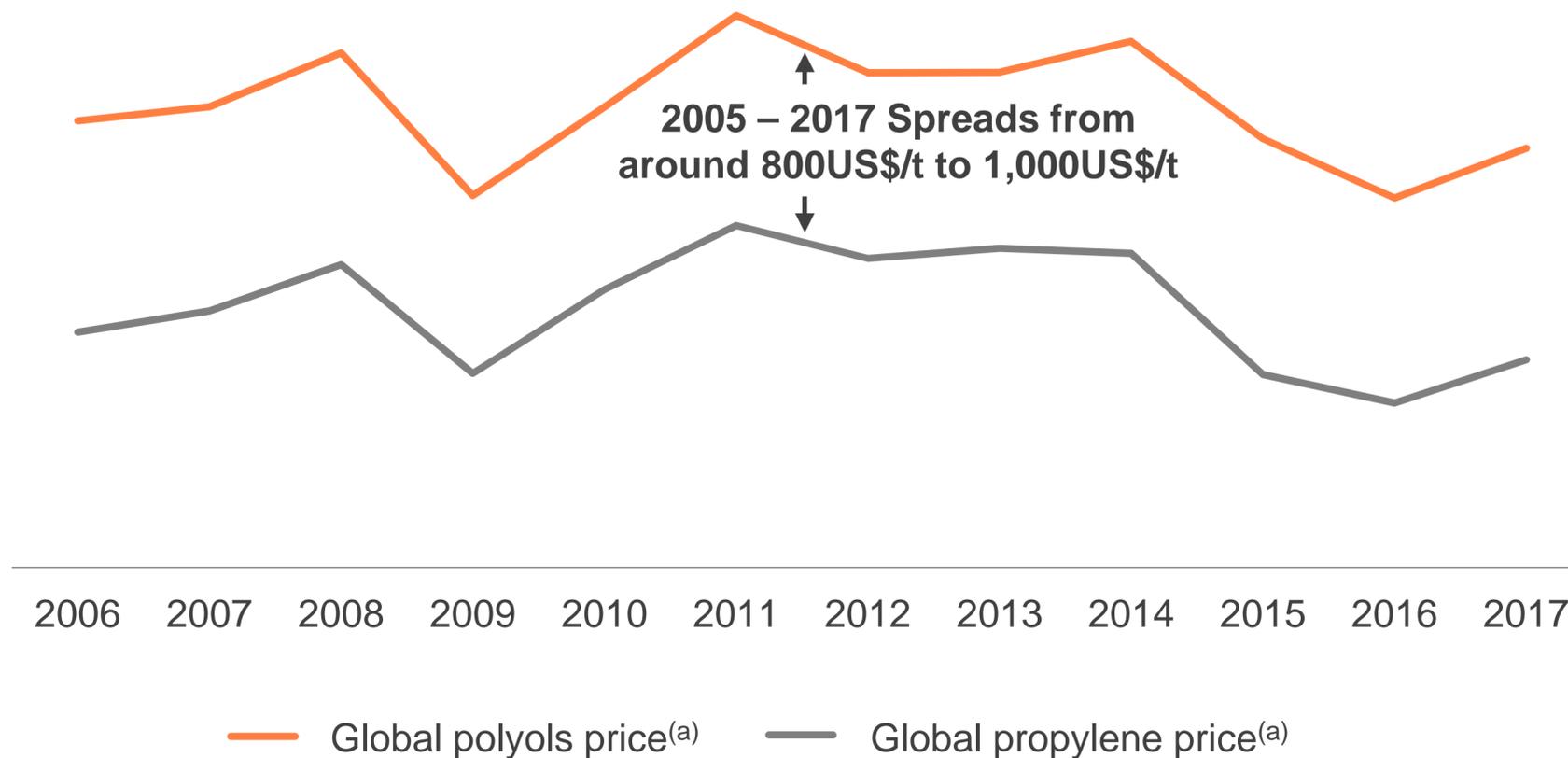
PUR resilient business



Spread development

Highlights

- Resilient industry margins over the last decade reflective of overall Covestro polyether polyols profitability
- Single capacity addition with little influence on supply and demand dynamics
- Spreads not materially impacted by high volatility of propylene prices, particularly during the financial crisis
- Propylene oxide supply and demand dynamics create local pricing opportunities in the short term



Resilient portion of MDI business accounts for ~25% of sales



PUR resilient business

Resilient MDI applications^(a)

Resilient share of MDI volumes has ~20% higher gross margin (2006-2017 average)

Joint sales of polyols and MDI

e.g. CASE^(b), automotive, construction, appliance

Specialty or downstream products

e.g. selected MDI grades (pre-polymers, blends, monomeric)

Formulations as market access requirement

e.g. automotive, appliances

Strong interaction with customers along value chain

joint projects for e.g. window frames, wind mills

Large-scale innovation

- Focus on three large-scale innovation hubs in Pittsburgh, Leverkusen and Shanghai
 - Formulation know-how and tailor-made systems
 - Full scope of application development
 - Cost-efficient business structures
- Centralized systems hubs in Europe and North America benefit from economies of scale and cost-efficient feed from world-scale MDI and polyether polyols assets
- Systems business in Middle East and APAC handled by local system houses

Above GDP growth supports solid industry margin outlook

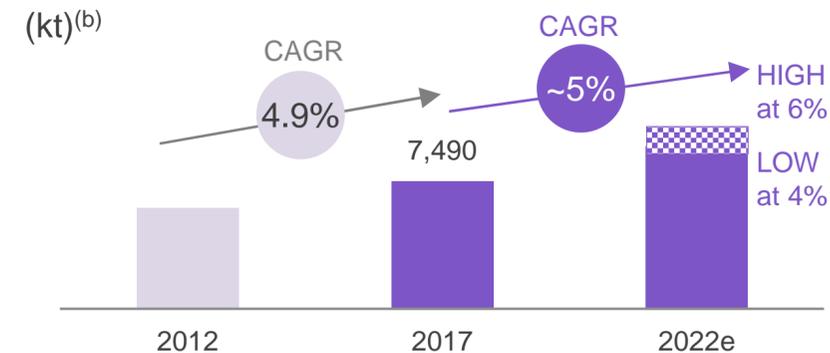
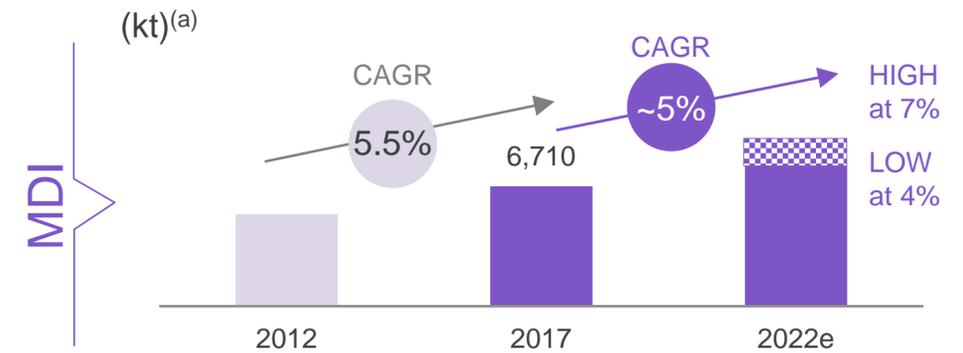


Historical industry development and outlook

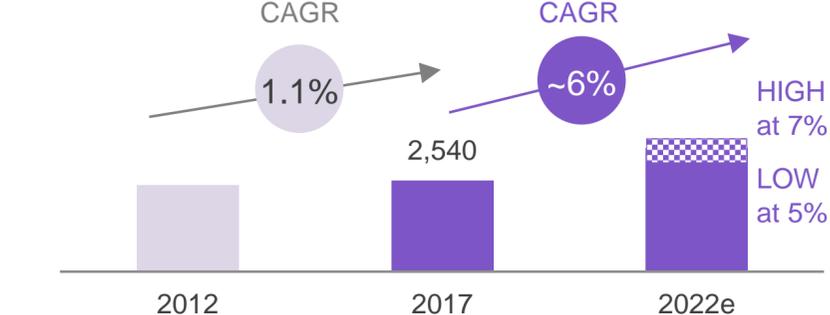
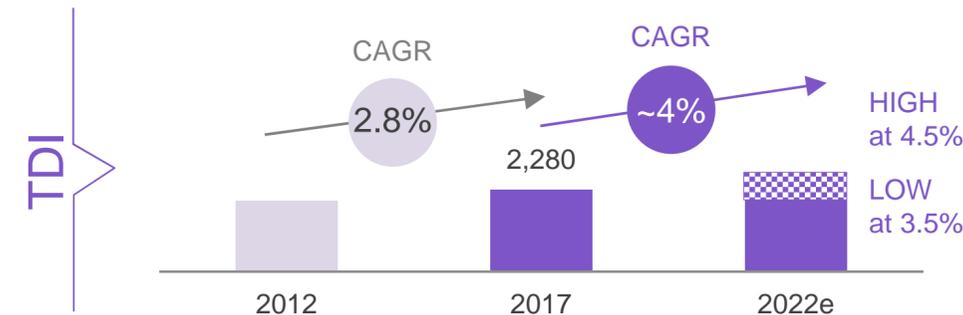
Demand development (2012 – 2022e)

Supply development (2012 – 2022e)

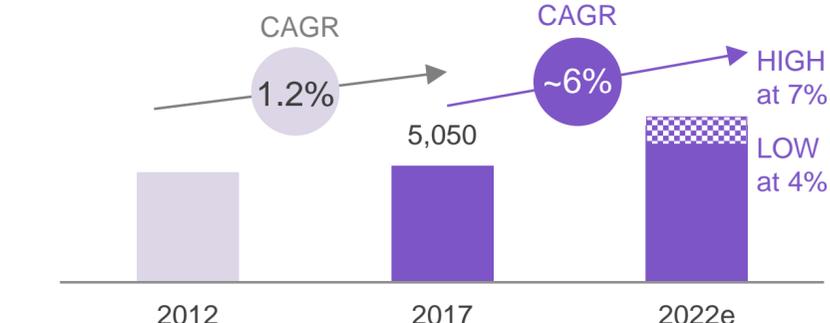
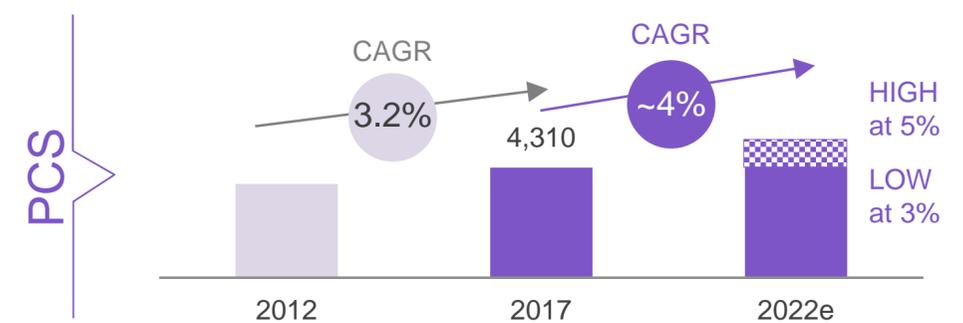
Industry highlights



- Budgeted demand growth of ~5% may be conservative given strong demand trends
- Structurally sound demand for the foreseeable future, driven by solid GDP growth and substitution trend
- Major additions expected until 2022e: BASF, Covestro, Dow/Sadara, SLIC, Wanhua



- Industry expected to move to a balanced situation and margins expected to normalize by end of 2018
- Major additions expected until 2022e: BASF, Dow/Sadara, Wanhua
- Possible industry consolidation in APAC



- Electric mobility and autonomous driving could accelerate demand growth above base case
- Capacity additions of new entrants announced for end of forecasting period with high uncertainties
- Major additions expected until 2022e: Covestro, Heng Yuan, Lotte, Luxi, Zhetie Dafeng, SABIC-Sinopec, Wanhua, ZPC

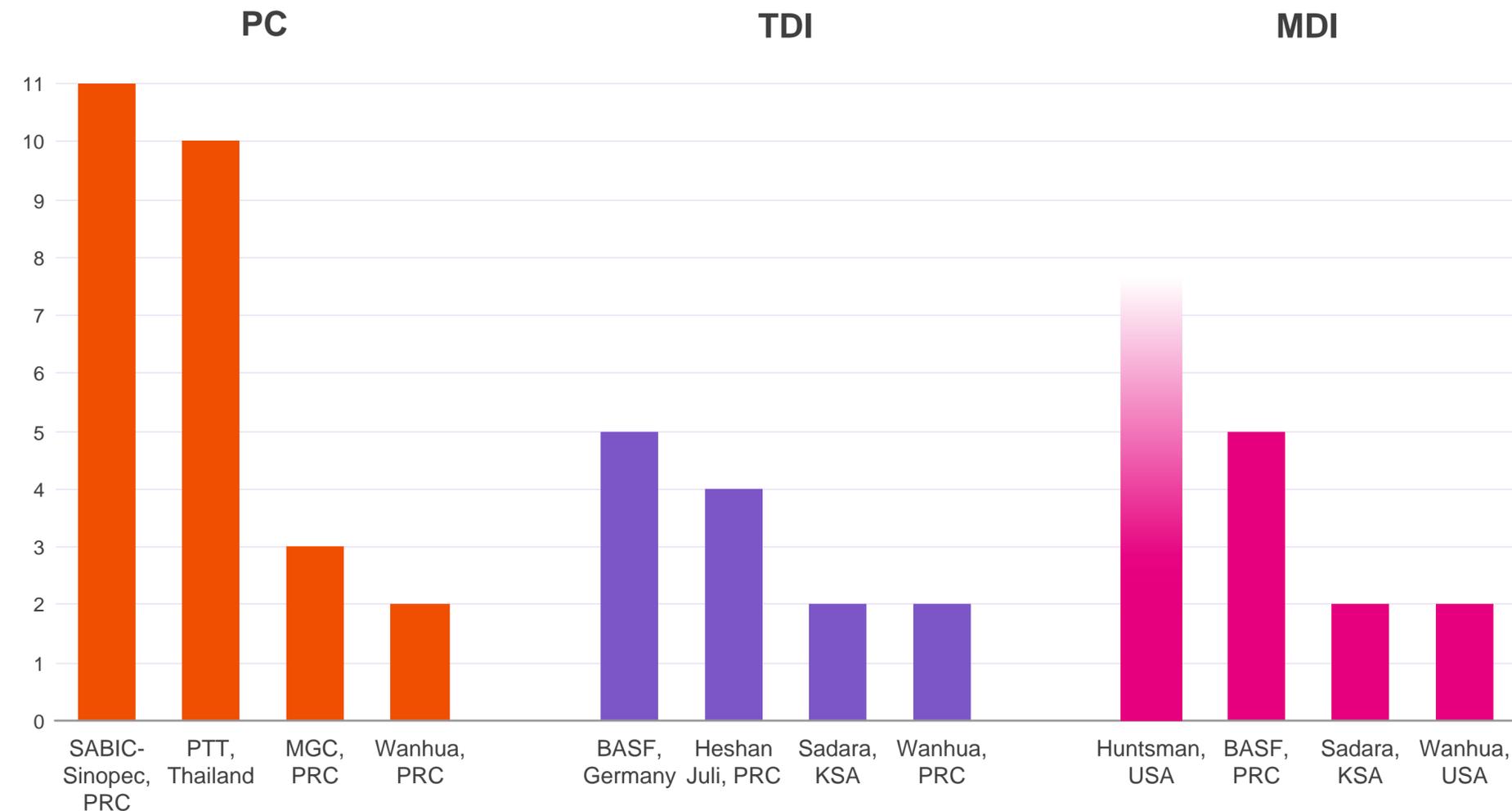


Industry constantly witnesses delays and cancellations

Examples of supply delays

Delays between initially announced start-up date and actual production start

in number of years

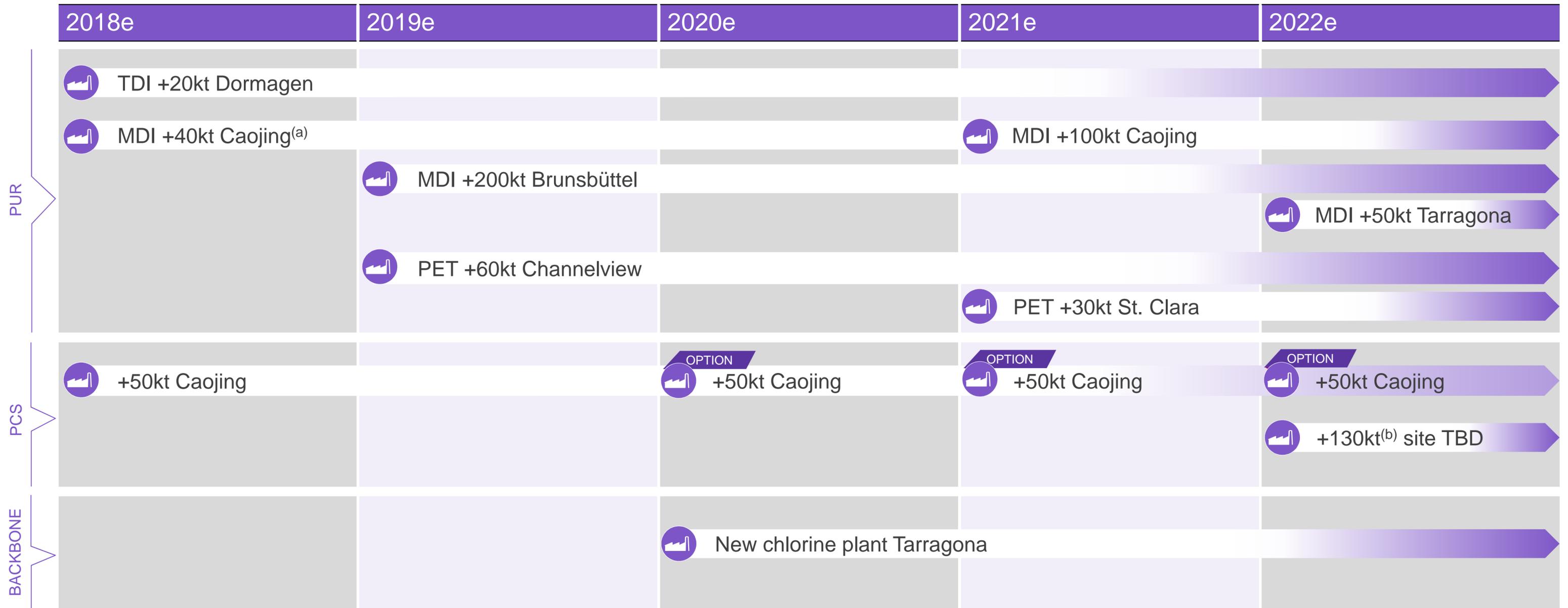


Highlights

- Long lead time for investments of up to a decade in PC, TDI and MDI makes delays the norm
- No off-the-shelf but individual plant designs prolong planning and construction process
- Highly sophisticated chemical processes requires long ramp-up times
- Long investment cycles increase chance of cancellations

Mid-term growth through debottlenecking projects

Covestro planned capacity additions



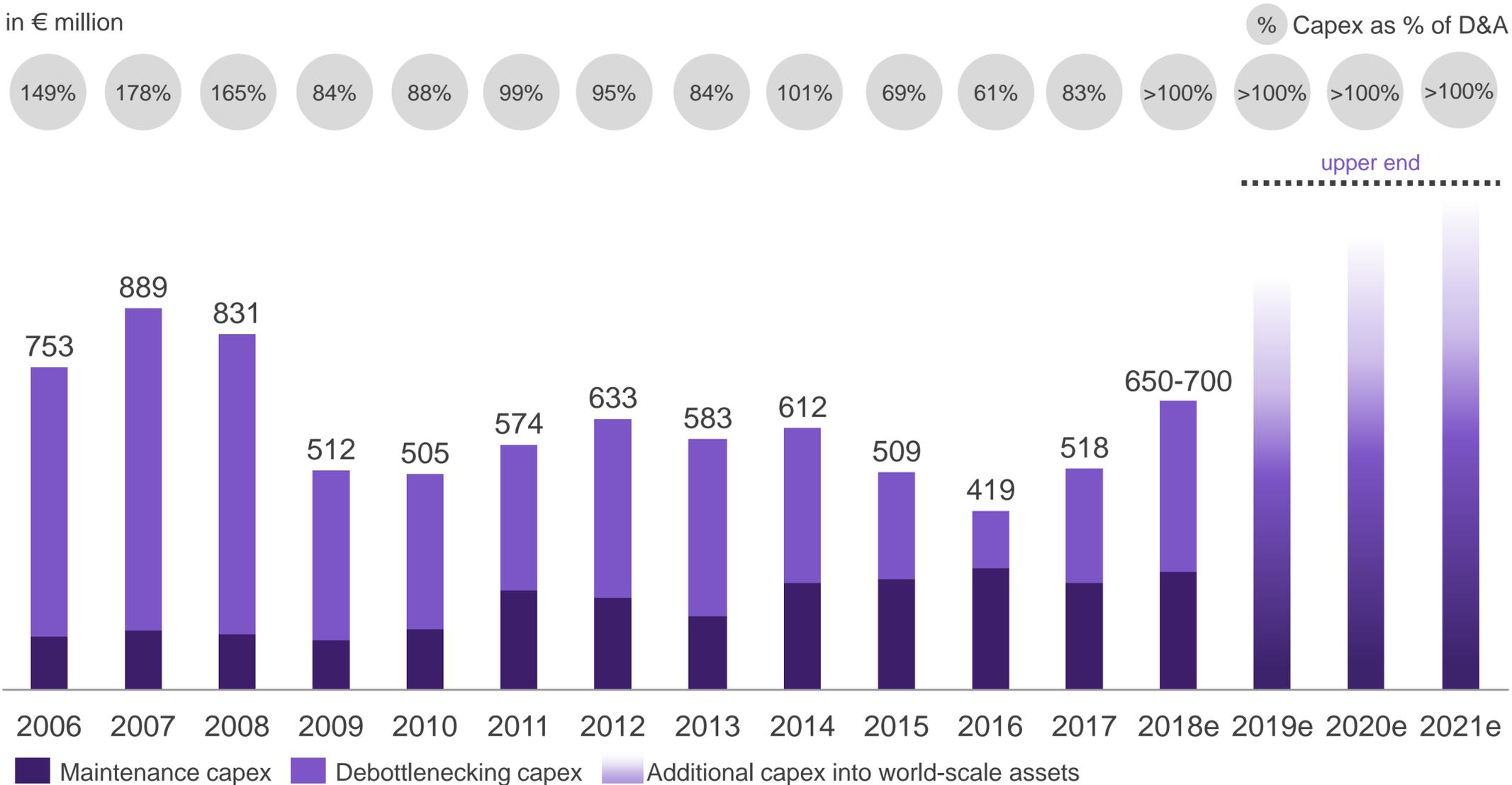
Mid-term debottlenecking capex and world-scale investment

Capex with high ROCE



Covestro capex^(a) development 2006-2021e

in € million



Highlights

Disciplined decision process

- Financial fit (ROCE, NPV, POT^(b))
- Prioritization with focus on value creation

Additional capex creates significant value

- New growth investment into world-scale plants on existing sites
- Capex with high ROCE
- Spending depends on projects and timing

Debottlenecking capex

- Accompany industry growth by adding capacity through debottlenecking projects
- Capex with superior ROCE

Maintenance capex at €250-300 p.a.

- Risk assessment
- Financial impact from project delay

Cumulative EBITDA volume leverage of >€1bn in next 5 years



Core volume growth contribution to EBITDA

Core Volume Growth

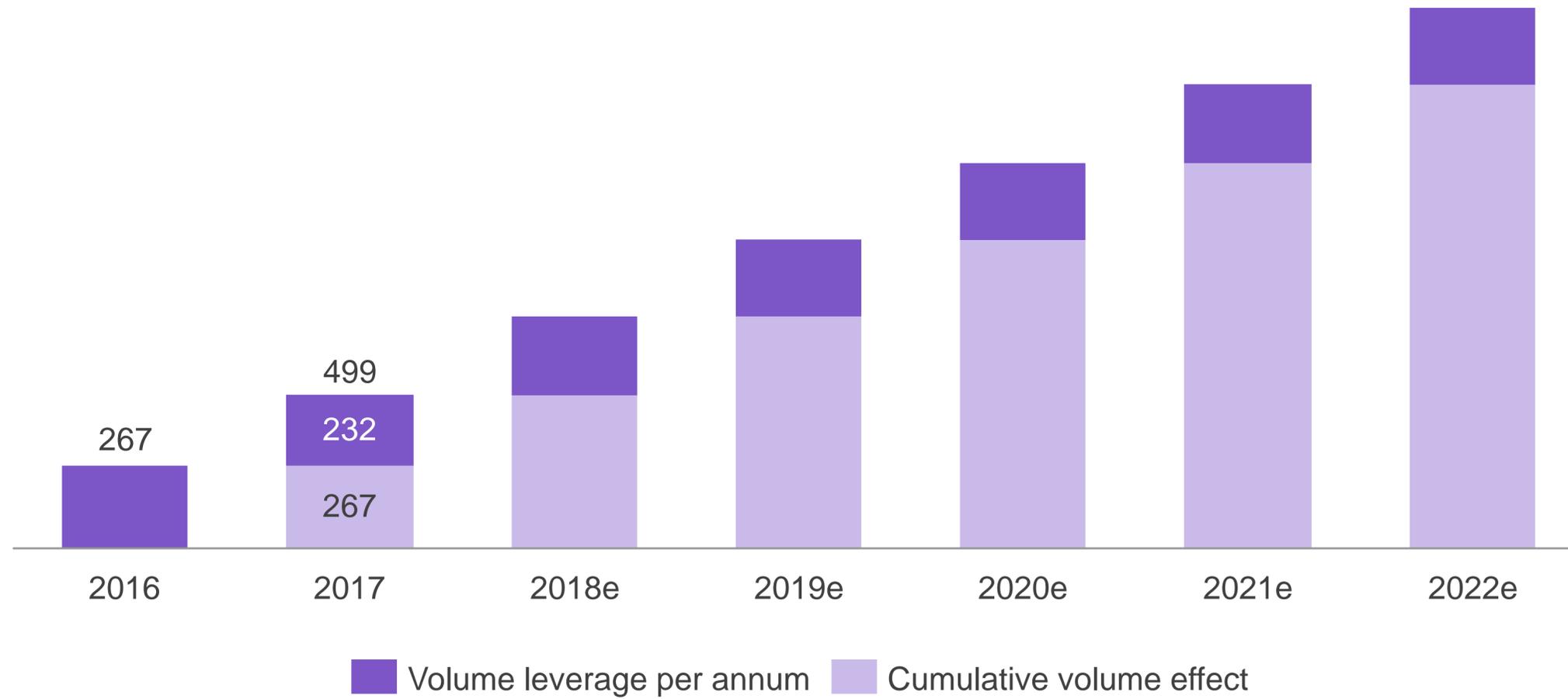
+7.5%

+3.4%

CAGR

~4%

EBITDA in € million



Highlights

- ~4% average core volume growth expected in next 5 years
- Due to resilience improvement of our portfolio and the balanced outlook of our industry, assumption of €200-300 million as EBITDA contribution per year until 2022
- In sum, more than €1bn of EBITDA in the next 5 years stemming from volume leverage only

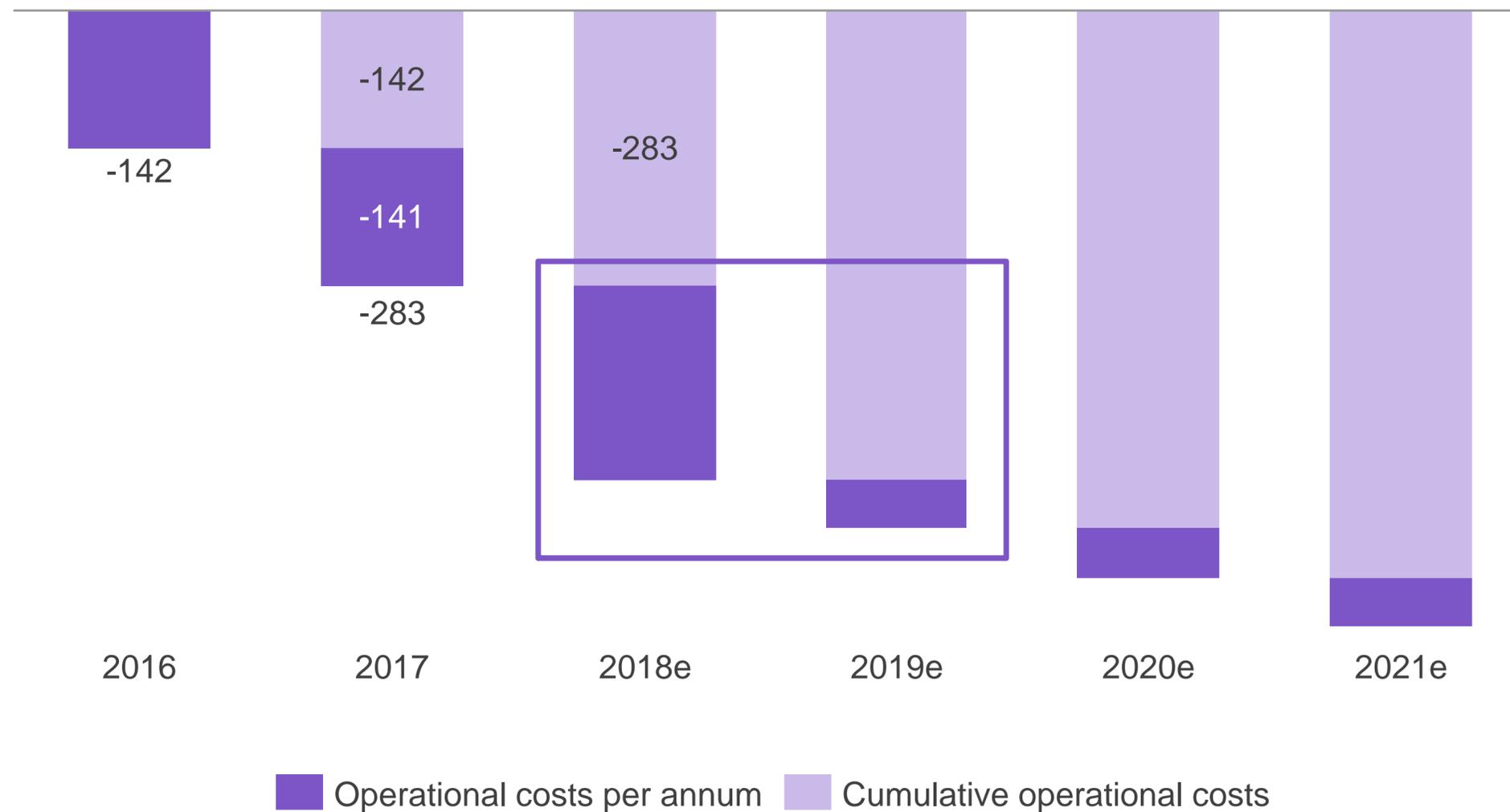
Limit operational cost increases with efficiency programs

Cost development



Cumulative additional operational costs^(a) impacting EBITDA

in € million



Highlights

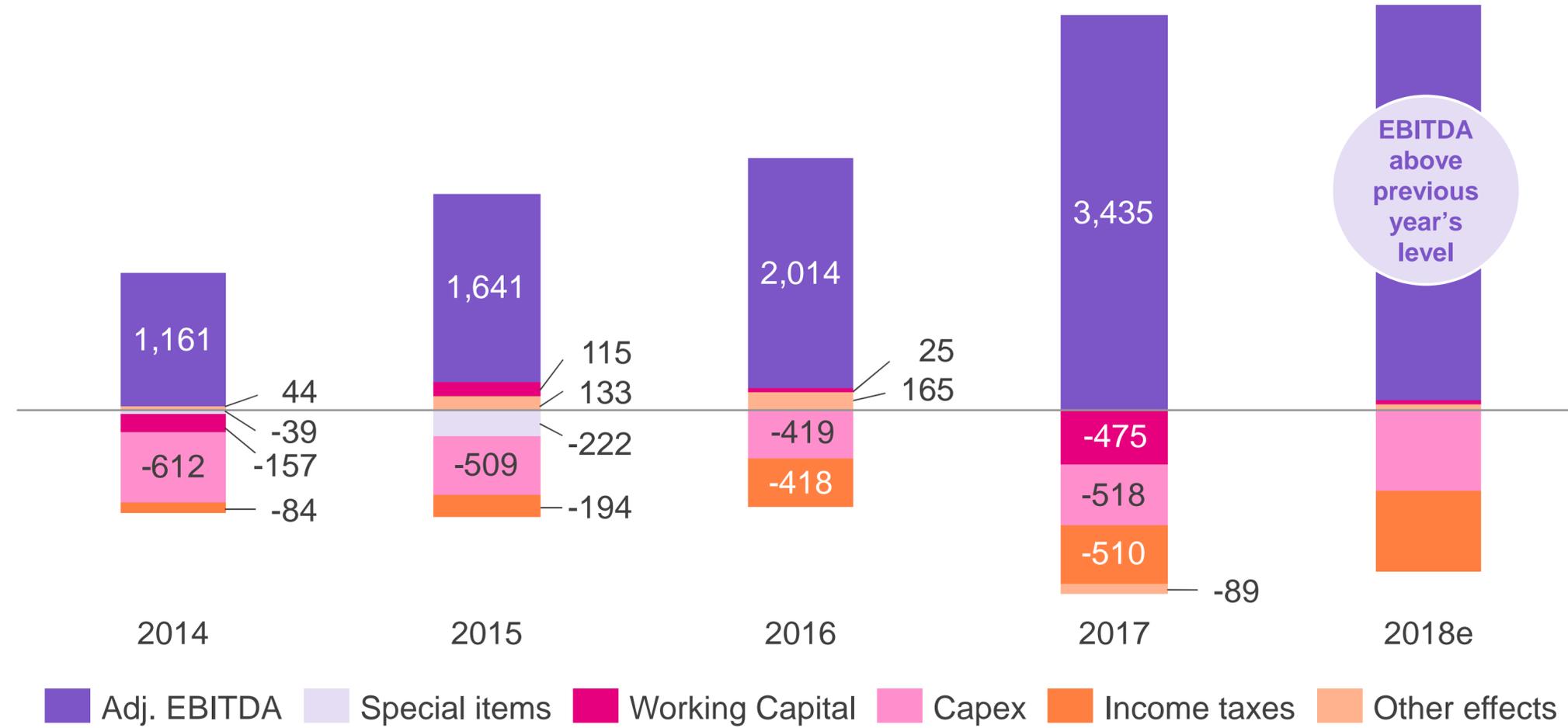
- In 2016-2018e, higher operational costs due to:
 - Short-term incentive payments
 - Capex related operational costs (e.g. engineering expertise)
 - Digitalization related costs
 - Logistics (e.g. inter-regional transportation)
 - Inflation related costs (e.g. salaries)
- In 2019e-2021e, increased efforts of cost control limit operational cost increases

FOCF target of more than €2bn for FY 2018

Development of FOCF components



in € million



Highlights

- Increase of previous target of €5bn for cumulative FOCF in 2017-2019e to *more than* €5bn
- Sustainable high EBITDA to FOCF conversion rate
- Working capital to sales ratio in the target range of 15-17%, with limited expected impact on FY 2018
- Capex of €650m to €700m up Y/Y slightly up versus previous guidance in order to secure production reliability
- Tax rate expected at 25-27% for FY 2018

Decisions based on best value for shareholders

Use of free cash



Dividend policy



- Progressive dividend policy: increase or keep at least stable
- FY 2017 dividend of €2.20 per share, 63% above prior year
- Total payout amount of €436m in Q2 2018 for FY 2017

Return to shareholders



- Share buyback for up to €1.5bn^(a) in execution, with completion targeted by mid 2019
- Since Q4 2017, shares bought back for a total amount of €813m^(b)
- Policy to return excess cash either as share buyback or special dividend

Portfolio



- Disciplined and focused approach
- Acquisitions with focus on high margin and differentiated business areas
- Ongoing portfolio optimization including evaluation of potential disposals



Raising the outlook

Financial Highlights
Q2 2018

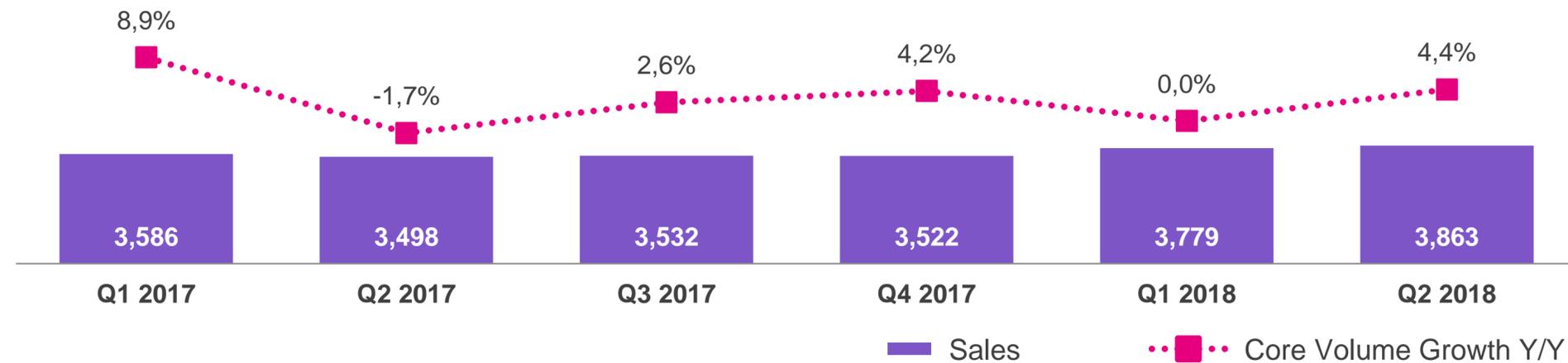
Covestro – continuing profitable growth

Q2 2018 – Group results



Sales and Core Volume Growth

in € million / changes Y/Y

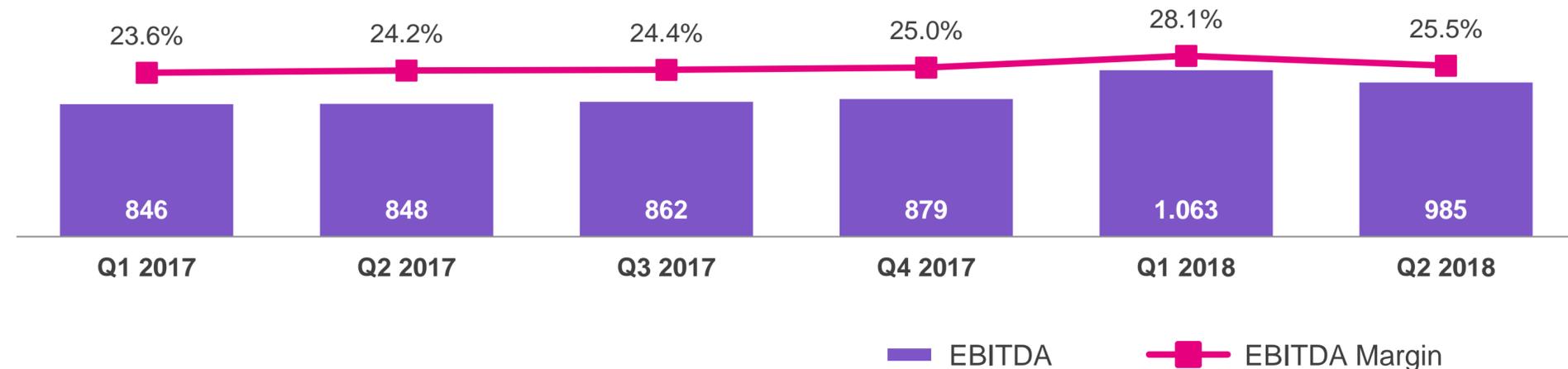


Highlights

- Above GDP core volume growth (in kt) of 4.4% Y/Y driven by all segments
- Sales increased by 10.4% Y/Y driven by price (+9.9%) and volume (+4.9%)

EBITDA and Margin

in € million / margin in percent



Highlights

- EBITDA increased by 16.2% Y/Y driven by all segments
- EBITDA margin on continuously high level, excluding TDI fly-up contribution at c.22%
- Q2 2018 represents 14th consecutive quarter with Y/Y EBITDA increase

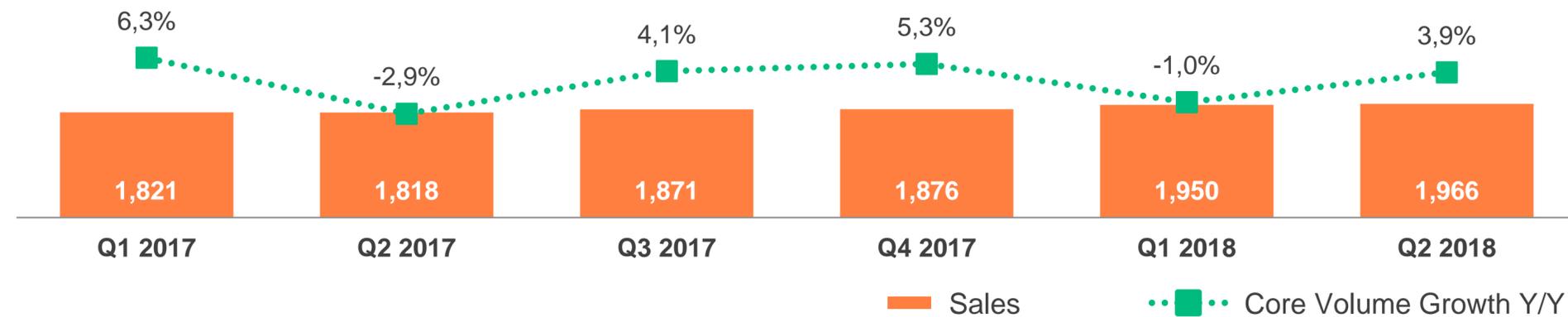
Polyurethanes – normalizing earnings

Q2 2018 – PUR segment results



Sales and Core Volume Growth

in € million / changes Y/Y

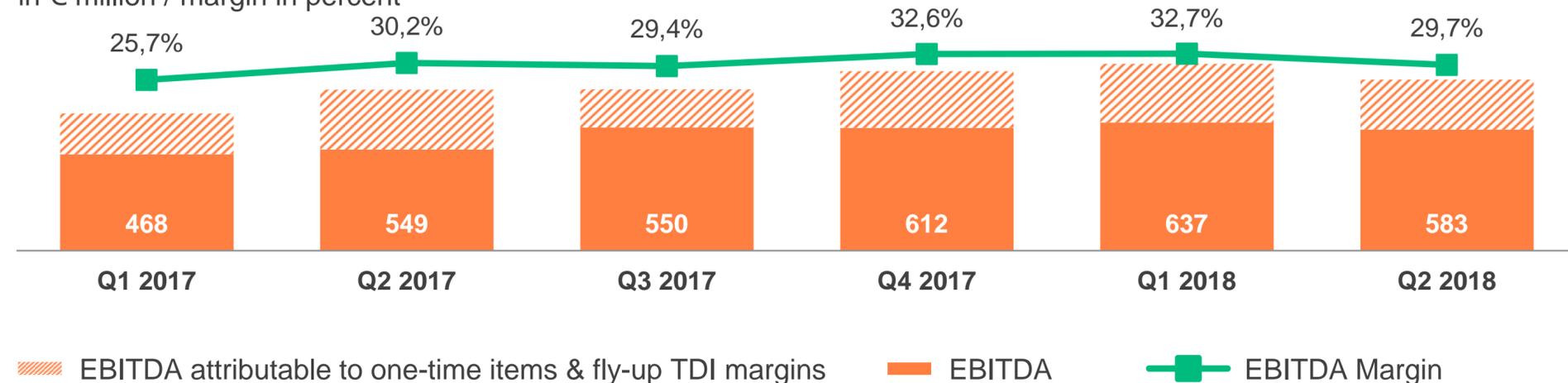


Highlights

- Solid core volume growth of 3.9% Y/Y driven by strong MDI, whereas TDI and polyols increased low single digit
- Sales increased by 8.1% Y/Y driven by price (+9.2%) and volume (+3.3%)
- Negative FX impact of 4.4% Y/Y

EBITDA and Margin

in € million / margin in percent



Highlights

- EBITDA increased by 6.2% Y/Y due to positive pricing delta and volume leverage
- Underlying EBITDA margin excluding TDI fly-up contribution and one-time items expanded to c.23% vs. c.21% in Q2 2017

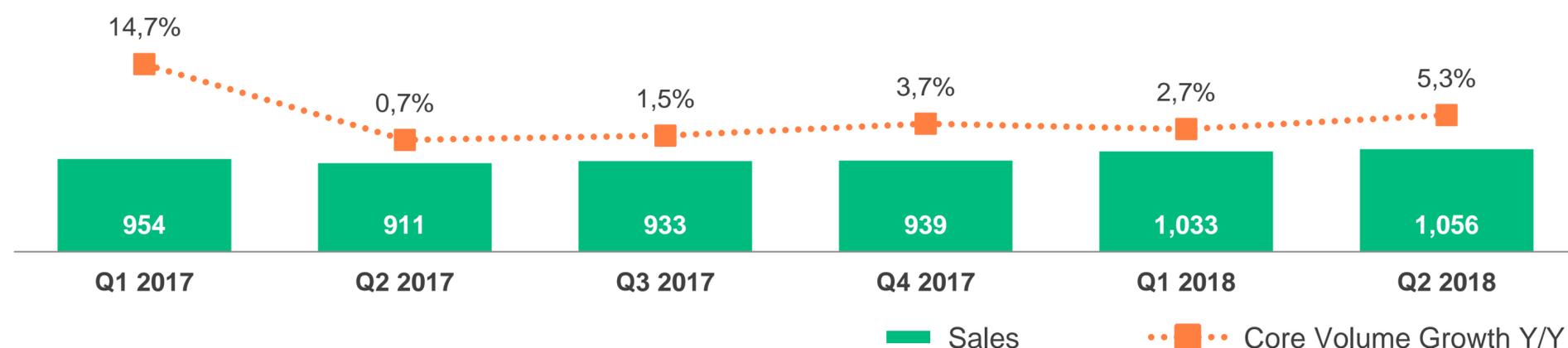
Polycarbonates – driven by price, volume and product mix

Q2 2018 – PCS segment results



Sales and Core Volume Growth

in € million / changes Y/Y

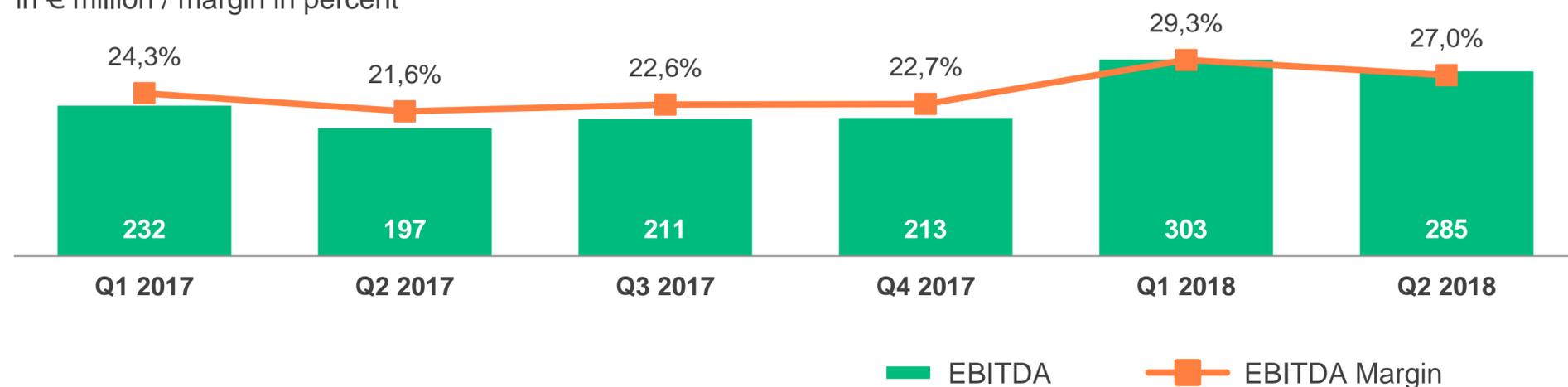


Highlights

- Solid core volume growth of 5.3% Y/Y driven by APAC and EMLA
- Sales increased by 15.9% Y/Y driven by price (+15.2%) and volume (+5.6%)
- Negative FX impact of 4.9% Y/Y

EBITDA and Margin

in € million / margin in percent



Highlights

- EBITDA increased by 44.7% Y/Y due to positive pricing delta and volume leverage
- EBITDA margin expanded to 27.0% vs. 21.6% in Q2 2017

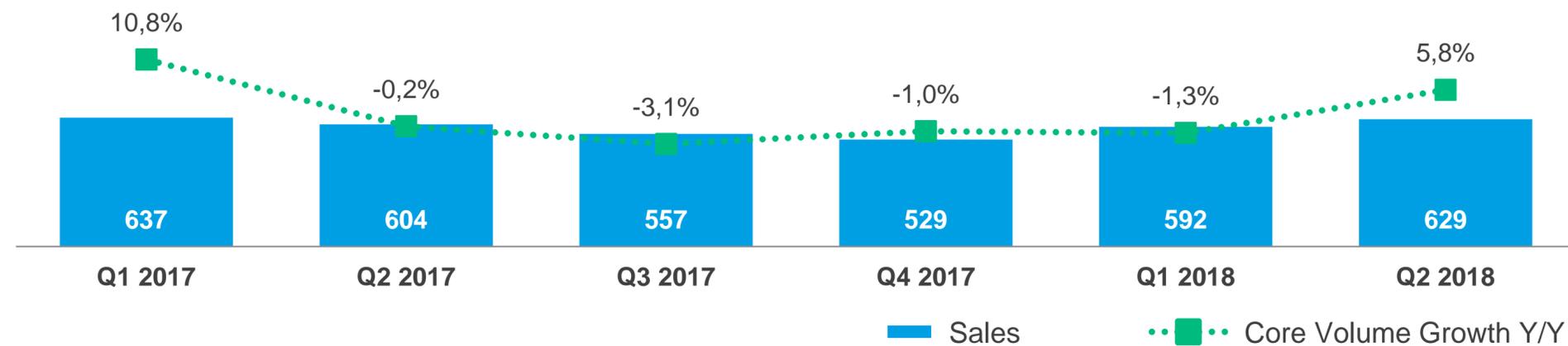
Coatings, Adhesives, Specialties – back to growth

Q2 2018 – CAS segment results



Sales and Core Volume Growth

in € million / changes Y/Y

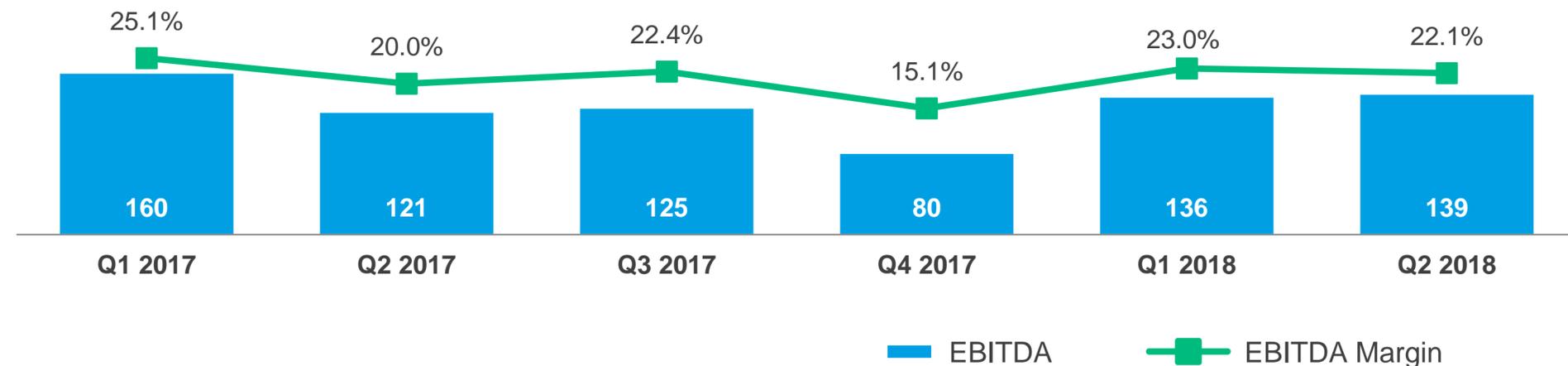


Highlights

- Strong core volume growth of 5.8% Y/Y with all regions contributing
- Sales increased by 4.1% Y/Y driven by volume (+6.3%) and price (+1.7%)
- Negative FX impact of 3.9% Y/Y

EBITDA and Margin

in € million / margin in percent



Highlights

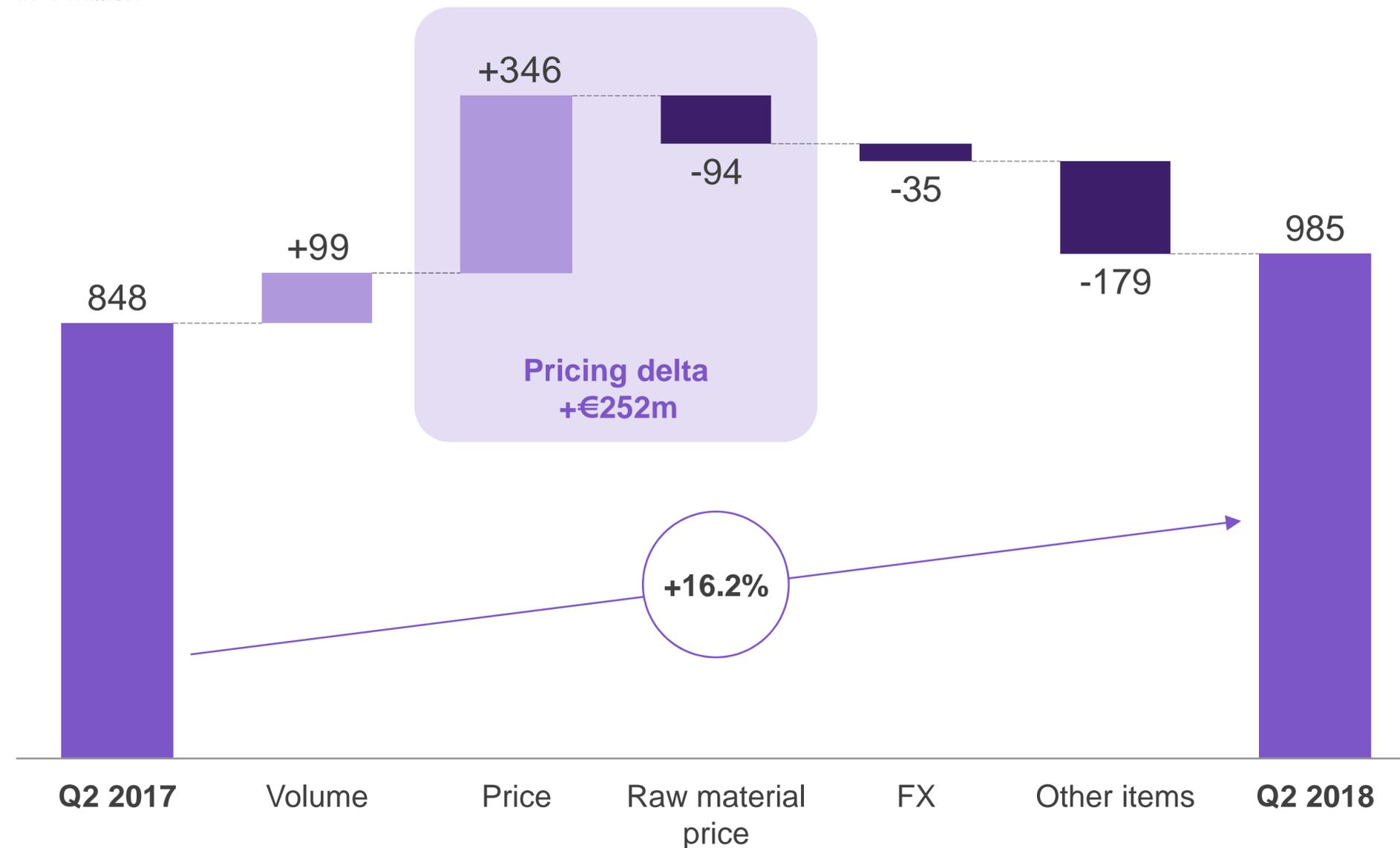
- EBITDA increased by 14.9% Y/Y mainly due to positive volume leverage
- Price increases balanced out negative raw material impact
- EBITDA margin expanded to 22.1% vs. 20.0% in Q2 2017

High volume leverage and positive pricing delta

Q2 2018 – EBITDA bridge



in € million



Highlights

High positive volume leverage

- Broad-based in all three segments
- EBITDA volume leverage^(a) at 58%

Improving cash margin

- Positive pricing delta in all segments, mainly driven by PUR and PCS
- Selling prices increased significantly more than raw material prices

Other items

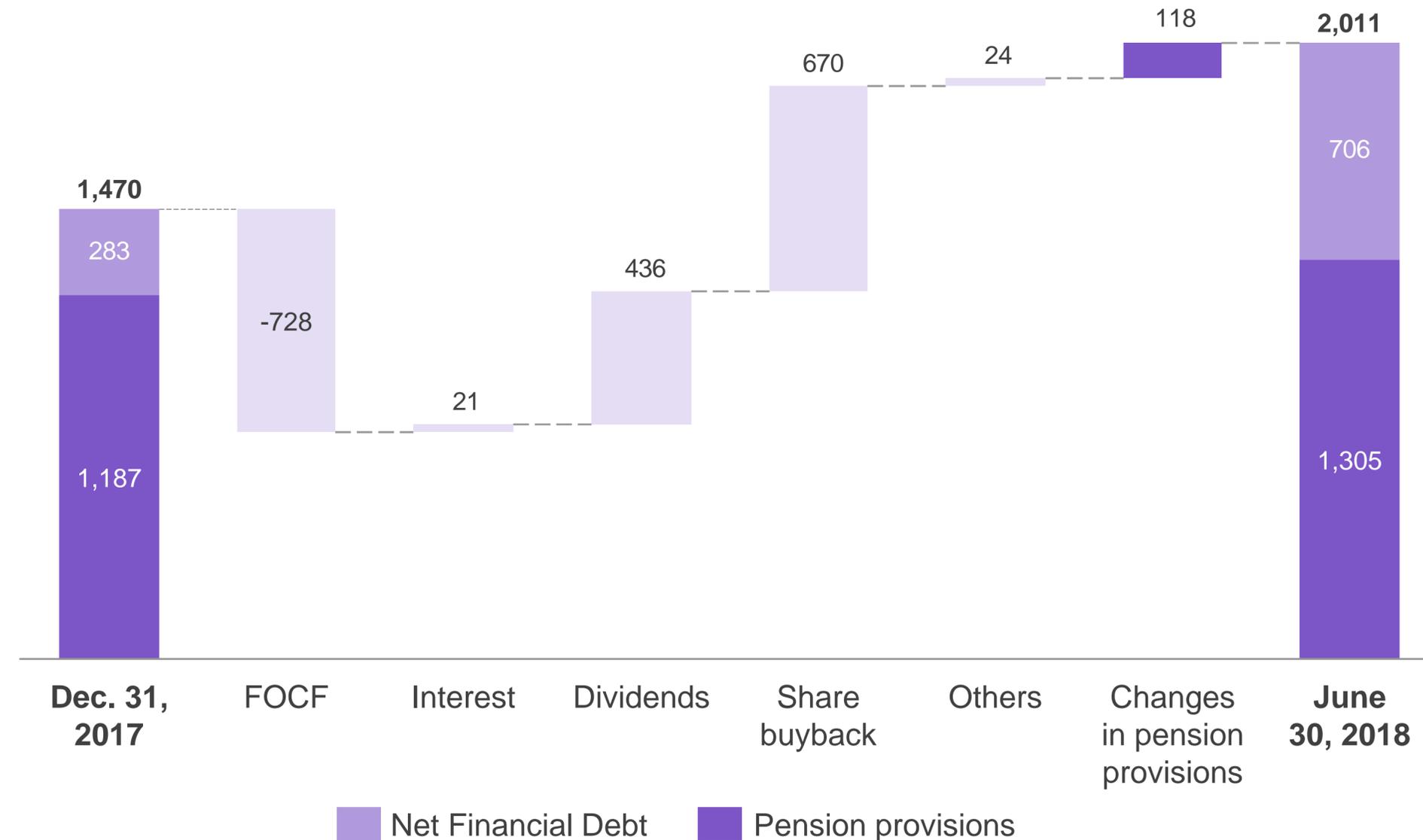
- Prior year benefited from one-time items of €74m
- Higher maintenance and logistics costs as well as diverse items



Above €1bn cash returned to shareholders

June 30th 2018 – Total net debt

in € million



Highlights

- Total net debt to EBITDA ratio^(a) slightly increased to 0.5x end of Q2 2018
- Increase of net financial debt by €423m mainly due to share buyback and dividend payout
- Repayment of a €500m bond out of cash in Q1 2018
- Pension provisions increased by €118m partly due to lower interest rates in Germany
- Equity ratio further improved to 50%
- Investment grade rating upgrade by Moody's to "BAA1" with a stable outlook on July 30th, 2018

FY 2018 EBITDA guidance raised

Summary



	FY 2017	Guidance FY 2018
Core Volume Growth	+3.4%	Low- to mid-single-digit percentage increase Y/Y
FOCF	€1,843m	>€2bn
ROCE	33.4%	Around previous year's level (previously: approaching)
Additional financial expectations	FY 2017	Guidance FY 2018
EBITDA FY	€3,435m	Above previous year's level (previously: around)
EBITDA Q3	Q3 2017: €862m	Around Q3 2017
D&A	€627m	€620-640m (previously: €600-620m)
Financial result	€-150m	€-100 to -120m
Effective tax rate	24.1%	25-27%
Capex	€518m	€650-700m

Upcoming IR events

Find more information on investor.covestro.com



Broker conferences

- August 28, 2018 Commerzbank, Sector Conference, Frankfurt
- September 12, 2018 Credit Suisse, 31st Annual Basic Materials Conference, New York
- September 24-25, 2018 Berenberg & Goldman Sachs, 7th German Corporate Conference, Munich,
- September 26, 2018 Baader Bank, Investment Conference 2018, Munich
- September 27, 2018 JP Morgan, Milan Investor Forum, Milan
- October 2, 2018 Kepler Cheuvreux, One-Stop Shop, Copenhagen

Reporting dates

- October 25, 2018 Q3 2018 Interim Statement
- February 25, 2019 Annual Report 2018
- April 29, 2019 Q1 2019 Interim Statement

Annual General Meeting

- April 12, 2019 Annual General Meeting, Bonn

Disclaimer



This presentation may contain forward-looking statements based on current assumptions and forecasts made by 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 on the Covestro website at www.covestro.com.

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