



Securing profitable growth in more challenging times

Roadshow presentation

Securing profitable growth in more challenging times



Covestro key investment highlights

1

Above GDP volume growth

driven by innovation and sustainability trends, also embodied by non-financial targets

2

Leading and defensible global industry positions

as innovation and cost leader

3

More than half of sales generated by resilient businesses

supporting value-creating base earnings

4

Management focus on driving efficiency

with streamlined structures to better adapt to market needs, focus on cost discipline and new incentive targets

5

Use of cash focused on shareholder value

with commitment to progressive dividend policy and focused capex for best value-creation

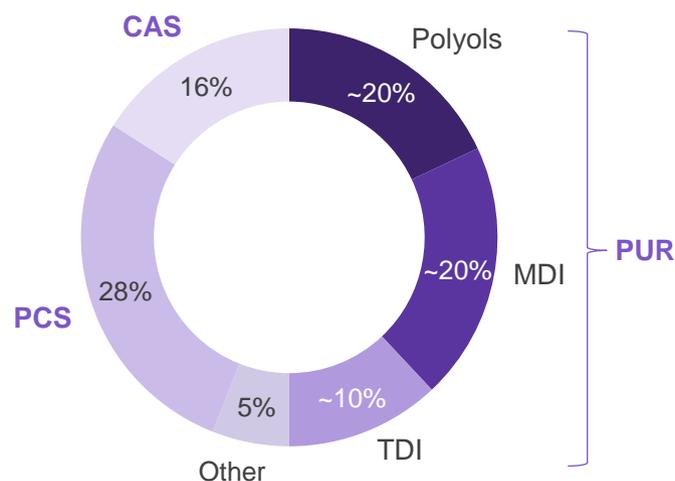
Global leader in high-tech material solutions



Covestro at a glance

Sales split by segments

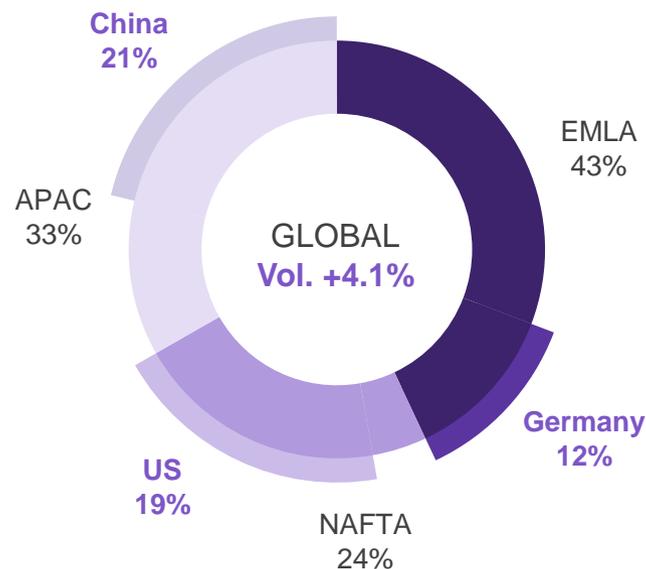
% of 2018 Group sales



Sales split by regions

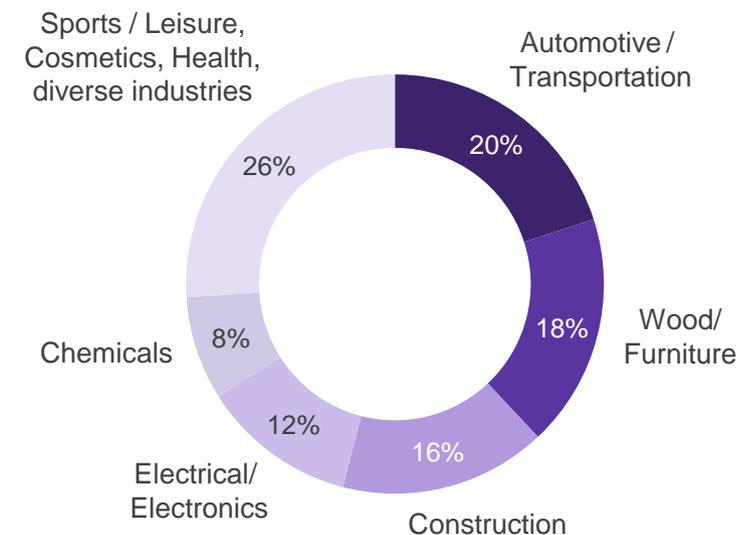
% of 2018 Group sales

Core volume growth in %, CAGR 2015-2018



Sales split by end-markets

% of 2018 Group sales



€14.6bn Sales

High ROCE above WACC

~5 million tons

PUR and PCS nameplate capacity

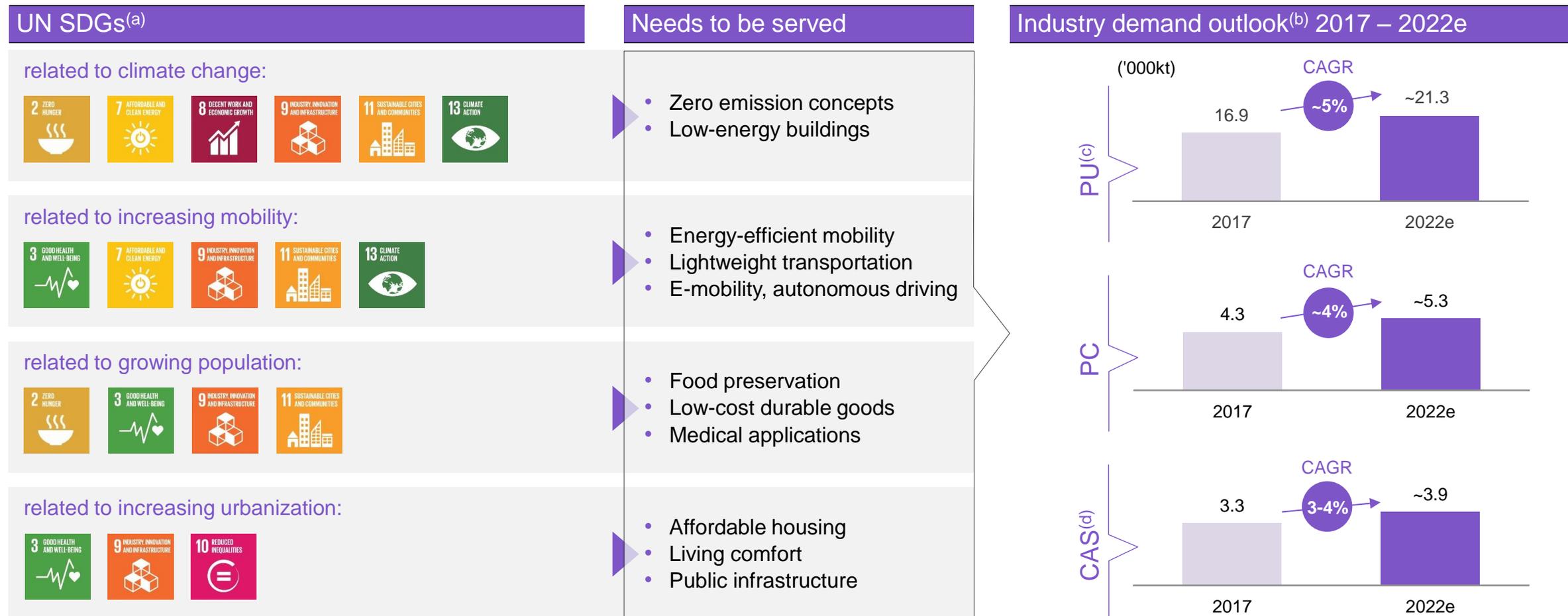
Employees ~16,800 FTEs

Headquarters in Leverkusen, Germany

Higher global GDP expectation leads to higher industry growth



Structural growth drivers



Product innovation as long-term growth driver

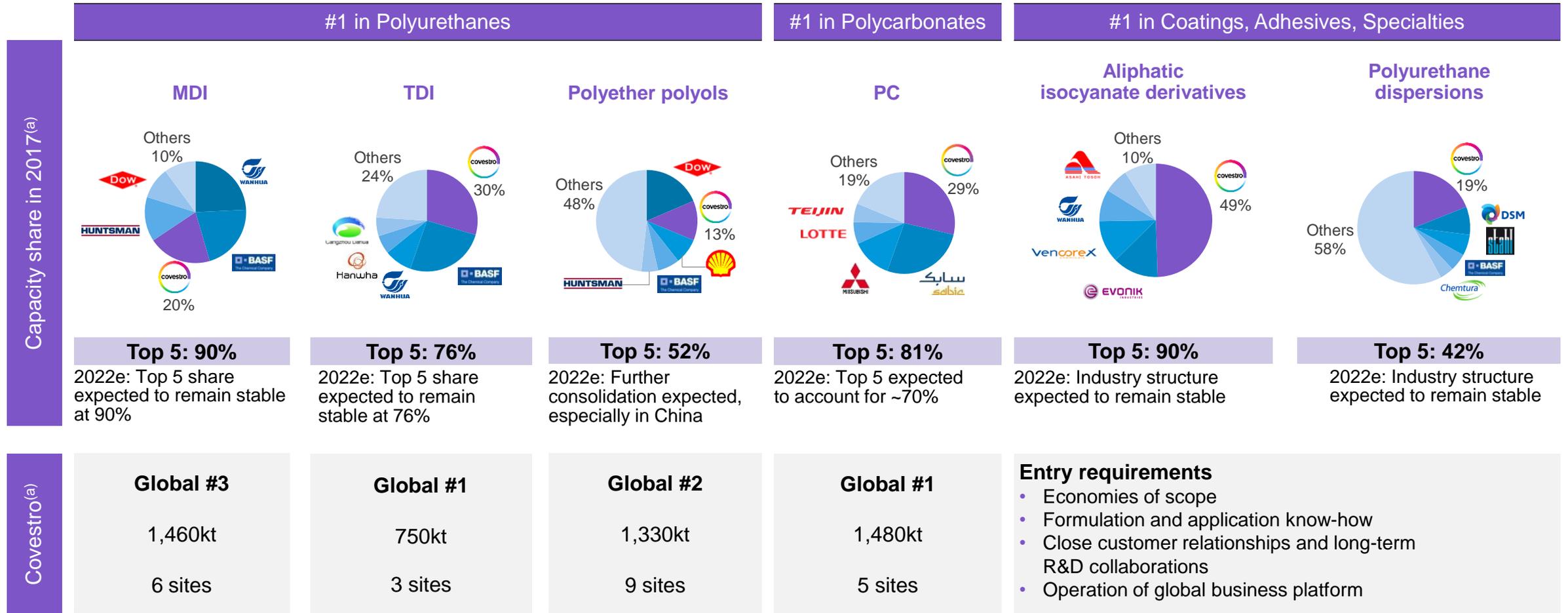


Addressing ever-changing customer needs for new material solutions

Need	Overall market	Relevant market	Covestro solutions
More durable and economical wind power plants 	Energy consumption CAGR: ~3%	Offshore wind energy CAGR: ~19%	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%	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%	Polycarbonates in LED lenses, light guides, heat sinks
Eco-friendly produced furniture 	Coating ind. furniture CAGR: ~3%	Water-based ind. furniture CAGR: ~5%	New bio-based hardener for water-based wood coatings
Sustainable and functional fashion 	Textile coating CAGR: ~6%	Relevant textile coating CAGR: ~11%	Waterborne, solvent-free materials for functionalized textiles in diverse applications
More and better cooling devices 	Refrigerators CAGR: ~3%	Refrigeration insulation foam CAGR: ~8%	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%	Attractive alternatives to conventional materials: polymers to replace glass and metal

Global leader across its entire portfolio

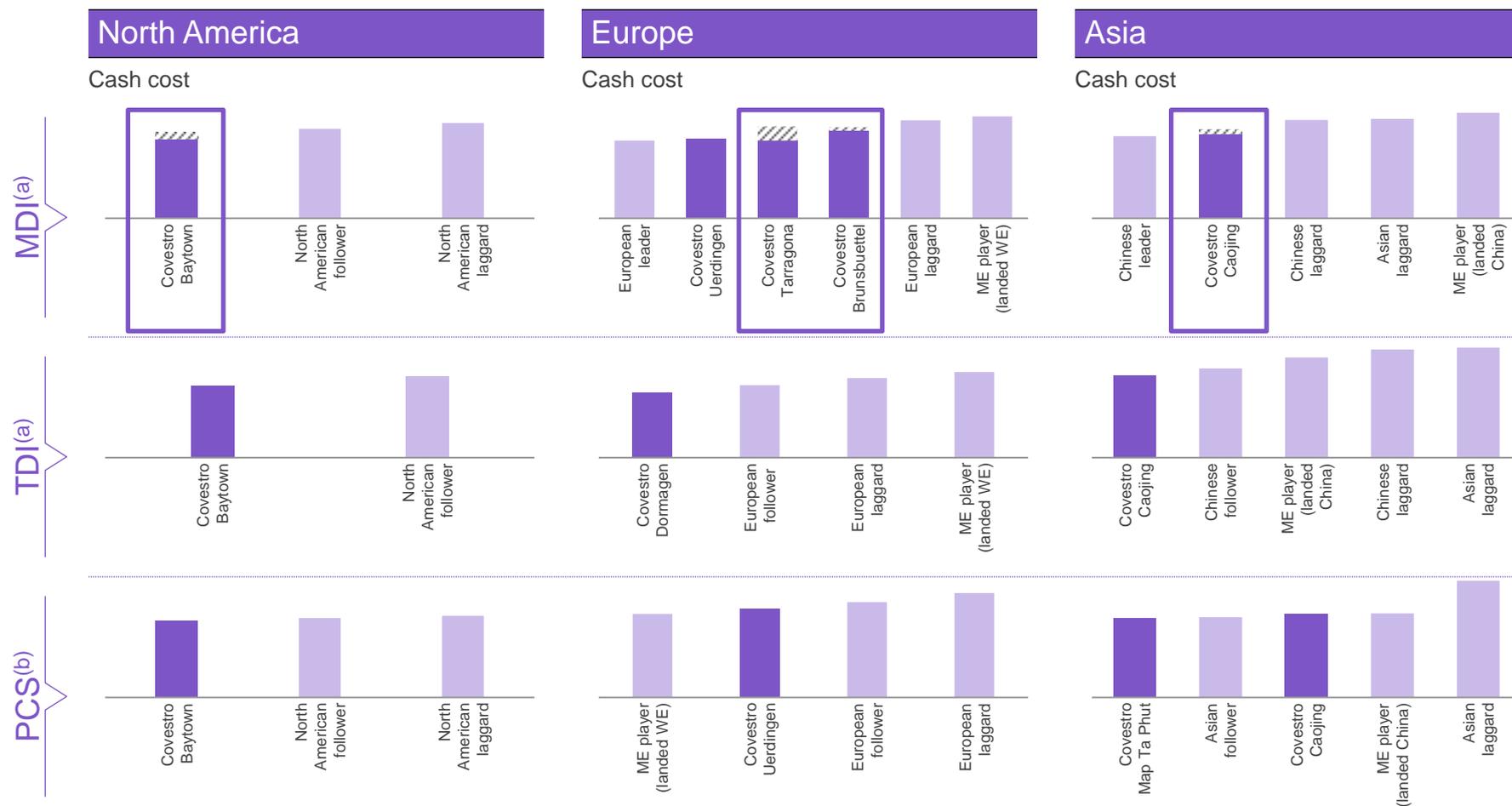
Production capacities and world-wide industry positions



Leading cost positions across business segments and regions



Cash cost positions



Highlights

- Covestro is one of the low-cost producers in MDI
- Capex for ongoing MDI expansion projects reflected by significant cash cost improvements
- MDI industry with relatively flat cost curves reflected by cash cost advantage of ~20% between the best and the average of least competitive 5 plants
- Covestro is the global cost leader in TDI and PCS
- Covestro cash cost advantage of ~50% in TDI and ~30% in PCS compared to the average of least competitive 5 plants

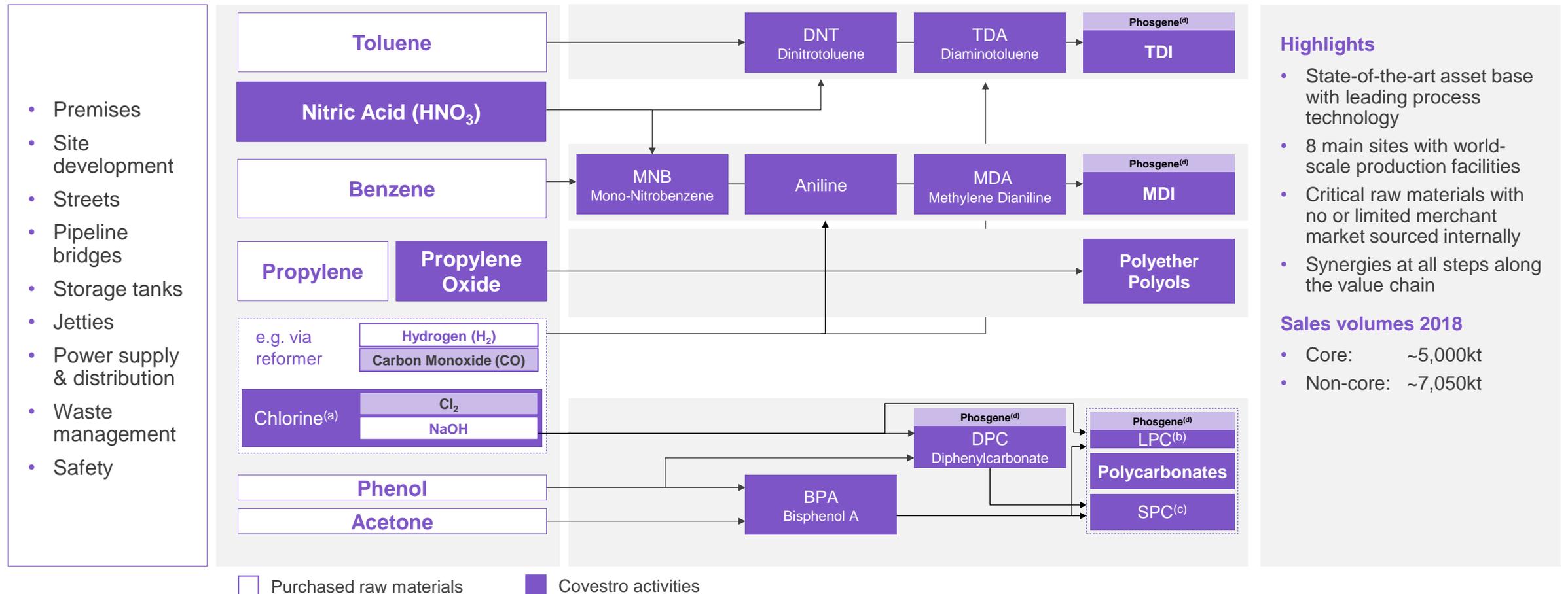
/// Cash cost improvements based on investment projects

Synergies in scale, process technology and chemical know-how



One chemical backbone across all segments

► Infrastructure ► Raw Materials ► Core Units / Technology ► Final product



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 volumes 2018

- Core: ~5,000kt
- Non-core: ~7,050kt

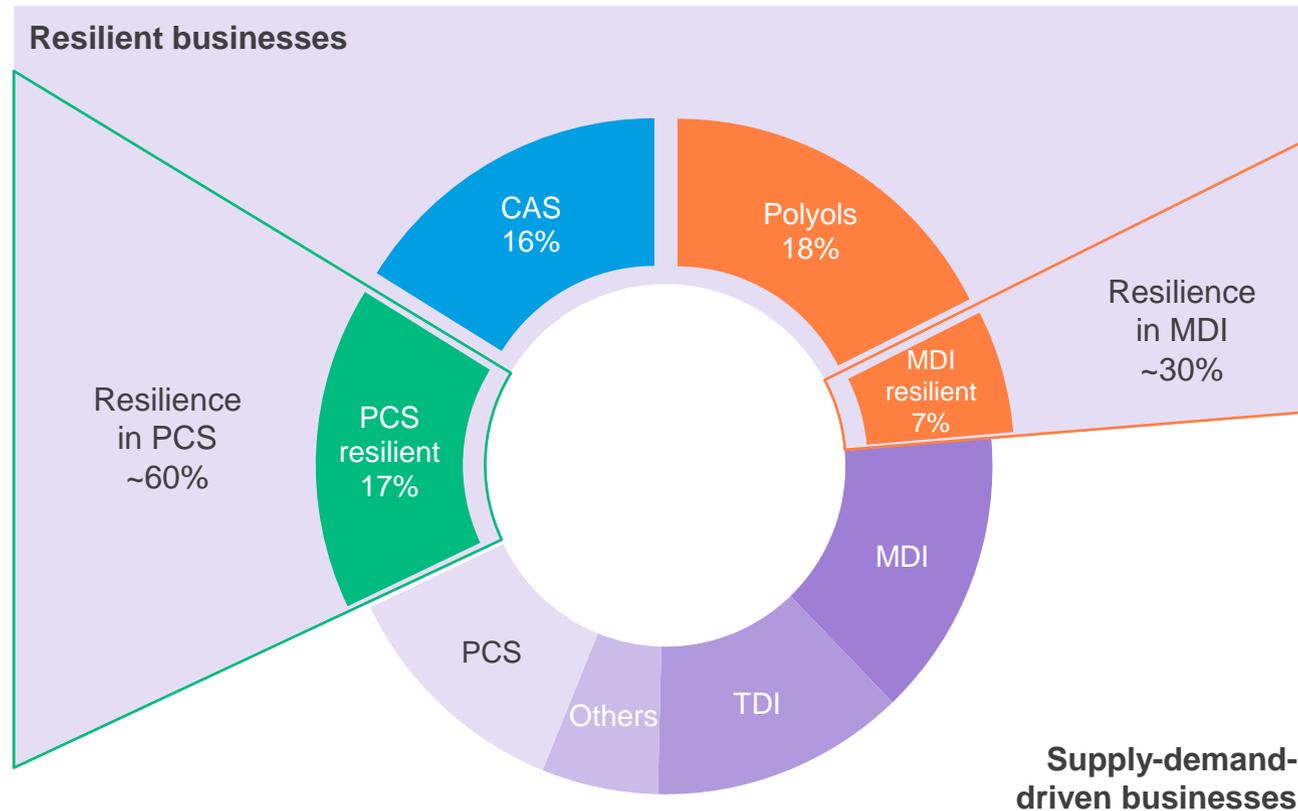
Over half of sales generated with resilient businesses



Product portfolio overview

Sales by segments

% of 2018 Group sales



Highlights

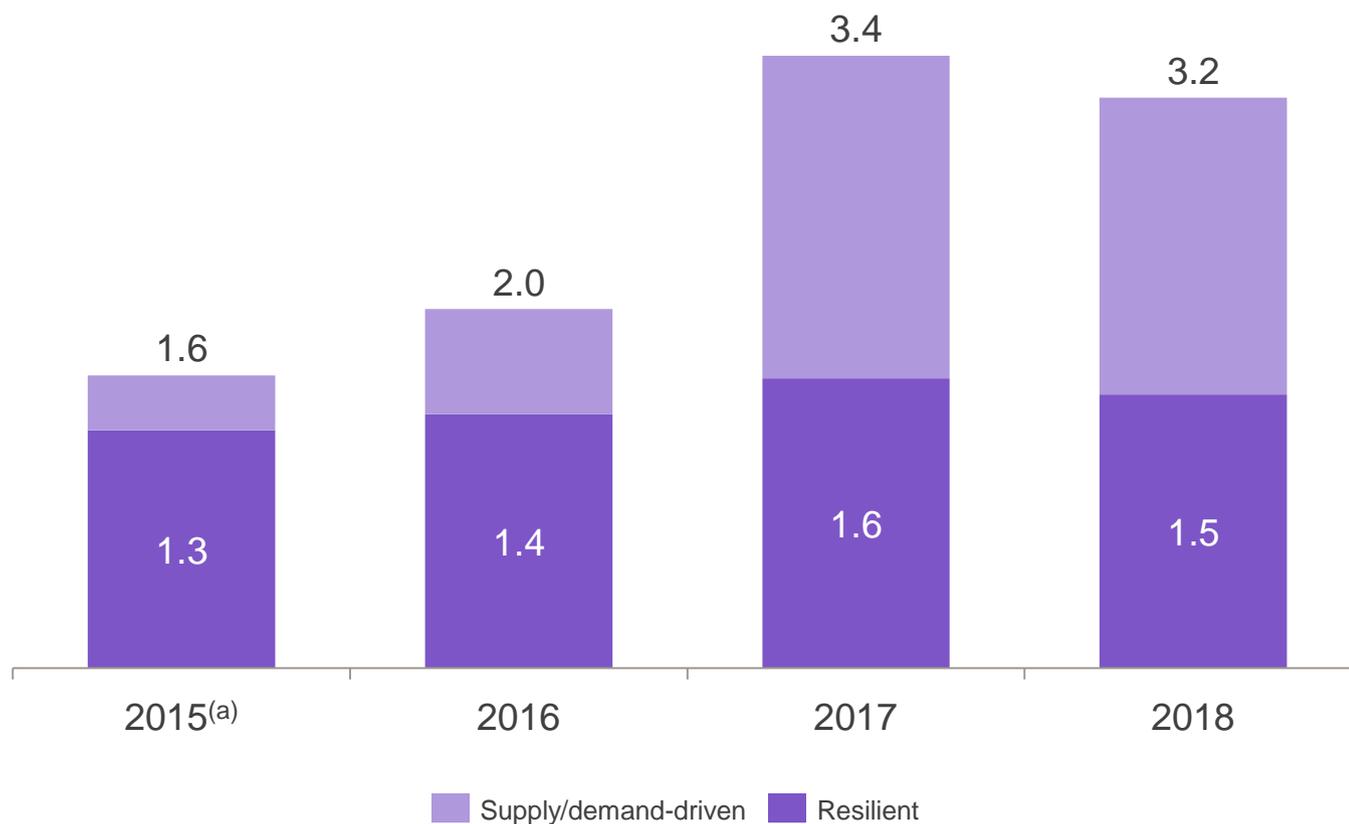
- **CAS** business is resilient in sales and earnings due to characteristics of niche ingredient chemicals
- Resilient portion of **PCS** business is driven by high-end industry applications e.g. automotive, electrical, healthcare
- **Polyols** business is resilient in sales and earnings as demonstrated 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

Resilient businesses generate EBITDA of €1.3 – 1.6bn



Resilient vs. supply/demand-driven share of EBITDA

in € billion



Highlights

- Resilient businesses^(b) supports value-creating base earnings
- EBITDA generation between ~€1.3bn and ~€1.6bn per year under normal economic conditions
- EBITDA from the resilient part of business portfolio sufficient to cover the Covestro cost of capital
- In 2015-2017, increase of earnings in resilient share driven by higher proportion of differentiated PCS and higher margin in differentiated MDI
- In 2018, slight decrease of earnings in resilient share driven by Polyols and CAS
- In peak years 2017-2018, supply/demand-driven businesses increased share of EBITDA disproportionately

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

3.3%

Core volume CAGR in 2015-2018^(a)

€2.4bn

Sales 2018^(a)

€203m

FOCF 2018^(a)



Ingredients for **surface coatings**



Ingredients for **adhesives and sealants**



Ingredients for **specialties**

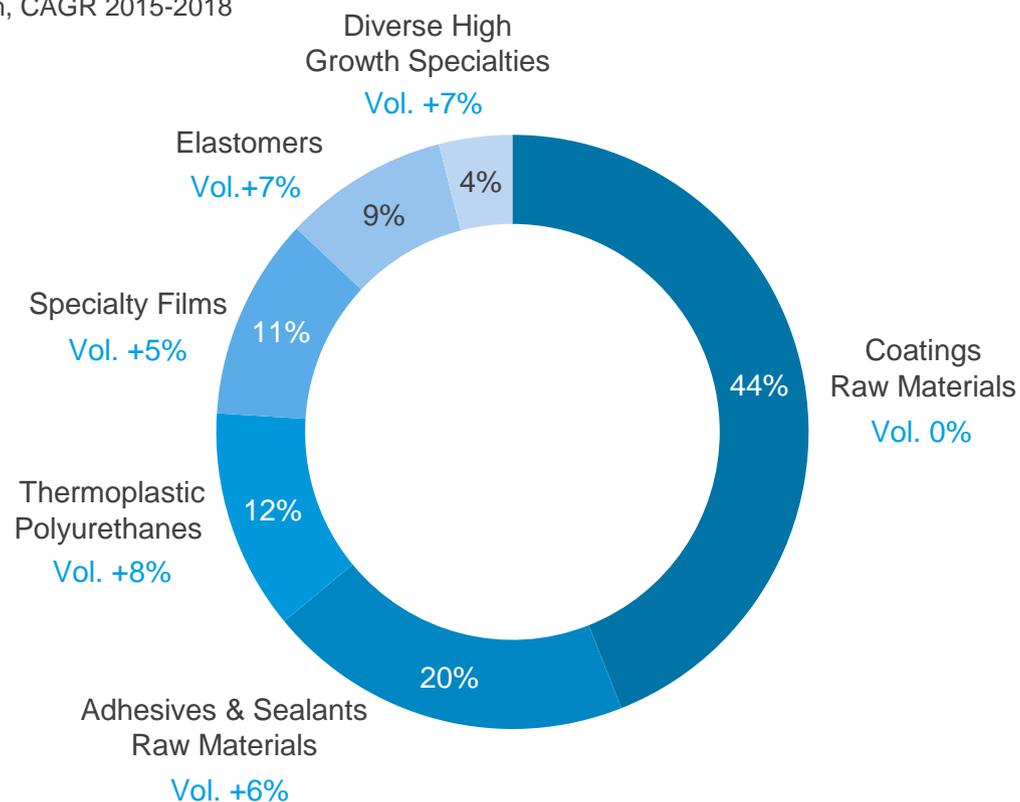
CAS demonstrated solid underlying growth of 3.3% p.a.



High Growth Specialties businesses

CAS sales split by businesses

Covestro sales share FY 2018^(a), rounded
Core volume growth, CAGR 2015-2018



Highlights

- Adjusted core volume growth of 3.3% CAGR in 2015-2018^(a)
- Growth driven by all businesses except coatings raw materials
- High Growth Specialties businesses generate 36% 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

6.1%

Core volume
CAGR in 2015-2018



Consumer electronics

e.g. adapter

€4.1bn

Sales
2018



Electrical

e.g. LED street
lamp

€468m

FOCF
2018



Healthcare

e.g. drug delivery

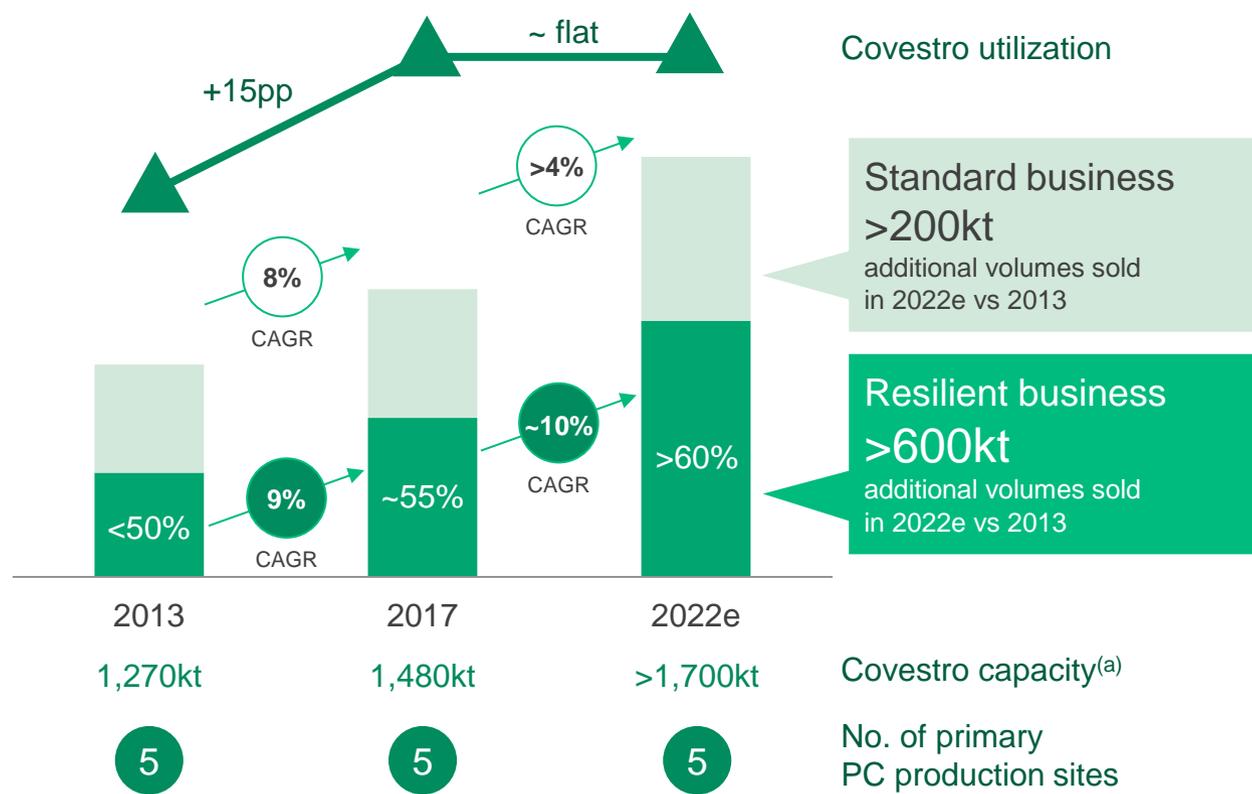
Growing share of resilient business to 65% long term

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

3.8%

Core volume CAGR in 2015-2018^(b)



Cost leadership
e.g. process technology

€7.4bn

Sales 2018^(b)



Comfort
e.g. furniture upholstery

€1.0bn

FOCF 2018^(b)



Automotive
e.g. instrument panel



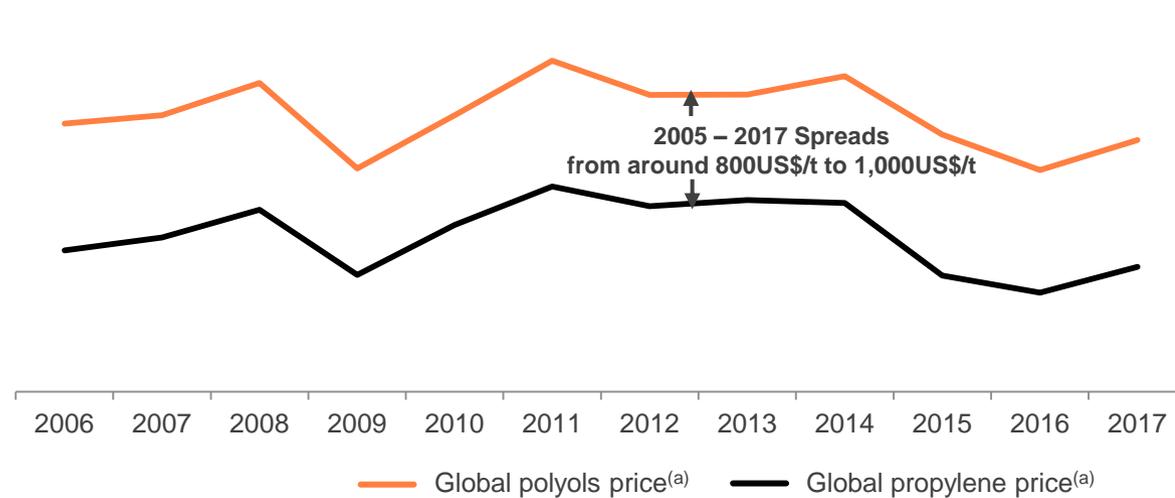
Sustainability
e.g. CO₂-based polyether polyols

Polyols and resilient MDI business make up almost half of sales



PUR resilient business

Polyether polyols demonstrate inherently stable margins



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

Resilient portion of MDI business ^(b)

Joint sales of polyols and MDI

e.g. CASE^(c), 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

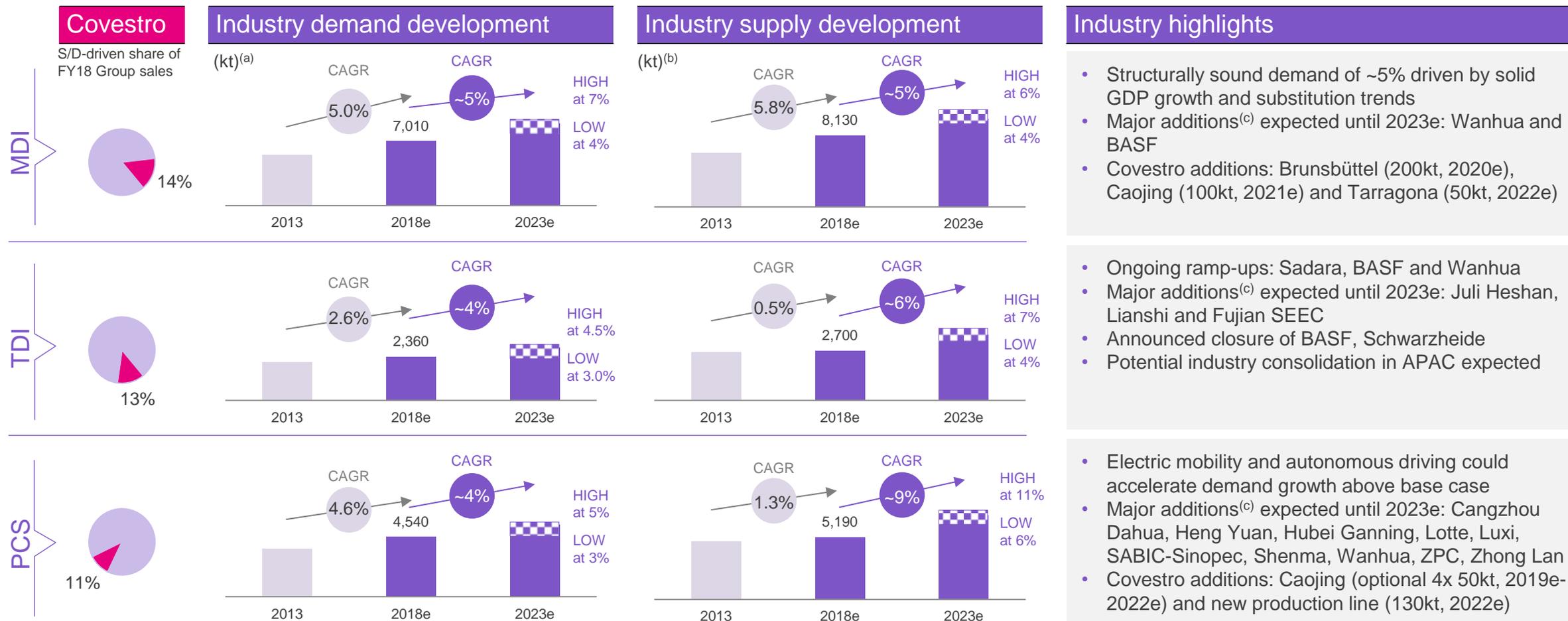
- Focus on three large-scale innovation hubs in Pittsburgh, Leverkusen and Shanghai
 - Formulation know-how and tailor-made systems
 - Full scope of application development
 - Cost-efficient business structures
- Centralized systems hubs in Europe and North America benefit from economies of scale and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

Notes: (a) The global average polyols / propylene prices have been calculated based on the polyols / propylene prices in Europe, US and China and weighting this average against the respective demand in those regions
 (b) Resilience measured as standard deviation of gross margin vs average portfolio
 (c) CASE: Coatings, adhesives, sealants and elastomers

Supply-demand-driven businesses point towards mixed picture



Historical industry development and outlook

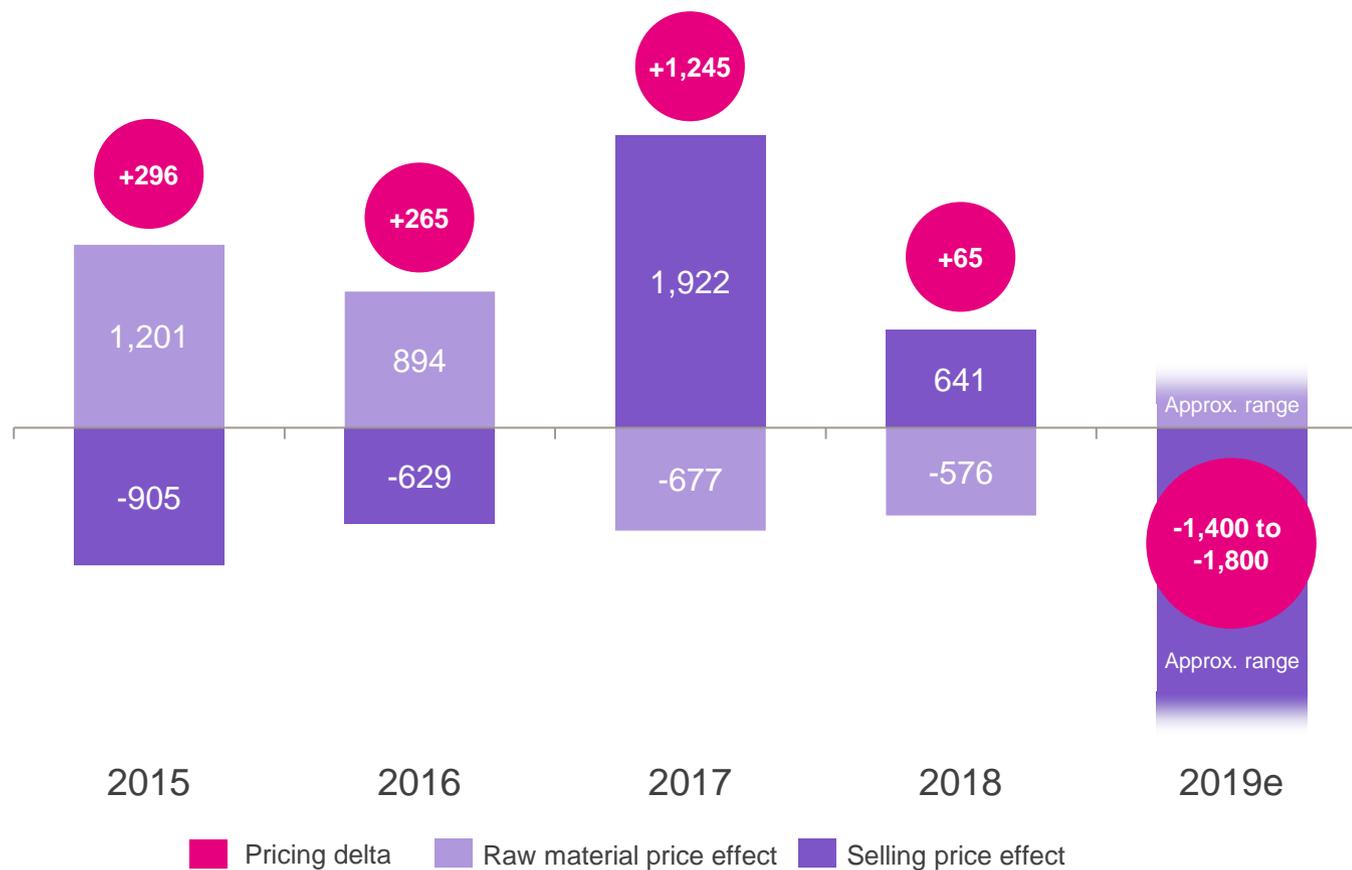


FY 2019 EBITDA development driven by pricing delta



Pricing delta development in EBITDA bridge

in € million



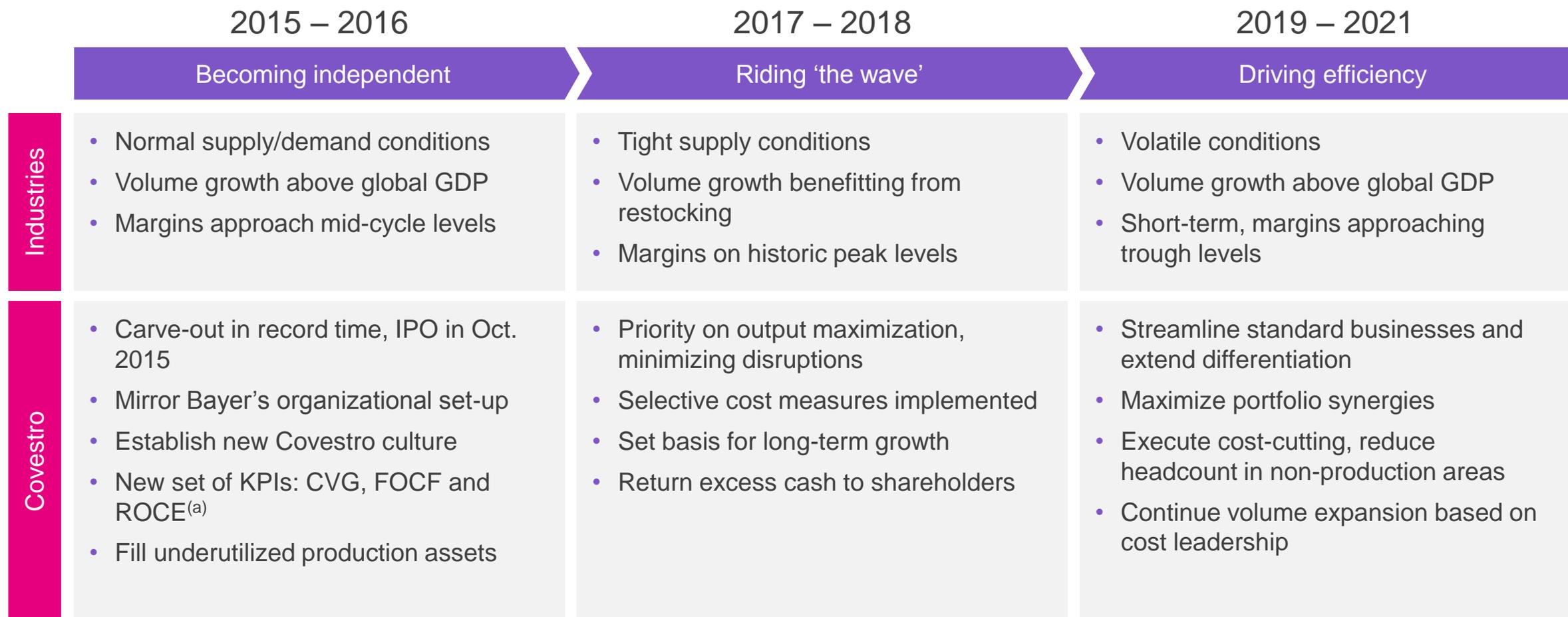
Highlights

- Pricing delta calculated by adding selling and raw material price effects on earnings
- Raw material price movements are usually directly passed through to customers via selling price adjustments
- Pricing delta is driven by industry utilization rates, thus mainly impacting Covestro's supply/demand-driven share of EBITDA
- Spike in 2017 due to limited supply additions, followed by significant capacity ramp-up as of mid-2018
- Anticipated negative pricing delta in 2019e leads to expected below mid-cycle margins

Right strategy and thorough execution in different stages



Different stages since IPO



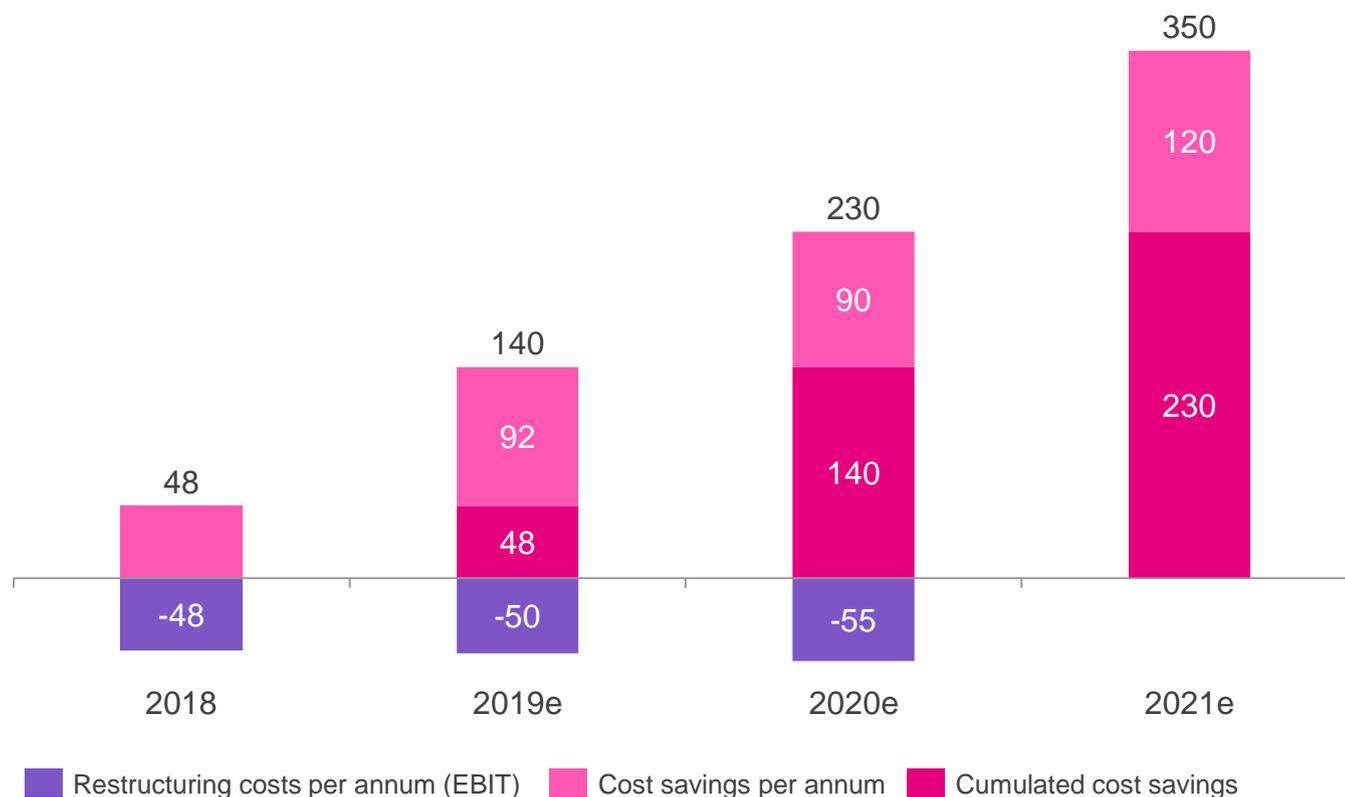
Execute cost-cutting, reduce headcount in non-production areas



Expected cumulated savings and restructuring costs

Progress on “Perspective” program

Approx., in € million



Highlights

- Cumulated savings of around €350m planned until end of 2021e
- 2018 slightly ahead of plan (+€8m) and expected acceleration in 2019 (+€30m)
- Reduction of ~900 FTEs globally in non-production areas, to be carried out by way of socially acceptable solutions
- Functional areas: E2E supply chain and manufacturing; procurement; commercial and general & administration
- Driving efficiency by adapting business unit and corporate level structure to market needs: streamline standard businesses, extend differentiation and maximize portfolio synergies
- Expected increase of FTEs in production areas

Entire organization aligned for performance

Full STI annual target achievement requires EBITDA above €2bn

Uniform bonus system

- Full alignment of all employees (including board) along the same KPIs
- Criteria with full focus on performance and shareholder value creation
- 100% payout, as percentage of annual base salary, linked to hierarchy level
- Total payout at Group level for 0%, 100% and 250% achievement is €0m, ~€180m and ~€450m, respectively
- Fixed hurdle rates for 2019-21 reflect KPI values in mid-cycle conditions, based on historical review and expected future development

Three equally weighted Group metrics

- Targets for 100% achievement:

Core Volume Growth +4.0%



FOCF €800m



ROCE above WACC^(a) 8pp



- For each metric, payout can range from 0% to 300%
- Max. payout capped at 250%

Transparent ambition

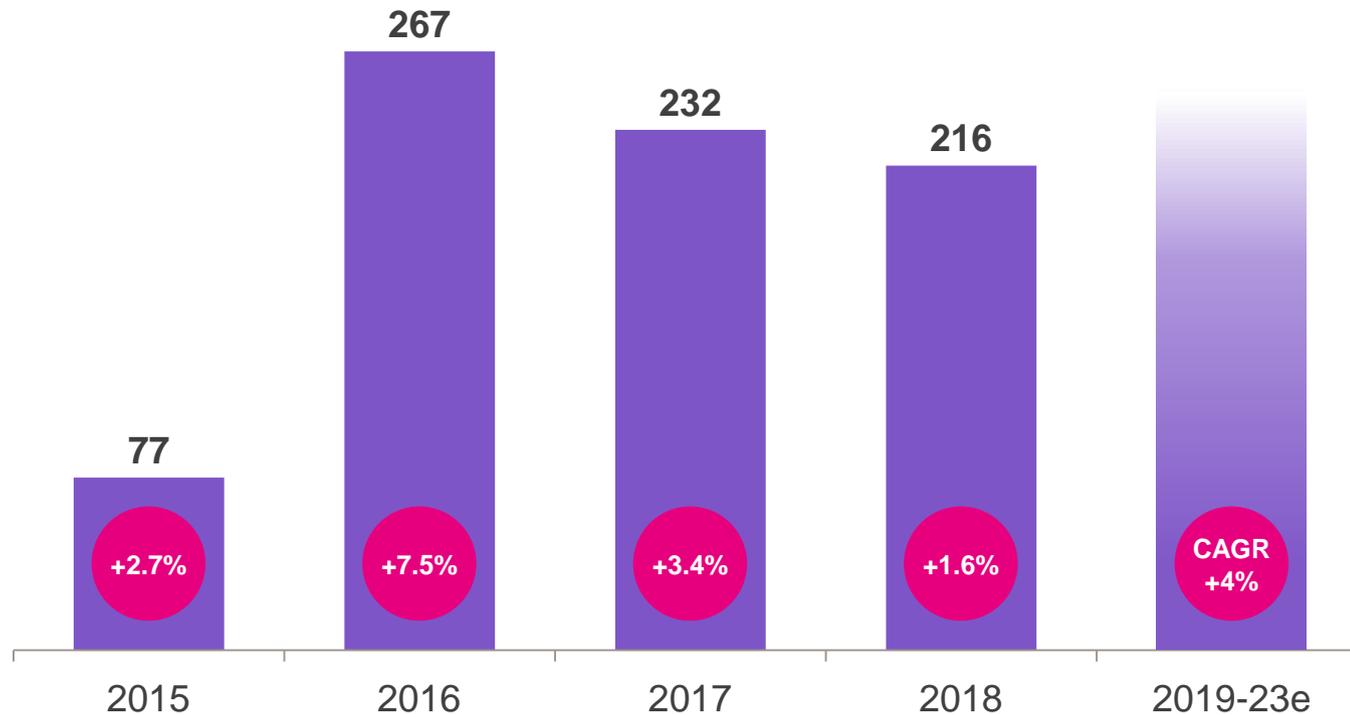
- Future core volume growth goal of 4% requires growth capex
- 100% target achievement for ROCE and FOCF implies mid-cycle EBITDA above €2bn for 2019-21

High volume leverage continuously contributes to EBITDA



Volume growth contribution to EBITDA

in € million,
Core Volume Growth in %



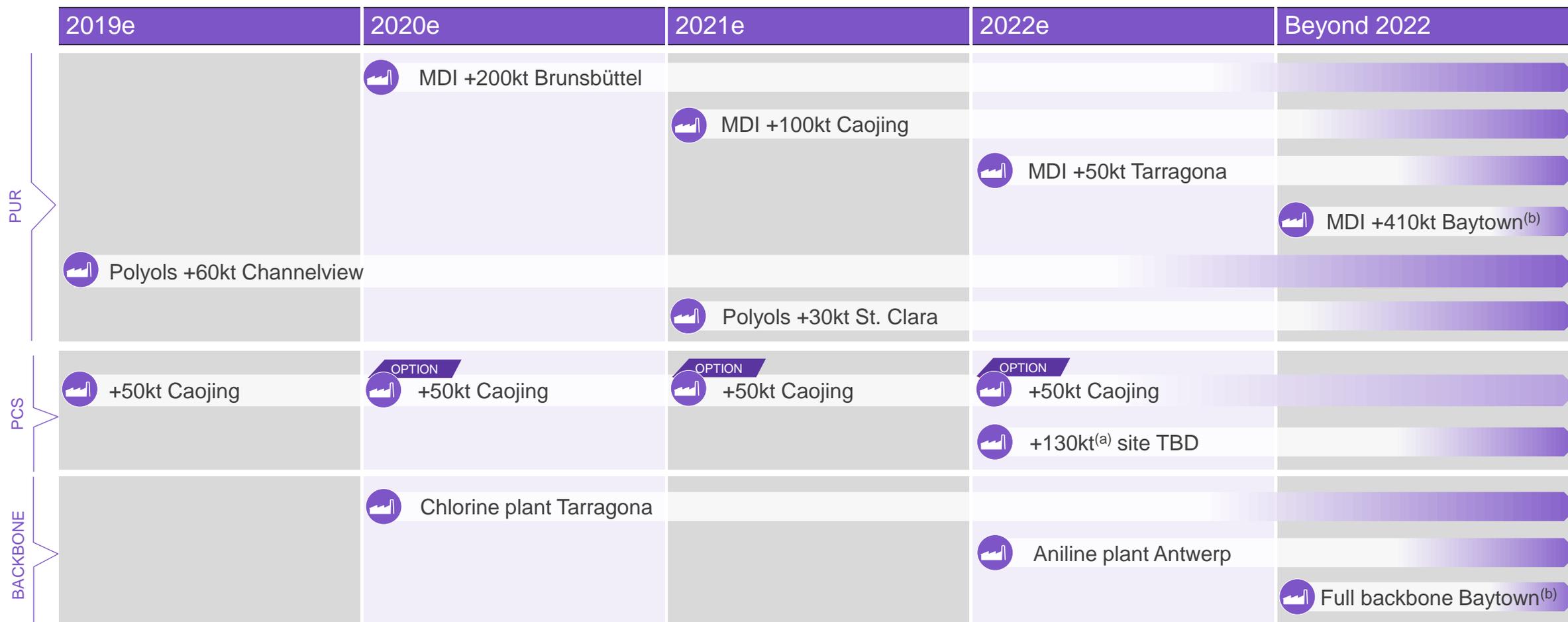
Highlights

- Track record of growth above global GDP at ~4% Core Volume Growth 2015-18 CAGR, with corresponding average volume leverage of 46%
- Striving to grow in line with industry based on leading production cost position
- Running capacity expansion program allows for planned volume growth of ~4% CAGR 2019-23e
- 100% target achievement in short-term incentive (STI) program based on 4% Core Volume Growth per annum

Growth through debottlenecking projects and world-scale plant



Covestro planned capacity additions

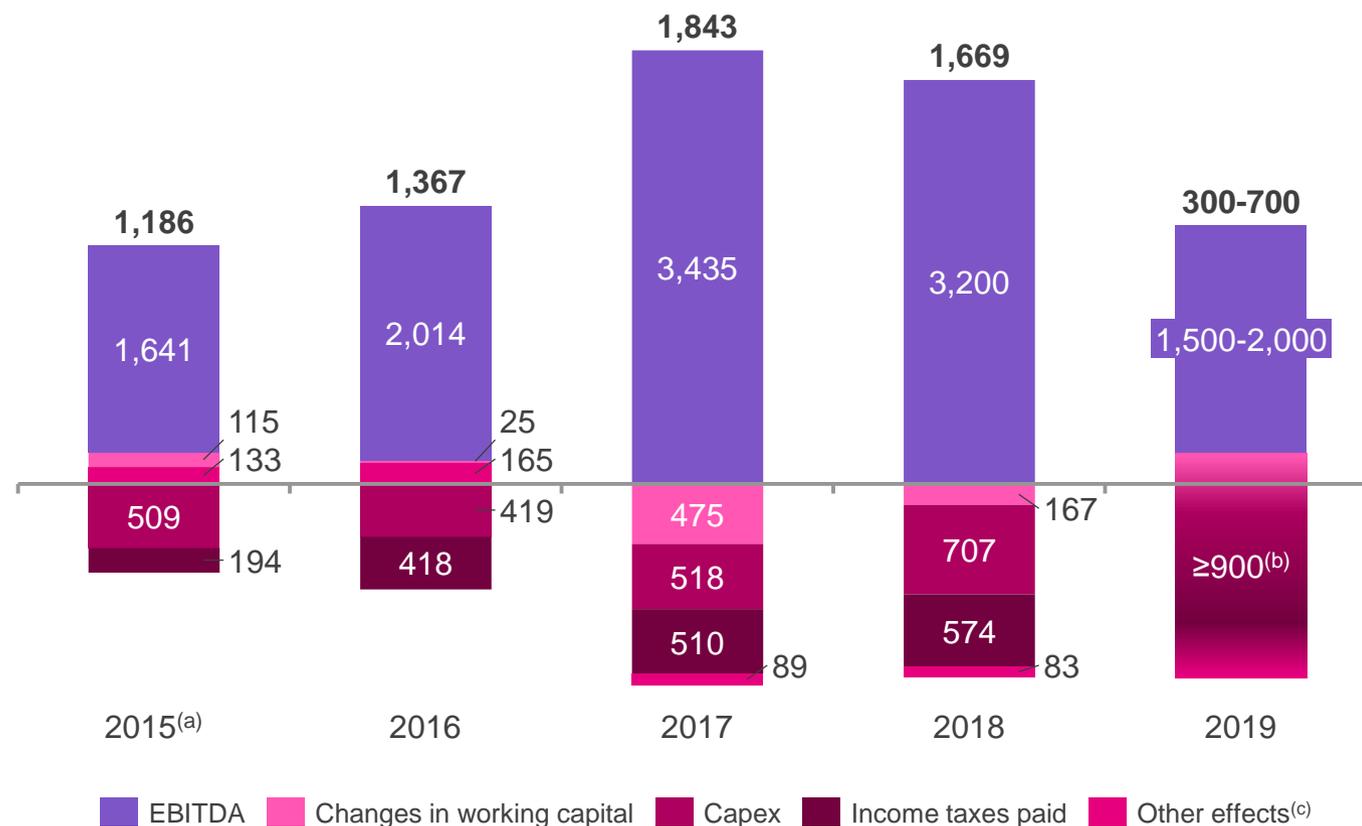


FY 2019 cash flow burdened by bonus and tax payments



Historical FOCF development and FY 2019 guidance

in € million



Highlights 2018

- Solid EBITDA to FOCF conversion rate at 52%
- Working capital to sales ratio slightly up at 16.2% in 2018 vs. 15.4% in 2017, within the targeted range of 15–17%

Guidance 2019

- FOCF to EBITDA conversion rate down to around 20-35%
- Capex^(b) of €≥900m up Y/Y with focus on growth investments
- Cash outflow for 2018 bonus provisions
- Cash tax rate expected above P&L tax rate due to phasing of tax payments

Use of cash with focus on value creation



Clear set of priorities

Commitment	Focus	Opportunities	
<p data-bbox="131 448 422 492">Dividend policy</p> 	<p data-bbox="731 448 860 492">Capex</p> 	<p data-bbox="1336 448 1496 492">Portfolio</p> 	<p data-bbox="1942 448 2192 535">Return to shareholders</p> 
<ul data-bbox="123 754 638 1249" style="list-style-type: none">• Progressive policy: increase or keep at least stable• For FY 2018 dividend, proposal of €2.40 per share at the next AGM, on April 12th, 2019• Dividend per share increase of 9% Y/Y• Corresponding total payout amount of €438m	<ul data-bbox="729 754 1244 1234" style="list-style-type: none">• Covestro's industry and cost leadership make growth investment the most value-creating use of cash• Growth capex focuses mainly on CAS, MDI and PCS• Maintenance capex to secure safe, reliable and efficient operations	<ul data-bbox="1334 754 2429 1191" style="list-style-type: none">• Disciplined and focused approach• Acquisitions with focus on high margin and differentiated business areas• Ongoing portfolio optimization including evaluation of potential disposals <p data-bbox="1316 1234 2004 1278">Decision based on highest value creation</p>	



Financial Highlights

Q4 & FY 2018

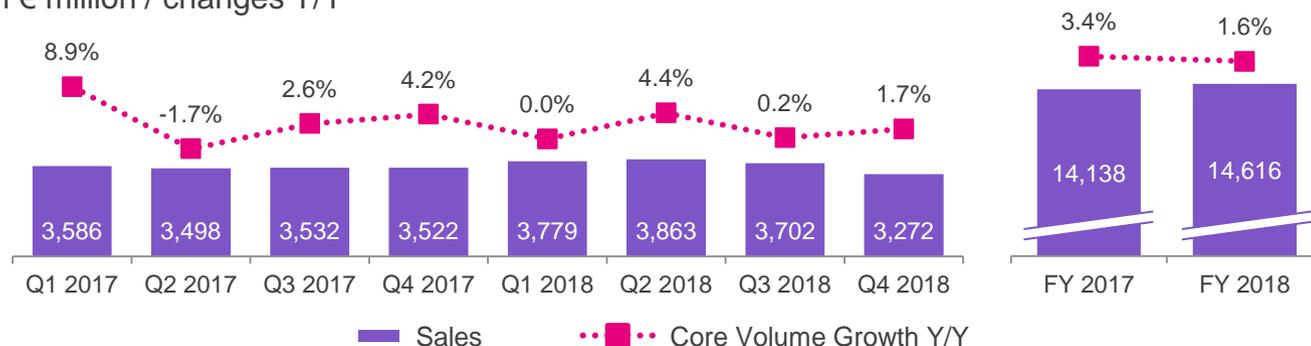
Significant pricing pressure towards year end

FY 2018 – Group results



Sales and Core Volume Growth

in € million / changes Y/Y

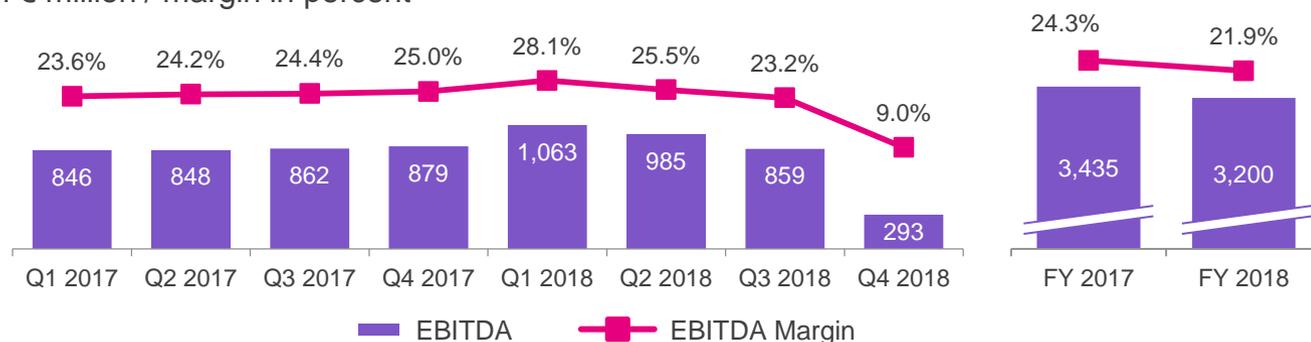


Highlights

- Core Volume Growth of +1.6% in FY 2018 despite constrained product availability, i.e. unplanned outages and low Rhine water levels
- Solid full year demand growth across industries
- Sales decreased by -7.1% Y/Y in Q4 2018, driven by price (-9.3%)

EBITDA and Margin

in € million / margin in percent



Highlights

- In 2018, EBITDA margin decreased to 21.9% vs. 24.3% in 2017
- Sharp EBITDA decline in Q4 2018 due to pronounced negative pricing delta and seasonality

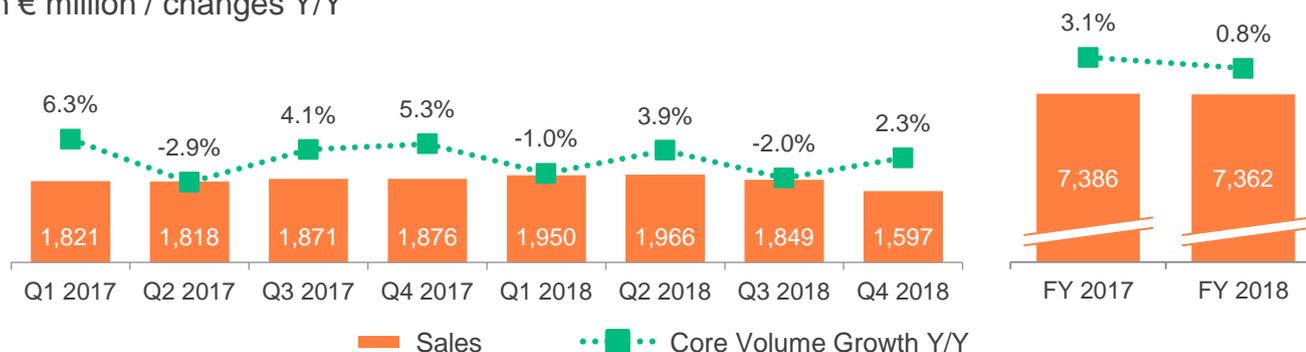
Polyurethanes – earnings dropped below mid-cycle in Q4



PUR segment results – FY 2018 Highlights

Sales and Core Volume Growth

in € million / changes Y/Y

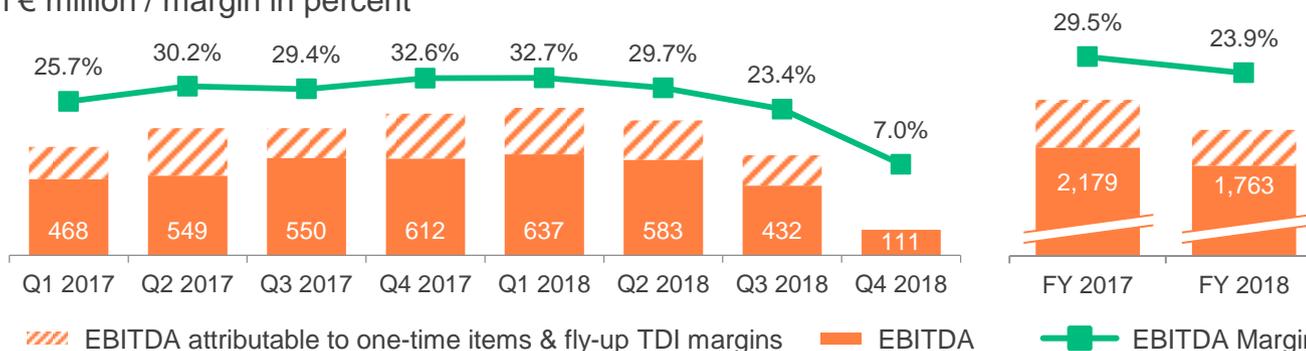


Highlights

- Stable core volumes of +0.8% Y/Y in 2018, due to constrained product availability in Q1 and Q3
- Solid Core Volume Growth of +2.3% in Q4 2018 despite sluggish demand
- Sales decreased by -14.9% Y/Y in Q4 2018, driven by price (-17.6%)
- Positive volume (+2.5%) impact Y/Y in Q4 2018

EBITDA and Margin

in € million / margin in percent



Highlights

- In 2018, EBITDA decreased by -19.1% Y/Y due to negative pricing delta
- Underlying EBITDA margin excluding TDI fly-up contribution at c.17% vs. c.20% in 2017
- Sharp EBITDA decline in Q4 2018 due to pronounced negative pricing delta

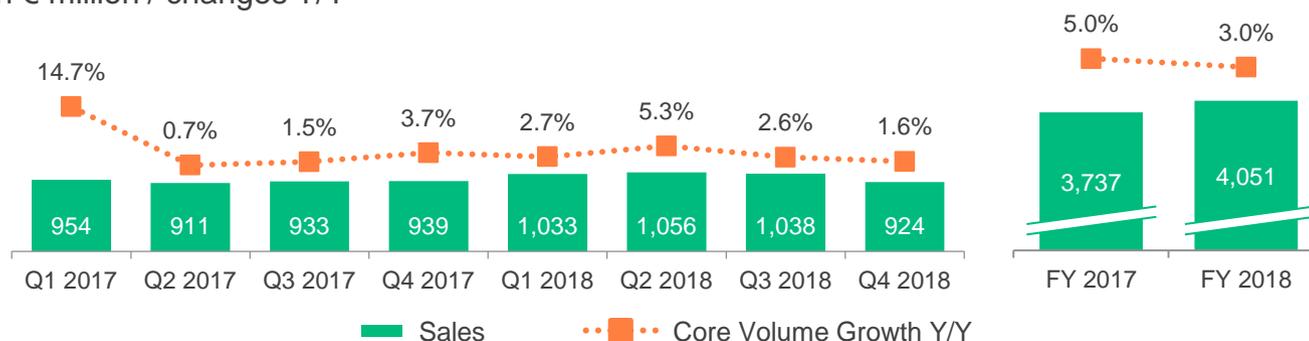
Polycarbonates – full year driven by price and volume



PCS segment results – FY 2018 Highlights

Sales and Core Volume Growth

in € million / changes Y/Y

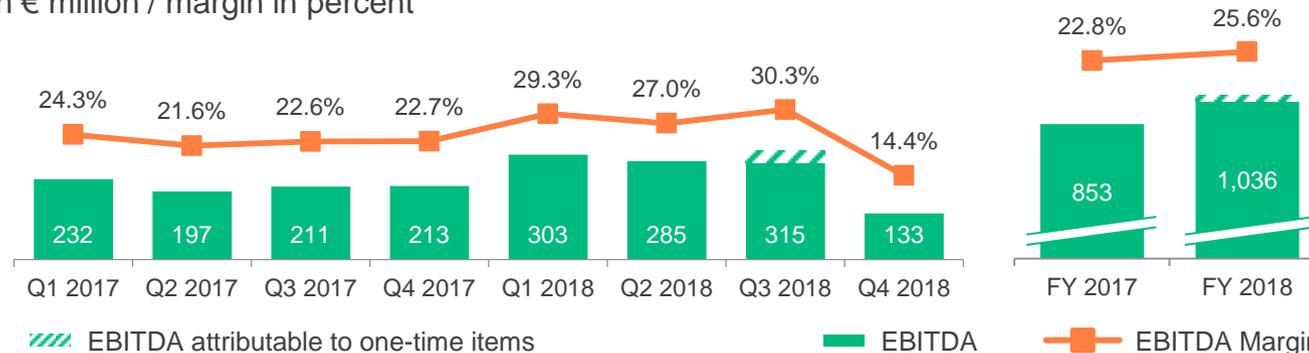


Highlights

- Solid Core Volume Growth of +3.0% Y/Y in 2018
- Positive Core Volume Growth of +1.6% Y/Y in Q4 2018
- Sales decreased by -1.6% Y/Y in Q4 2018 driven by price (-2.3%)
- Positive volume (+4.1%) impact Y/Y in Q4 2018

EBITDA and Margin

in € million / margin in percent



Highlights

- In 2018, EBITDA increased by +21.5% Y/Y due to positive pricing delta and volume leverage
- Underlying EBITDA margin excluding one-time items expanded to c.25% vs. c.23% in 2017
- Sharp EBITDA decline in Q4 2018 due to negative pricing delta

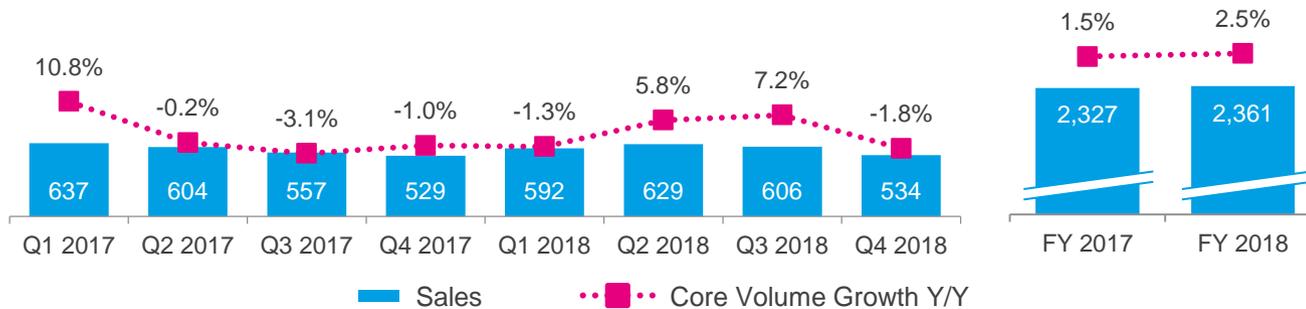
Coatings, Adhesives, Specialties – pressured by raw materials



CAS segment results – FY 2018 Highlights

Sales and Core Volume Growth

in € million / changes Y/Y

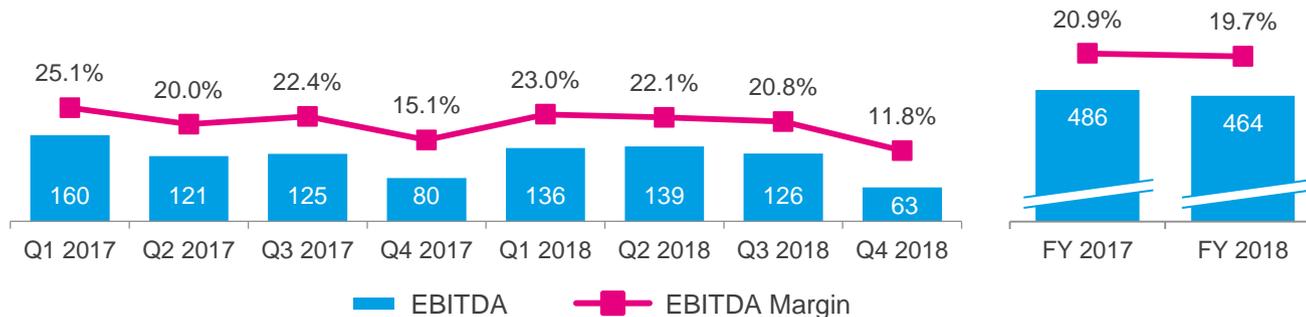


Highlights

- Solid Core Volume Growth of +2.5% Y/Y with all regions contributing
- Sales increased by +1.5% Y/Y in FY 2018 driven by volume (+3.5%) and price (+0.6%)
- Sales increased by +0.9% Y/Y in Q4 2018 driven by volume (+0.3%) and FX (+0.6%)

EBITDA and Margin

in € million / margin in percent



Highlights

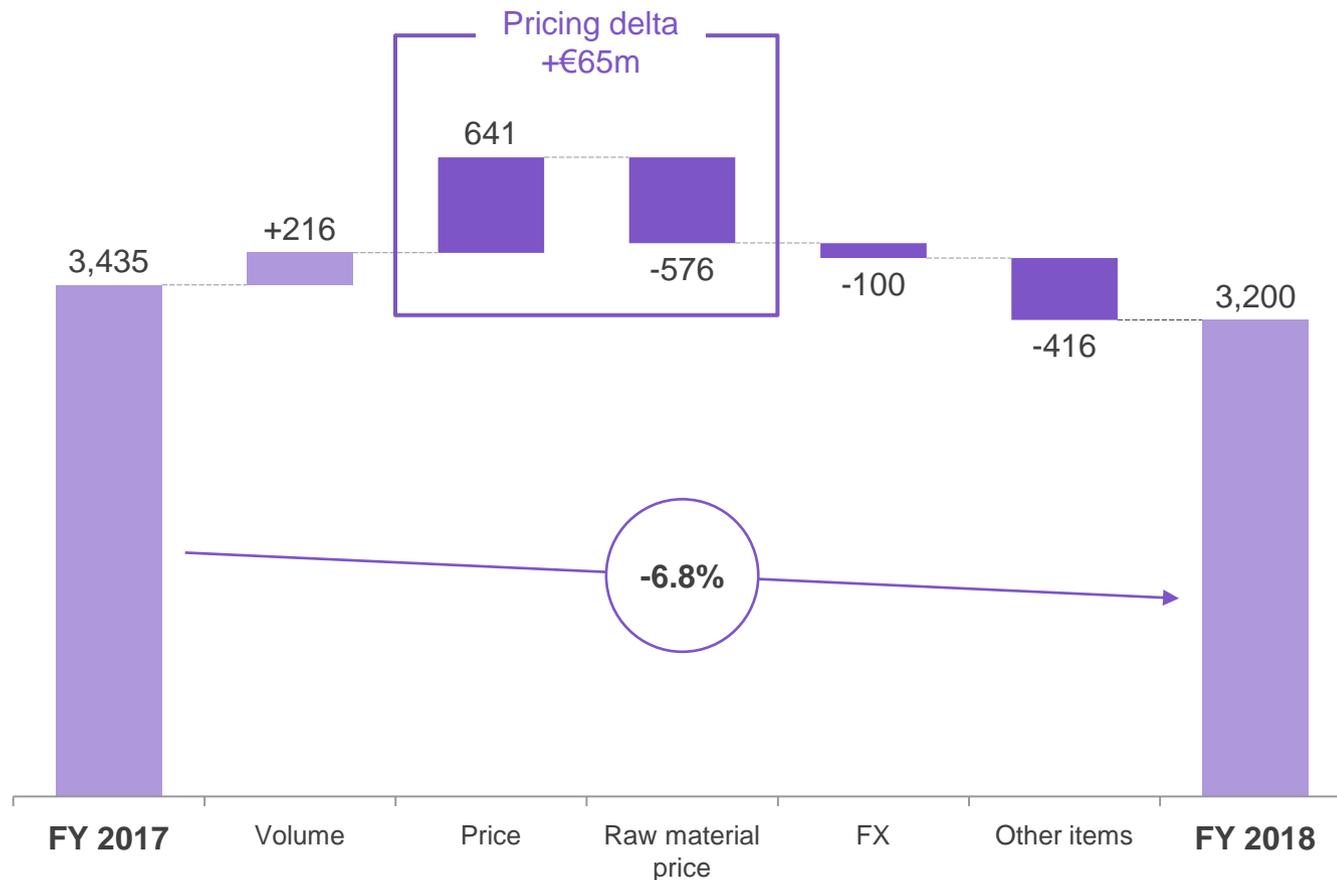
- EBITDA decreased by -4.5% Y/Y mainly due to higher input prices
- EBITDA margin around c.20% despite pressure from higher raw material prices

Strong EBITDA result driven by first half year

FY 2018 – EBITDA bridge



in € million



Highlights

Strong positive volume leverage

- EBITDA volume leverage^(a) at 68%
- Broad-based in all three segments

Slightly positive pricing delta, driven by H1

- Positive pricing delta in PCS
- Negative pricing delta in PUR and CAS

Negative FX impacted EBITDA by -2.9% Y/Y

Other items

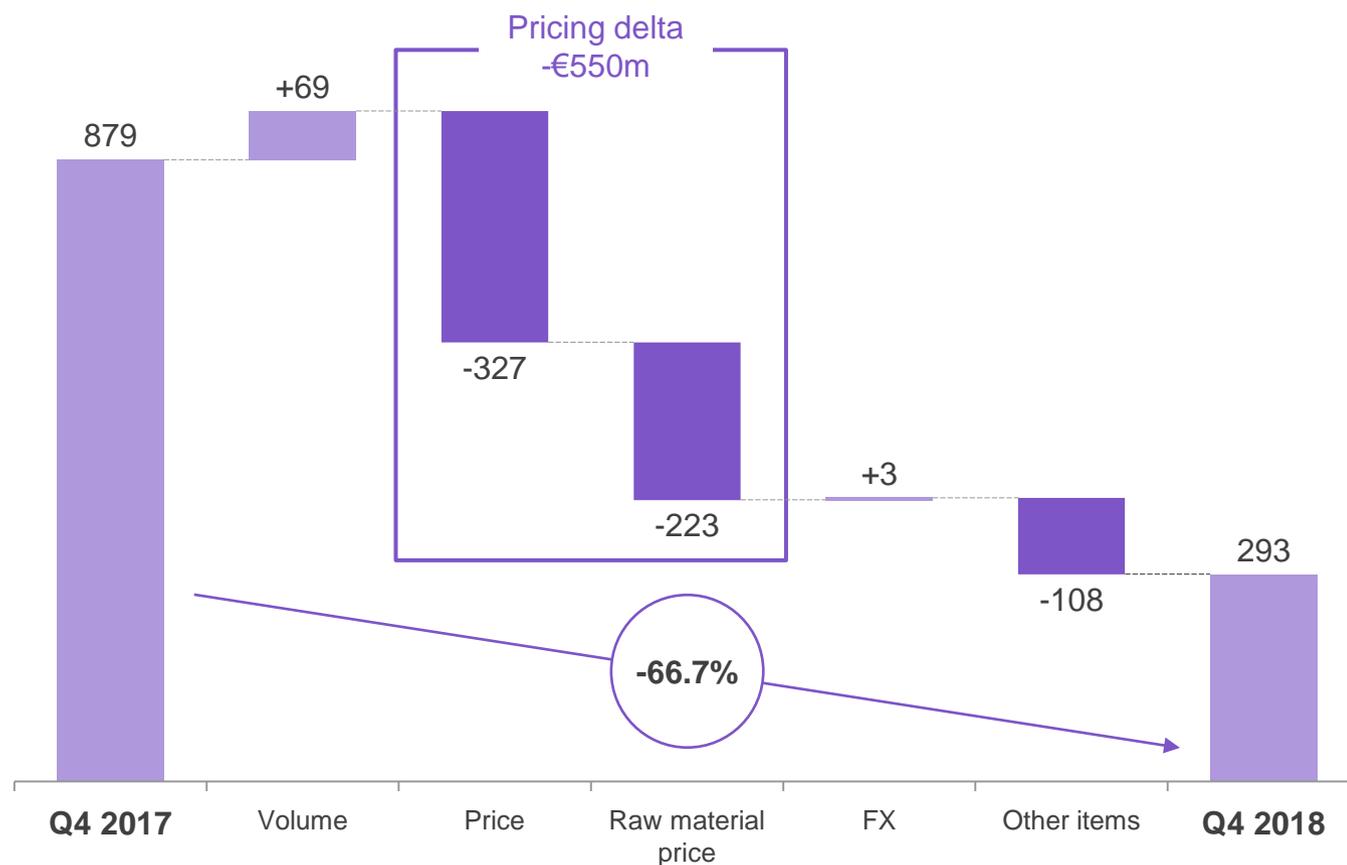
- Higher production, maintenance and logistics costs
- One-time item of €+36m in Q3: book gain from disposal of US polycarbonates sheets business
- Prior year benefited from one-time items of €+146m

Weak Q4 with pronounced negative pricing delta

Q4 2018 – EBITDA bridge



in € million



Highlights

Strong positive volume leverage

- EBITDA volume leverage^(a) at 68%
- Broad-based in all three segments

Pronounced declining contribution margin

- Negative pricing delta in all three segments
- Higher competitive pressure in PUR
- Higher feedstock costs due to low Rhine water levels

Other items

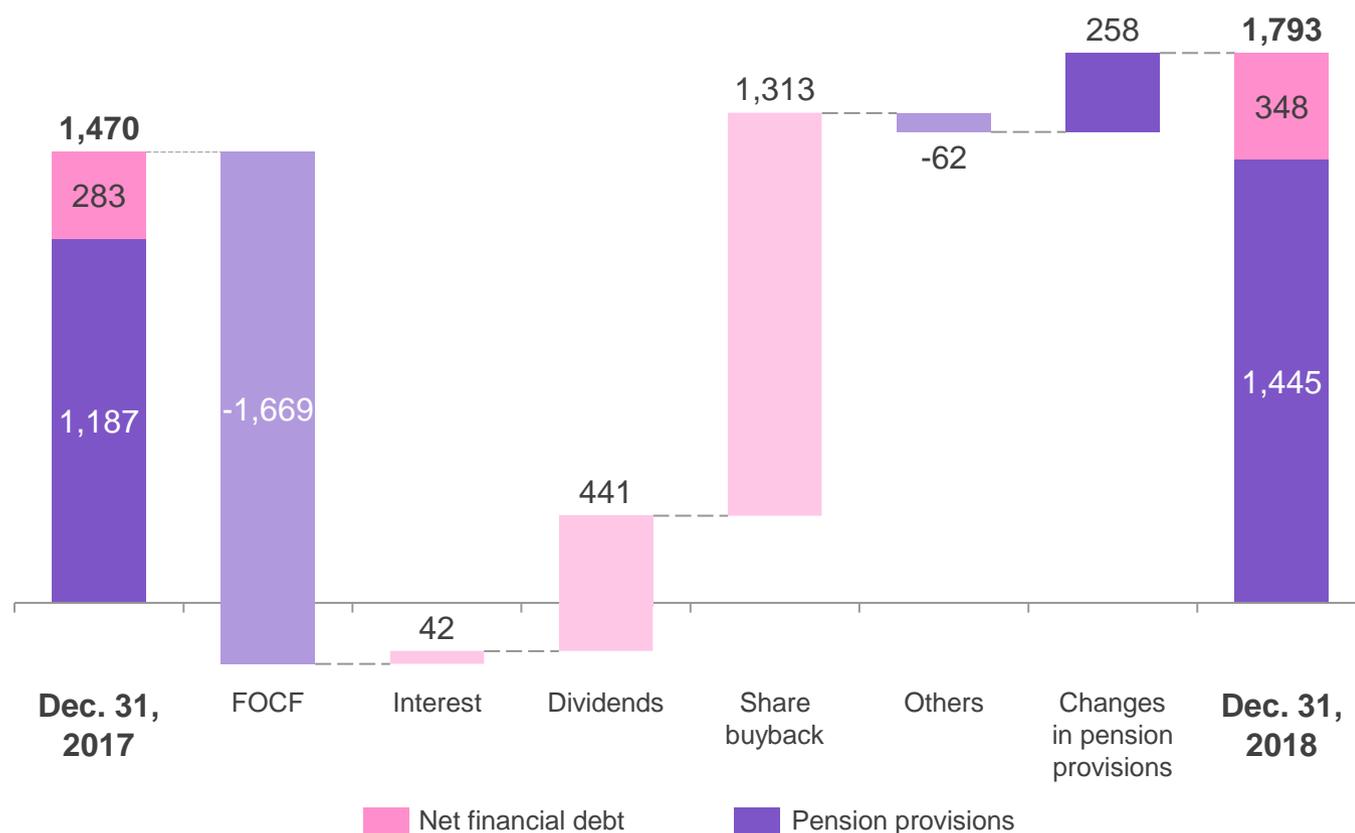
- Higher logistics costs due to low Rhine water levels
- One-time items: €-23m for “Perspective” provisions, €+23m from insurance reimbursements
- Prior-year quarter benefited from reversal of provision of €63m for Tarragona

Strong balance sheet after high cash return to shareholders

December 31th 2018 – Total net debt



in € million



Highlights

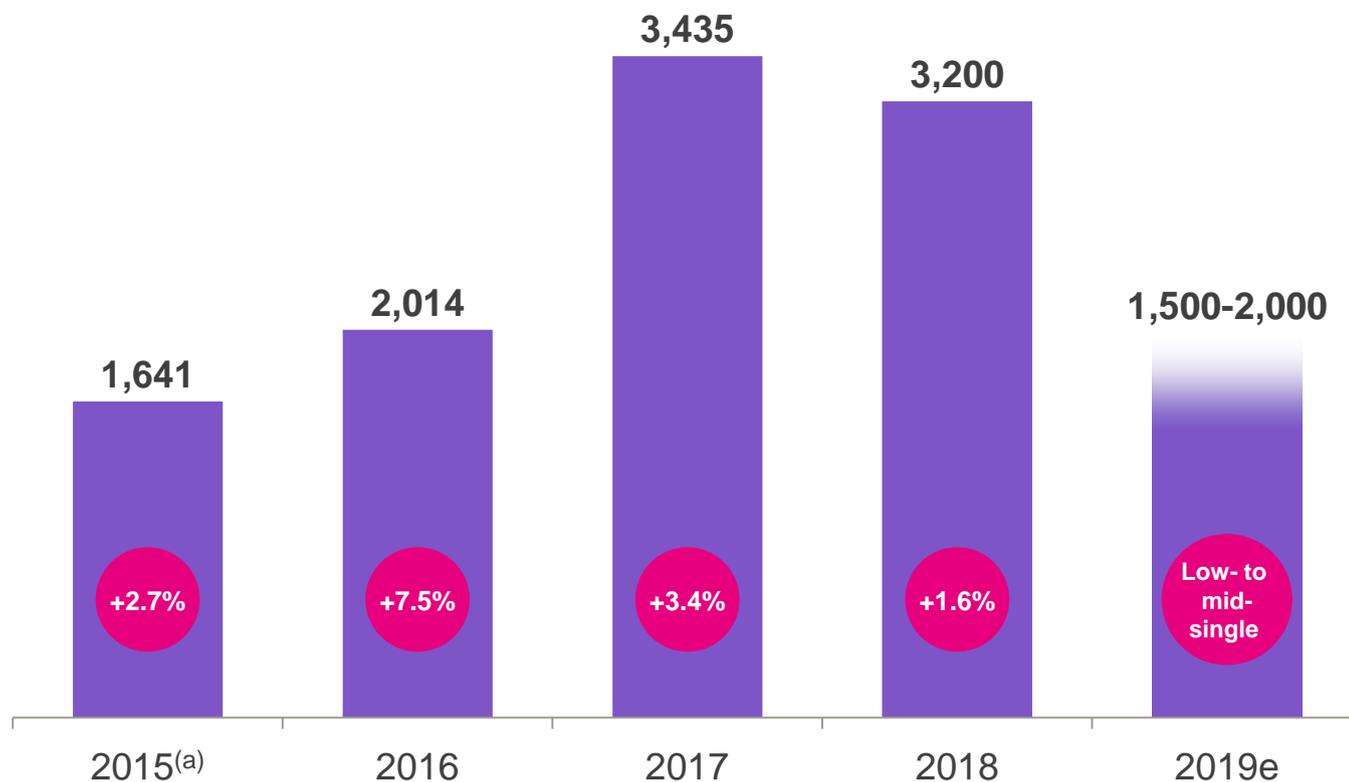
- Total net debt to EBITDA ratio of 0.6x end of 2018 vs. 0.4x end of 2017
- Slight increase of net financial debt mainly due to share buy-back and dividend payout
- Completion of share buy-back program on December 4th: ~20m shares bought back for a total amount of €1.5bn since November 2017
- Pension provisions increased by €258m partly due to negative return on plan assets
- Equity ratio further improved to 49% end of 2018 vs. 47% end of 2017
- Significant increase of total net debt to EBITDA ratio expected end of 2019 due to IFRS 16 adoption

Below mid-cycle earnings in challenging economic environment



Historical EBITDA development and FY 2019 guidance

in € million,
Core Volume Growth in %



Underlying assumptions

Low-end scenario

- Further price decline compared to January 2019 especially in TDI
- Low end of CVG^(b) range due to lower GDP growth and/or unplanned production constraints
- Unfavorable FX impact^(c)

High-end scenario

- Price increases compared to January 2019 especially in MDI
- Solid demand across all industries, however upside to CVG^(b) limited due to constrained available capacity
- Favorable FX impact^(c)

Below mid-cycle earnings in challenging economic environment

FY 2019 guidance



	FY 2018	Guidance FY 2019
Core Volume Growth	+1.6%	Low- to mid-single-digit percentage increase Y/Y
FOCF	€1,669m	€300 – 700m
ROCE	29.5%	8% – 13%
Additional financial expectations	FY 2018	Guidance FY 2019
EBITDA FY	€3,200m	€1,500 – 2,000m
EBITDA Q1	€1,063m	Around €440m
D&A	€620m	~€700m
Financial result	€-104m	€-100 to -120m
P&L (effective) tax rate	26.1%	24 - 26%
Capex^(a)	€707m	≥€900m
FOCF 2017-19		€3.8 – 4.2bn (previously: >€5bn)

Upcoming IR events



Find more information on investor.covestro.com

Reporting dates

- | | |
|--------------------|---------------------------------|
| • April 29, 2019 | Q1 2019 Interim Statement |
| • July 24, 2019 | Half-Year Financial Report 2019 |
| • October 28, 2019 | Q3 2019 Interim Statement |

Annual General Meeting

- | | |
|------------------|------------------------------|
| • April 12, 2019 | Annual General Meeting, Bonn |
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Sellside dinner events

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| • March 12, 2019 | Sellside Round Table with CEO, London |
| • May 7, 2019 | Sellside Round Table with CEO, Frankfurt |

Broker conferences

- | | |
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| • March 14, 2019 | Goldman Sachs, Eighth Annual European Chemicals Conference, London |
| • March 22 – 24, 2019 | Kepler Cheuvreux, Davos Forum, Davos |
| • March 28, 2019 | Mainfirst, Corporate Conference, Copenhagen |



Disclaimer

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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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