



# Strong start into the year

Roadshow Presentation

# Forward-looking statements



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](http://www.covestro.com). Covestro assumes no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.

# Covestro key investment highlights



Global leader in high-tech material solutions

- 1 Leading and defensible global industry positions**  
based on focused portfolio
- 2 Favorable industry dynamics**  
with robust above GDP growth prospects in a diverse range of end-markets
- 3 Positioned to deliver volume growth**  
through well-invested, large-scale asset base with competitive cost position
- 4 Portfolio including high-value CAS business**  
with attractive and historically resilient margin profile
- 5 Attractive cash flow growth outlook**  
underpinned by disciplined cost management

**Headed by experienced management with full commitment to value creation**

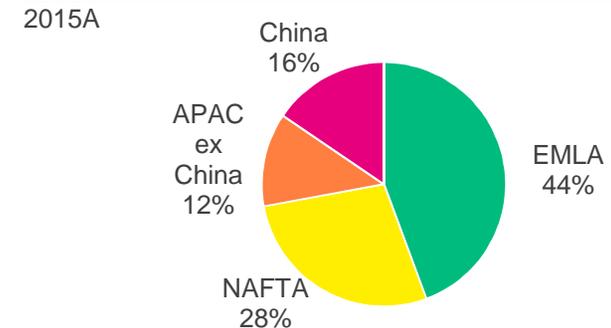
# Covestro at a glance



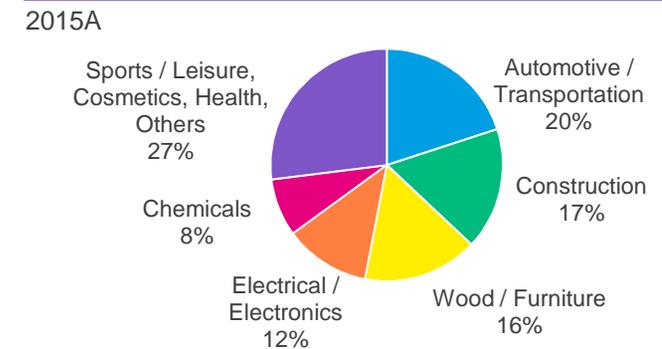
## Inventor and leader in high-tech material solutions driven by global trends

- Leading global polymer producer in polyurethanes and its derivatives as well as polycarbonates
- Proven track record of process and product innovation, customer proximity as well as market-driven solutions
- State-of-the-art asset base with leading process technology and total production capacity of 4,800kt<sup>(a)</sup> distributed across 8 world-scale production facilities in three main regions
- Backward-integration into chlorine, propylene oxide and other feedstock, aimed at sourcing critical raw materials internally with no or limited merchant market sales
- Headquartered in Leverkusen, Germany, with 15,750 employees<sup>(c)</sup> globally

Sales split by geographies<sup>(b)</sup>



Sales split by end-markets



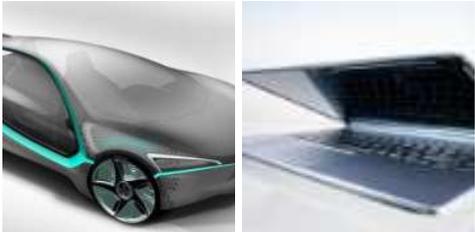
Key Covestro Financials:	Sales 2015A €12.1bn	Adj. EBITDA 2015A €1.6bn	Adj. EBITDA margin 2015A 13.6%

Notes: (a) Includes total nameplate capacity for PUR and PCS in 2015A, rounded to nearest 100kt  
 (b) Based on Covestro Annual Report 2015A;  
 EMLA = Europe, Middle East, Africa, Latin America (without Mexico); NAFTA = USA, Canada, Mexico; APAC = Asia, Pacific  
 (c) Employees refers to full-time-equivalents (FTE), rounded to nearest 50

# Covestro business units

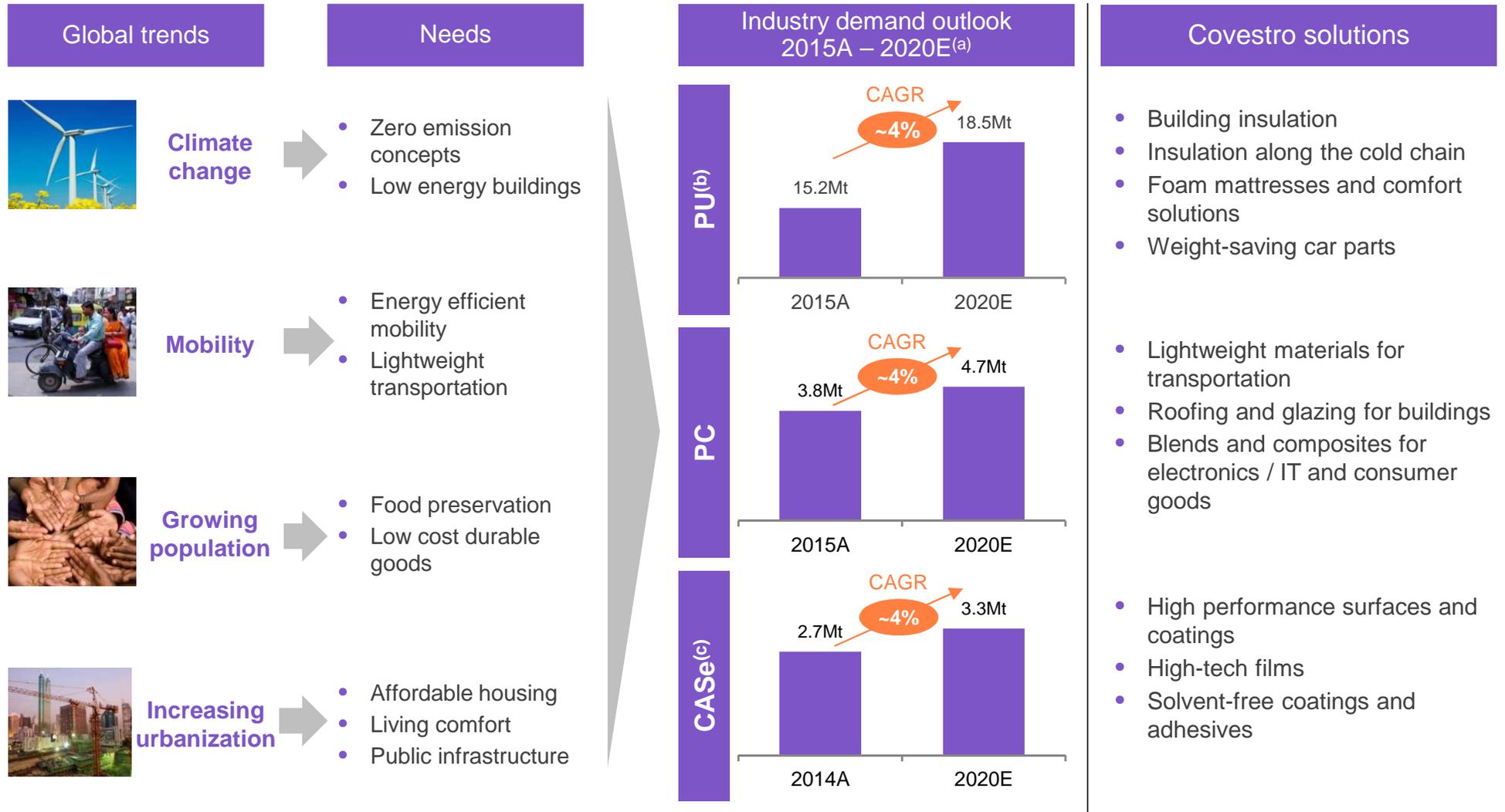


Three industry-leading, structurally attractive business units

Business Units	Polyurethanes (PUR)	Polycarbonates (PCS)	Coatings, Adhesives, Specialties (CAS)
Global Position <sup>(a)</sup>	<b>Global #1 (3,470kt)</b> <ul style="list-style-type: none"> <li>MDI: #2 (1,420kt)</li> <li>TDI: #2 (720kt)</li> <li>Polyether polyols: #2 (1,330kt)</li> </ul>	<b>Joint Global #1 (1,280kt)</b> <ul style="list-style-type: none"> <li>EMEA: #2 (540kt)</li> <li>NAFTA: #2 (230kt)</li> <li>APAC: #2 (510kt)</li> </ul>	<b>Global #1:</b> <ul style="list-style-type: none"> <li>Aliphatic isocyanate derivatives</li> <li>Aromatic isocyanate derivatives</li> <li>Polyurethane dispersions</li> </ul>
Sales 2015A	€6.1bn or 50% of Covestro	€3.2bn or 26% of Covestro	€2.1bn or 17% of Covestro
Adj. EBITDA Margin 2015A	10.2%	17.7%	23.5%
Key Applications	<p><b>Rigid foam:</b></p> <ul style="list-style-type: none"> <li>Building insulation</li> <li>Cold chain</li> <li>Automotive parts</li> </ul> <p><b>Flexible foam:</b></p> <ul style="list-style-type: none"> <li>Furniture</li> <li>Bedding/mattresses</li> </ul> 	<ul style="list-style-type: none"> <li>Automotive parts</li> <li>IT and electrical equipment, electronics</li> <li>Construction (windows, roof structure)</li> <li>Consumer products, medical and other applications</li> </ul> 	<ul style="list-style-type: none"> <li>Surface coatings</li> <li>Adhesives and sealants</li> <li>Elastomers</li> <li>Specialty films</li> </ul> 

# Exposure to fundamental macro trends

Above GDP industry growth supported by global trends

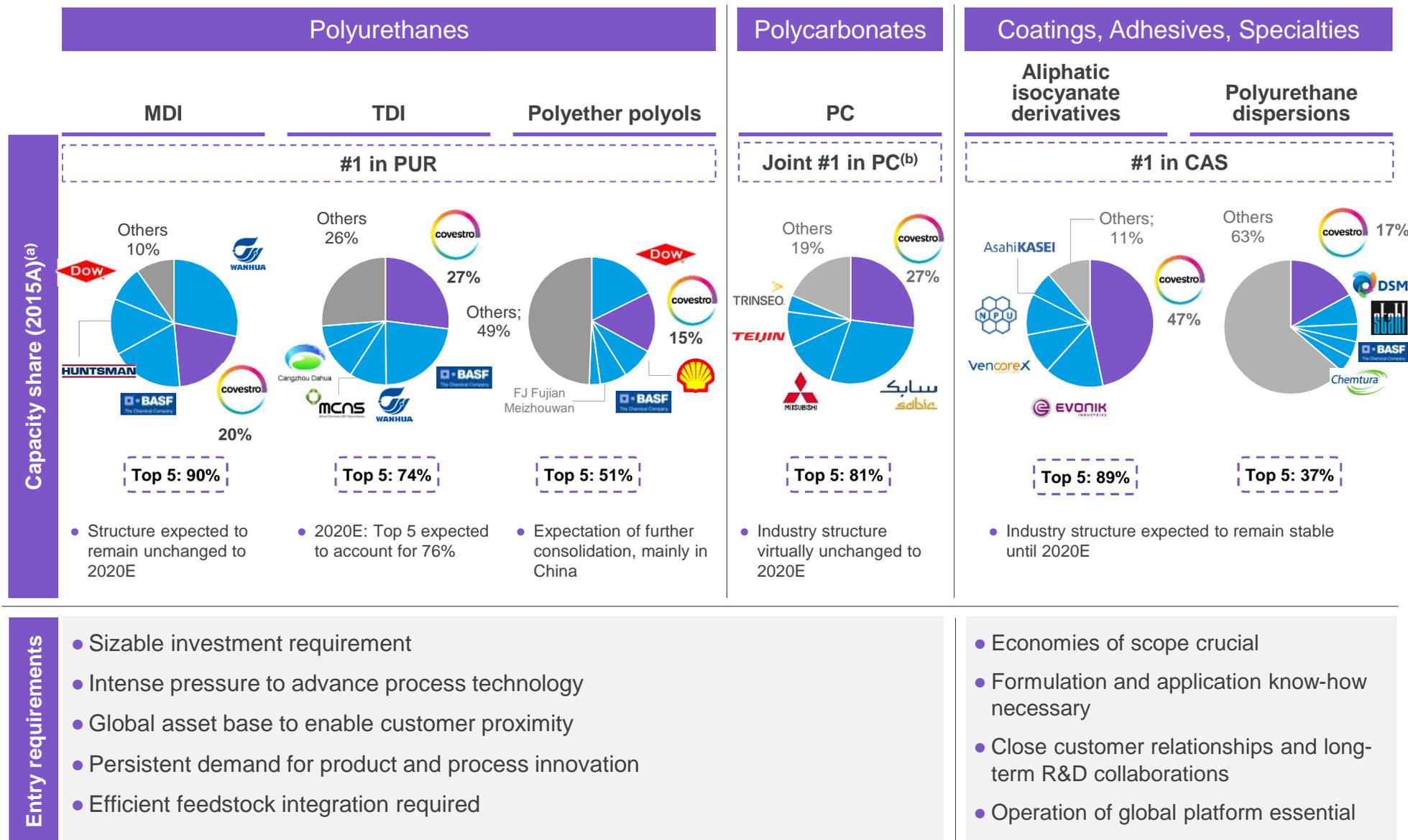


Notes: (a) Assumes global GDP CAGR 2015A – 2020E of ~3%  
 (b) Comprises MDI, TDI and polyether polyols  
 (c) Shows PU raw materials industry demand in coatings, adhesives and sealants  
 Source: Company information. CASe market: Orr & Boss 2014A & Covestro internal estimates with annual growth of 4% for 2015A

# Global industry positions



Covestro is a leader across its entire portfolio

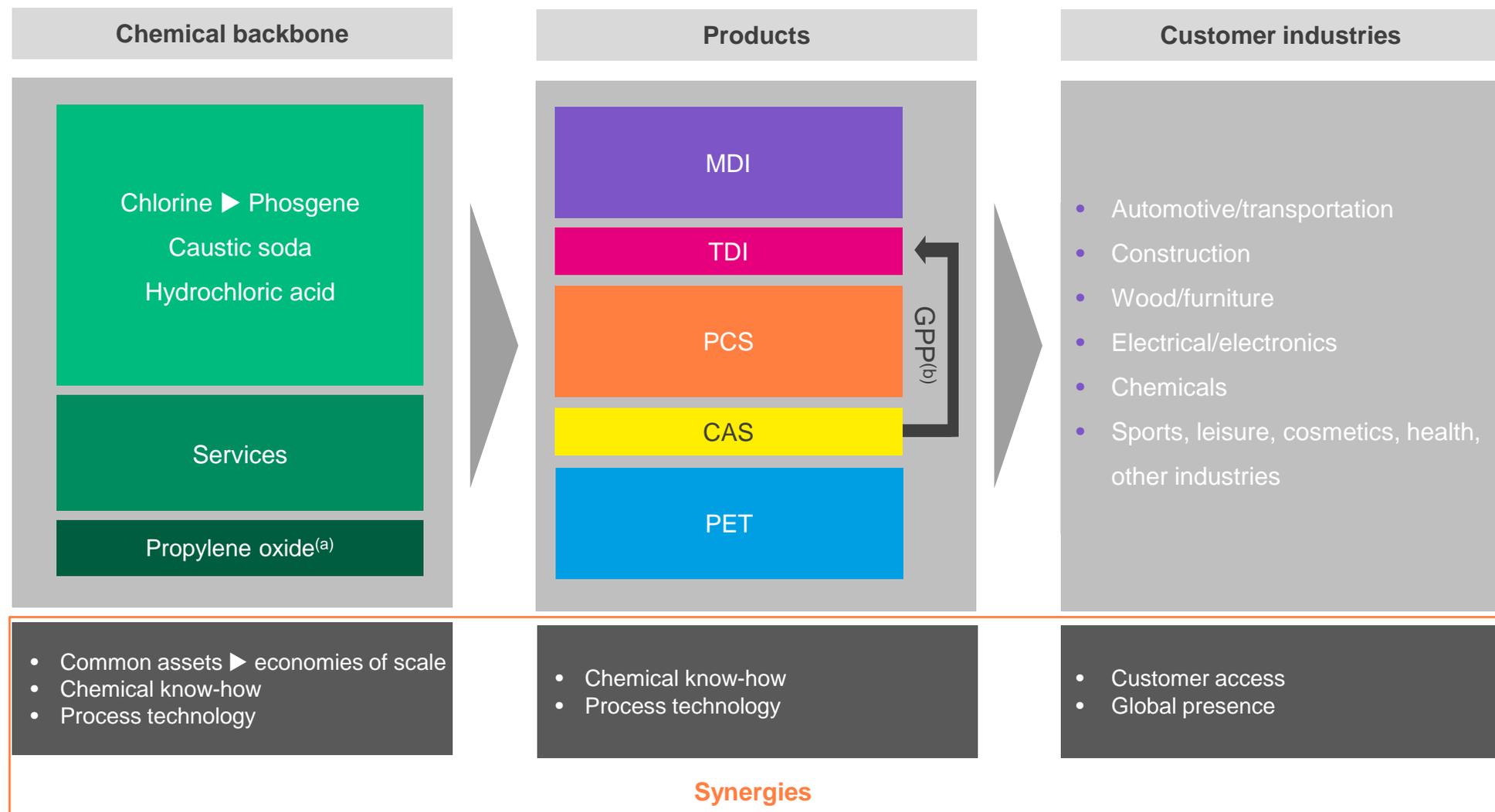


Notes: (a) Based on total nameplate capacity in 2015A relative to competitors as per Covestro internal estimates  
 (b) Joint #1 position between Covestro and SABIC based on total nameplate capacity for PCS in 2015A relative to competitors as per Covestro internal estimates

# Common chemical backbone across all segments



Significant synergies in scale, process technology and chemical know-how



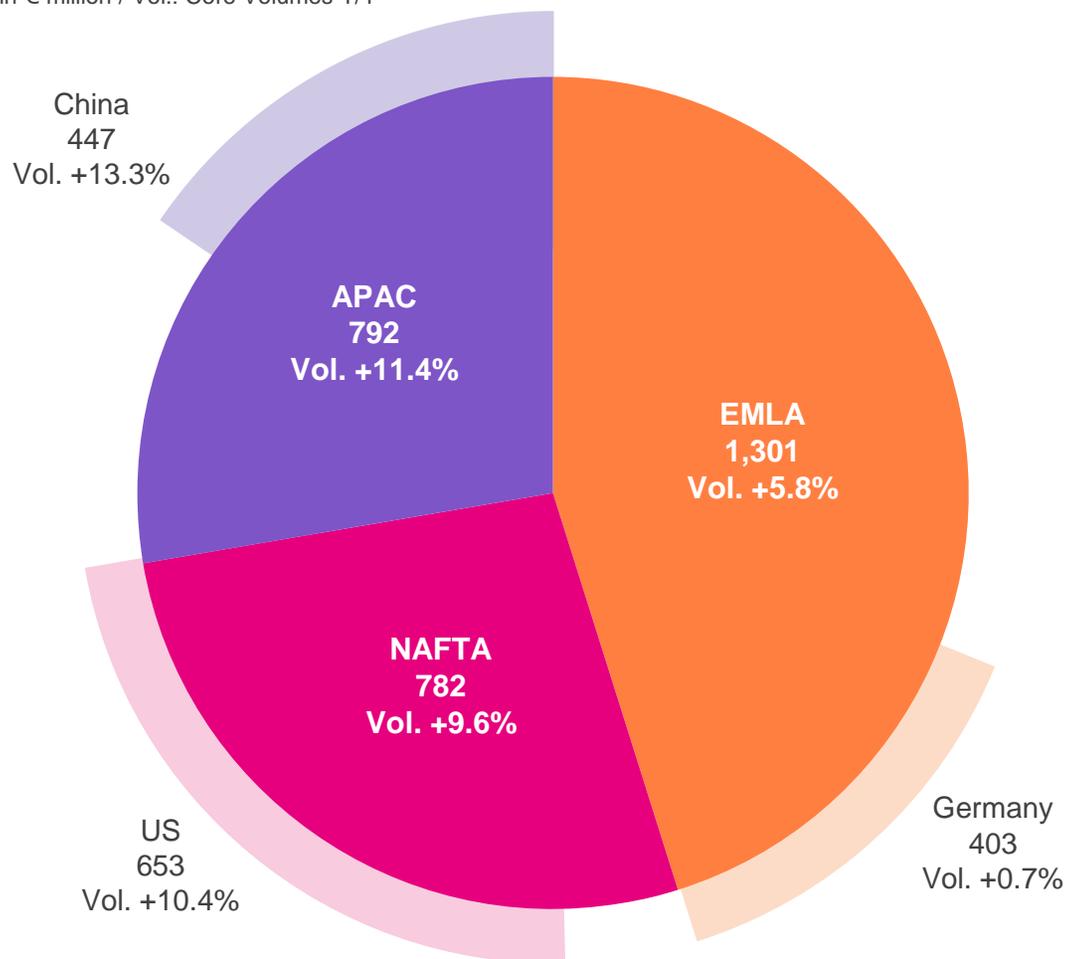
# Q1 2016 – Sales per region

## Dynamic volume growth in all regions



### Solid development in Q1 2016

in € million / Vol.: Core Volumes Y/Y



### Highlights

#### EMLA

- Strong volume growth in Europe partly diminished by double-digit decline in Latin America
- Mild winter helped construction industry

#### APAC

- Double-digit volume growth in APAC and China driven by PUR and PCS
- Strong pick-up of demand after Chinese New Year

#### NAFTA

- Double-digit volume growth in PUR and PCS but declining volumes in CAS
- Low basis in PUR due to production problems in Q1 2015
- Mild winter helped construction industry

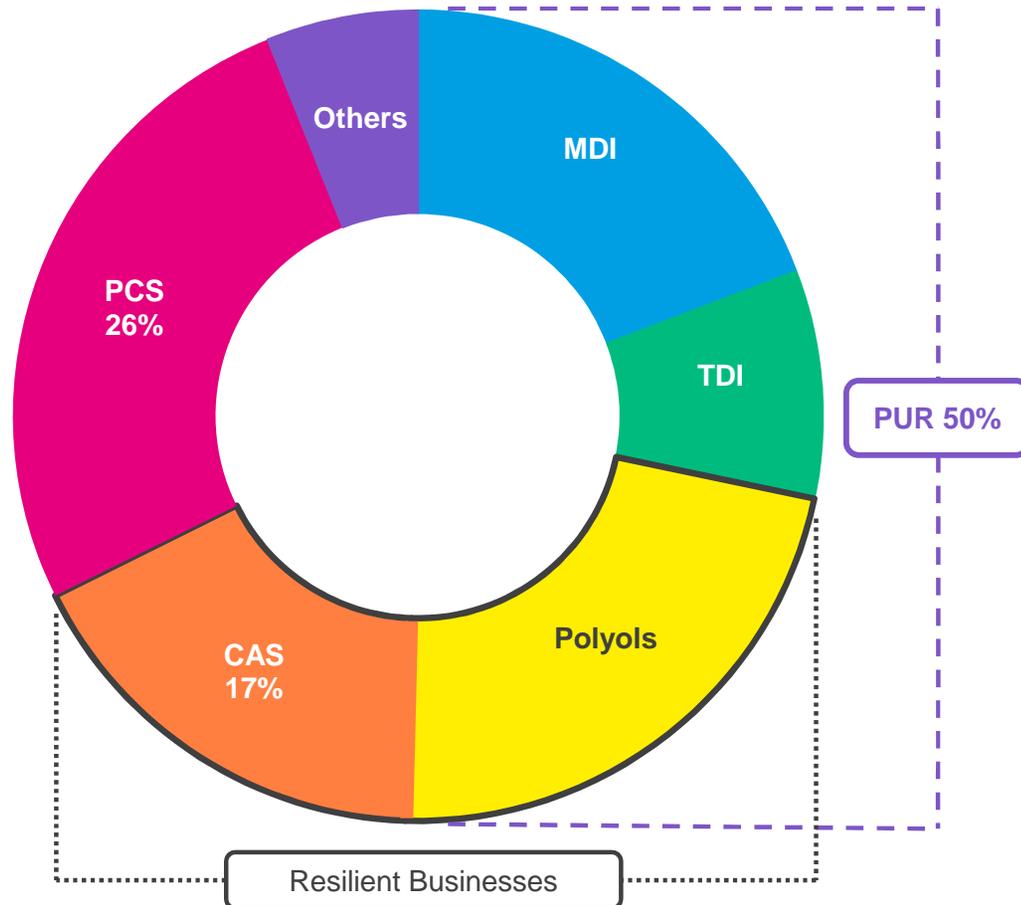
# 2015 – Sales by segments



Significant proportion generated with resilient businesses

## Sales by Segments

% of group sales



## Highlights

### Resilient businesses

- CAS: proven low volatility
- Polyols: structurally low volatility

### Above mid-cycle margins

- PCS: but still significantly below historical peak margins

### Below mid-cycle margins

- MDI: challenged by new capacities in the industry

### Bottom of the cycle margins

- TDI: global industry overcapacities but Covestro with leading cost position

# CAS at a glance



Focus on stable high margins in CAS business with defendable competitive advantages

Global leading supplier of high performance materials to the coatings / adhesives / specialties industries



**6+**  
Monomers

**2,300+**  
Products

**4,300+**  
Customers<sup>(b)</sup>

**#1**  
Producer of  
aliphatic  
isocyanates<sup>(a)</sup>

**€2.1bn**  
Sales 2015A

**23.5%**  
Adj. EBITDA  
margin  
2015A

CAS products have all the characteristics of niche coating / ingredients chemicals

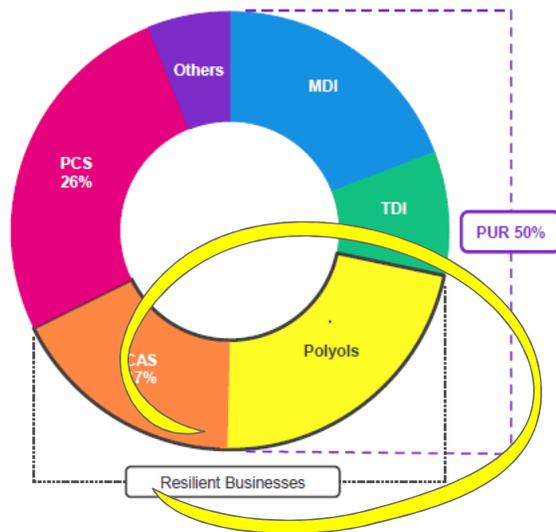
- High value-add materials ✓
- Priced on the basis of performance, high level of margin resilience ✓
- Competition with other players based on performance, distinct entry requirements ✓
- Small proportion of cost to end-customer ✓
- Low volumes and large number of niche-customized products sold ✓
- Products tailored to customer needs lead to significant switching efforts ✓
- Product innovation and R&D critical to success ✓

# Polyols industry spreads

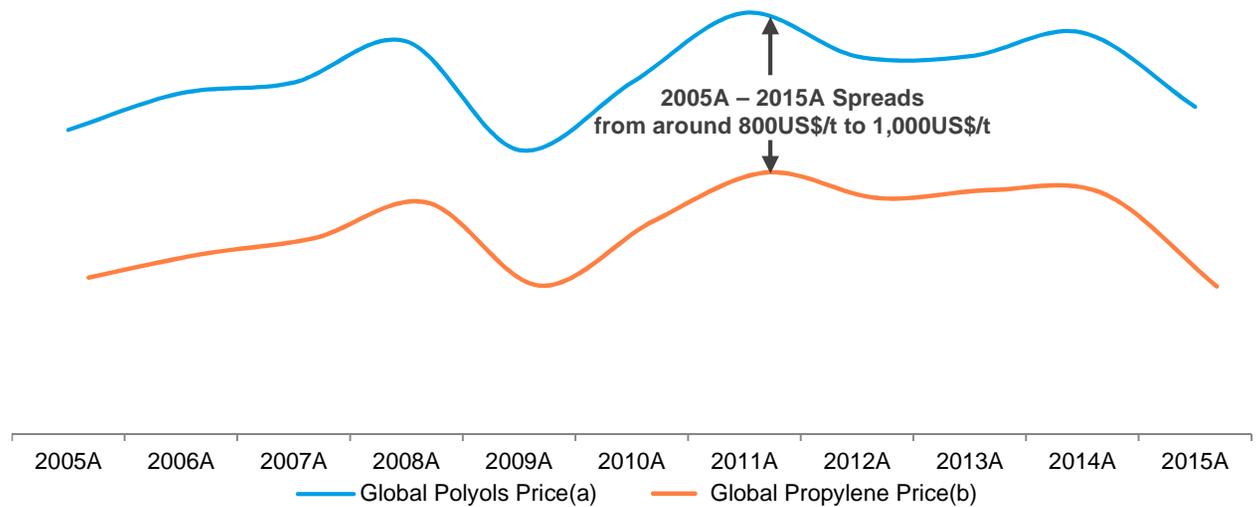


Polyether polyols demonstrate inherently stable margins

Resilience of polyether polyols business also confirmed in 2015



Global average price (US\$/t)



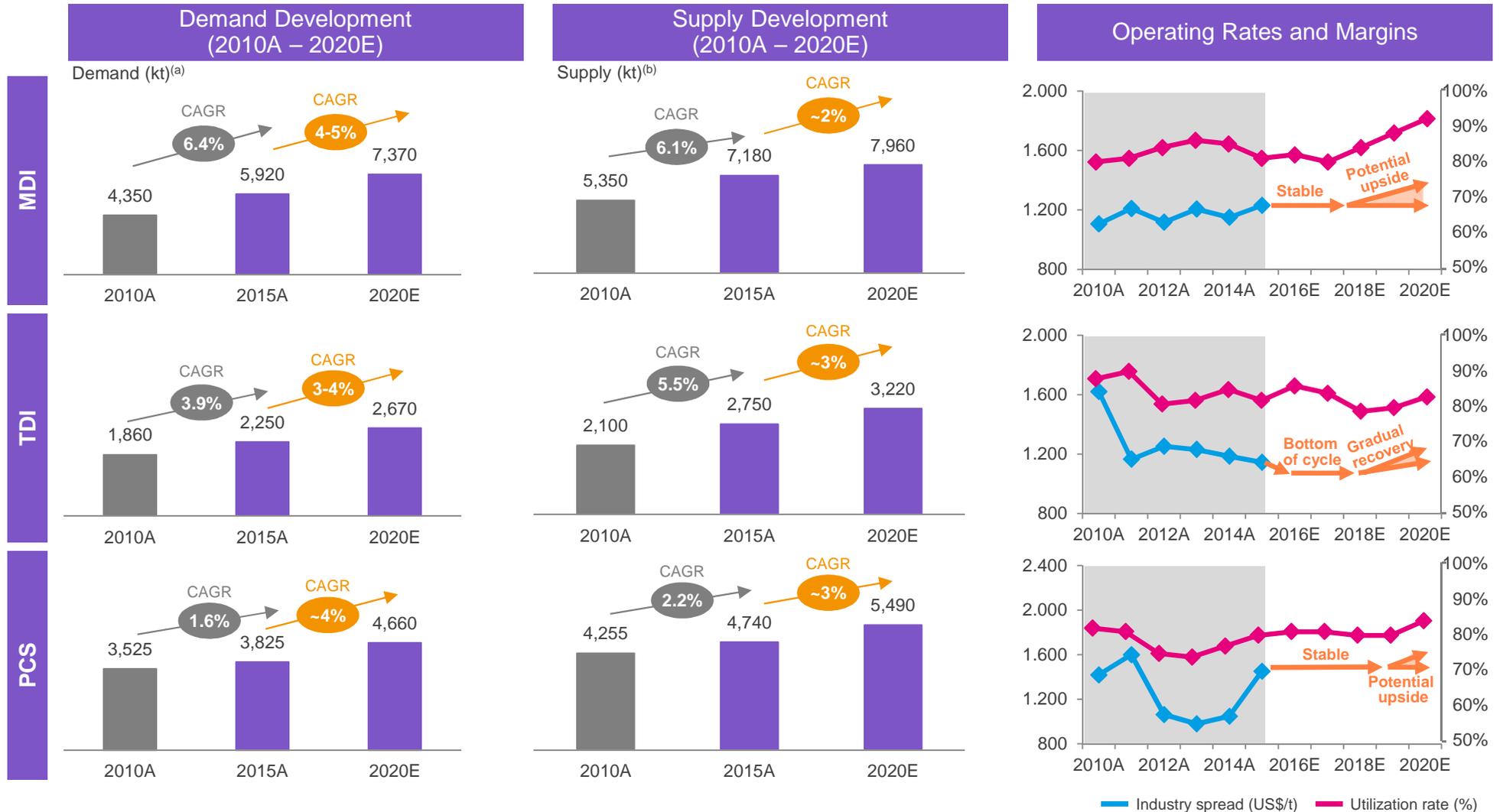
- Non integrated polyether polyols producers with limited competitiveness
- Single capacity addition with little influence on supply/demand dynamics
- Specific entry requirements for new players, e.g. capex and technology

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

# Industry historical development and outlook



Above GDP industry growth driving industry capacity utilization and supporting higher margins

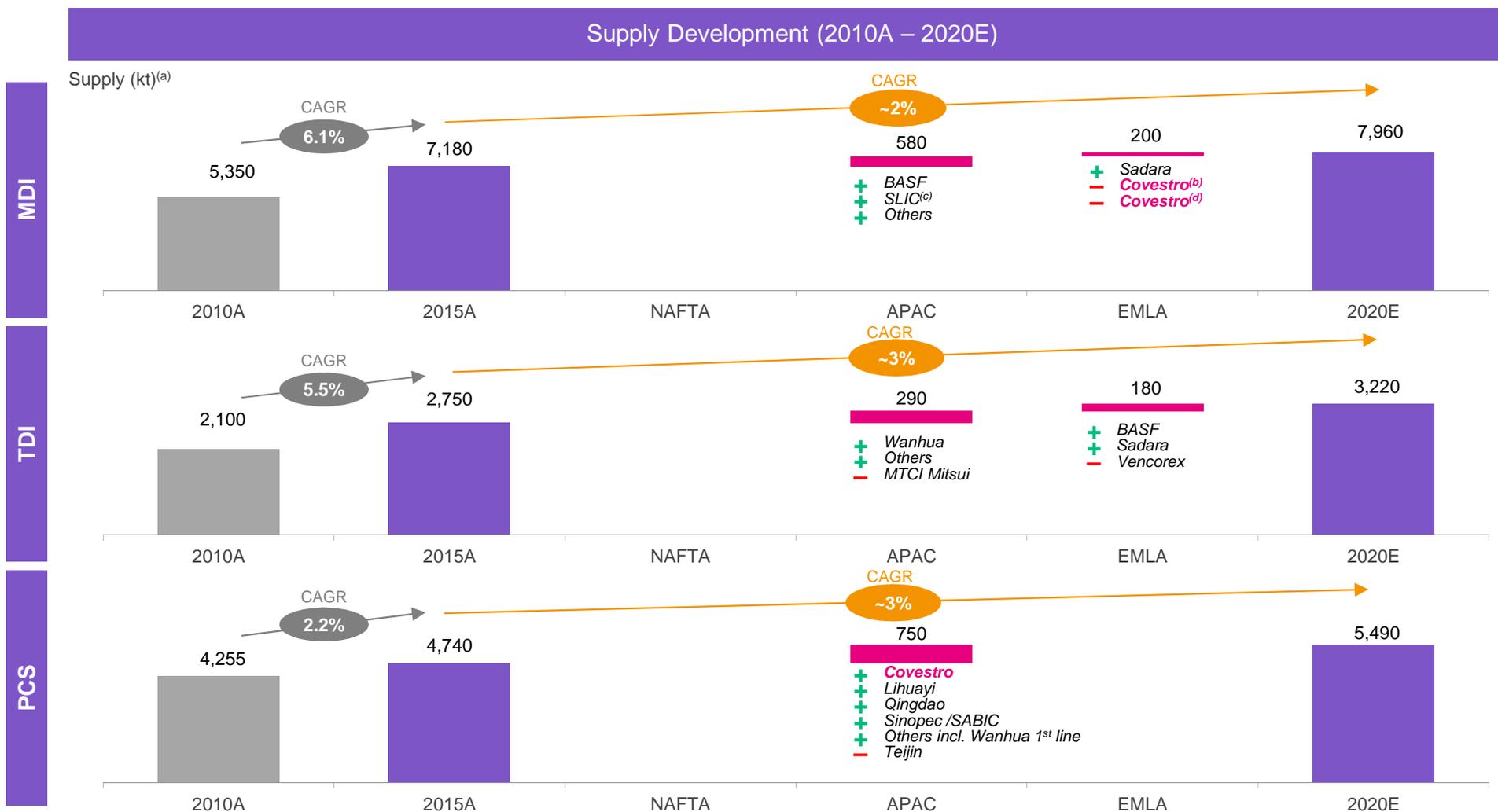


Notes: (a) Assumes global GDP CAGR 2015A – 2020E of ~3%  
 (b) Based on historical and announced future nameplate capacities

Source: Nexant and Covestro internal estimates

# Industry supply development

## Favorable industry supply outlook

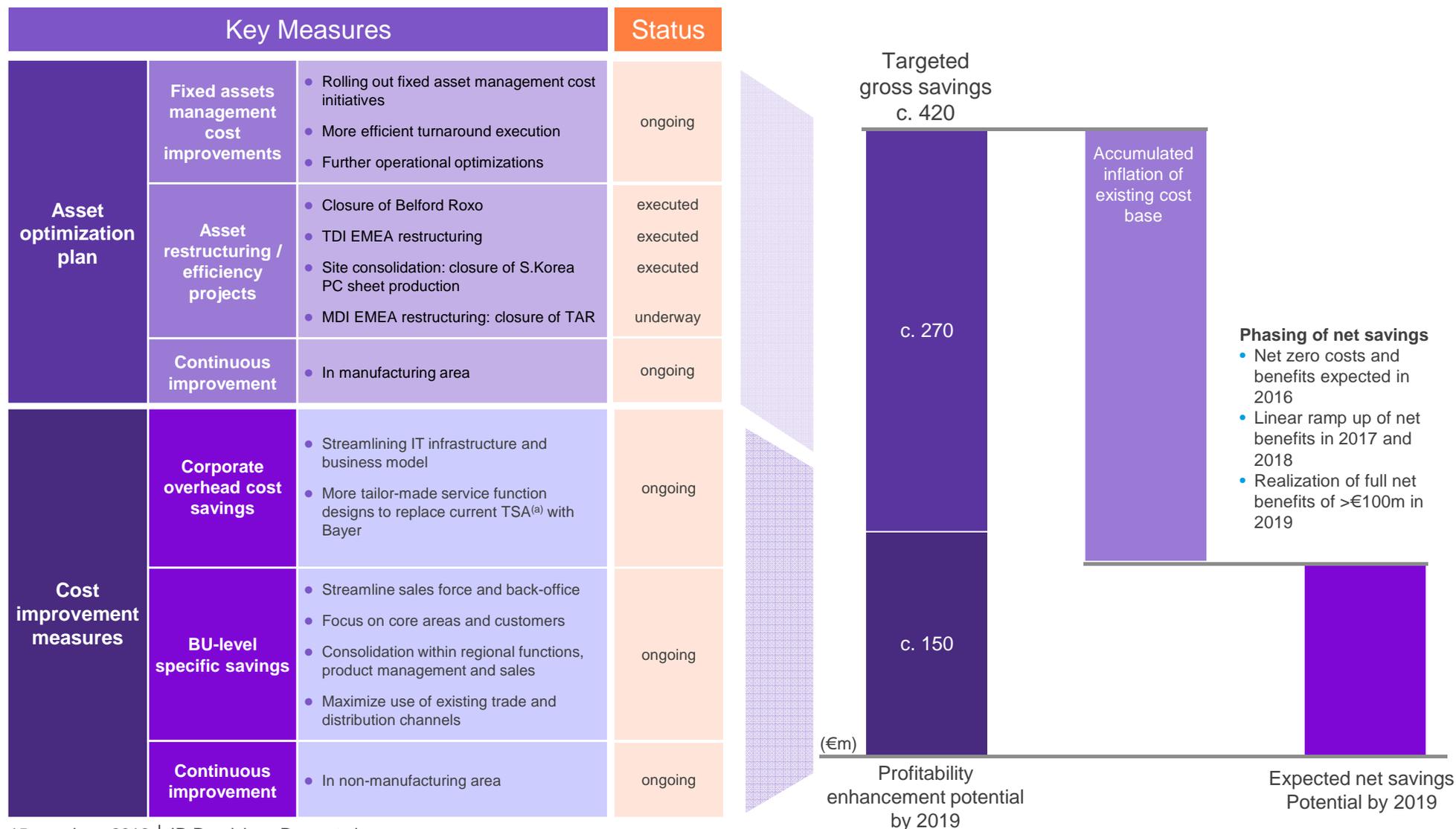


Notes: (a) Based on historical and announced future nameplate capacity additions  
 (b) Closure of 55kt p.a. Belford Roxo, Brazil, facility  
 (c) Refers to Shanghai Lianheng Isocyanate JV (BASF 35%, Huntsman 35%, Shanghai Chlor-Alkali 15%, Shanghai Hua Yi 8% and Sinopec 7%)  
 (d) Announced closure of 170kt p.a. Tarragona, Spain, facility  
 Source: Nexant and Covestro internal estimates

# Structured profitability enhancement program on track



Net saving expected to start ramping up in 2017

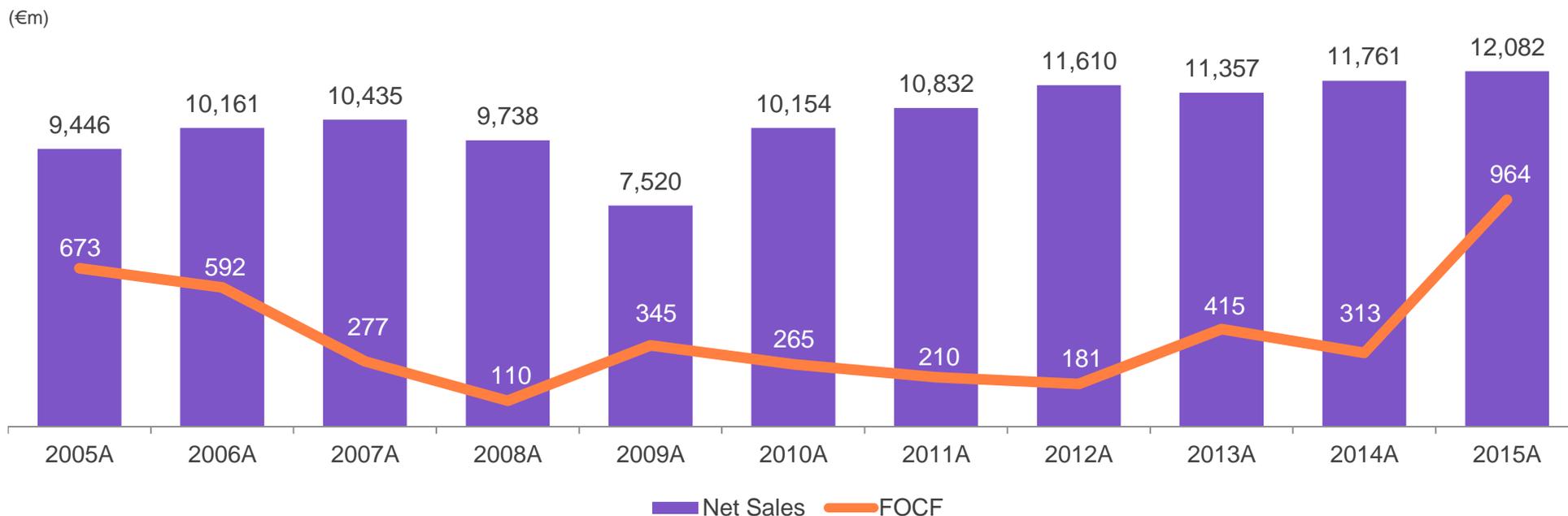


# Record free operating cash flow in 2015



Track record of positive FOCF across the cycle

Covestro Net Sales vs. FOCF (2005A –2015A)



- Accumulated more than €4bn in free operating cash flow since 2005A
- Free operating cash flow positive every year including 2008A–2009A cycle trough
- Attractive outlook for cash flow driven by volume growth, higher asset utilization, focus on cost discipline and limited need for further growth capex

# Use of cash reflects strong cash generation



## Internal



- Capex (budget) below D&A in 2015A-2019E
- Goal to further reduce net debt
- Long-term preparation of next growth investments underway

## Dividend policy



- Clear commitment to sustainable dividend growth – or at least stable dividend in difficult economic environment
- For stub year 2015, dividend of €0.70 paid
- Target dividend pay-out ratio of 30-50% based on Covestro Group IFRS net income in FY 2016
- Efficient capital structure and strong free cash flow allowing for sustainable dividend policy

## Portfolio



- Disciplined & focused approach
- Bolt-on acquisition to boost R&D and business development
- Focus on high margin, differentiated business areas and continuous portfolio optimization

# Covestro strategy



Leverage industry leadership to capture growth in our industries and improve our asset and cost base

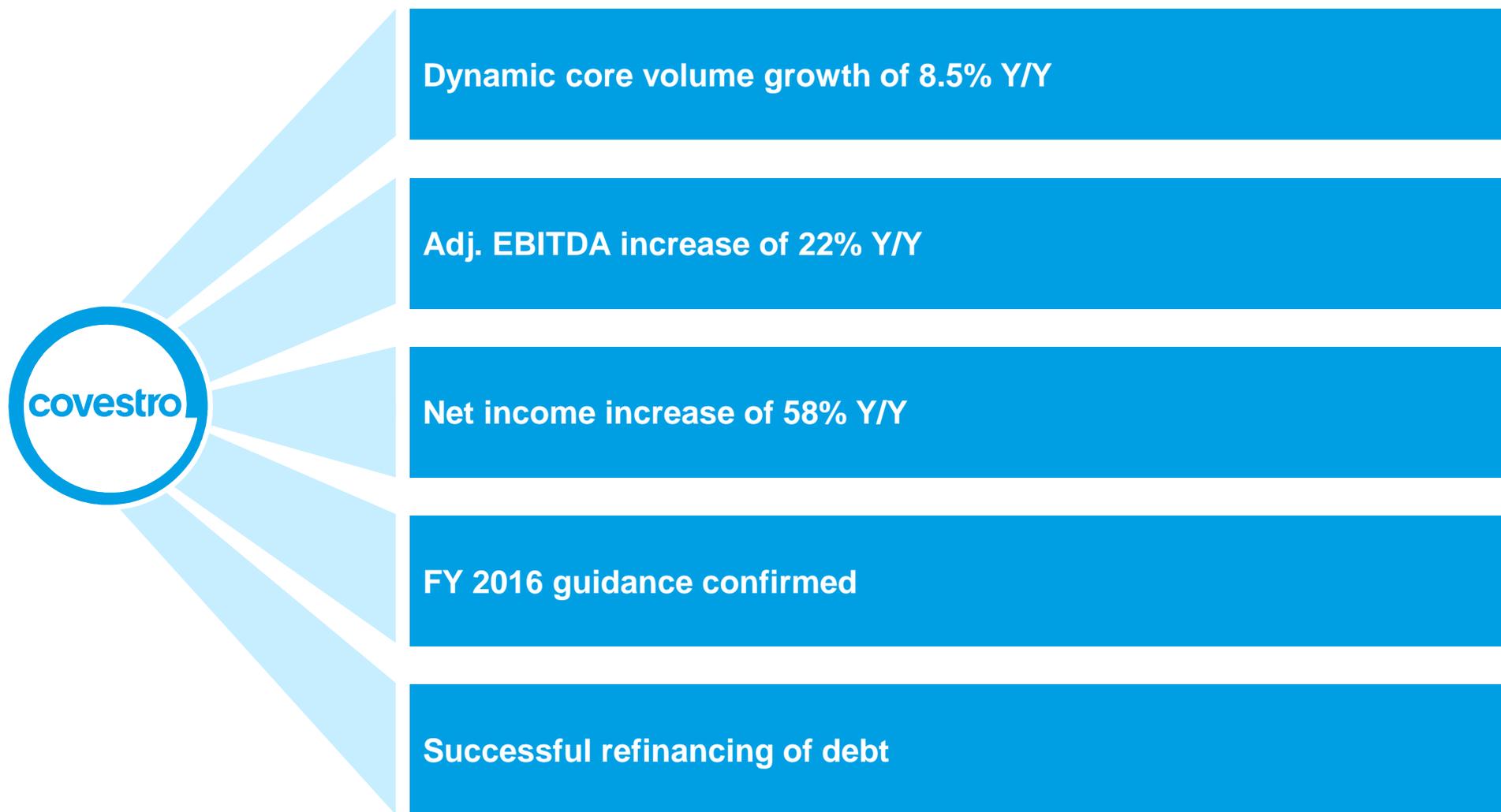
- 1 Capture market growth**  
over the next years with existing world-scale assets
- 2 Optimize asset footprint**  
through site consolidation, restructuring and efficiency projects
- 3 Improve cost position**  
by 2019, align overall costs with best-in-class chemical industry benchmarks
- 4 Protect and build profitable competitive positions**  
through focused R&D
- 5 Embed sustainability**  
in every element of the strategy



# Financial Highlights Q1 2016

# Key highlights

Strong start into the year



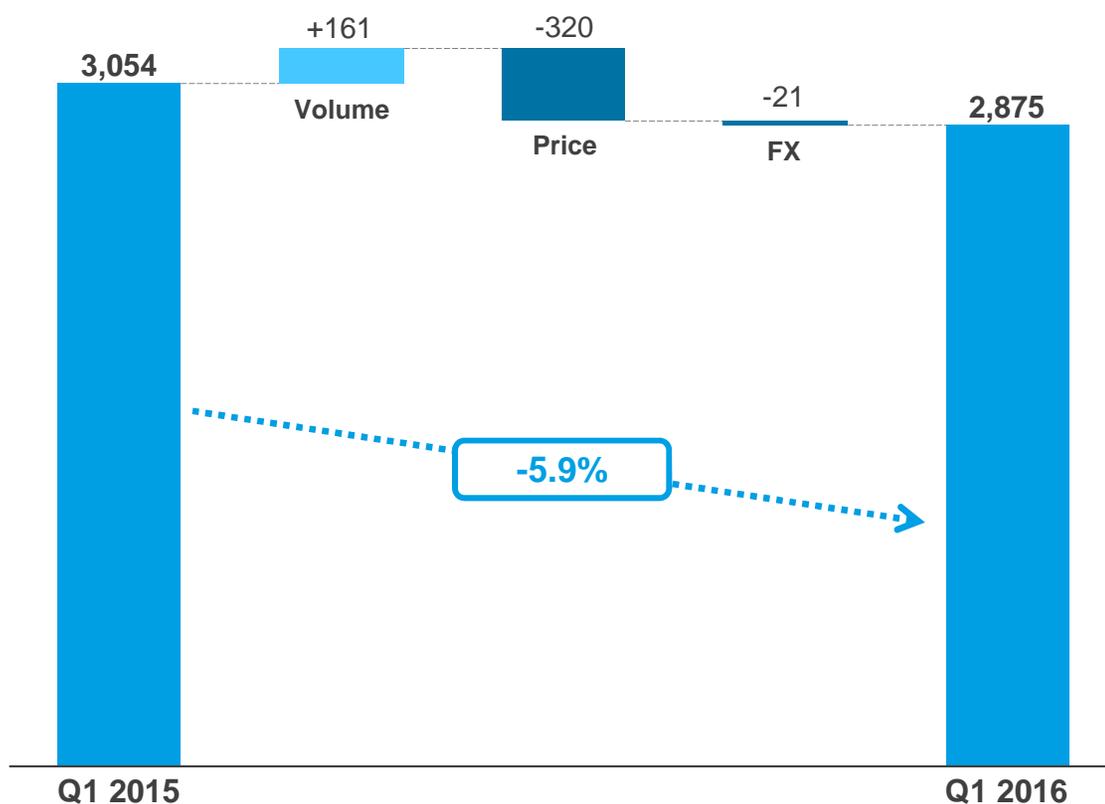
# Q1 2016 – Sales bridge



## Dynamic volume growth

### Sales Bridge

in € million



### Highlights

#### Dynamic volume development

- Core volume growth (in kt) of 8.5% Y/Y
- Sales volumes (in €) expansion of 5.3% Y/Y diminished by stable by-product sales (non-core)

#### Price decline driven by lower raw material prices

- Lower selling prices negatively impacted sales by 10.5% Y/Y

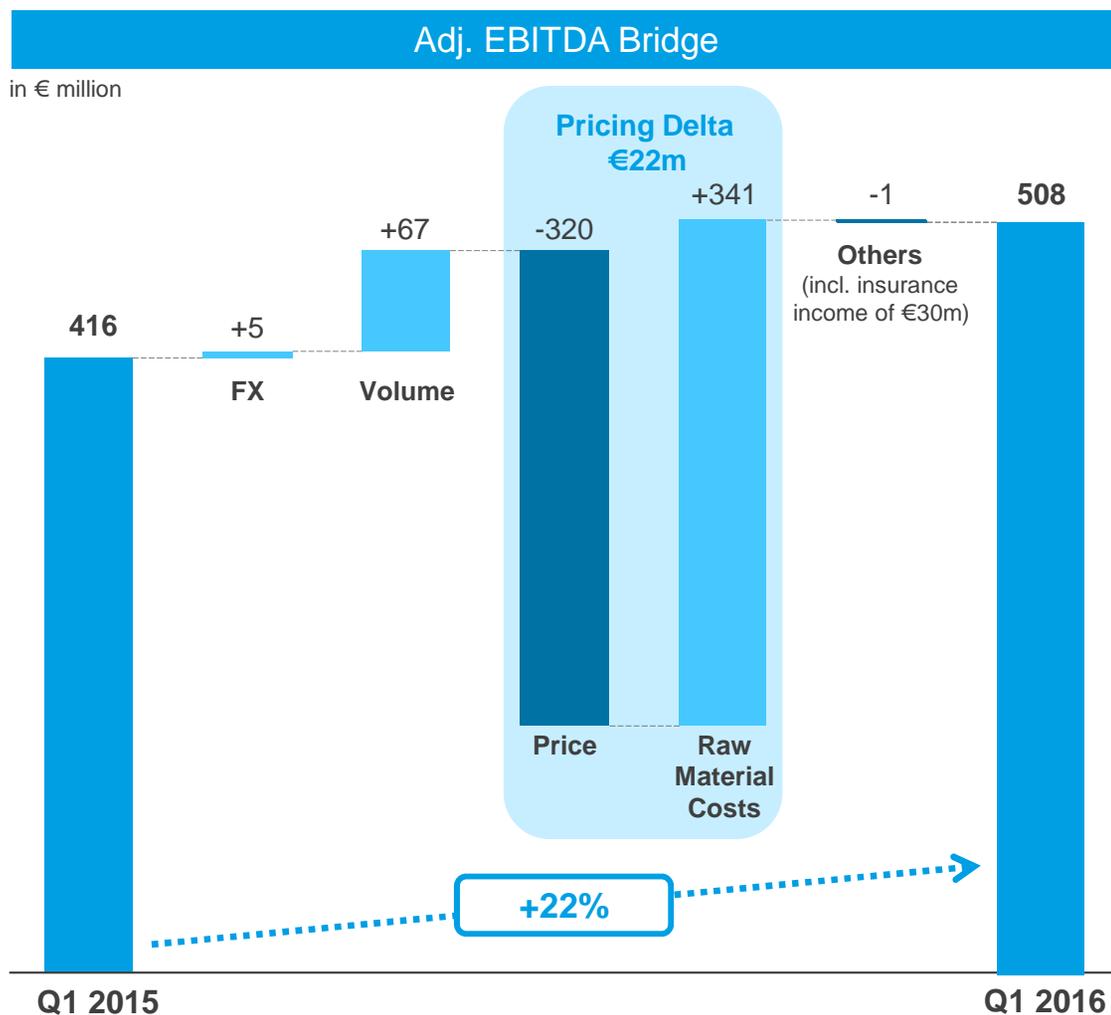
#### Limited FX effects

- FX effects burdened sales by 0.7% Y/Y mainly due to a weaker CNY, BRL and MXN

# Q1 2016 – Adjusted EBITDA bridge



## Positive volume leverage



## Highlights

### Positive volume leverage

- Driven by MDI, TDI and PC

### Slightly improving cash margin

- Positive pricing power continued especially in PCS

### Gain from insurance income

- Insurance income of €30m included in “Others”, which offset cost increases

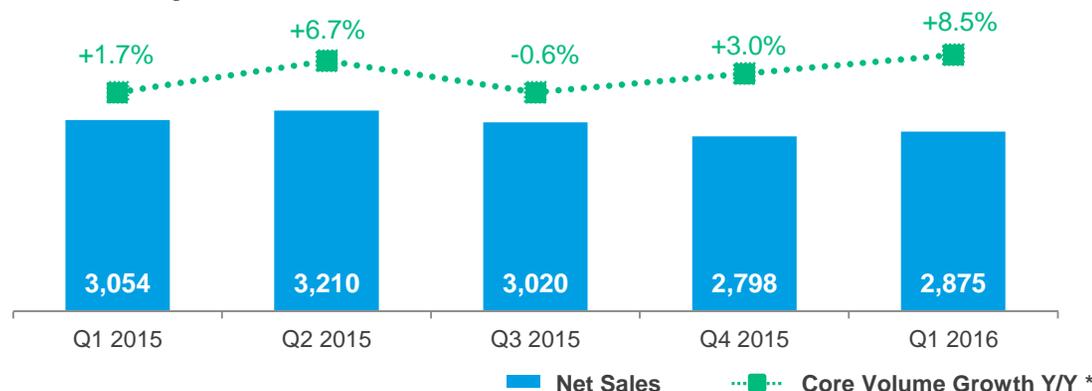
# Q1 2016 – Group results



## Continued margin expansion

### Net Sales and Core Volume Growth

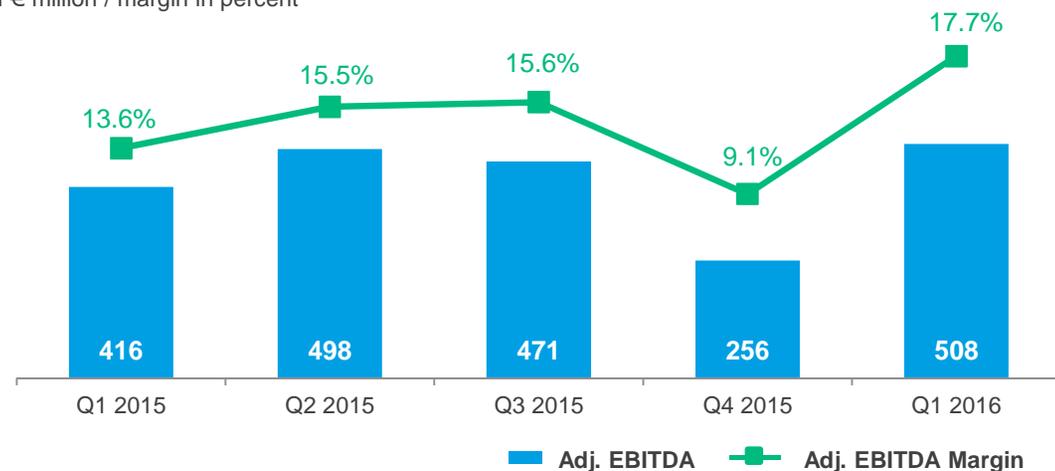
in € million / changes Y/Y



\*) data of previous year have been adjusted

### Adjusted EBITDA and Margin

in € million / margin in percent



### Q1 2016 Highlights

- Dynamic core volume growth mainly driven by underlying demand improvements but also helped by low prior year basis, mild winter and competitor outages
- Sales decreased by 5.9% Y/Y mainly reflecting the lower raw material prices

### Q1 2016 Highlights

- Adj. EBITDA margin significantly improved to 17.7% due to positive volume leverage and insurance settlement (adj. EBITDA margin of 16.6% excluding insurance income)
- Adj. EBITDA increased each quarter Y/Y in the last five quarters

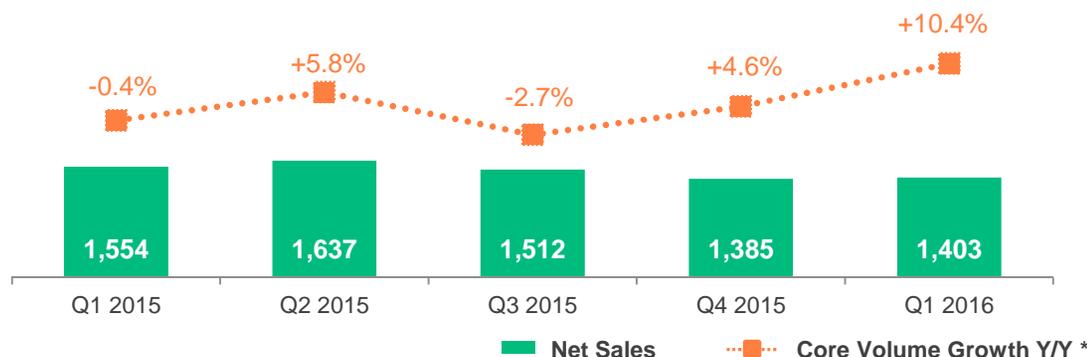
# Q1 2016 – Results of PUR segment



## Polyurethanes – Solid development

### Net Sales and Core Volume Growth

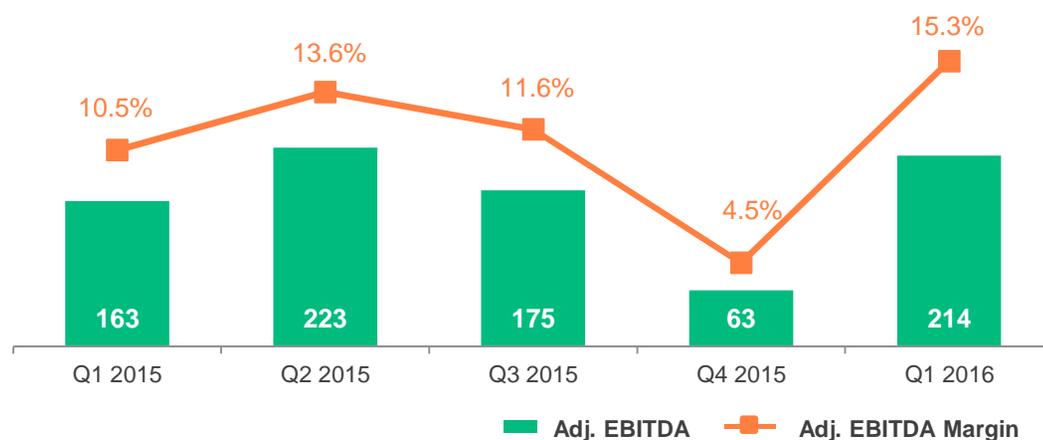
in € million / changes Y/Y



\*) data of previous year have been adjusted

### Adjusted EBITDA and Margin

in € million / margin in percent



### Q1 2016 Highlights

- Core volume growth of 10.4% Y/Y mainly driven by TDI and MDI, whereas Polyols increased only low-single digit
- Selling prices declined by 15.7% Y/Y

### Q1 2016 Highlights

- Adj. EBITDA excluding the insurance income of €30m increased by 13% Y/Y with a margin of 13.1%
- Underlying earnings improvement was mainly driven by the positive volume leverage

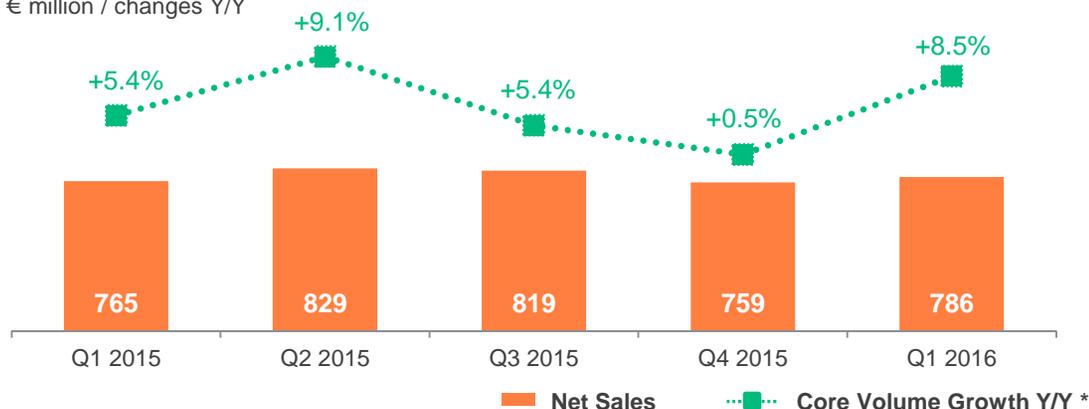
# Q1 2016 – Results of PCS segment



## Polycarbonates – Strong results

### Net Sales and Core Volume Growth

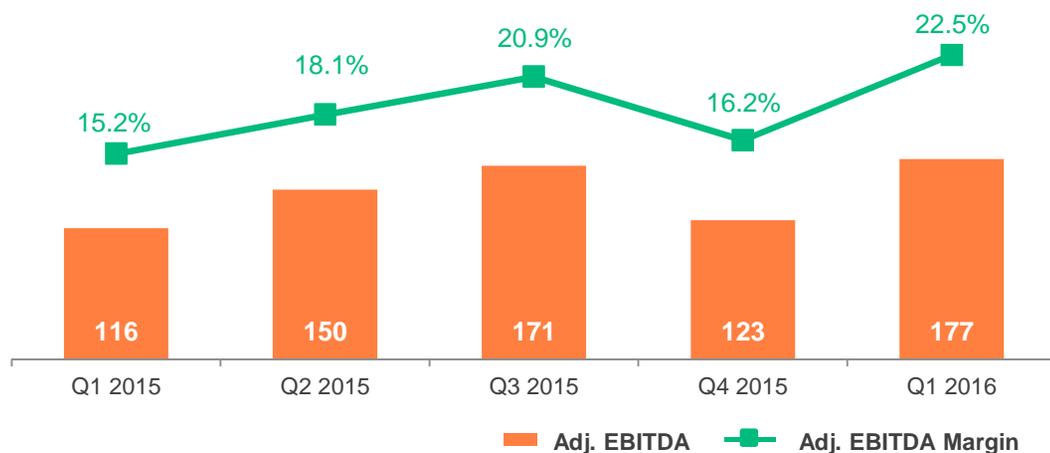
in € million / changes Y/Y



\*) data of previous year have been adjusted

### Adjusted EBITDA and Margin

in € million / margin in percent



### Q1 2016 Highlights

- Globally dynamic demand from automotive and construction; solid growth in electrical, especially in APAC; on purpose lower volumes in optical media
- Selling prices declined by 5.4% Y/Y

### Q1 2016 Highlights

- Dynamically increasing margin despite seasonally low quarter (Chinese New Year)
- Continuing favorable supply-demand balance

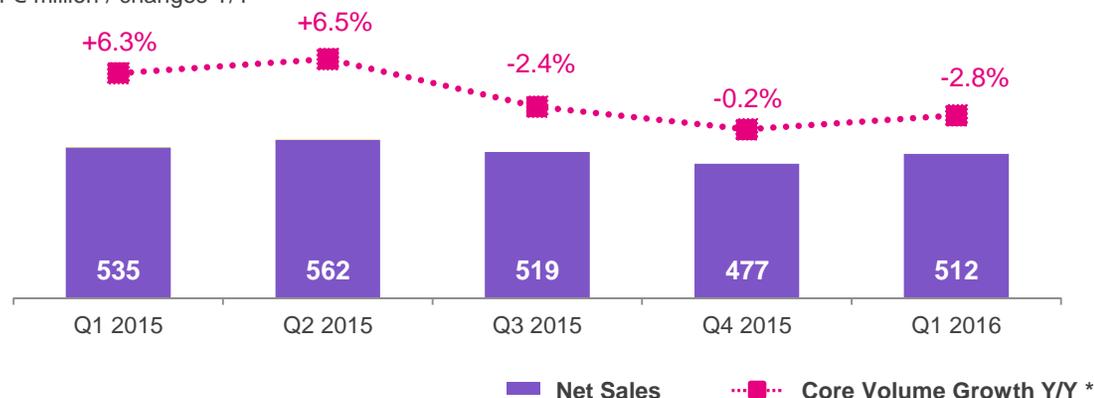
# Q1 2016 – Results of CAS segment



## Coatings, Adhesives, Specialties – Record margin

### Net Sales and Core Volume Growth

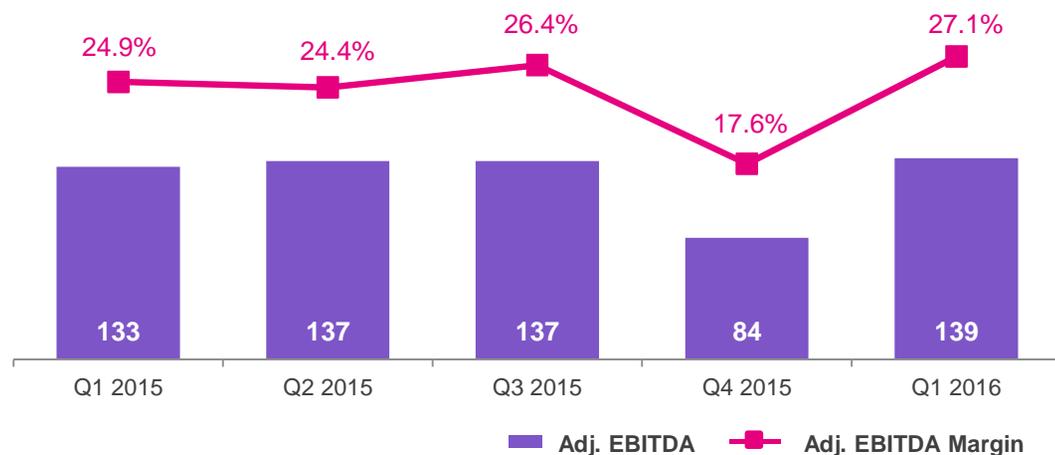
in € million / changes Y/Y



\*) data of previous year have been adjusted

### Adjusted EBITDA and Margin

in € million / margin in percent



### Q1 2016 Highlights

- Phase out of trading product burdened core volume growth; underlying business of CAS delivered a low single-digit growth
- Relative growth was burdened by a high prior year basis
- Selling prices decreased slightly

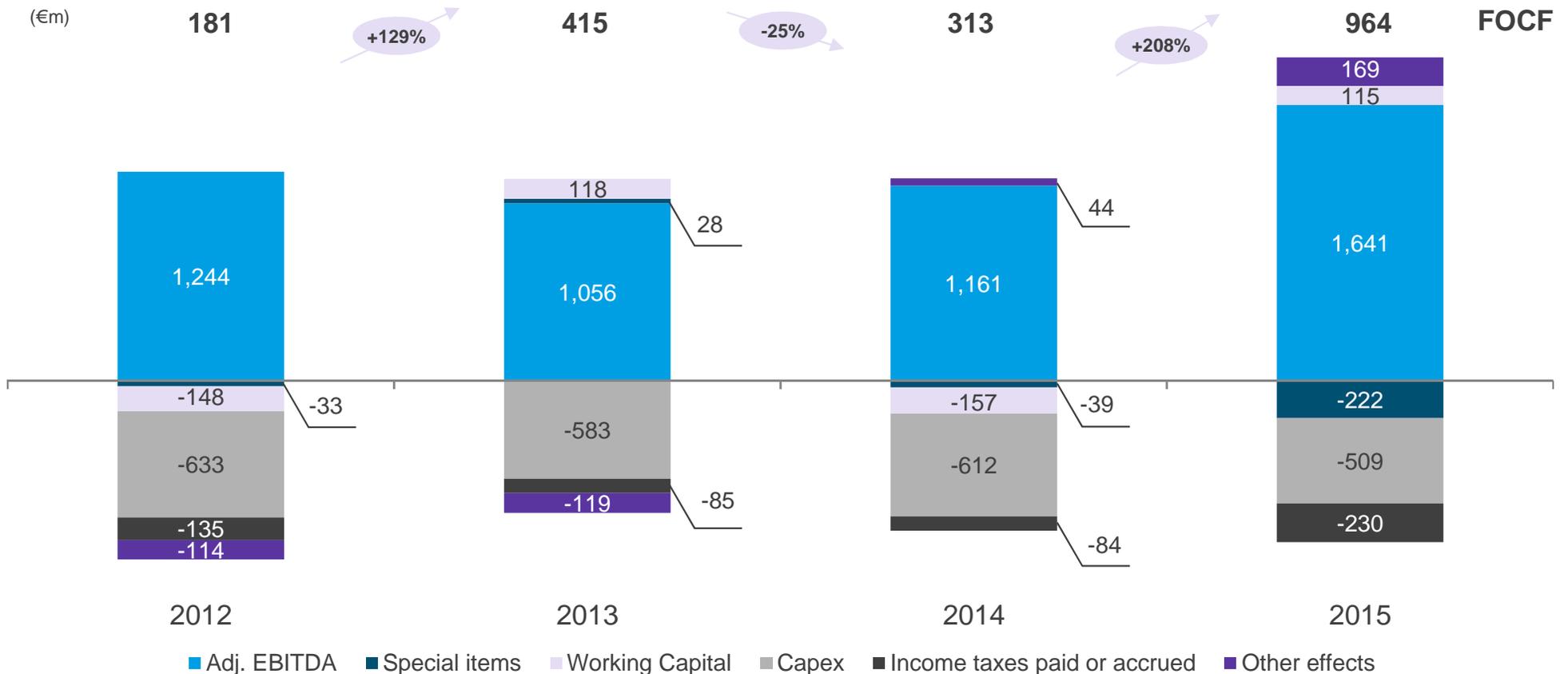
### Q1 2016 Highlights

- Margin increase mainly driven by lower raw material costs and mix effects
- Phase out of trading product burdened absolute EBITDA but was slightly margin enhancing

# High EBITDA to FOCF conversion rate



## Free operating cash flow development 2012A-2015A



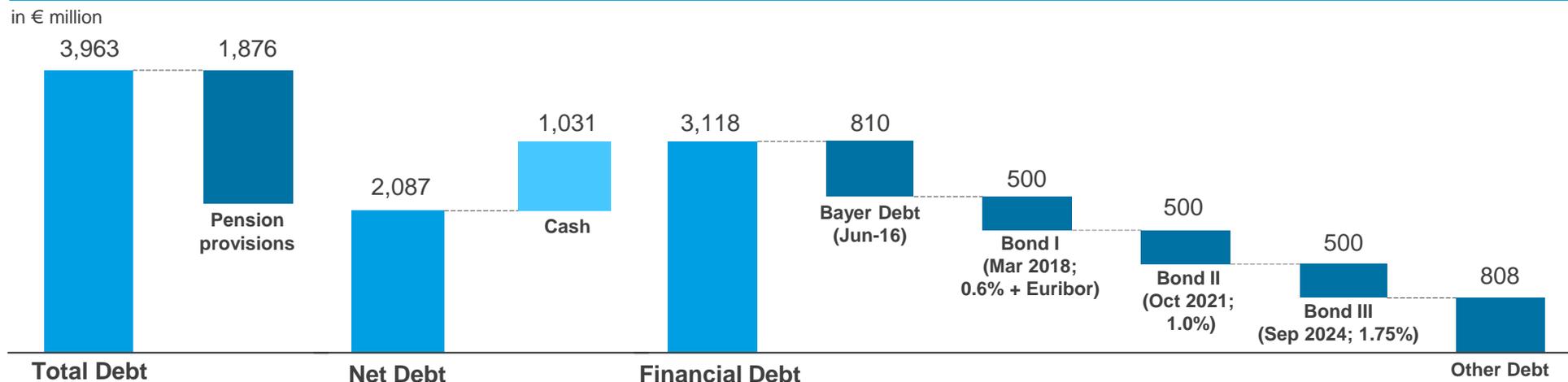
- Historic FOCF development largely driven by adjusted EBITDA, special items, changes in working capital and capital expenditures
- In FY2015, positive contribution from changes in working capital fully eaten up by negative special items (carve-out/IPO and site restructuring)

# Q1 2016 – Financial debt



Baa2 rating (Moody's) with stable outlook

## Financial Debt Development



## Highlights

### Total debt slightly up compared to year-end 2015

- Pension provisions increased by €414m compared to year-end 2015 due to lower interest rates (German discount rate down from 2.6% to 1.9%); net debt decreased by €124m mainly due to the positive FOCF

### Successful bond placing

- With the placement of three bonds we were able to significantly prolong our financial debt maturity

### Unchanged ambitions for 2016: Further net debt reduction and increasing dividend

- Based on a dividend pay-out ratio of 30%-50% to net income

# Guidance 2016

Committed to deliver



## Sales and Earnings Forecast

	2015	Forecast
<b>Core Volume Growth</b>	+2.7%	Mid-single-digit increase
<b>Free Operating Cash Flow</b>	€964m	At high level, above the average of recent years
<b>ROCE</b>	+9.5%	Premium on cost of capital

## Basic Assumptions

- Our guidance is based on current exchange rates
- We assume a similar macroeconomic environment as in 2015

# Q1 2016 – Summary

Covestro fully on track



**Strong organic growth in a focused portfolio**  
despite a challenging market environment

**Solid earnings and cash flow generation**  
supported by a stable demand/supply balance and a focus on profitability

**Robust financial profile**  
with an investment grade rating (Baa2 from Moody's)

**Attractive dividend policy**  
with a dividend pay-out ratio of 30-50%

**Solid financial outlook**  
despite current limited visibility and high uncertainties

# Upcoming IR events



Find more information on [investor.covestro.com](http://investor.covestro.com)

## Reporting Dates

- July 26, 2016 Half-Year Financial Report 2016
- October 25, 2016 Q3 2016 Interim Report
- February 20, 2017 Annual Report 2016

## Annual General Meeting

- May 3, 2017 Annual Stockholders' Meeting, Bonn

## Broker Conferences

- June 8-10, 2016 Deutsche Bank, German, Swiss & Austrian Conference, Berlin
- June 14-16, 2016 Exane BNP CEO Conference, Paris
- June 21, 2016 Credit Suisse, Global Chemicals Conference, London
- September 13-14, 2016 UBS, Best of Germany Conference, New York
- September 13-15, 2016 Credit Suisse, Basic Material Conference, New York
- September 19, 2016 Berenberg & Goldman, German Corporate Conference, Munich
- September 21, 2016 Baader Bank, Baader Investment Conference, Munich
- November 15-16, 2016 UBS European Conference 2016, London