

# Press Release



Leverkusen,  
April 13, 2018

## **Annual General Meeting Wednesday, April 13, 2018, Bonn**

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Chairman of the Board of Management

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(2018-701e)



Ladies and gentlemen,  
Dear shareholders,

Welcome to the Annual General Meeting of Covestro. We are delighted that you have come to Bonn today.

As I will be speaking in English, let me remind you that you will be able to listen to a German translation of my presentation via your headphones.



The results we can present to you today are testimony to the work every single employee at Covestro did throughout the last year. And I can say: they did an excellent job.

Ever since we became Covestro we delivered on our promises and even managed to raise the bar.

2017 was, once more, a record year for Covestro. We have reached or exceeded all our targets, backed by continued very strong demand for our products.

This development was based on growth across our key industries. Covestro's product portfolio continued to attract customers from a wide range of industries.

Consequently, we can report excellent results for the full year 2017.

Our net income was 153 percent above the previous year's level, exceeding two billion euros.

I would also like to mention the share buy-back program we launched in November 2017.



We decided to start a share buy-back simply because it was the best investment we could find to create value and to return cash to our shareholders. As of today, we have bought back around 4.5 million shares.

And talking about shares, our share price showed remarkable developments throughout 2017. It rose by more than 30 percent, outperforming all relevant indices.



Ladies and Gentlemen,

Before I go deeper into our financial results, I would like to take a step back and take a closer look at the history of Covestro – a history I am more than proud to have been a part of as CEO ever since Covestro was born. As this is my last AGM as CEO of Covestro, please allow me to take you on a little journey through these exciting years.

Our company's new name 'Covestro' was revealed in June 2015.



## September 1, 2015: Covestro becomes independent

The course for a successful future is set



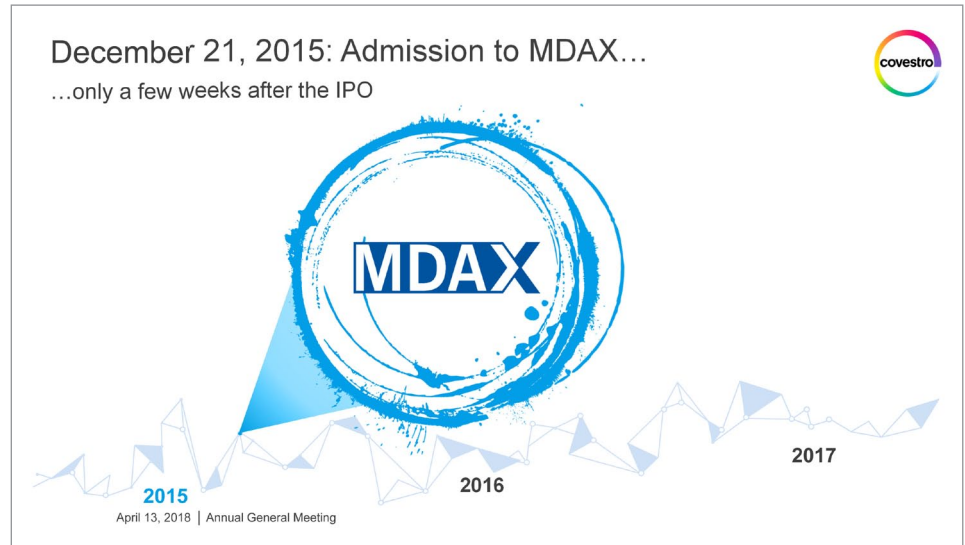
A few months later, in September 2015, we became legally and economically independent and our colourful new logo was put into place in front of our headquarters in Leverkusen.

## October 6, 2015: Covestro starts on the Stock Exchange

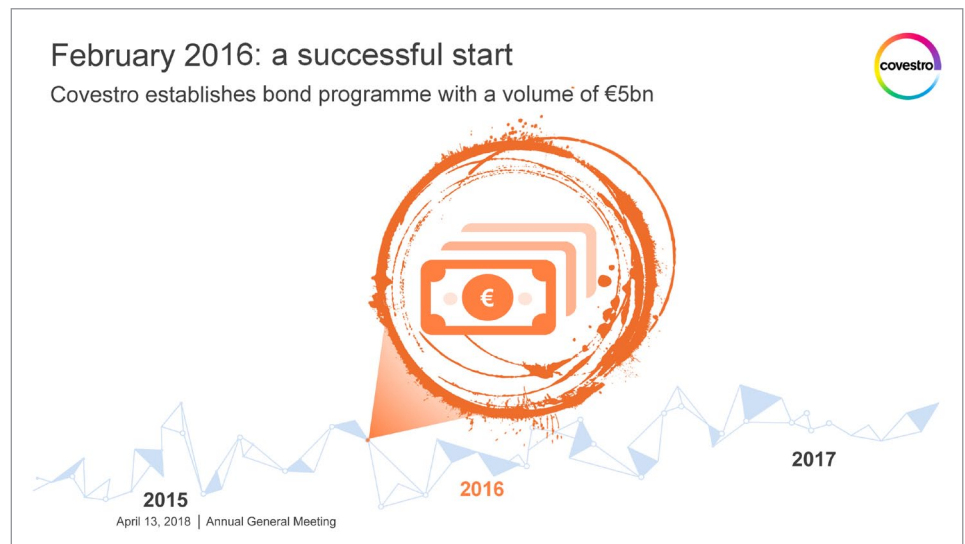
Deutsche Boerse in Frankfurt welcomed Covestro



A few days later, our logo also appeared on the Frankfurt Stock Exchange when we were welcomed by Deutsche Börse. Covestro shares started trading on October 6th. We even brought our own bull sculpture made from polycarbonate, symbolizing increasing share prices. Looking back at the opening share price of 26.00 euros, that bull was actually quite visionary.



It did not take long, and we also entered the first index: Covestro was included in the MDAX stock market index on December 21st 2015, joining the 80 most important listed companies in Germany just a few weeks after our listing. This reflected the great investor interest in Covestro – your interest.



Our first operational year 2016 started with another premiere. With a Baa2 rating by Moody's with stable outlook, we took another step on the capital markets by establishing our first debt issuance program. With a volume of 5 billion euros, we ensured that we could flexibly raise liquidity.



**June 2016: launch of production facility in Dormagen**  
Start of industrial production of CO<sub>2</sub>-based plastics



2015  
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2016

2017

At Covestro, we are pushing boundaries. Innovation is what we are very good at. The launch of one special production plant in Dormagen in June 2016 symbolizes that very well. The plant manufactures innovative foam components with 20 percent CO<sub>2</sub>, paving the way towards a more sustainable future and less use of fossil raw material.

**July 2016: Opening of a new major plant...**  
...for HDI intermediates in Shanghai



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2016

2017

In July, we opened another plant – a little farther away from Dormagen: in Shanghai. With a capacity of 50,000 metric tons of HDI per year, we significantly expanded our position in coating raw materials with a state-of-the-art production technology: environmentally friendly, efficient and safe.





July 2016: Around-the-world-flight Solar Impulse...  
 ...with Covestro products on board




Environmentally friendly is absolutely the right description for another event in summer 2016: the two Swiss pioneers Bertrand Piccard and André Borschberg completed the first around-the-world-flight in their exclusively solar-powered aircraft. And we were on board with ultra-lightweight materials and responsible, in particular, for the design of the cockpit. We were, once again, pushing boundaries.

October 2016: Doubling of capacities...  
 ...for high-tech plastics in Shanghai




In October, we celebrated the inauguration of two new production lines at our Shanghai site, responding to the growing demand in Asia. We doubled the capacities for polycarbonate resins from 200,000 to 400,000 metric tons per year. These resins are used in many areas of modern life – from medical devices to automotive parts to smartphones and LED lighting.



**October 2016: Premiere at K16**  
 1<sup>st</sup> Appearance of Covestro at world's largest plastics trade fair in Düsseldorf

The many application areas of our products were presented a few days later at the K 2016 in Düsseldorf. It was the premiere of Covestro at one of the most important trade fairs in our sector. For example, we presented a visionary design concept for electric cars, incorporating current trends in exterior design. Outstanding features included wrap-around glazing made of transparent polycarbonate and seamless design of the front end.

**November 2016: Guinness World Record...**  
 ...with Covestro chimney as giant coloured puzzle piece

Before the end of the year, we had one more colourful Covestro moment and also pushed boundaries by establishing a Guinness World Record for the largest human puzzle piece during the inauguration of a newly designed chimney at our Brunsbüttel site. A piece of art without precedent.





**January 2017: Recycling of salt...**  
 ...from industrial wastewater




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2016

2017

I've already told you that we had a great year in 2017. Let's look at some highlights.

In January, we led a new research project focussing on recycling salt from industrial wastewater. The aim was to use the treated salt and purified wastewater in electrolysis processes to produce chlorine. Our ultimate goal is to develop a process that benefits not just the plastics industry but other industry segments as well.

**March 2017: New clearcoat...**  
 ...with biobased hardener for automotive manufacturing




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2016

2017

A few weeks later, we reached a new milestone in one of our projects with Audi and BASF's Coatings division. For the first time, a clearcoat containing a bio-based hardener was applied to test bodies of the Audi Q2 under near-series conditions at the Audi plant in Ingolstadt, Germany. This was just another important step towards an even more sustainable automotive coating process.



**May 2017: Biomass as...**  
 ...new raw material for aniline production





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2016

2017

In May 2017, we achieved a breakthrough in research. We managed to derive aniline, an important basic chemical, from biomass. Before, only fossil raw materials had been used for the production of aniline. Our goal is clear: the production of bio-based aniline on an industrial scale. That would be an unprecedented achievement in the chemical industry.

**June 2017: Sonnenwagen**  
 Cooperation with RWTH Aachen University for solar race





2015  
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2016

2017

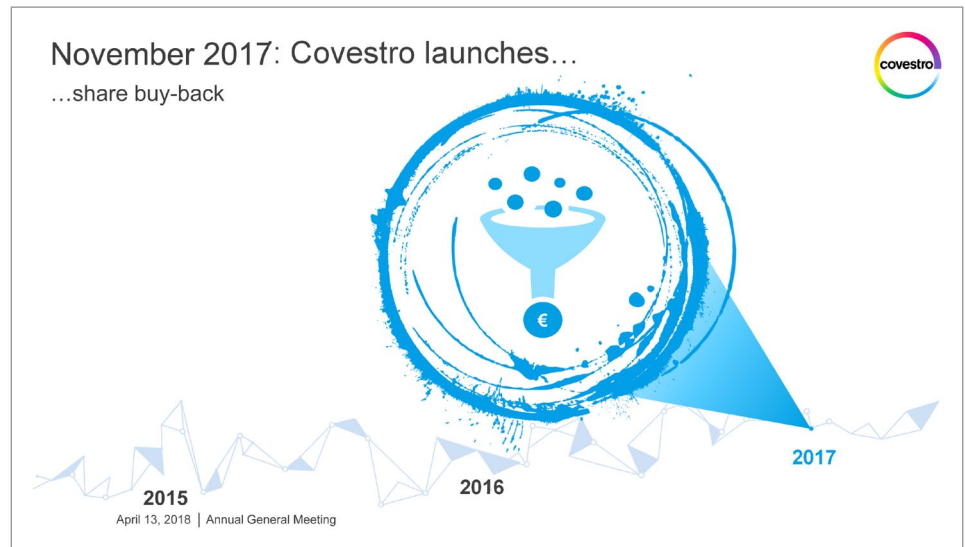
I already mentioned our contribution to solar powered flying. You prefer solar powered driving? No problem, we can do that! In June, we helped a group of highly motivated students from the RWTH Aachen University and Aachen University of Applied Sciences to develop a solar-powered electric car for what is likely to be the toughest solar car race in the world.



In September, the magazine Technology Review ranked Covestro as one of the 50 most innovative companies of 2017. A highly sustainable production process earned us a place in the global ranking by the German-language edition of the research magazine which is published by the renowned Massachusetts Institute of Technology (MIT).



Digitalization is a growth driver in our industry. That is why we made digitalization a fixed element of our corporate strategy and linked it to defined financial targets. I will get to some more details with regard to digitalization in a minute.



I assume that most of you followed another announcement in October with great interest. We announced our share buyback. Our higher than expected cash generation provided us with the opportunity to return cash to you. Therefore, we decided to start the share buyback.



At Covestro, we want to support talents in implementing innovative projects. That is why we sponsor the Young Champions of the Earth award by the United Nations, which was awarded for the first time in December 2017. With ideas that offer novel solutions to today's pressing environmental challenges, each winner receives seed funding, expert mentoring, needs-based training and access to powerful networks to help them implement their plans over the coming year.



Close to the end of 2017, we also made an important decision for further growth, this time in particular affecting our Tarragona site: we decided to continue it. We will invest around 200 million euros to increase the cost competitiveness at the site by implementing various measures. By debottlenecking and establishing our own chlorine supply, the site will become an even more efficient and competitive plant within our network.



Ladies and Gentlemen,

this concludes my overview on what we have achieved in our first years as Covestro.

As you know and as you can see here on the stage, Covestro has a new Chief Financial Officer. Dr Thomas Toepfer joined us just recently, on April 1st. We are proud to have such an experienced and widely recognised manager joining us.





However, I ask for your understanding that I will continue to talk you through our financial results of 2017 in more detail as I was acting as CFO for the majority of the last twelve months.

But you won't need to wait long to hear more from him: Thomas will be happy to answer the financial questions in today's Q&A session and will present to you our first quarter results in a couple of days.



As said before, we have achieved impressive results in 2017.

Across all regions and key industries we experienced a solid core volume growth of 3.4 percent in 2017. This was not as high as the superior levels we had registered in 2016, but still higher than in 2015.

Having reached an EBITDA of more than 2 billion euros in 2016, our 2017 EBITDA rose by some 70 percent to 3.4 billion euros, corresponding to a margin improvement from 16.9 percent to 24.3 percent.

However, we need to put the margin into perspective. Excluding an extraordinary positive effect of the TDI fly-up margin and the one-time items, our margin would be at around 20 percent. This still represents a progression of three percentage points, but shows a level we deem more appropriate to reflect last year's performance.

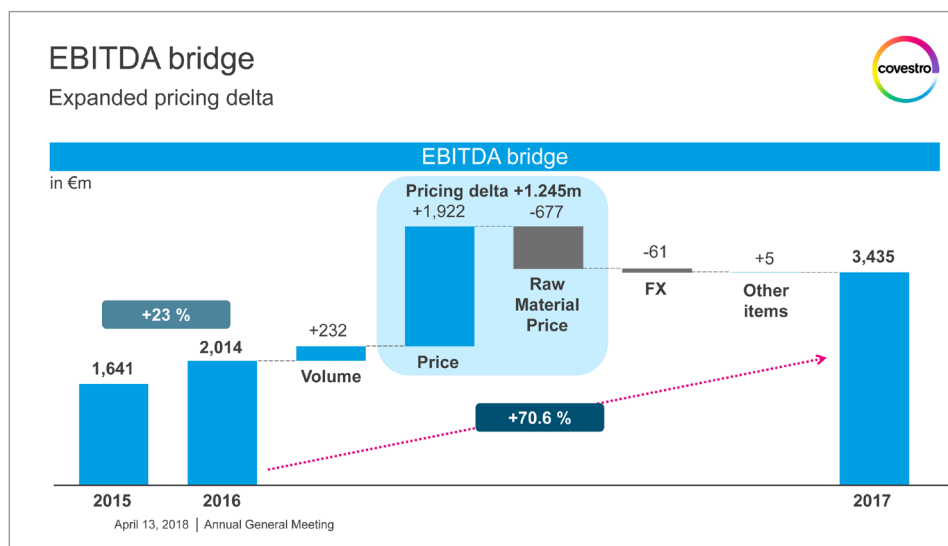
With regards to our return on capital employed, we truly reached a new level with 33.4 percent after 9.5 and 14.2 percent in 2015 and 2016, respectively.

Our Free Operating Cash Flow continued to rise, reaching a new record of more than 1.8 billion euros in 2017. This strong improvement of some 35 percent was fully driven by the significant EBITDA increase.



Dear shareholders,

Taking a look at the development since our first year as an independent company, we can be more than satisfied with the development of our three KPIs and our EBITDA.

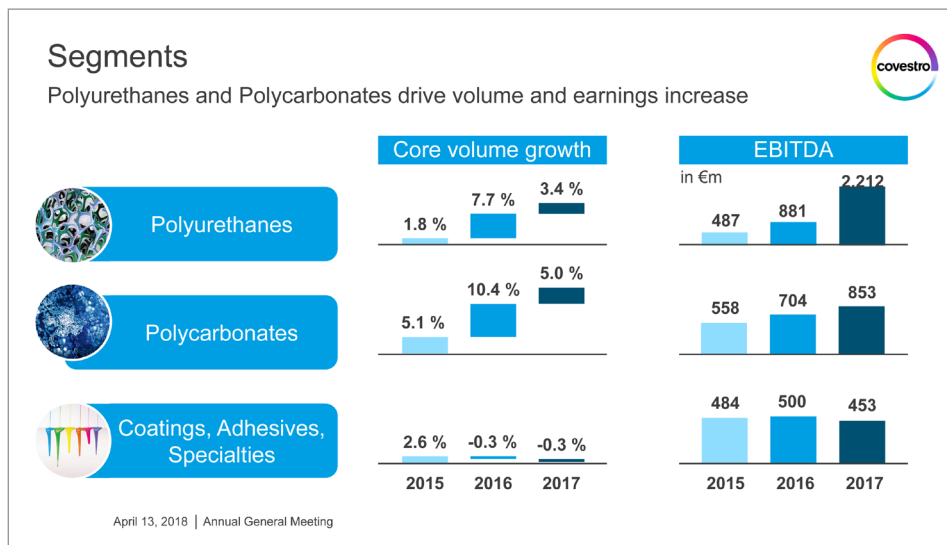


Taking a closer look at our EBITDA, we recorded a positive pricing delta in all three segments for the full year 2017, the main drive stemming from Polyurethanes. The further improvement of our utilization rates was a clear contributor as well.

Although we faced significantly higher material prices, we were able to increase selling prices even more due to the constantly high demand and continuously tight situations in our industries.

Considering FX effects, we faced a headwind in the second half affecting our EBITDA.

With regards to other items, the small net positive is composed of higher operational costs due to our intensified activities that were counterbalanced by positive operational one-time effects.



Ladies and gentlemen,

I would now like to take a more detailed look at Covestro’s individual segments.

The demand for Polyurethanes remained strong. However, the industry in 2017 was characterized by operating at its limits in light of the constrained available capacities. This is why we are working hard on expanding our capacities.

Even though we were constrained by the limited product availability, we increased our core volumes by 3.4 percent in the Polyurethanes segment.

EBITDA rose by 151.1 percent to 2.2 billion euros.

In Polycarbonates, we delivered a strong core volume growth of five percent for the full year. Similarly to the Polyurethanes segment, our growth was restricted by limited product availability.

We were able to increase the segment’s EBITDA by 21.2 percent reaching EUR 853 million.

Our earnings were positively affected by higher core volumes, improved product mix and increased selling prices, the latter compensating higher input prices.

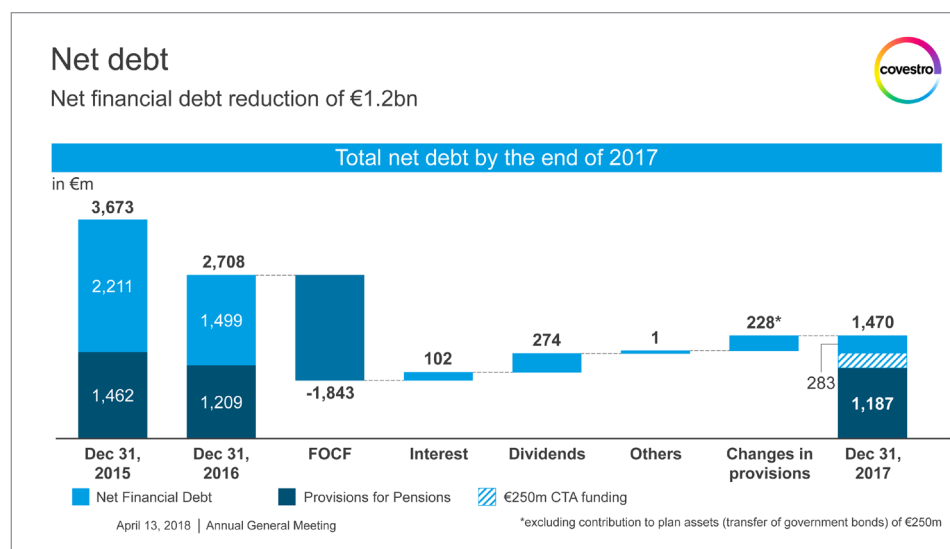
In Coatings, Adhesives and Specialties, we kept our core volumes stable year-on-year in a difficult year.

Especially the second half of the year was affected by destocking, a weaker underlying demand, some industry share losses and negative effects from Hurricane Harvey. On top, in Q4, we saw the usual seasonal dip.



Our EBITDA decreased by 9.4% year-on-year to 453 million euros. From today's perspective, we might have to cope with increasing raw material prices for several quarters.

Despite these short-term headwinds, CAS remains an attractive, resilient business with EBITDA margins above 20%. We are also confident that we will see core volume growth return to the low- to mid-single digit percentage range for the full year.



In 2017, we managed to significantly reduce our net financial debt by some 1.2 billion euros to 283 million euros.

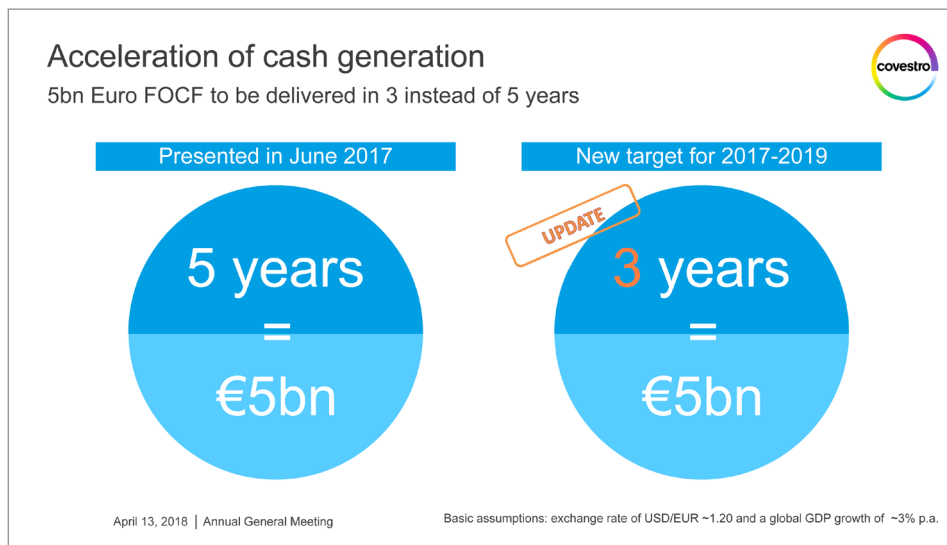
This was mainly due to our significant free operating cash flow.

Our total net debt to EBITDA ratio has improved to 0.4x at the end of 2017 – after 1.3x at the end of 2016.

Based on the faster pay down of debt than originally expected and to financials that further improved Covestro's positioning in its current rating category, Moody's lifted our credit rating outlook from stable to positive in December 2017.

Since the end of 2015, we have managed to reduce our total net debt by 2.2 billion euros.

In short: we have a very robust balance sheet.

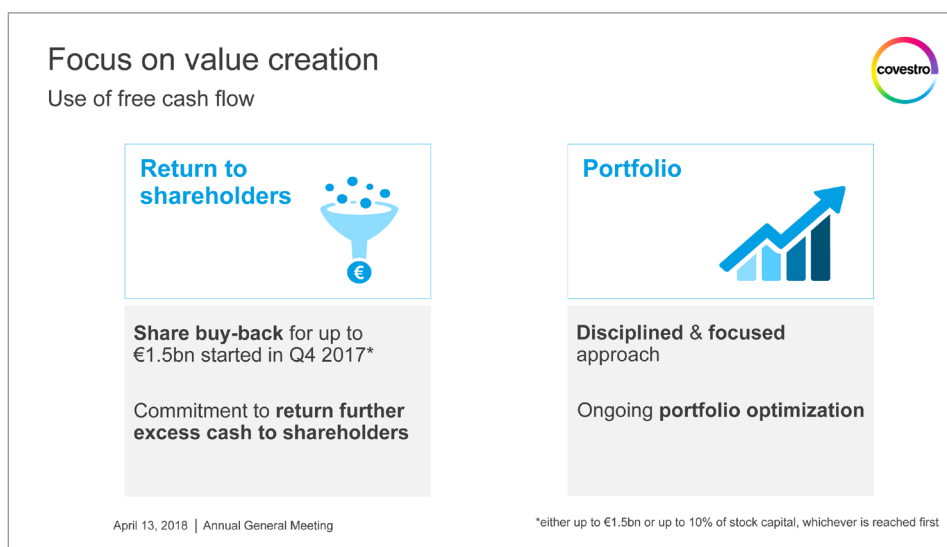


Ladies and Gentlemen,

At our Capital Markets Day in June 2017, we made the commitment to generate five billion euros of cumulative FOCF until year end 2021.

This is a forecast we have adjusted recently: we are now expecting to reach our target of a cumulative free operating cash flow of five billion euros by the end of 2019, cutting the original time frame from five to three years.

Obviously, this anticipation is subject to no major drops in the global economy or similar unexpected events.



Our strong cash generation has brought up an interesting but nonetheless challenging situation: how do we make best use of the free cash to create further value?







I have already mentioned our share buy-back program, which is a key part of our value creation. The buy-back began on November 21, 2017 and will be completed no later than mid-2019. As of today, we have bought back around 4.5 million shares, which represents around 2% of the capital stock.

In order to further improve our portfolio, we continue to screen the market in a disciplined way for external growth options with value creation as our key focus. We will continuously optimize our portfolio, which also includes the evaluation of potential disposals.

**Focus on value creation**  
Attractive dividend proposal



**Dividend policy**



**€2.20 per share**

**+63% over 2016**

**2.6% dividend yield\***

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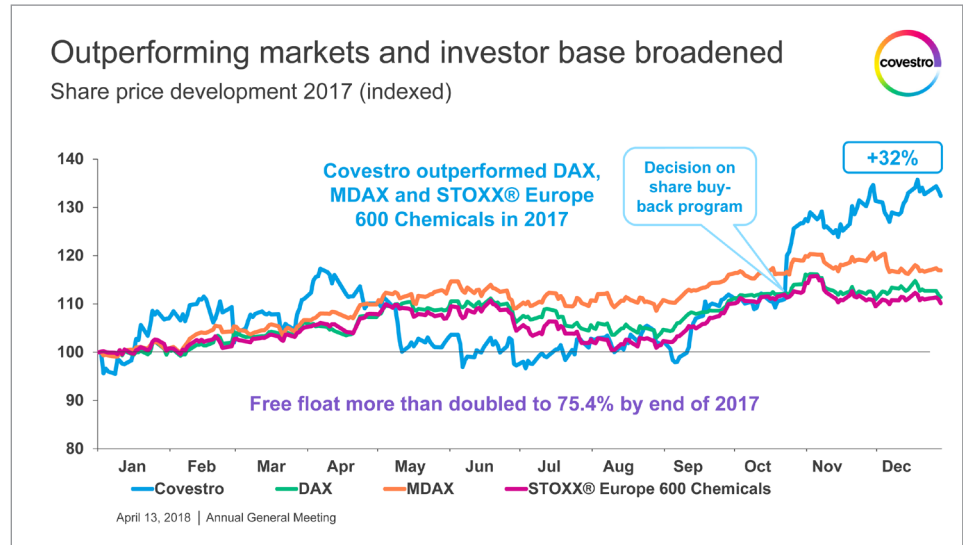
\* Based on the year-end share price 2017

And, of course, we will continue to pay attractive dividends.

As you know, our dividend policy states that we want to pay increasing or at least stable dividends.

Therefore, our dividend proposal for fiscal year 2017 is 2.20 euros per share.

This is an increase of 63 percent over the dividend for 2016 and a dividend yield of 2.6 percent based on the closing price of the year 2017 (86,03 Euro on 29 December 2017).



Ladies and Gentlemen,

Our dividend is not the only way we create value for our shareholders. The positive results we achieved are also reflected in the share price of Covestro.

There were some extraordinary events influencing the development of the share price in 2017.

Our share buy-back program did have a positive effect on the price.

At the same time, our free float has more than doubled over the course of the year, as Bayer sold several packages of Covestro shares, reaching 75.4 percent free float at the end of 2017. We are delighted to see that these share placements did not have a lasting negative impact on our share price.

In fact, several billion euro share placements could not stop our share price from outperforming relevant indices, including the DAX, the MDAX and the STOXX Europe 600 Chemicals indices.

Starting at 65 euros, our share price closed in 2017 at 86 euros per share, increasing by 32 per cent.

I assume that our shareholders are just as pleased with this development as we are. Additionally, our free float increased further in early 2018.

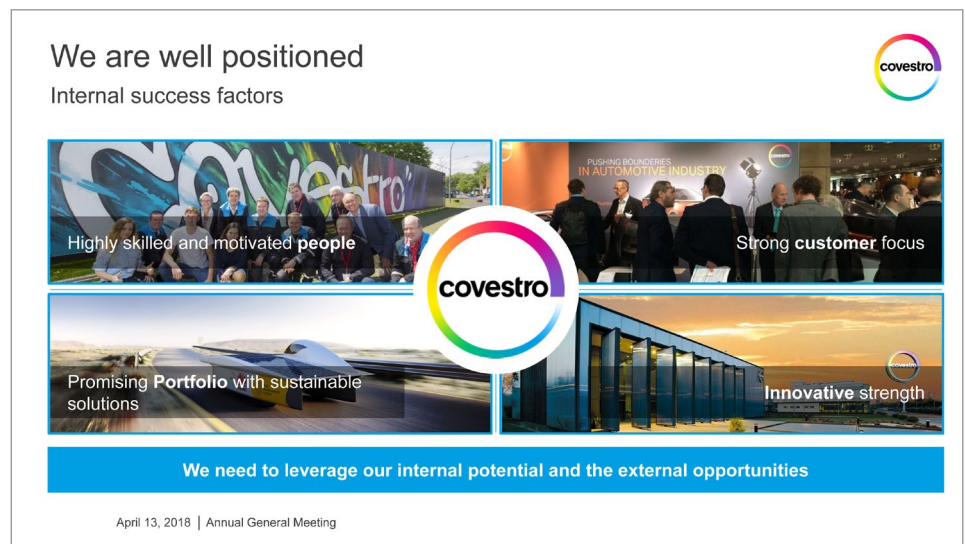
And as you know, Covestro was included in the DAX on March 19. We are now among the 30 most important listed companies in Germany.



Ladies and Gentlemen,

This concludes my review and I would like to follow it up with an outlook on what you can expect from Covestro in the future.

We are in a strong position and we want to use that strong position to make Covestro even better: to lift our company to the next level, so to speak.



We owe the success of Covestro to our employees. With their commitment, their motivation and their professionalism, some 16,200 colleagues worldwide contributed in 2017 to another record year. Our employees are our most important success factor.

They are in contact with our customers on a daily basis, responding to their needs. Our products are successful, because every product is also a solution. A solution to the problem of a client. By focussing on our customers' needs and



cooperating closely with them, we understand their situation and needs. We understand what they are looking for.

When it comes to the solutions we are offering, we want to go in new ways. We want to push boundaries. And we are successful in doing so, because we live innovation. At the start of my speech, I showed you some of the innovative and high-tech products and processes Covestro has developed. This innovative strength is an important basis for our success.

A strong customer focus and our innovation power have led to a more than promising product portfolio. We are addressing attractive industries with sustainable products. With our materials, we are offering solutions for the challenges of the global mega trends. And we will continue to do so in the future, because these global trends are driving the demand that leads to disproportionate growth opportunities.

**Our task for 2018: making Covestro even better**

Utilize favorable starting position for the next level of value creation

Growth focused on key strengths, including smart Capex approach

Accelerated innovation and digitalization

Targeted efficiency and effectiveness gains

Value adding bolt-on acquisitions

**To make the world a brighter place**

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How can we make Covestro even better? This year, we will be concentrating on four areas to continue advancing our company.

Firstly, Covestro currently holds leading positions in all its segments. We want to further expand and strengthen these strong positions. As described, we are benefitting from an increasing demand for sustainable solutions and superior materials. To continue to benefit from this demand in the future, we are following our smart capex approach when it comes to organic growth: we will – based on the level of 2017 – significantly increase our investments to return to a level above depreciations in the mid-term. This includes different debottlenecking projects as well as potential brownfield investments. For example, we have already launched initial measures at various sites with existing infrastructure.



Furthermore, we will be concentrating even more intently on using the resources available in our organization as efficiently as possible and making all operational processes as efficient as possible. We want to set standards in all processes and all segments in which we operate in terms of efficiency and effectiveness.

Secondly, the ongoing optimization of our processes and our product portfolio will be decisive for further growth and profitability.

Thirdly, we have laid the basis for further expanding our strong competitive position through a focused Research & Development approach. This approach includes specifically developing our portfolio towards products to make our business even more independent from cyclical variations. Already today, we derive around 50 percent of our sales and earnings from businesses that are less cyclical. This involves taking bold steps when it comes to innovations while also making use of the opportunities afforded by the digital transformation. As part of this, we will focus heavily on the customer journey, and I will return to this a little later.

We also want to continue to use our substantial liquidity position and strong balance sheet to unlock value.

Alongside organic growth, we will continuously explore avenues for value-adding acquisitions. However, the decisive word here is “value adding”.

The bottom line is that we will continue to develop our company in 2018 in line with our vision “to make the world a brighter place” and create value for our shareholders.

### Sustainable solutions create significant opportunities

Covestro is orientated towards the UN Sustainable Development Goals

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- Global need for more sustainable solutions
- Expected addressable market for Covestro products up to 14 euros
- Share of R&D project portfolio in areas of the UN SDGs

80 %

50 %

2017      2025

One way to make the world a brighter place is offering sustainable solutions.





Sustainability is an innovation driver. That is also reflected in the United Nations Sustainable Development Goals, which we have integrated in our strategy.

They seek to improve the lives of all people on earth. Yet they also express the need for more sustainable solutions.

The assumptions are that, across all 17 goals, they are expected to account for an aggregate market of up to twelve trillion euros by 2030.

On the basis of that figure, we estimate that the market relevant for Covestro is worth up to 14 billion euros. This is roughly equal to the entire sales that we generated in 2017.

We want to specifically harness this market. Looking ahead to the next few years, we will be focusing on innovative products and solutions addressing the UN Sustainable Development Goals.


And we have demonstrated that we are very successful when it comes to monetarizing research. Currently, we derive around 20 percent of our sales from products that have been revised or developed in the past five years.




As you can see, we are operating in an environment offering a basis for generating profitable growth.

In order to take our so far very successful sustainability-oriented research to a new level, we will be orientating our research and development projects even more strictly.

Covestro wants to commit 80 percent of its R&D spend to addressing the UN Sustainable Development Goals by 2025, up from 50 percent in 2017.

**We drive digitalization broadly**  
Taking advantage of digitalization opportunities



- I**  **Digital operating processes**  
(internal focus)
- II**  **Digital customer experience**  
(external focus)
- III**  **Digital business models**  
(general focus)

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Ladies and Gentlemen,

Let's talk about digitalization.

The future of our industry and the solutions that we offer our customers is being enriched by a further dimension, namely, the digital transformation, which touches on aspects such as research, our production processes and our interface with the customer.

With this in mind, we have integrated the systematic utilization of digitalization in our corporate structures. Our activities cover all functions and corporate processes.

For example, we will be making greater use of digital processes in production and in our supply chain by not only managing and monitoring our production facilities digitally, but also designing them and mapping and planning processes ahead digitally.

In particular, the focus of the digital transformation will be a digital customer journey. So we need digital platforms that enable customers to pursue sourcing strategies that are even more flexible and tailored to their specific needs as a basis for improving the user experience.

Obviously, we will also be exploring new ways of operating our business and tapping new sources of sales.



As you can see, we have not only achieved outstanding performance levels since becoming independent but have also ushered in the next steps for long-term success.



Because we have the clear goal of continuing the strong development of Covestro: we want sustainable success; we want to continue our success course in 2018.


For Covestro, growth means profitable growth, so we aim to be able to continue working on the high profitability levels of 2017.

We are creating value for our customers, our employees, society and our shareholders.

And we are confident that the financial market will also find a fair valuation for the strengths of Covestro in 2018.

All in all, we are using the results we have achieved to lift Covestro to the next level and continue to be successful in the future.

**Continuing on high levels**  
Guidance 2018



	FY 2017	Guidance FY 2018
Core Volume Growth	+3.4%	Low- to mid-single-digit percentage increase Y/Y
FOCF	Ø 2015-2017: €1,391m	Significantly above the average of the last three years
ROCE	33.4%	Approaching previous year's level
<b>Additional financial expectations</b>	<b>FY 2017</b>	<b>Guidance FY 2018</b>
EBITDA FY	€3,435m	Around previous year's level
EBITDA Q1	Q1 2017: €846m	Significantly above the Q1 2017 level
Capex	€518m	€600-650m

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Basic Assumptions FY 2018: Exchange rate of USD/EUR –1.20 and a similar macroeconomic environment as in 2017

This year has started well and we assume similar positive economic conditions as seen in 2017. We are confident that our industries will – in total – continue to outgrow global GDP.

Based on the continued strong demand for our products and our smart capacity optimizations, we expect our core volumes to grow at a low- to mid-single-digit percentage pace.

With regards to our Free Operating Cash Flow, we expect this figure to be significantly above the average of the past three years.

On ROCE, we plan to approach the same level as in 2017.

With regard to EBITDA, we had a highly encouraging start to the year. We expect our EBITDA in Q1 2018 will significantly increase compared to Q1 2017.



For the full year 2018, we assume an EBITDA around the 2017 level. In our view, this adequately takes into account the growth opportunities as well as the risk of increasing competitive pressure which may arise from the ramp-up of new capacities by our competitors.

As you can see, we are well positioned and are moving forward in 2018 with great confidence.

Ladies and Gentlemen,

This concludes my presentation.

As this is my last Annual General Meeting as the CEO of this exciting company, let me express how proud I am of what the whole Covestro team has achieved over the course of the last few years.

It is not only that we have reached our targets again and exceeded them significantly, 2017 has been our second year as a stand-alone company and our second straight record year. This is proving how well our long-term strategy for an independent Covestro is playing out.

Considering the development of our market capitalization and our dividend payments for the last three years, we have created impressive value for our shareholders. This is truly something.

Together with our committed employees around the world, we have managed to unlock the potential of Covestro. Covestro continues to have the right answers for the needs emerging from global trends. And the innovation and sustainability driven approach is set to lead to superior solutions for our customers and to continuously increasing demand.

I am convinced Covestro will remain the frontrunner to make the world a brighter place.

Thank you very much!

**Forward-Looking Statements**

This news release 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 at [www.covestro.com](http://www.covestro.com). The company assumes no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.