Strong FY results despite weak Q4

Financial Highlights
Q4 & FY 2018

Forward-looking statements

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The company assumes no liability whatsoever to update these forward-looking statements or to adjust them to future events or developments.

Securing profitable growth in more challenging times

Highlights

1 **Strong FY 2018 results despite weak Q4**
with shares bought back for €1.3bn and a dividend proposal of €2.40 per share

2 **Continuous growth above global GDP**
fueled by capex as most value-creating use of cash based on industry and cost leadership

3 **Management focus on driving efficiency**
with streamlined structures to better adapt to market needs and focus on cost discipline

4 **Entire organization aligned for performance**
as 100% STI[(a)] annual target achievement requires EBITDA above €2bn

5 **Below mid-cycle earnings expected in 2019**
in a challenging economic environment and with mixed supply/demand outlook

Note: (a) STI: Short-term incentive program

Financial highlights FY 2018

+1.6%
Core Volume Growth

€1.7bn
FOCF

29.5%
ROCE

€3.2bn
EBITDA

€2.40
Proposed dividend per share

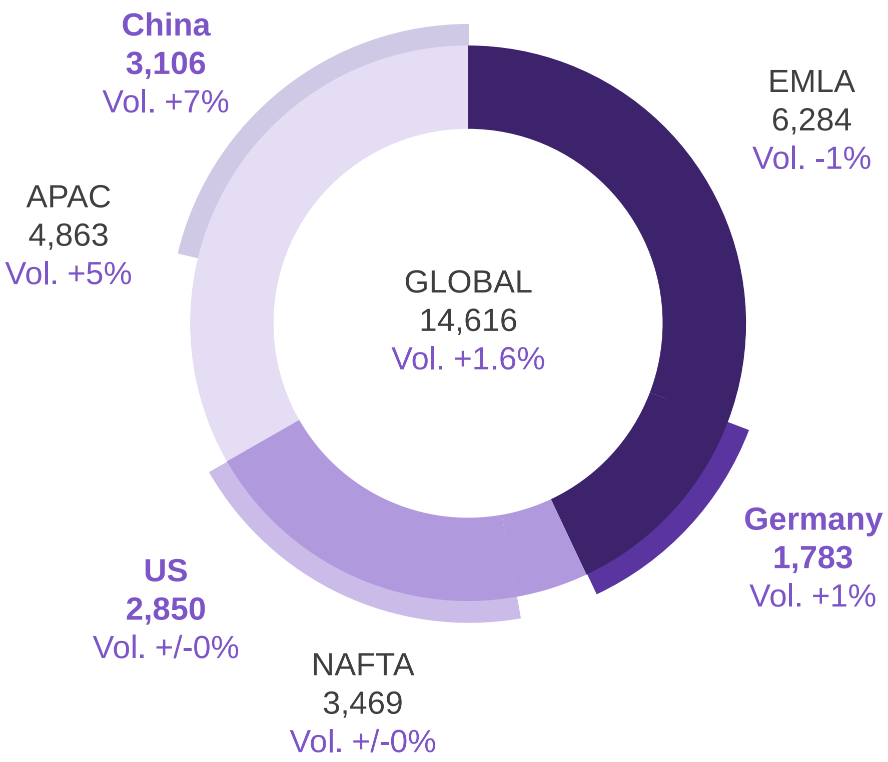
€1.5bn
Share buy-back program completed

Asia continues to drive global Core Volume Growth

FY 2018 – Regional split

Sales and Core Volume Growth

in € million / changes Y/Y



Highlights

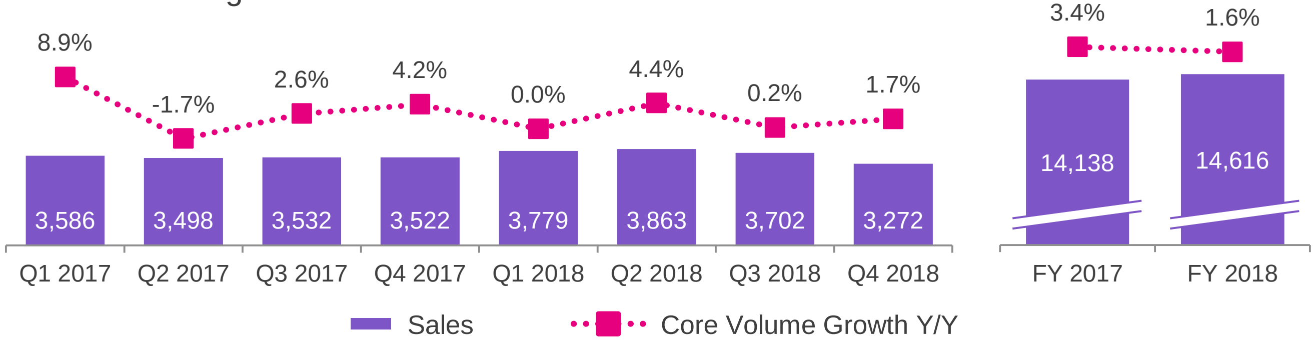
- APAC: impacted by unplanned shutdown of MDI plant in Caojing in Q3, slow-down in China and negative Core Volume Growth in automotive in Q4
- EMLA: impacted by force majeure in Polyols precursor in Q3 and low Rhine water levels in Q4, as well as demand dip in automotive and construction in H2
- NAFTA: impacted by disposal of PC sheets, positive Core Volume Growth in automotive
- Solid Core Volume Growth in global automotive Y/Y despite negative Q4, continuing structural growth above OEMs
- Strong Core Volume Growth in global electronics, driven by double-digit growth in APAC

Significant pricing pressure towards year end

FY 2018 – Group results

Sales and Core Volume Growth

in € million / changes Y/Y

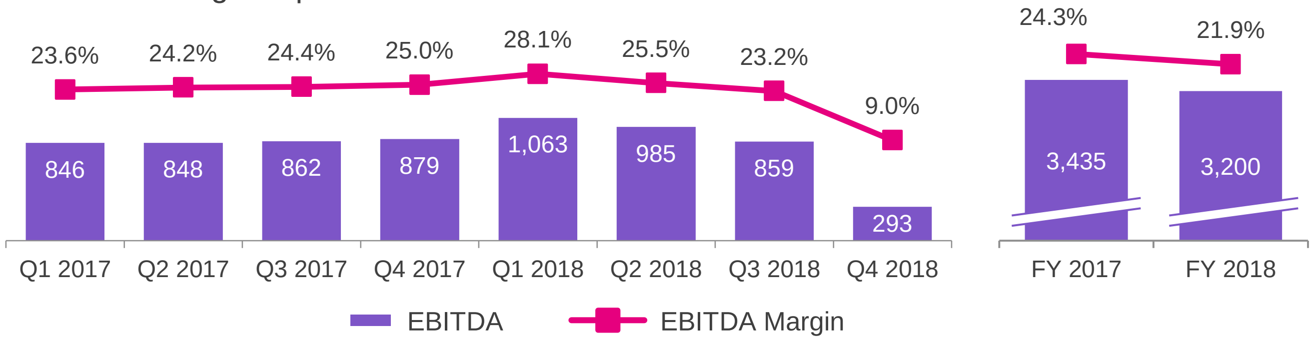


Highlights

- 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



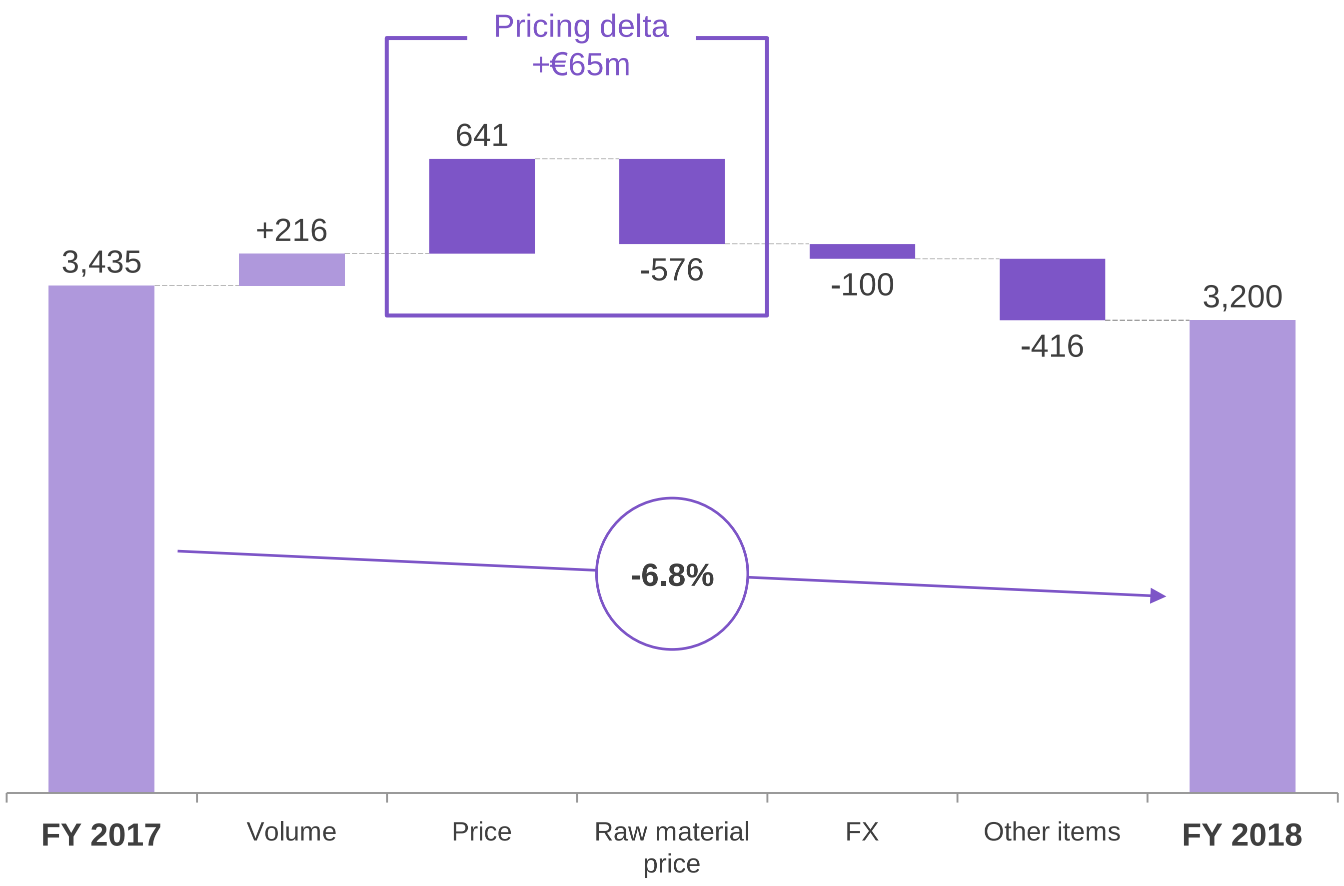
Highlights

- 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

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

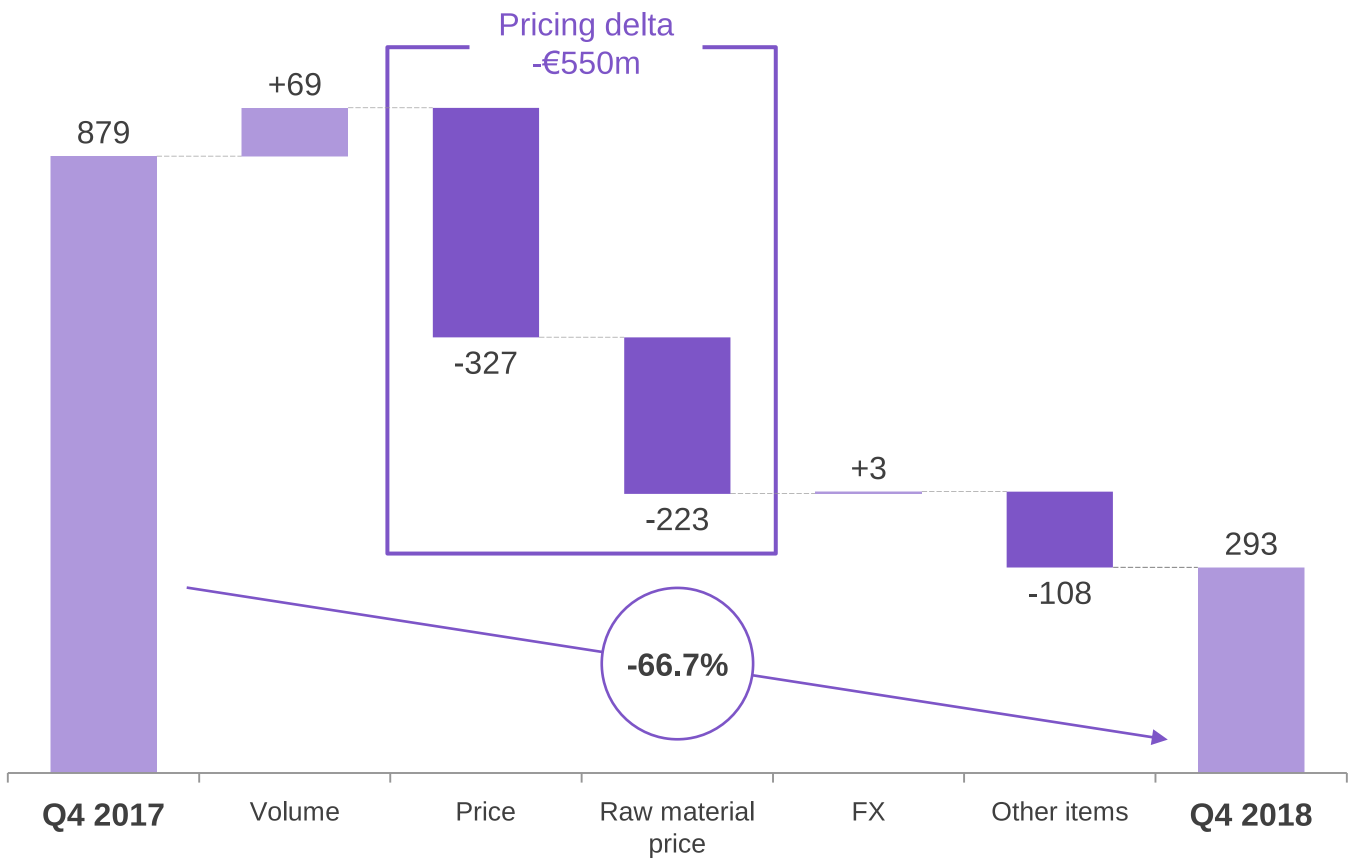
- Higher production, maintenance and logistics costs
- One-time item of €+36m in Q3: book gain from disposal of US polycarbonates sheets business
- Prior year benefited from one-time items of €+146m

Note: (a) Method of calculation: EBITDA volume contribution / sales volume contribution

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

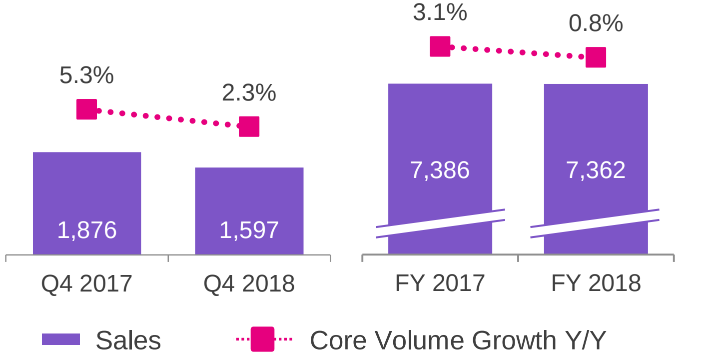
- Higher logistics costs due to low Rhine water levels
- One-time items: €-23m for "Perspective" provisions, €+23m from insurance reimbursements
- Prior-year quarter benefited from reversal of provision of €63m for Tarragona

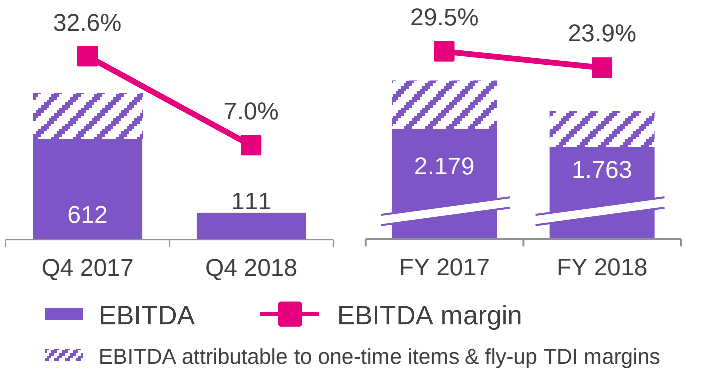
Note: (a) Method of calculation: EBITDA volume contribution / sales volume contribution

Margin decline in all segments in Q4

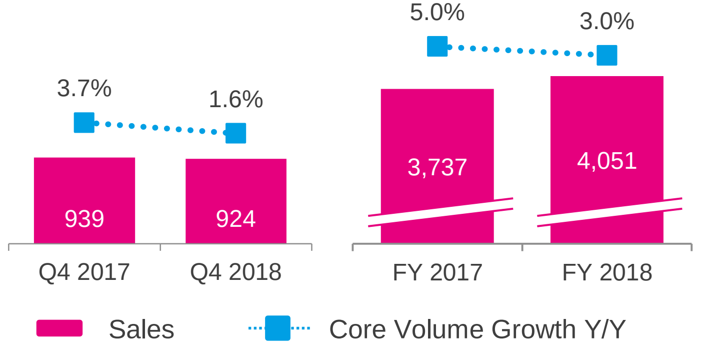
Q4 & FY 2018 – Segment results

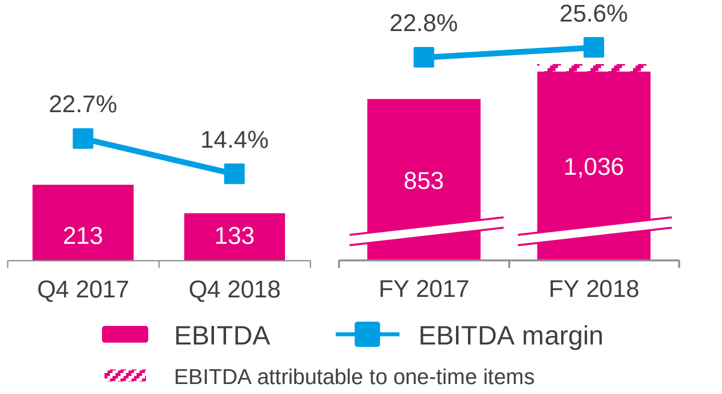
Polyurethanes



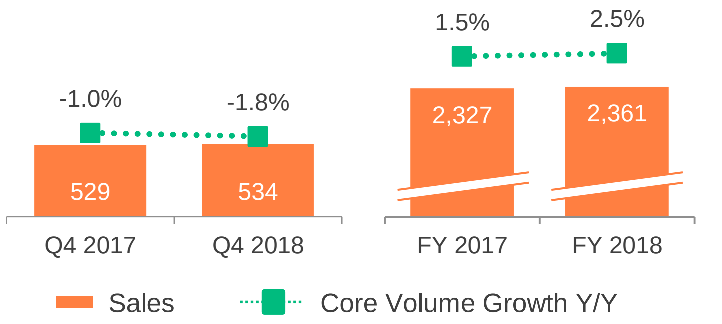


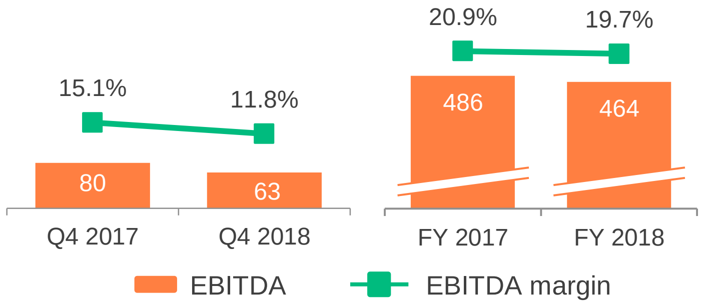
Polycarbonates





Coatings, Adhesives, Specialties

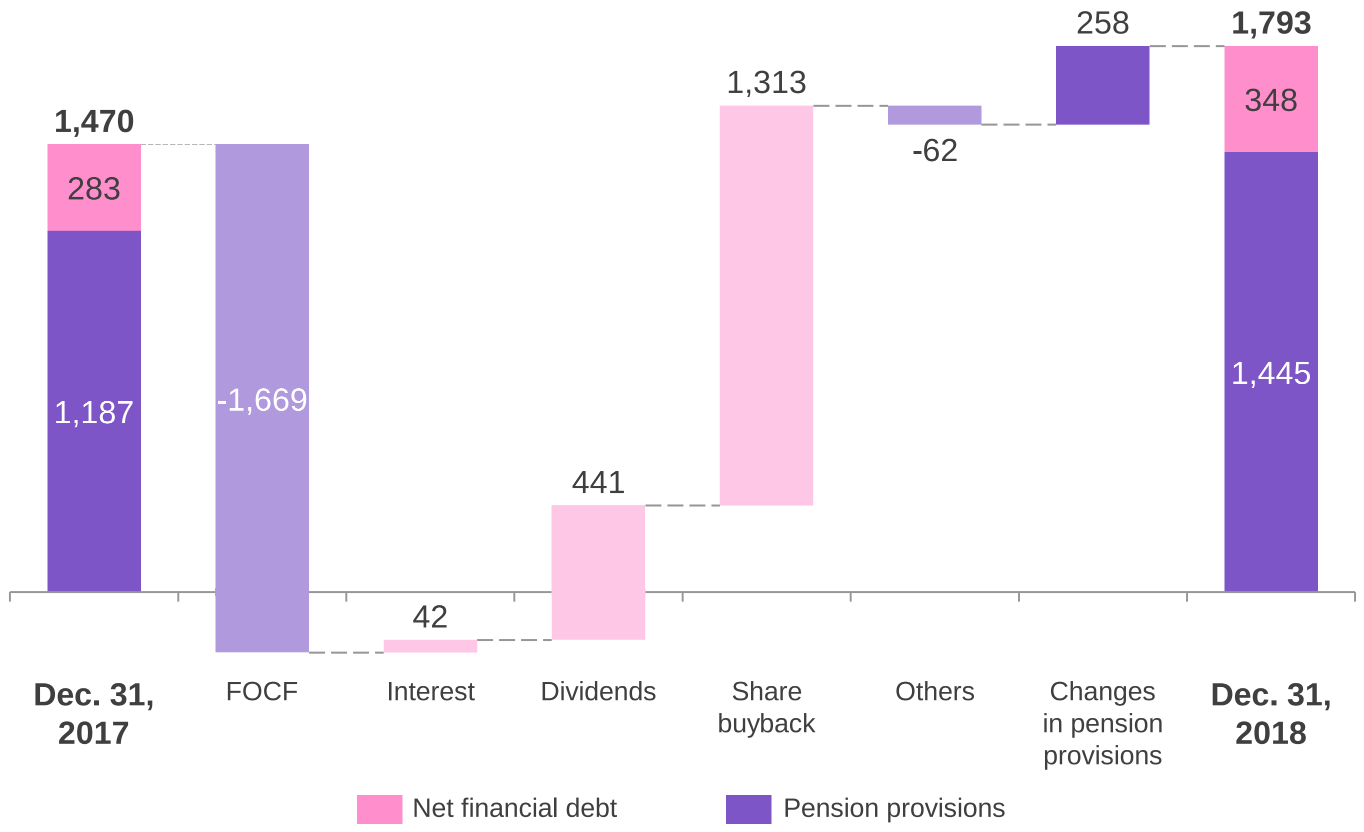




Strong balance sheet after high cash return to shareholders

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

Right strategy and thorough execution in different stages

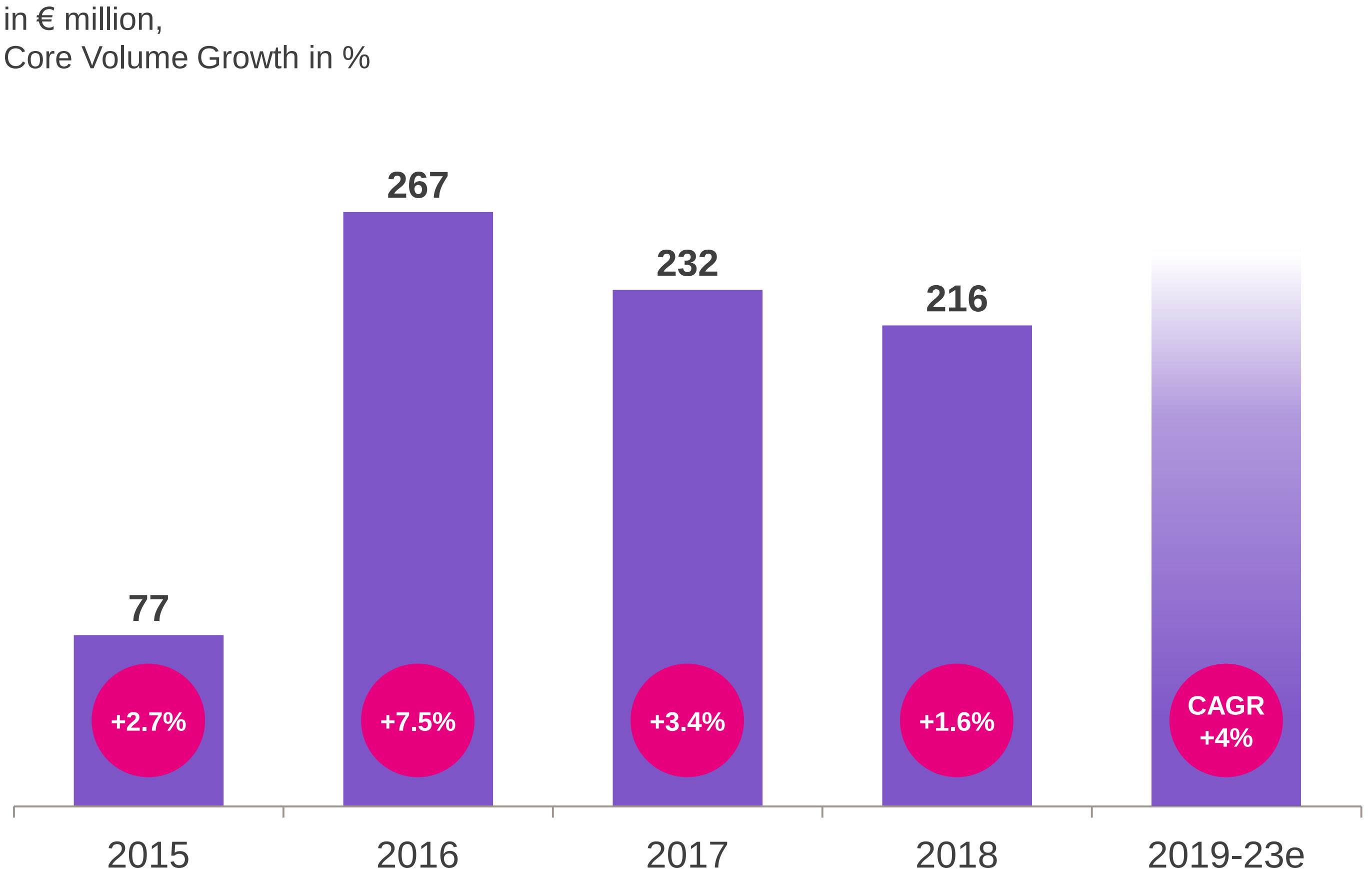
Different stages since IPO

	2015 – 2016 Becoming independent	2017 – 2018 Riding 'the wave'	2019 – 2021 Driving efficiency
Industries	• Normal supply/demand conditions • Volume growth above global GDP • Margins approach mid-cycle levels	• Tight supply conditions • Volume growth benefitting from restocking • Margins on historic peak levels	• Volatile conditions • Volume growth above global GDP • Short-term, margins approaching trough levels
Covestro	• Carve-out in record time, IPO in Oct. 2015 • Mirror Bayer's organizational set-up • Establish new Covestro culture • New set of KPIs: CVG, FOCF and ROCE[a] • Fill underutilized production assets	• Priority on output maximization, minimizing disruptions • Selective cost measures implemented • Set basis for long-term growth • Return excess cash to shareholders	• Continue volume expansion based on cost leadership • Streamline standard businesses and extend differentiation • Maximize portfolio synergies • Execute cost-cutting, reduce headcount in non-production areas

Note: (a) CVG = Core Volume Growth, FOCF = Free Operating Cash Flow, ROCE = Return on Capital Employed

High volume leverage continuously contributes to EBITDA

Volume Growth contribution to EBITDA



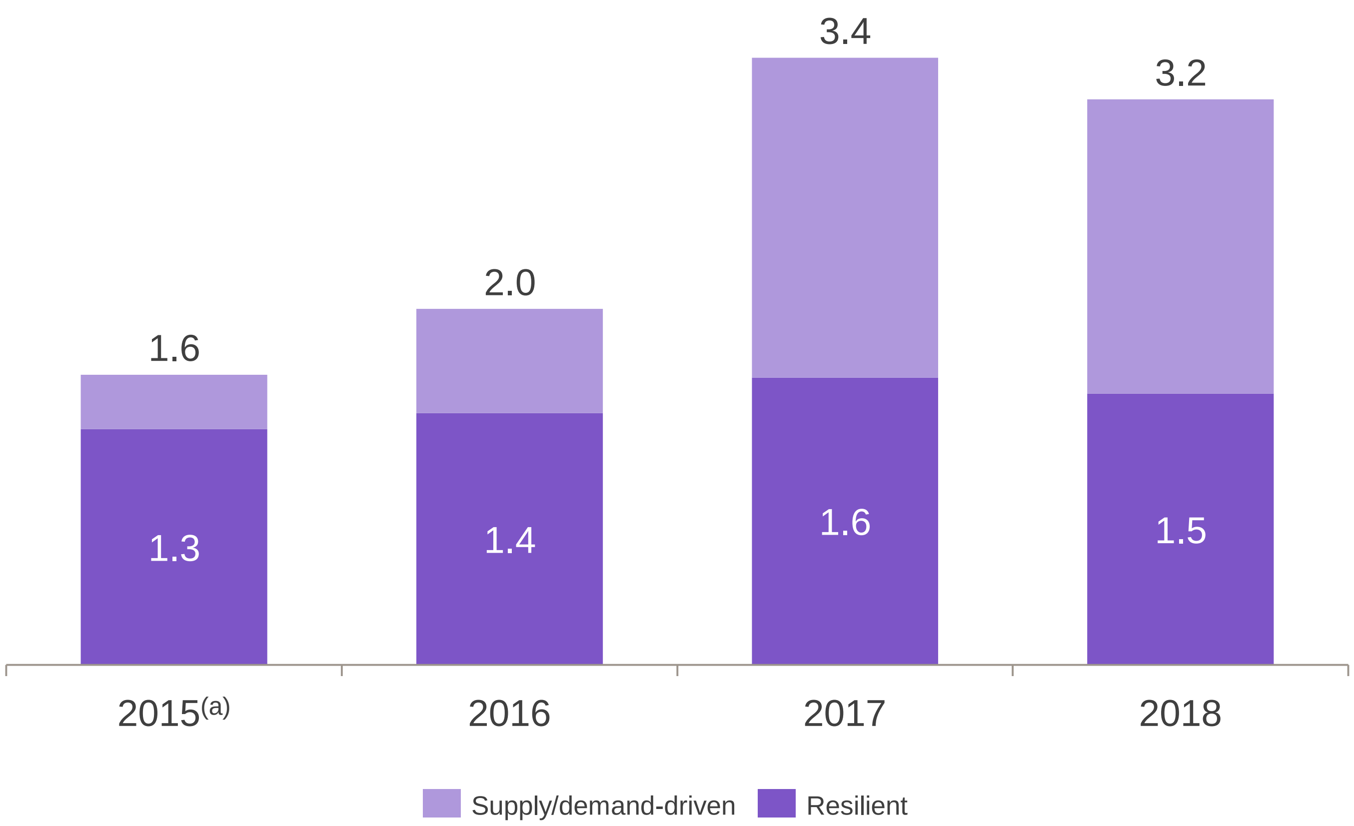
Highlights

- 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

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
- 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 disproportionally

Notes: (a) EBITDA 2015 on adjusted basis
(b) resilient businesses include CAS, Polyols, ½ PCS volumes, ¼ MDI volumes

Supply-demand-driven businesses point towards mixed picture

Historical industry development and outlook

Covestro

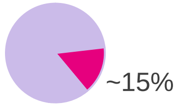
S/D-driven share of FY18 Group sales

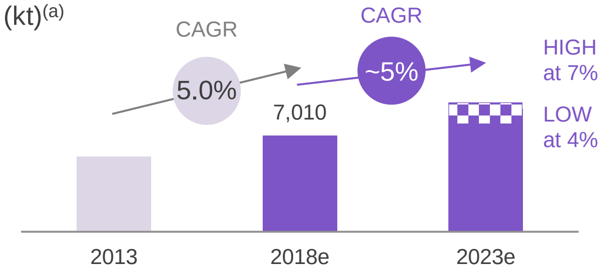
Industry demand development

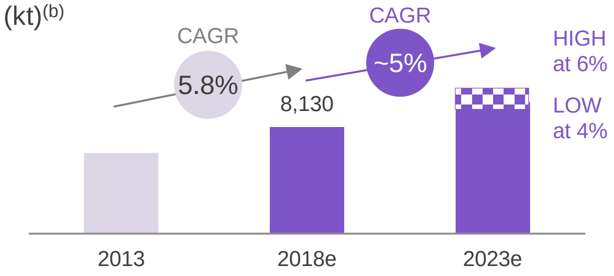
Industry supply development

Industry highlights

MDI

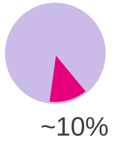


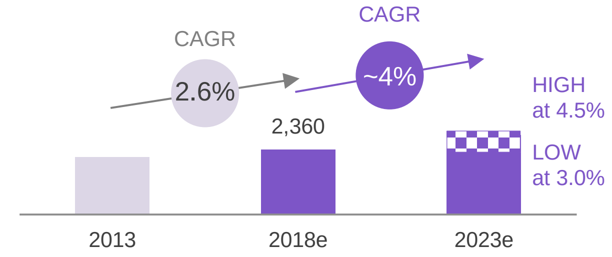


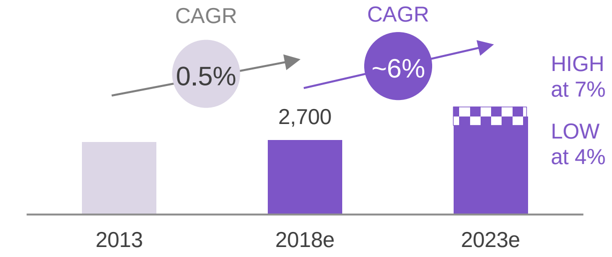


- Structurally sound demand of ~5% driven by solid GDP growth and substitution trends
- Major additions(c) expected until 2023e: Wanhua and BASF
- Covestro additions: Brunsbüttel (200kt, 2020e), Caojing (100kt, 2021e) and Tarragona (50kt, 2022e)

TDI

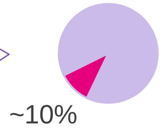


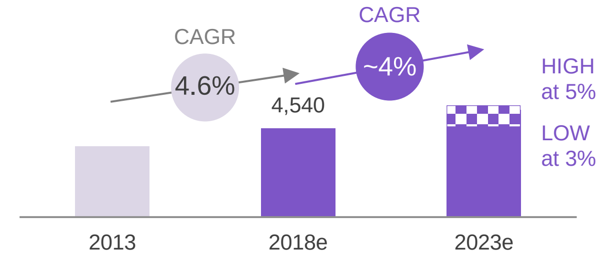


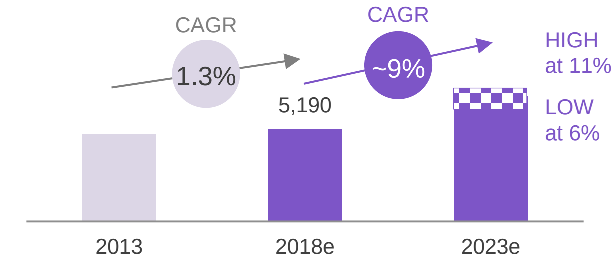


- Ongoing ramp-ups: Sadara, BASF and Wanhua
- Major additions(c) expected until 2023e: Juli Heshan, Lianshi and SEEC
- Announced closure of BASF, Schwarzheide
- Potential industry consolidation in APAC expected

PCS







- Electric mobility and autonomous driving could accelerate demand growth above base case
- Major additions(c) expected until 2023e: Cangzhou Dahua, Heng Yuan, Hubei Ganning, Lotte, Luxi, SABIC-Sinopec, Shenma, Wanhua, ZPC, Zhong Lan
- Covestro additions: Caojing (optional 4x 50kt, 2019e-2022e) and new production line (130kt, 2022e)

Notes: (a) Assumes global GDP CAGR 2018e–2023e of 2.5-3.0%
(b) Based on historical and announced future nameplate capacities
(c) Based on corporate announcements

Source: Covestro estimates

Adapt organizational structure to market needs

Efficiency measures

Driving efficiency

Streamline standard businesses	Internal bundling of standard businesses and strong cost focus with initiatives along entire value chain
Extend differentiation	Focused customer-centric technical and commercial capabilities, dedicated venturing structures and digital services
Maximize portfolio synergies	Implement central marketing organization and other cross-BU synergies at corporate level

Adapt business unit and corporate level structure to market needs and execute “Perspective” efficiency program

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
- 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

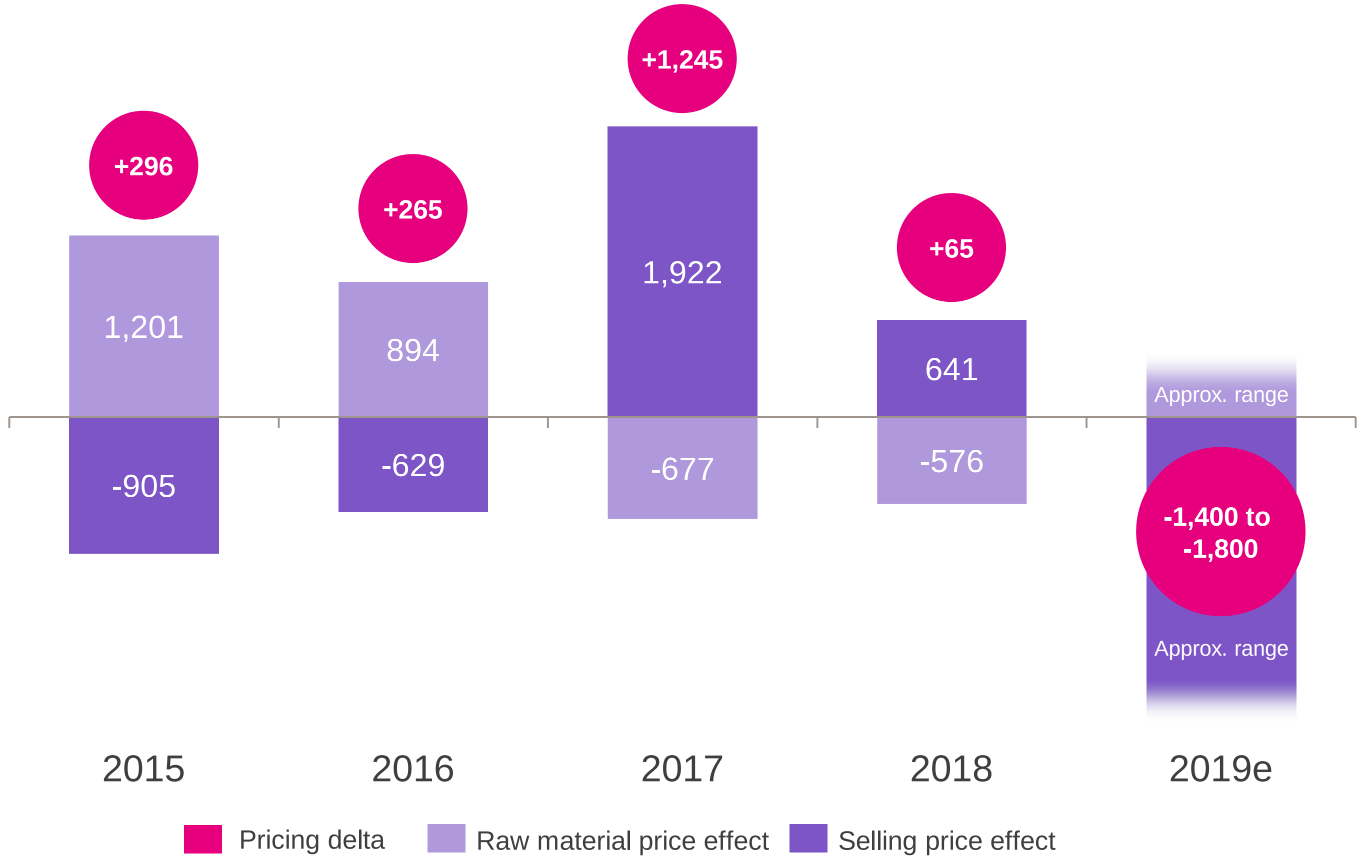
- Future core volume growth goal of 4% requires growth capex
- 100% target achievement for ROCE and FOCF implies mid-cycle EBITDA above €2bn for 2019-21

Notes: (a) WACC = Weighted Average Capital Cost

FY 2019 EBITDA development driven by pricing delta

Pricing delta development in EBITDA bridge

in € million



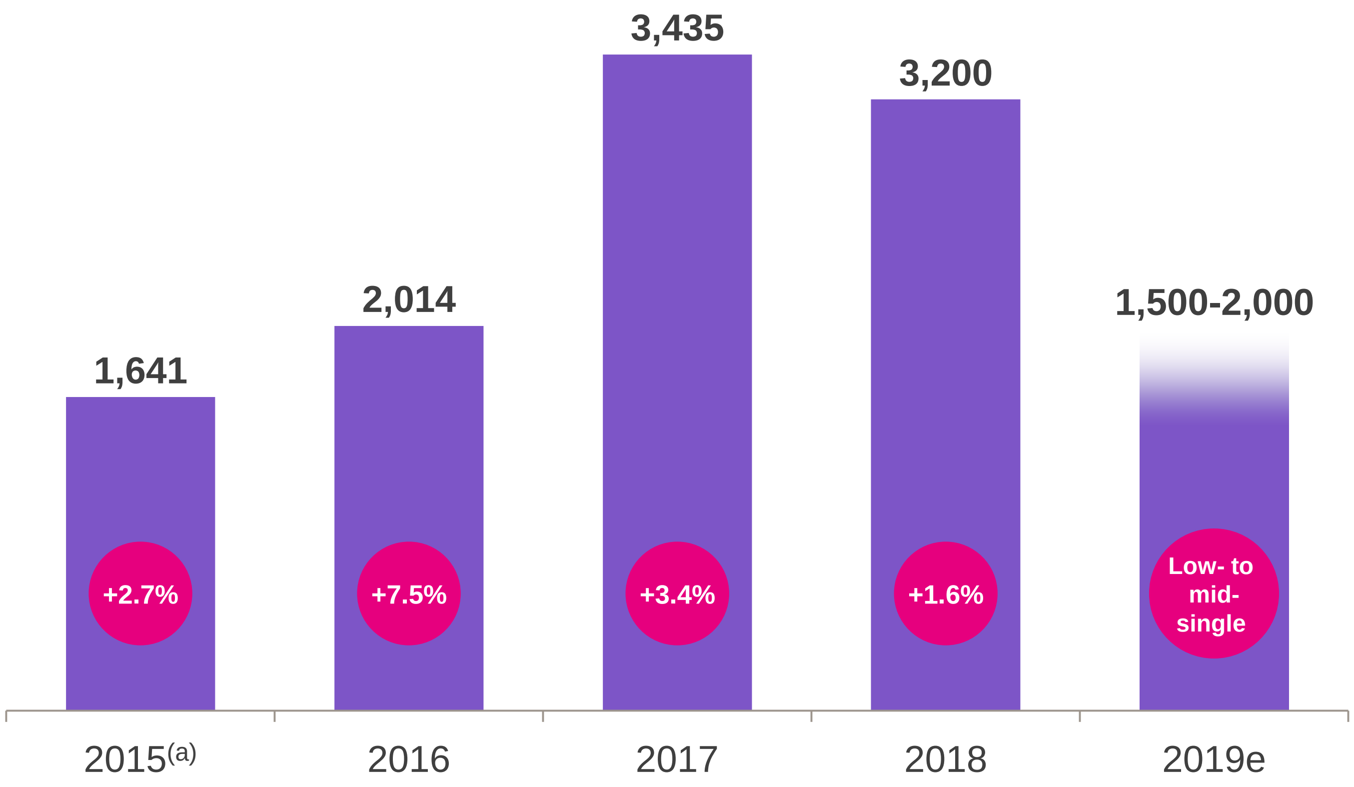
Highlights

- 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

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

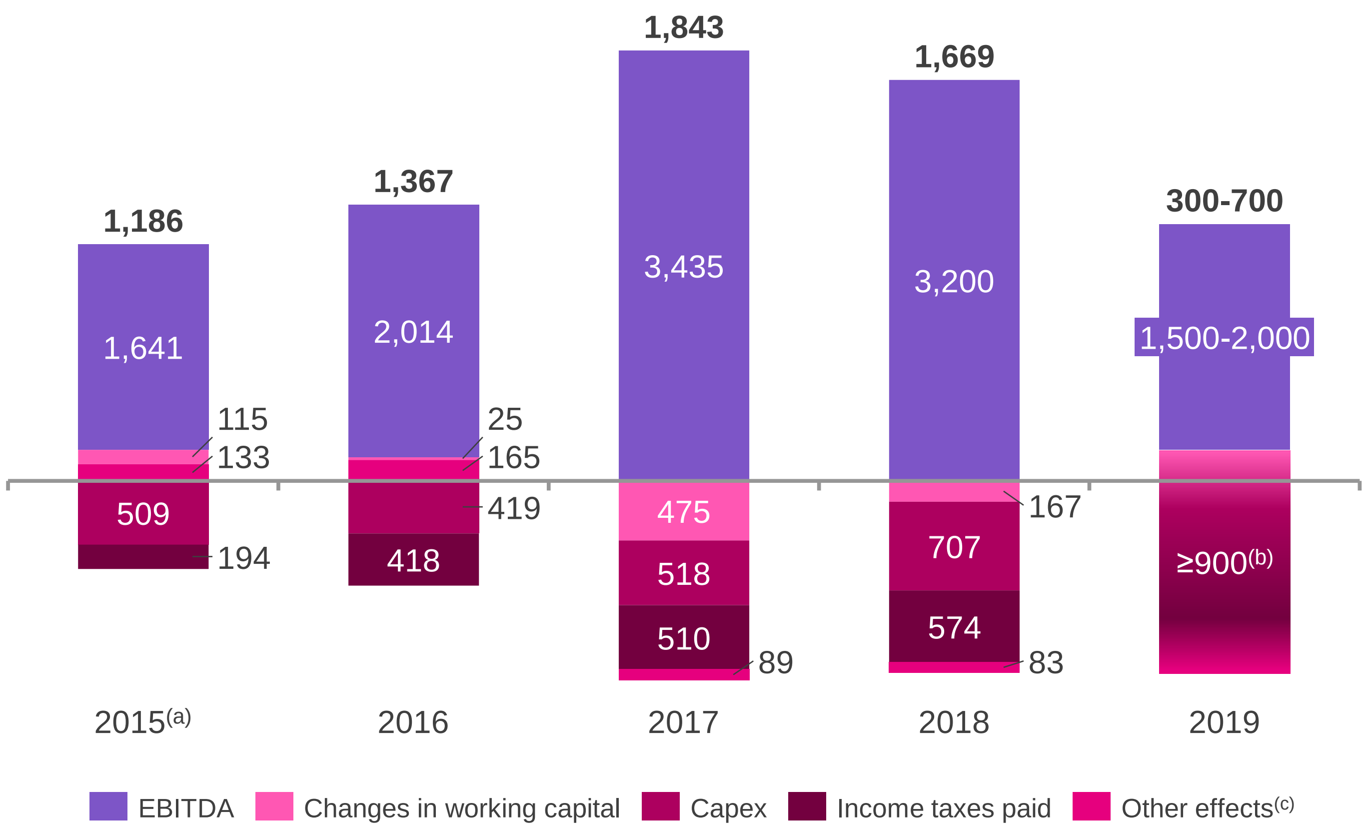
- Price increases compared to January 2019 especially in MDI
- Solid demand across all industries, however upside to CVG[b] limited due to constrained available capacity
- Favorable FX impact[c]

Note: (a) EBITDA 2015 on adjusted basis
(b) CVG = Core Volume Growth
(c) Basic assumptions FY 2019: Exchange rate of EUR/USD ~1.15, RMB/EUR ~7.9 and a global GDP growth of 2.9%

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

- EBITDA to FOCF 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

Note: (a) EBITDA 2015 on adjusted basis
(b) Cash-relevant capex
(c) “Other effects “including cash outflow for bonus provisions

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)	

Note: (a) Cash-relevant capex
Basic assumptions FY 2019: Exchange rate of EUR/USD ~1.15, RMB/EUR ~7.9 and a global GDP growth of 2.9%

Use of cash with focus on value creation

Clear set of priorities

Commitment

Dividend policy

- Progressive policy: increase or keep at least stable

Focus

Capex

- 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

Opportunities

Portfolio

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

Return to shareholders

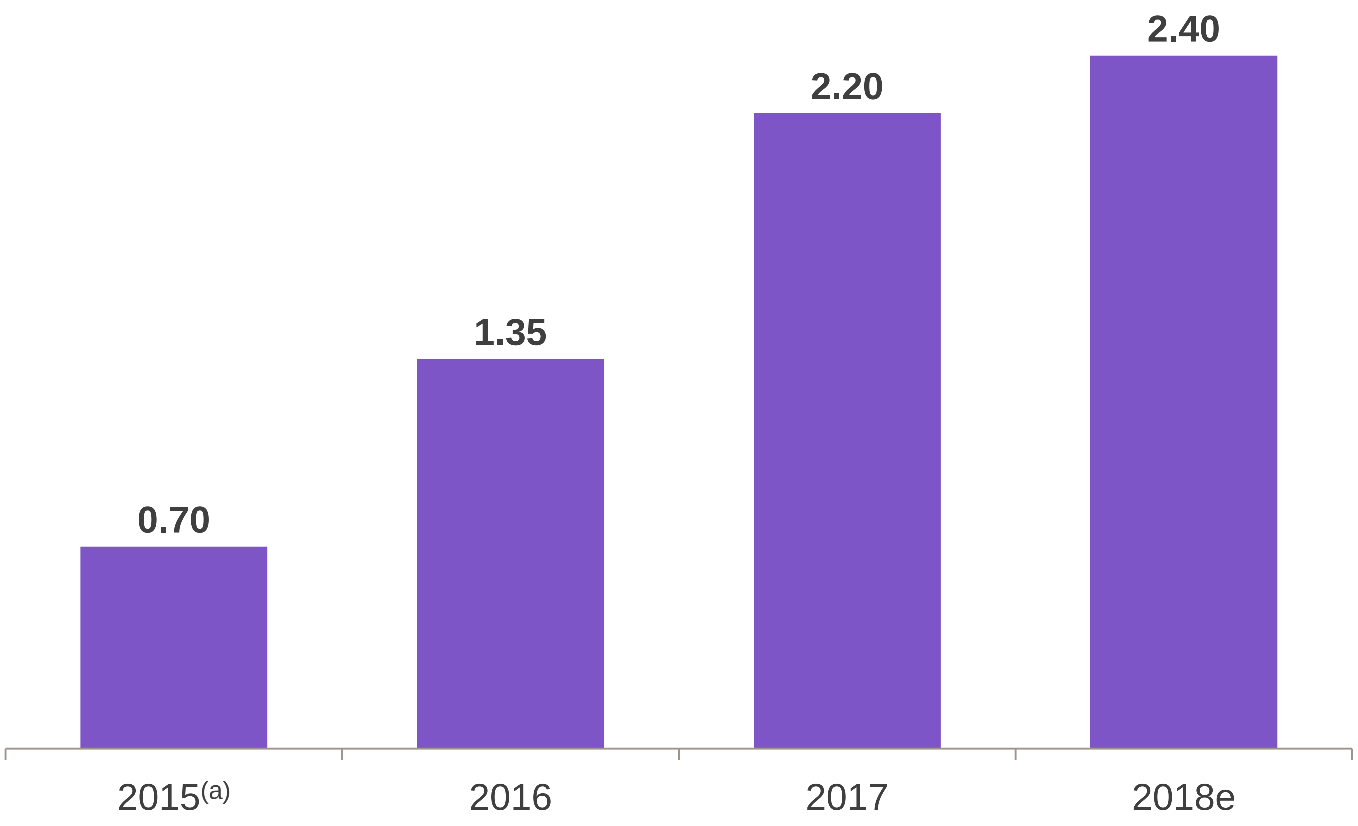
- Return excess cash to shareholders
- New authorization for share buy-back program for up to 10% of share capital to be requested at the next AGM

Decision based on highest value creation

Dividend policy: increase or keep at least stable

Historical dividend development

Dividend payout per share in €



Highlights

- 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
- Dividend yield of 4.7%[b]
- Corresponding total payout amount of €438m

Notes: (a) First dividend for stub year 2015
(b) based on closing share price of €51.20 as of February 21, 2019

Securing profitable growth in more challenging times

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with shares bought back for €1.3bn and a dividend proposal of €2.40 per share

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4 **Entire organization aligned for performance**
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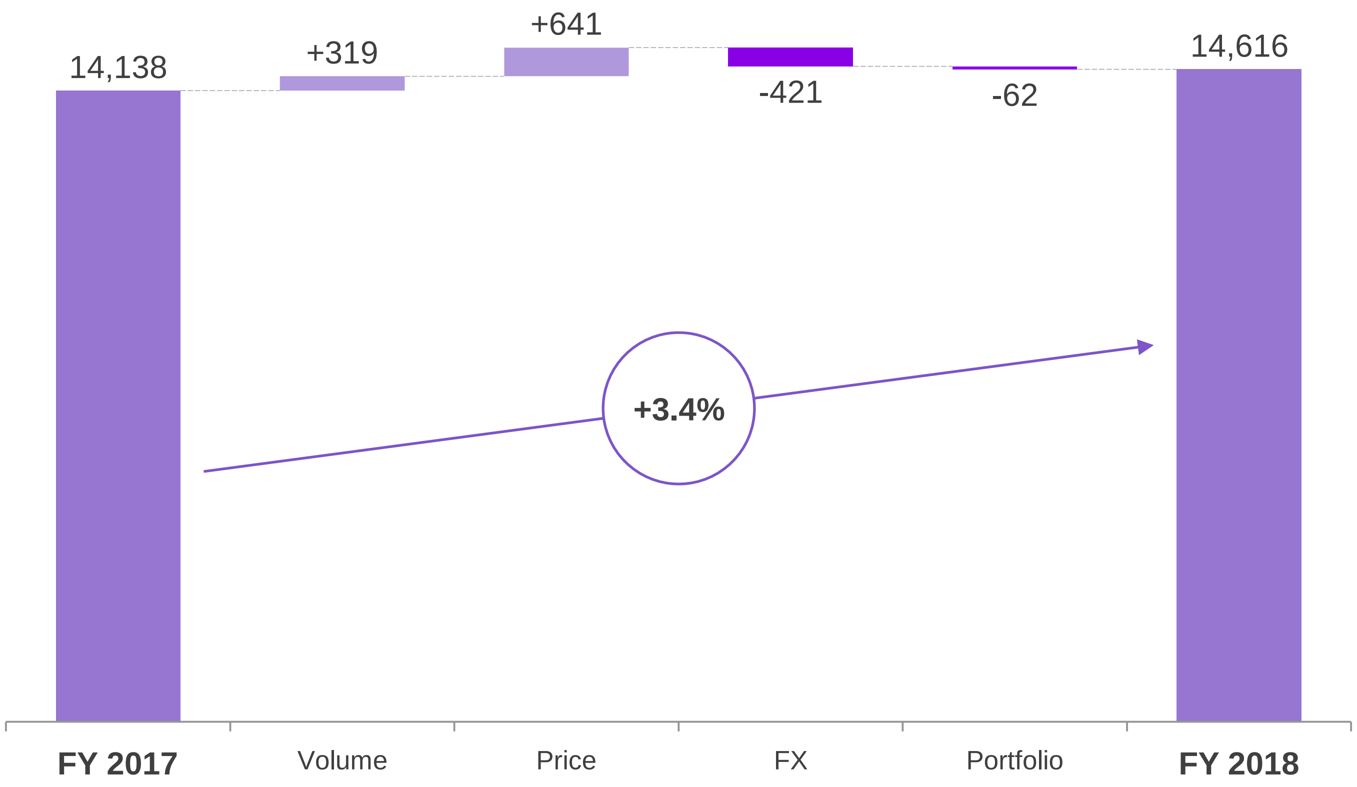
Note: (a) STI: Short-term incentive program

Appendix

Solid sales growth despite FX headwinds

FY 2018 – Sales bridge

in € million



Highlights

Solid volume development

- Sales volume expansion (in €) by +2.3% Y/Y

Positive pricing

- Selling prices increased sales by +4.5% Y/Y

Negative FX

- FX impacted sales by -3.0% Y/Y

Limited portfolio impact

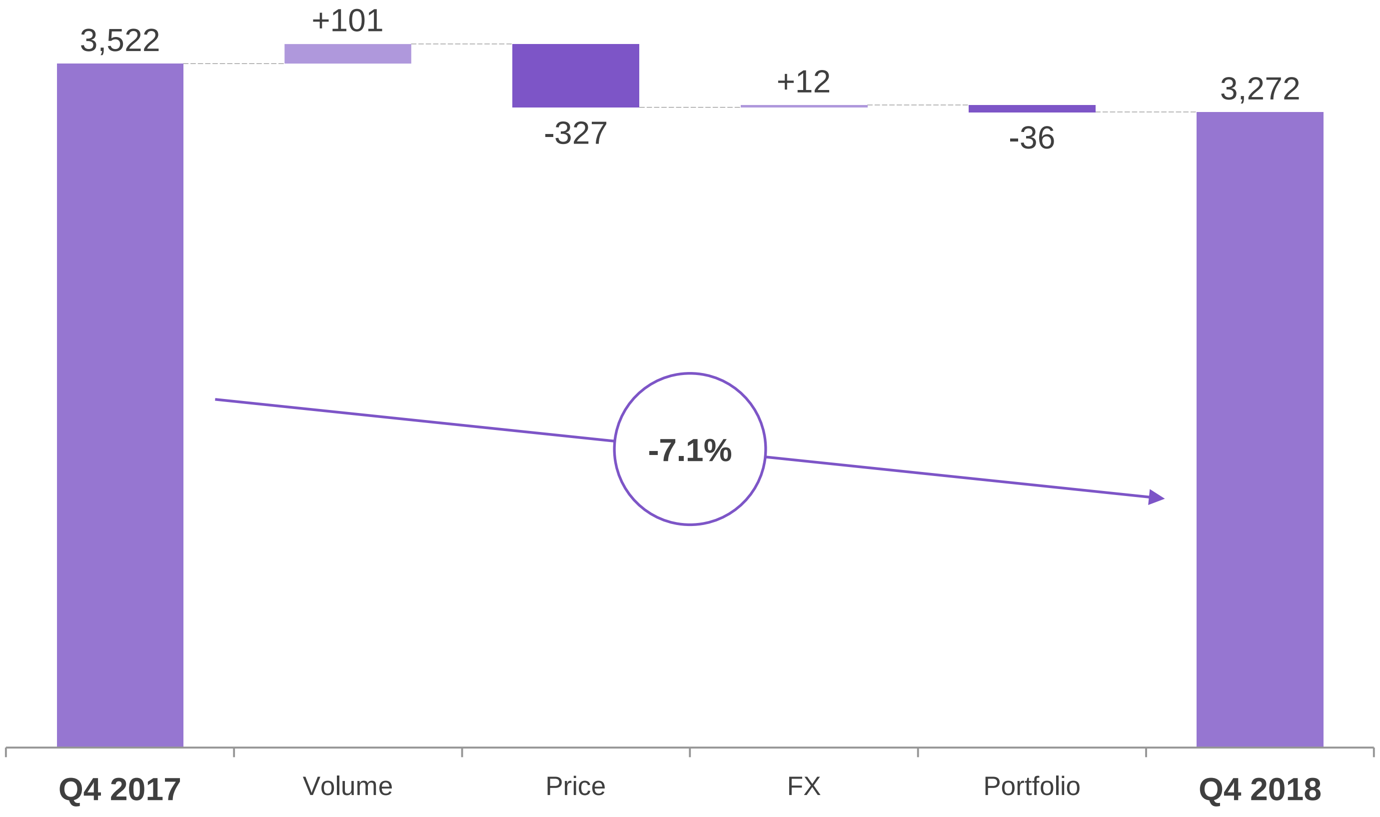
- Disposal of US polycarbonates sheets as of 1st August
- Sales reduced by -0.4% Y/Y

FY impacted by weak Q4

Negative price effects decrease sales despite positive volume

Q4 2018 – Sales bridge

in € million



Highlights

Solid volume development

- Sales volume expansion (in €) by +2.9% Y/Y

Negative pricing

- Lower selling prices negatively impacted sales by -9.3% Y/Y

Limited FX

- FX benefited sales by +0.3% Y/Y

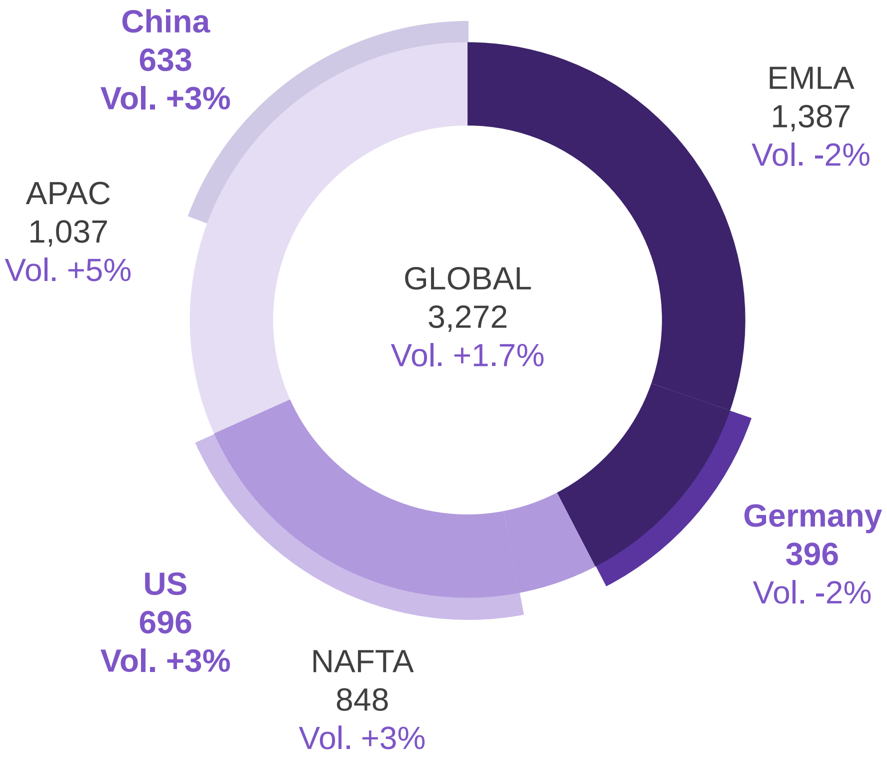
Portfolio impact

- Disposal of US polycarbonates sheets as of 1st August
- Sales reduced by -1.0% Y/Y

Growing core volumes despite turbulences

Q4 – Sales and Core Volume Growth per region

Sales in € million & Core Volume Growth Y/Y in %



Highlights

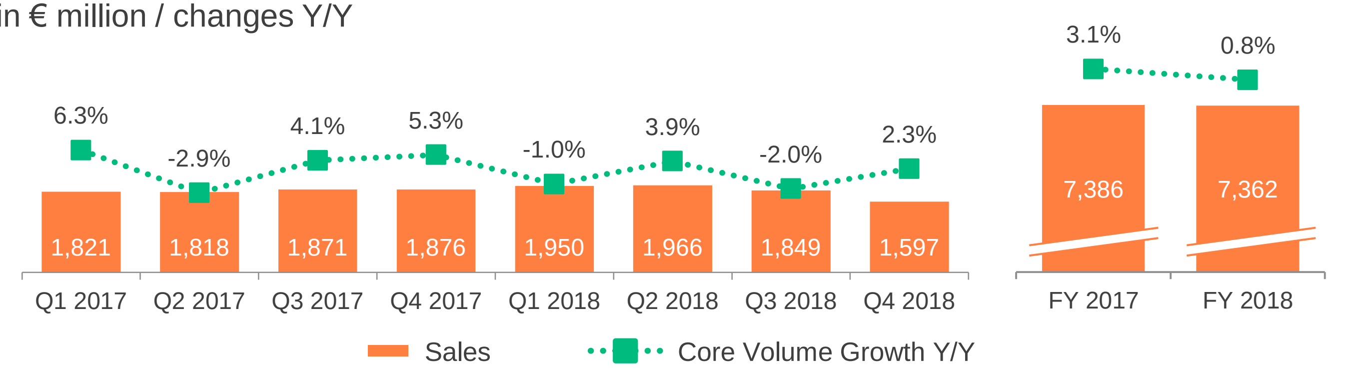
- EMLA: negative Core Volume Growth in automotive and impacted by low Rhine water levels
- NAFTA: positive Core Volume Growth in automotive and strong development in construction and wood/furniture
- APAC: solid Core Volume Growth with double-digit Core Volume Growth in electronics despite slow-down in China and negative Core Volume Growth in automotive
- Negative Core Volume Growth in global automotive
- Solid Core Volume Growth in global construction, negative in EMLA
- Double-digit Core Volume Growth in global electronics, mainly driven by APAC
- Double-digit Core Volume Growth in medical applications, driven by all regions

Polyurethanes – earnings dropped below mid-cycle in Q4

PUR segment results – FY 2018 Highlights

Sales and Core Volume Growth

in € million / changes Y/Y

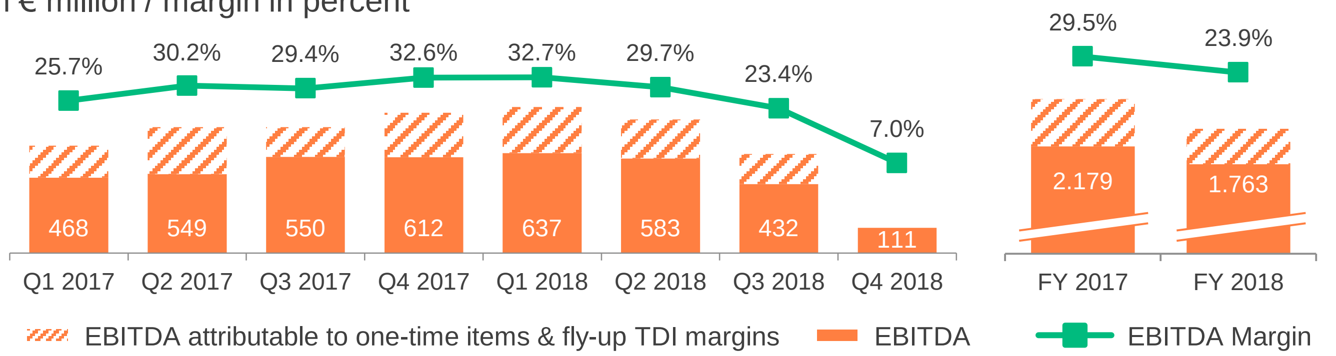


Highlights

- 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 (and outage-related expenses)
- 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

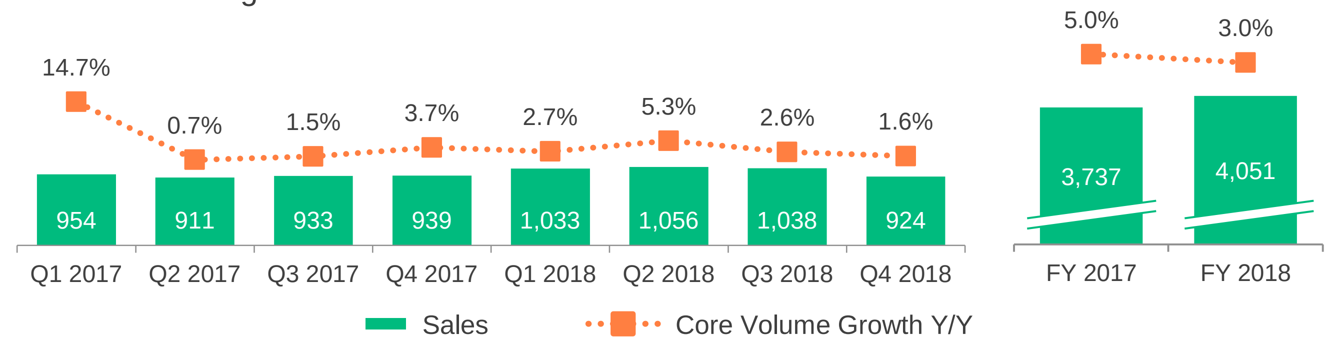
Note: Restatement of all 2017 figures to reflect the reclassification of the specialty elastomers business

Polycarbonates – full year driven by price and volume

PCS segment results – FY 2018 Highlights

Sales and Core Volume Growth

in € million / changes Y/Y

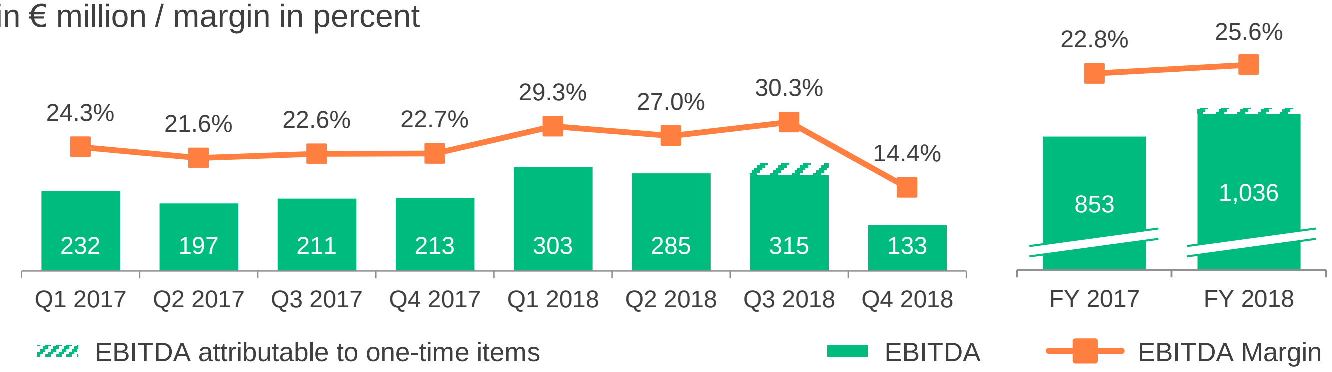


Highlights

- 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

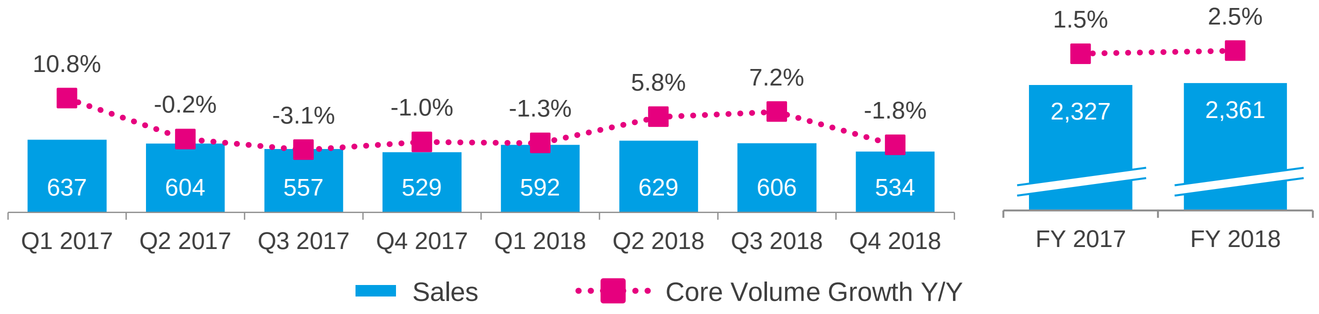
- In 2018, EBITDA increased by +21.5% Y/Y due to positive pricing delta and volume leverage
- Underlying EBITDA margin excluding one-time items expanded to c.25% vs. c.23% in 2017
- Sharp EBITDA decline in Q4 2018 due to negative pricing delta

Coatings, Adhesives, Specialties – pressured by raw materials

CAS segment results – FY 2018 Highlights

Sales and Core Volume Growth

in € million / changes Y/Y

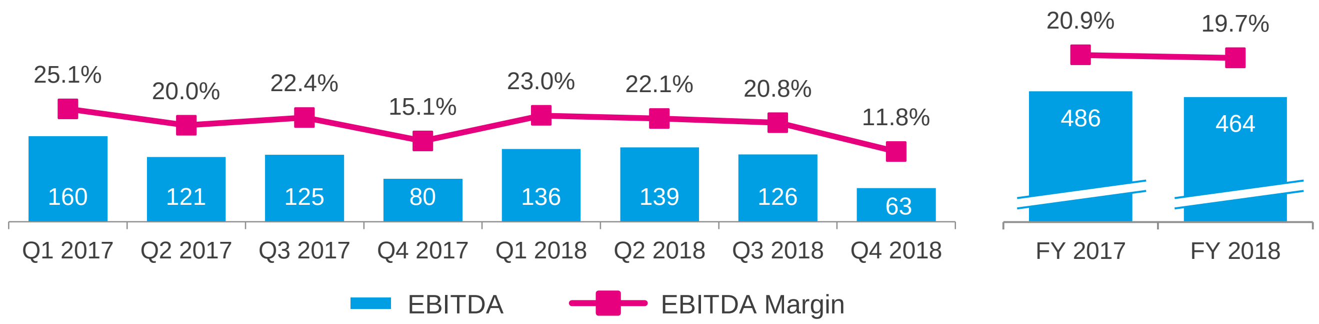


Highlights

- 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

 Note: Restatement of all 2017 figures to reflect the reclassification of the specialty elastomers business

One-time items affecting EBITDA

As communicated in results’ presentations

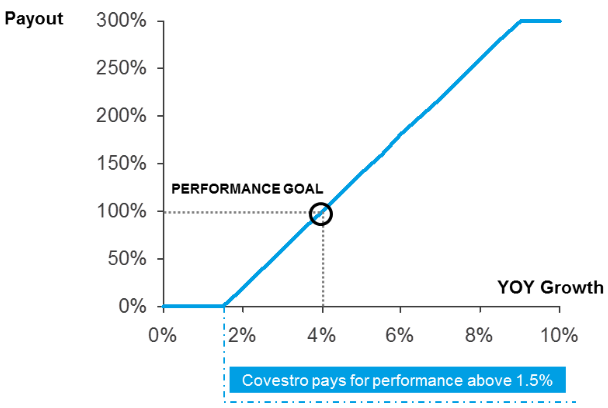
		Q1		Q2		Q3		Q4		Fiscal Year	
in € million		2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
All segments	“Perspective” provisions								-23		-23
PUR	Tarragona – provision releases	9						63		72	
	Insurance payments for previous operational losses			35					23	35	23
	Disposal of US sprayfoam business			39						39	
PCS	Disposal of US sheets business						36				36
Group	**Total amount**	**9**	**0**	**74**	**0**	**0**	**36**	**63**	**0**	**146**	**36**

Higher target values defined for 2019-2021

Bonus system based on CVG, FOCF and ROCE

Short-term incentive (STI) program for 2019 to 2021

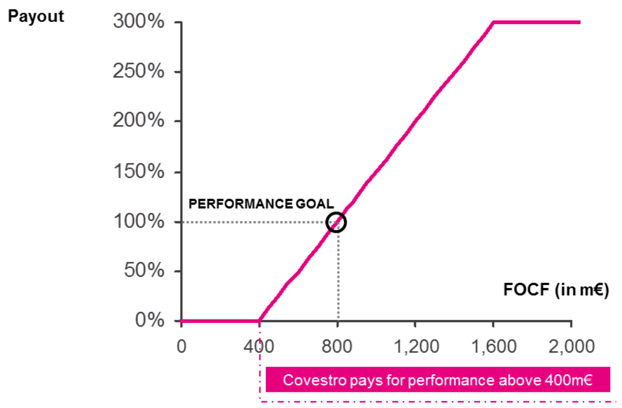
Core Volume Growth



Value	1.5%	4.0%	9.0%
Payout	0%	100%	300%

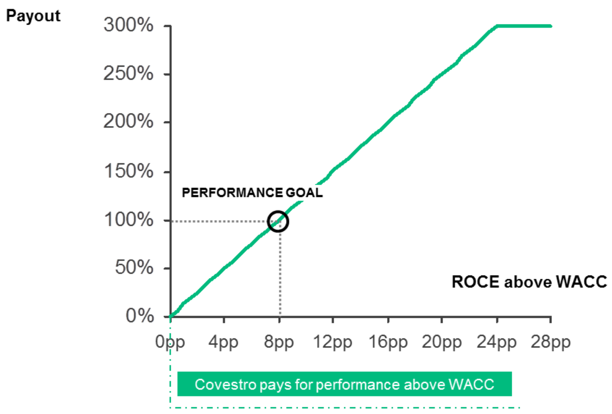
FOCF

in € million



Value	400	800	1,600
Payout	0%	100%	300%

ROCE above WACC[a]



Value	0.0%p	8.0%p	24.0%p
Payout	0%	100%	300%

Notes: (a) ROCE: Return on Capital Employed, WACC: Weighted Average Capital Cost

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

Sellside dinner events

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

Broker conferences

February 28 – March 1, 2019	Alembic Global Advisors, 9th Annual Industrial & Chemical, Deer Valley, Utah
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