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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Covestro investor conference call on the Q1 2016 results. The Company is presented by Patrick Thomas, CEO; Frank Lutz, CFO; and Ronald Koehler from Investor Relations. (Operator Instructions)

I would now like to turn the conference over to Ronald Koehler. Please go ahead, sir.

Ronald Koehler - *Covestro AG - IR*

Yes, thank you. Good afternoon and welcome to our conference call. After a short break of just two months, we are happy that you participate once again in our Q1 conference call.

Overall, I would like to say the industry dynamics did not change in our view, neither supply nor demand. So from our perspective, yes, just going on like we explained already in the full-year conference call.

Besides that, we have posted the presentation on our Web page; and also, read our Safe Harbor statement there please. And now I would like to pass on to Patrick.

Patrick Thomas - *Covestro AG - Chairman, CEO*

Thank you very much, Ronald, and good afternoon, everybody, and welcome to our call. Thank you, Ronald. We clearly have a very strong start into the year -- and actually better than expected at the end of the February month, when we had our Q4 conference call.

The strong core volume growth of 8.5% has allowed us significant earnings improvement with EBITDA up by 22% and net income up by 58%. With the strong first quarter in the bag, we can fully confirm our full-year 2016 guidance despite the limited visibility and high volatility.

In March, we also placed very successfully three bonds onto the debt market, and we will use those proceeds to pay back our Bayer-related liabilities.

The dynamic demand uplift was broad-based and driven by all regions and industries. Of our top countries, China showed the best development with a core volume growth of 13.3%. We experienced a dynamic pickup after the Chinese New Year. This has confirmed our view that, after heavy destocking in quarter-three 2015 and a slight improvement in quarter-four 2015, that China remains one of the best-growing economies in the world, even if the growth may stay below historical levels.

Despite all the discussion about a potential recession in the US and Europe, also these regions strongly contributed to our growth. There was a strong underlying demand development. In addition, growth was supported by a mild winter, which helped the construction industry.

In quarter one, we did not have any major plant shutdowns. This stands in contrast to several of our competitors, who had to cope with planned and unplanned outages. As usual, availability is critical for success in our industry, and we were able to promptly fulfill all our customer requirements.

I'll now pass it over to Frank for the financial highlights. Frank?

Frank Lutz - *Covestro AG - CFO*

Thanks, Patrick, and good afternoon also from my side. The strong core volume growth in kilotons translated into a sales benefit in euro terms of EUR161 million or 5.3% year-on-year.

The difference between core volume growth and sales volume growth is driven by the stable development of our noncore business. As we have explained to you before, we do not intend to grow our byproducts like caustic soda or styrene; and as a consequence of this, the current gap is expected to accompany us for at least the next quarters.

Selling prices in Q1 declined more or less in line with raw material prices. We had limited exchange-rate effects despite some weaknesses as well as volatility in emerging market currencies.

Our volume leverage represented the main earnings driver in Q1 of 2016. This is in line with our strategy to sweat our assets. We achieved a stable cash margin as the competitive pressure in PUR, especially in TDI, was offset by improvements in Polycarbonates.

We benefited from an insurance reimbursement of EUR30 million. This payment is related to lost operational income in previous years. In line with our historical policy, we do not regard this as a special item; nevertheless, as it represents a meaningful one-time earnings contribution we also did not want to hide it.

I would also like to draw your attention to the fact that we did not account for any negative special items during Q1 of 2016. This is in line with our previous guidance and reflects our unchanged policy of only booking special items if it represents single project costs above EUR25 million. In contrast to some of our competitors, we use special items in a very restrictive manner and only if it makes sense to explain extraordinary measurements like large plant shutdowns.

In Q1 2016 we were able to increase our earnings despite lower sales. This demonstrates once again that the current top-line volatility does not affect our ability to generate profits. The EBITDA increased by 22%; and even if you strip out the insurance reimbursement, EBITDA increased by 15%.

In PUR, we could significantly increase our core volumes. The margin improvement in Q1 2016, however, we are still operating clearly below mid-cycle levels. TDI margins continue to be rather low, scratching along bottom of the cycle conditions.

The strong results in Polycarbonates further increase our confidence that the margin rebounds that we reported now for five quarters in a row is based on the long-term structural improvements of the supply/demand balance in the Polycarbonate industry and not driven by any short-term bottlenecks.

We're currently ramping up our new 100 kiloton Polycarbonate production line in China. This expansion comes well on time, as we need more capacities in order to fulfill the growing demand of our customers.

In CAS, the phaseout of a trading product will burden core volume growth by around 5 percentage points in 2016. This was already visible in Q1 2016 and will stay with us for the remainder of the year. However, we continue to assume that our underlying business will achieve a mid-single-digit core volume growth in 2016. In Q1 2016 we were able to further increase our margins in CAS, despite the top-line weakness driven by lower raw material prices and product mix effects.

Historically, Covestro usually generated a negative free operating cash flow in the first quarter. Therefore, we see the positive free operating cash flow generated in Q1 2016 as a very encouraging sign despite the slight decline compared to last year. Overall, we are on track to deliver on our promise for another year with a high free operating cash flow, above the average of the last years.

The highlight of the quarter was clearly our placement of three bonds on the market with a volume of EUR1.5 billion. We already used EUR1.25 billion of the proceeds to pay down our debt related to Bayer in March.

We plan to pay back another EUR810 million in June of 2016. Afterwards, we will have no further financial liabilities any longer to Bayer besides some normal business-related payments.

With that I hand back to Patrick for the outlook.

Patrick Thomas - *Covestro AG - Chairman, CEO*

Thank you very much, Frank. We remain committed to our guidance for our core KPIs that we published in the annual report. Please note that we have now based our guidance on the current exchange rates.

We have also slightly downgraded our global GDP growth assumption for 2016 to 2.6%, compared with 2.8% published in the annual report. In addition, we would like to provide some flavor on the expected development in the second quarter.

Visibility remains limited, and there is still a high volatility in the market. Nevertheless, our start into quarter two was encouraging. As a consequence, we assume that we can come close to the adjusted EBITDA level of the strong second quarter of 2015.

Please note that we will have some scheduled plant maintenance shutdowns in quarter-two 2016, which will burden results compare to quarter-one 2016. In addition, quarter-two 2015 benefited from extraordinary high income in styrene, which we assume will not be the case this year.

Overall, our investment case remains unchanged. We are committed to deliver strong organic growth, which should support a strong earnings and cash flow generation. Based on our robust financial profile, we plan to pay an attractive dividend; and despite the current limited visibility and high uncertainties, we remain committed to deliver on our guidance.

Thank you very much for listening, and we are now open to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Andrew Benson.

Andrew Benson - *Citigroup - Analyst*

Thanks very much for that. I think it's the first time I've ever come in first. Continue on the hedging in the financials line, just give us an idea of where it's likely to be in the rest of the year, assuming exchange rates stay as they are, and just how volatile that would be contingent on how exchange rates move around.

Can you give us an idea as well of a full-year impact of the termination of the trading arrangement you had with Lanxess.

Also, just explain a little bit, in perhaps a little bit more detail, on the volume performance. Obviously that was extremely good. Perhaps just a little bit better color on your thoughts surrounding that achievement. Thanks.

Patrick Thomas - *Covestro AG - Chairman, CEO*

Okay. Thank you very much, Andrew, and congratulations on getting in first. In all the years I've been doing this, this is the first time that you've managed to get there. Well done, Andrew.

So over to Frank to explain a little bit about hedging.

Frank Lutz - *Covestro AG - CFO*

Congratulations also from my side, Andrew. You should expect the financial result of approximately EUR210 million for the full year, which is about EUR10 million higher. Let me use that opportunity, though, to make -- to give you a little bit of explanation where that comes from, so that people understand, because I think there was some surprise why the financial result was so high in the first quarter.

We provide intercompany loans, especially to our Chinese businesses, and we hedge those currency exposures that we generate thereby. So, if the currency weakens, the hedge changes -- or if the currency changes, the hedge of course changes in value as well.

By the way, of course, the loan changes in value as well, too. But due to the fact that we consolidate the loan internally, because it's an intra-group loan that we provide, you cannot see that.

However, what you can see is the change in the value of the hedge, because there we deal with third parties. That's basically the background. And we do not see that to go into the same direction all the time, and we will have some compensating effects probably during the course of the year as well. That's how we get to the EUR210 million all together.

Patrick Thomas - *Covestro AG - Chairman, CEO*

Thank you, Frank. On your second question, to do with the termination of the trading contract that we had within our CAS business, in quarter-one 2015, as a reference point, it represented 4% of the CAS volumes and 3% of CAS sales. So hopefully that gives you a good reference.

On the third point in general, on the strong volumes, I think it's worth looking at regions and also some of the industry effects that we saw. First of all, a very mild winter did give strength to construction around the world. And although construction is pretty negative from a residential point of view, particularly in China, we see quite a lot of construction activities in the industrial sectors.

Automotive has been pretty strong in Asia and in North America. In Asia -- in China in particular -- there's been a shift which I think we mentioned on the last call towards smaller vehicles, domestically produced small vehicles. Those are getting a tax incentive now from the government for people to get 5% off on the taxation.

The effect, then, in China is that the small Chinese-manufactured vehicles are somewhat displacing imported vehicles and also foreign-brand manufacturing in China. So there's a bit of a dynamic shift going on there.

Electronics and electricals in Asia are also boosted a little bit by some of the new technologies coming through, with feeling that the saturation level of smartphones, tablets, laptops, devices is kind of there. But what we're now seeing is wearable devices picking up, the sort of Fitbits and things like that, which are made out of thermoplastic polyurethanes generally. All of these strap-on fitness devices tend to be polyurethane-derived.

And then for Polycarbonates, these virtual reality devices also kicking in and taking up some volume.

On the downside, we did see a couple of areas, particularly in the Coatings area. These are all compensated by other growth segments, but US industrial coatings were particularly weak, primarily in the oil and gas segment for obvious reasons.

And the mix in China tends to have an adverse effect on our Coatings mix because the smaller vehicles are not using the advanced coating systems that we're selling, or at least not yet. We see that as a growing future opportunity.

So if you take the 8.5% globally, 13.3% was in China, 11.4% overall in Asia-Pacific, Europe at 5.8%, NAFTA just short of 10%. That gives a rough picture of where we saw the growth and geographically where we saw the growth. Is that okay, Andrew?

Andrew Benson - *Citigroup - Analyst*

Yes, that's fine. That's fine. Thanks very much. Thanks a lot.

Operator

Paul Walsh, Morgan Stanley.

Paul Walsh - *Morgan Stanley - Analyst*

Yes, hi, guys. Thanks very much for taking my questions. I'd want to come back to the volume question, and more within the context of the capacity that you have available. Wondering at what point you come up against a bit of a ceiling on some of your outputs, given the growth rates you're seeing in core volumes at the moment.

I guess in PCS that's less of an issue, because of China ramping. But certainly on the Polyurethanes side, just wondering at what point you'd have to start thinking about what happens next on those businesses -- or maybe I'm just overestimating current utilization. So any flavor on that would be helpful.

Second question on the styrene/benzene spread. It looks to me like that might even be expanding again in the second quarter. But I know Frank made some comments just now that that spread seems to be sustainable for at least the next quarter. Again, could you just put some context as to how much it made you last year and what we're looking at this year?

And I guess the final point on the free cash flow side. I guess, simply put, you're expecting to get some of that working capital back as we move through coming quarters.

Patrick Thomas - *Covestro AG - Chairman, CEO*

Yes; super, Paul. Thank you for your questions. On volume, I think the way you have to look at the volume in the first quarter is we remain with our guidance of mid-single-digit growth for the full year. So I don't think we're going to continue necessarily at this growth rate that we've seen in the first quarter.

Paul Walsh - *Morgan Stanley - Analyst*

Right. Does that imply restocking, Patrick?

Patrick Thomas - *Covestro AG - Chairman, CEO*

I think there's an element of restocking. But I think there is also an element of availability of capacity. It really plays to the point you made, which is that we are probably the player which has the available capacity when others have problems with staff-ups or others have problems with their facilities in terms of reliability.

To answer your more complete question, if we continue as we are with Polycarbonates, then I see nothing in this decade that we need to do. We've got new capacity coming onstream.

When you look at Polyurethane, we still have adequate supply to meet the expected growth rates probably to the end of the decade. So in terms of the next kick-up in capital for any major assets on the Polyurethanes side, I wouldn't expect that before the end of the decade.

On styrene, you're always more expert than I am on the styrene side. I bow to your great expertise on this one.

If I look at the full-year 2016 earnings contribution that we expect, it would be around about EUR30 million to EUR40 million. I think that compares with something of almost double that last year.

Paul Walsh - *Morgan Stanley - Analyst*

Okay.

Patrick Thomas - *Covestro AG - Chairman, CEO*

On the final piece, free operating cash flow, Frank, do you want to answer that?

Frank Lutz - *Covestro AG - CFO*

I think, Paul, your assumption is right. We saw the typical effects that you usually see in a first quarter, where working capital goes up again because inventories go up, receivables go up. And we certainly had that situation, also reinforced by the fact that our volumes that we sold just went up.

I do expect working capital to stay more or less on that level, maybe even to go slightly down during the course of the year. Then at year-end, as always, we might see some positive working capital effects again.

Paul Walsh - *Morgan Stanley - Analyst*

Okay, but -- so I just want one clarification. I think you said, Patrick, Q2 EBITDA looks like it's going to get close to last year's level. Is that right?

Patrick Thomas - *Covestro AG - Chairman, CEO*

That's right, yes.

Paul Walsh - *Morgan Stanley - Analyst*

Okay. Thank you very much, guys.

Operator

Christian Faitz, Kepler Cheuvreux.

Christian Faitz - *Kepler Cheuvreux - Analyst*

Yes; hello, good afternoon, gentlemen. Christian Faitz here, Kepler. You look to higher tax payments that influence somewhat lower free cash flow in a low season quarter. Can you give us any tax rate guidance for 2016 overall?

And in that context could you please elucidate if there is a difference in various countries around the globe with respect to the tax treatment, now that you act as a legal and financial standalone company as opposed to being part of a larger corporation before? To be more specific, do you believe some of the tax breaks are gone that you enjoyed as part of Bayer versus now you being a standalone company?

Then second question, can you please remind us of the nature of the insurance reimbursement that you received or give any specifics? The case I believe happened back in 2012. Thank you.

Patrick Thomas - *Covestro AG - Chairman, CEO*

Okay. Thank you, Christian. I'll let Frank take the first tax questions.

Frank Lutz - *Covestro AG - CFO*

Yes, Christian, why has the tax payment in the first quarter been higher than in the first quarter of 2015? Well, in the first quarter of 2015, a lot of the entities that now belong to Covestro still technically belonged to Bayer; and therefore the tax burden in Q1 2015 was not booked under the old Bayer MaterialScience, but under Bayer. Therefore you can't really compare the tax burden.

What we have seen now in Q1 of 2016 is also what we should see going forward. I.e., we expect an effective tax rate at around 30%, and a cash tax rate of around 35% for the remainder of the year and for the full year of 2016.

As relates to your question whether there are countries where we might not get an as-beneficial treatment anymore as we got it under Bayer: No, that's not the case. We don't expect that the situation will deteriorate anywhere. And actually, after the first couple of months of being an independent company, we have nothing negative to report there either.

Patrick Thomas - *Covestro AG - Chairman, CEO*

Okay. Thank you, Frank. On the insurance, it was principally business interruption insurance that took place during the year 2012. The total value of the interruption was claimed at EUR30 million, which is the number that we have received. It was to do with our Baytown facility, where we had interruptions to our industrial gas supplies.

Christian Faitz - *Kepler Cheuvreux - Analyst*

Okay; thank you. Very helpful. Yes, thanks.

Operator

(Operator Instructions) Thomas Swoboda, Societe Generale.

Thomas Swoboda - *Societe Generale - Analyst*

Yes, good afternoon, gentlemen. I have one question regarding the supply side of things. As you stated a couple of times before, the availability at your competitors has been so much worse than your own equipment availability. I'm wondering if you just could go through the main three cyclical product lines, Polycarbonates, TDI, and MDI, and help us a little bit to understand how the supply has developed in those product categories.

It seems that you expect that the low supply availability is going to continue in Q2. I just would like to understand how you reached this conclusion. Thank you.

Patrick Thomas - *Covestro AG - Chairman, CEO*

Okay, Thomas. Thank you very much. It's a very insightful question, which I'll do my best to answer.

First of all for MDI, the principal disruption compared to what we've assumed would happen during the first quarter of this year was a competitor's MDI facility in Western China, which seemed to have some difficulties in operation. That was unable to supply in the way that was expected by the market.

Also, I believe one of the major China players had some interruptions to their facilities which were published in ICIS, which related to reliability.

On TDI, the principal effects there have been the introduction of new capacity, which has come much later than we would have already guided you. When we first guided you earlier, in our call two months ago, we were talking about the new European facilities coming onstream. You'll remember that we had closed our facilities in Brunsbuettel and in Dormagen and started a completely new facility in Dormagen using the new lower-cost technology, gas flow technology.

In addition, in Ludwigshafen there is a new facility that is being built which is not appearing to be operating in full yet. At that time it was expected that Schwarzheide would maybe close.

In addition in Europe, Vencorex, who are converting their TDI plant in France, said they would announce their closure early in quarter two, which was slightly sooner than anybody expected.

On Polycarbonates, Saudi Kayan announced through the news service of ICIS that their turnaround on their PC unit is going to last a little bit longer. That's not a huge deal in terms of polycarbonate. The total turnaround represents less than 1% of the world capacity, from what I would calculate.

Then of course the polycarbonate unit in Singapore has closed fully at the end of last year, which represented something between 3% and 4% of world capacity. So those are some of the things that have been going on.

There have been some other plants on TDI that have been up and down in China and probably some other changes that we're not even aware of. But that's the major supply-side dynamics.

Thomas Swoboda - *Societe Generale - Analyst*

If I can follow up on that -- and thank you very much; this is very, very interesting. But assuming that you have taken some market share in Q1 and, from my understanding, you don't feel you will be losing this market share in Q2, given your insights to the market, when would be the first time where you would be fearing that this market share might erode a little bit again? Is it fair to assume that Q3 could be already a quarter where the volume dynamics are for you especially weakened a little bit? Or am I wrong in this assumption?

Patrick Thomas - *Covestro AG - Chairman, CEO*

I think it's very dangerous to start trying to work out quarter-on-quarter movements in market share. Because even the incidence of shipping to customers can have major impact on the total volume sold in any one quarter.

I think perhaps the better way of looking at it is, in MDI, the sequence was destocking quarter three last year; we saw growth globally at above-industry average in quarter four. The utilization rate was something like 82%, I think I suggested on the last call.

During 2016 that's going to tighten slightly, and we're going to probably be up at about 83% for the full year. And the trend going forward is a growth according to Nexant's of about 5.8%; and the supply growth that we calculate, based upon what I've described today, would only be 2.7% supply-side growth.

On TDI, I think we've seen a turning point at the end of last year. We've seen an increased tightness in the first quarter.

There was a whole sequence of additions and subtractions that I highlighted earlier. But if we take the demand growth at about 4.8% according to Nexant's, the supply growth over the next period of up to 2020 would only be at 3.2%, so structurally we are seeing a tightening there as well.

Overall on Polycarbonates, I explained the shutdowns and the closures. Basically the capacity that is available that is new is our new facility in Ciaojing.

Demand growth, we believe, is going to be -- according to Nexant's, at least -- 4.6%. We're experiencing a high growth rate in the market than that, and the supply growth rate looking out to 2020 is only 2.3%. I think it's better to focus on that longer-term perspective rather than to try to get into quarter-by-quarter dynamics, which are notoriously difficult to forecast.

Thomas Swoboda - *Societe Generale - Analyst*

This is fair. Thank you very much.

Operator

Patrick Lambert, Raymond James.

Patrick Lambert - *Raymond James Euro Equities - Analyst*

Good afternoon; thanks for taking my questions. Two questions.

The first one is -- thanks very much for all the supply/demand volumes assumption. But it seems that Europe - in Polyurethanes - Europe was the only place where you clearly sell some pricing power, meaning that you were able to keep prices a bit higher than the raw material impact. Is that true?

And in US scope as you discussed a bit on the tightness coming into Q2 and forward, do you see a bit more of pricing power in the second part -- in Q2/Q3 this year? That's my first question.

And the second question, going back to the hedges, could you remind me exactly what you are hedging, how long you're hedging those loans for, and which currency you're actually hedging there? Thanks.

Patrick Thomas - *Covestro AG - Chairman, CEO*

Thank you very much, Patrick. I think to answer your question around pricing, it would be the simplest to say that in the US and in Europe we've seen greater pricing power than we have seen in Asia. And that's probably the best level of granularity I can give you.

Frank, on hedging?

Frank Lutz - *Covestro AG - CFO*

On hedging, we are predominantly hedging loans that we give to our Chinese subsidiaries. We basically hedge to those loans as long as we have them. Usually it's agreements that we roll over once they expire, depending on the then-prevailing market prices.

Of course, we do a mark-to-market of the hedges, and that is what you can see in our P&L, whereas you cannot see the mark-to-market of the loans.

Patrick Lambert - *Raymond James Euro Equities - Analyst*

So it's RMB and Hong Kong dollars?

Frank Lutz - *Covestro AG - CFO*

It's predominantly RMB against the euro. That amounts to about EUR1 billion altogether.

Patrick Lambert - *Raymond James Euro Equities - Analyst*

Okey-dokey.

Operator

Peter Mackey, Exane BNP Paribas.

Peter Mackey - *Exane BNP Paribas - Analyst*

Afternoon, everybody, and apologies if there are some repeats here; I'm afraid I missed the very start of the Q&A session. But I've just got three quick questions for Frank; and then perhaps, Patrick, one for you.

On Frank's questions, could you just repeat the cash tax rate? I think you said 35%, but I just want to check that, please.

Secondly, going back to the working capital issue, you talked about normal seasonality of inventories. But actually inventories went up significantly in the first quarter; and it was receivables, presumably, because you were selling everything you produced.

Do you think that as we go through the year we're going to see receivables improve but inventories get worse? Or do you think either or both of those are at a new, sustainable level, please?

Then just quickly on corporate costs, could you just give us some guidance how we should think about corporate costs, given the high number for the first quarter? If you can give us an idea for the full year; and then perhaps you've had a permanent run rate we should be planning for future years.

Then, Patrick, once you -- you were willing to stay at the fourth-quarter stage that you were happy with the consensus at that stage, EUR1.6 billion of EBITDA. Obviously, the first quarter has been somewhat better than you were expecting. I don't think you're any longer finding a potential decline in ROCE this year.

So are you willing to make a stab at what you might be comfortable with on EBITDA terms now, please? Thanks a lot.

Patrick Thomas - *Covestro AG - Chairman, CEO*

Thank you, Peter. I'm going to hand you over to Frank for the first three cash-related questions.

Frank Lutz - *Covestro AG - CFO*

On your first question, yes, you understood it correctly. It's 35% is the cash tax rate that we're expecting for 2016.

The second question on the working capital: Yes, you're right. Inventories only increased slightly, but the big swing came in receivables, of course related to the fact that business increased also compared to the rather slow Q4 that we always see in every year. That, of course, also had an impact on payables.

Going forward I expect working capital, as I said before, to rather stay in the 15% to 17% range compared to our sales figure. So from that perspective, a rather stable working capital.

Of course, raw material prices do have an impact on our inventories as well, and we cannot necessarily exactly predict how that will develop. But I think we have shown in the past that this kind of band of 15% to 17% is realistic.

On the corporate costs, we had about EUR22 million of corporate costs in the first quarter. You can multiply that by 4 and then you get to what we assume for the remainder of the year.

If your question is also related to our profitability enhancement program and the cost improvements that we want to achieve, we're fully on track there. But we also gave the indication before that on a net basis in 2016 you will not see any effect. It should be pretty basically at zero; and then during the next couple of years until 2019 you will see the full effect of eventually more than EUR100 million in 2019.

Patrick Thomas - *Covestro AG - Chairman, CEO*

Thank you very much, Frank. Yes, with your playful question around consensus, I think you may have missed my comment during the introduction, so let me just repeat where I am with guidance.

Our start into quarter two was very encouraging. As a consequence, we assume that we will come close to the adjusted EBITDA level of the very strong second quarter of 2015. Based upon that, that gives you a half-year number.

And if you remember from the last conference call, we made a statement which is based on historical numbers, which shows that typically we make 60% of our EBITDA in the first half-year. So there is a little bit of math to do there, but that's where I'm happy.

Peter Mackey - *Exane BNP Paribas - Analyst*

Okay; thanks very much. Sorry, if I could just follow up, back to Frank on the corporate cost line. The reason I was so prying or pushing on that is because if I take industrial operations and corporate together, the last couple of years they were EUR30 million-ish net negative. And this year we're obviously annualizing Q1, and we're EUR88 million.

So it seems that -- I'm just trying to understand the dynamics of that from -- in 2016 versus 2015 and 2014, so that we've got a picture for why -- how 2017 and 2018 should progress, please.

Frank Lutz - *Covestro AG - CFO*

Well, the explanation for that is that historically you have not seen all the corporate costs being allocated to Bayer MaterialScience. Now we are an independent company, and what you see now is mainly related to the fact that the number of our employees increased quite significantly. We are about 2,000 more employees on our payroll now compared to Bayer MaterialScience times, and that's what you see in our corporate center costs especially.

Peter Mackey - *Exane BNP Paribas - Analyst*

Understood. Thank you very much.

Frank Lutz - *Covestro AG - CFO*

So going forward, we assume the number that you have seen this quarter to be stable. That's why I am also saying multiply it by 4.

Then, of course, going forward in the years to come we hopefully should be able to bring this number down slightly, based on the profitability enhancement program that I just described before.

Peter Mackey - *Exane BNP Paribas - Analyst*

Thank you.

Operator

Andreas Heine, MainFirst.

Andreas Heine - *MainFirst Bank - Analyst*

Yes, most questions are answered. Three small ones only.

I have heard from major resources that TDI specifically is extremely tight nowadays in China. Is that something what you see as well?

Then secondly on raw materials, raw materials were clearly up; but of course you have inventories. Higher raw material is already an issue for Q2? Or is it something you would only see in the second half of this year?

Then you mentioned when you referred that Q2 will be close to the level of last year that you have shutdowns this year. Are the shutdowns you have this year in the second quarter different to what we have seen last year? These are my questions; thanks.

Patrick Thomas - *Covestro AG - Chairman, CEO*

Okay, Andreas, thank you very much. Yes, your observation that PCS is tight in China is certainly true -- sorry, TDI, I mispronounced -- TDI tight in China. Yes, that does seem to be the case. In fact, we've seen some evidence that pricing has started to move in a positive direction.

Raw materials? I've seen a lot of noise in the raw materials, but if I look at the total basket then it looks like it will be fairly steady as we progress through this year. So there will be some deltas as we look through individual components.

In quarter two, benzene will be slightly up; toluene will be slightly up; propylene is pretty flat; phenol will be slightly up. Then in quarter three, I think they'll all be flat.

So it's difficult -- it's not on the scale of the drop that we saw coming through in 2014 and 2015. My forecast for the total basket for 2016 would be relatively steady, slight increase.

In terms of shutdowns, no, there's nothing special about the shutdowns or any difference to prior year.

Andreas Heine - *MainFirst Bank - Analyst*

Okay, thanks.

Operator

Paul Walsh, Morgan Stanley.

Paul Walsh - *Morgan Stanley - Analyst*

Hi, guys. I just wanted to come back to the debate around EBITDA guidance, which I know you don't give, so just an observation from my side. I get the maths, Patrick, around the first half. But in terms of what that would mean in the second half, it would imply some big declines in second-half EBITDA -- which I guess, who knows at this stage?

So I don't really want you to comment specifically on the fact that the math shows on your 60/40 split a pretty big decline in H2. And that would be net of a EUR50 million headwind from last year given the turnarounds in China. Putting that to one side, which businesses do you think offer the greatest level of cyclical downside risk from where you sit today?

Patrick Thomas - *Covestro AG - Chairman, CEO*

Very, very good question, Paul. It deserves a very, very good answer.

If we look at our 60/40, that's based upon our historical experience. The number hasn't always exactly been that, but it's in that order. So I wanted to give you some guidance as to where we might end up in the year.

And that implies that there is a lower generation of EBITDA in the second half of the year. That's why it's 60/40.

That's driven typically by cyclicality. So seasonality with construction industry, for example, which reduces a lot of the demand in the construction industry, we haven't always seen that every year. And we have seen 55/45 type years. But I wanted to try and give you a reasonable view in terms of outlook, and that is the way I thought was probably best to give you that outlook.

I think CAS will be steady. I think Polycarbonates has small risk maybe associated with it in the second half. Polyurethanes is a bit more unclear.

Paul Walsh - *Morgan Stanley - Analyst*

Okay. Thank you very much.

Operator

Markus Mayer, Baader Helvea.

Markus Mayer - *Baader-Helvea Equity Research - Analyst*

Good afternoon, gentlemen. Only two questions remaining. First of all, in your presentation in the Polycarbonates section you say that the on-purpose low volume in optical media was pointing in the Q1 reporting. Maybe you can give more details on this; and also does this something structural in your short-term thing?

Then secondly, the effect of the earlier Chinese New Year, maybe you can quantify what this was on your -- a certain effect which could be positive for Q2 as well, or basically you have not seen any kind of effect there? Thanks.

Patrick Thomas - *Covestro AG - Chairman, CEO*

Yes, Markus, the ODS for us is an opportunistic business, so we move in and out of the ODS segment depending upon availability of product and price. If you think about it, ODS -- optical data storage -- is now less than 10% of the total market. So it is a much, much smaller component than it was at its peak.

In terms of Chinese New Year, the only important thing for me about Chinese New Year is whether the factories restart after Chinese New Year or not. It's a kind of binary event: either people come back to the factories from their family holiday and they carry on working, or they don't. We've had years where they just didn't come back, and that was my concern.

That's why two months ago on the conference call, I said I would tell you how I felt about China when I've seen whether everybody comes back. Well, everybody came back this year, which is very positive.

I don't think it's particularly determined by whether the Chinese New Year falls early or late. But the important thing is that people are back in the factories and working, and that's the main important factor.

Markus Mayer - *Baader-Helvea Equity Research - Analyst*

Okay, perfect. Thanks.

Operator

Mr. Koehler, there are no further questions at this time. Please continue with any other points that you wish to raise.

Ronald Koehler - *Covestro AG - IR*

Thank you. Thank you all for listening and your interesting questions. We obviously will have more time for your questions at our investor meeting, which we are looking forward, May 12, seeing you also for the dinner the evening before, May 11. Yes, looking forward to see you all there then. Thank you and goodbye.

Operator

Ladies and gentlemen, this concludes the investor conference call for Covestro. Thank you for participating. You may now disconnect.
