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PRESENTATION

Editor

(Operator Instructions)

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

Ronald Koehler ***Covestro AG - Head of IR***

Good afternoon and good morning to all listeners. Thank you for joining our second quarter conference call. You will find our quarterly report and our presentation at our Investor Relations website. And I assume you have read our safe harbor statements.

And with that, I immediately turn over to Markus.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Thank you, Ronald. Good afternoon, good morning to our listeners in the United States. A warm welcome also from my side to the results of our second quarter.

Covestro showed a solid performance in an increasingly challenging environment. The second quarter was again dominated by the ongoing coronavirus pandemic and the Russian war in Ukraine. The COVID lockdown in several regions of China had severe effects on global logistics chains and the global economy. In Europe, the war caused increased uncertainties in the raw material and energy sector, also affecting Covestro.

Considering these effects, we had a successful second quarter. Our sales went up to an all-time high of EUR 4.7 billion, just beating the record of the first quarter 2022 despite the lockdown situation in China. Covestro achieved an EBITDA of EUR 547 million, slightly above the guidance range of EUR 430 million to EUR 530 million. The reason for this positive development was that the China business normalized faster than expected.

The free operating cash flow came out to minus EUR 462 million. It included the bonus payout for our successful year 2021. As a result of the surge in energy prices and increasing uncertainties in our economic environment, unfortunately, we had to review our guidance again.

On our share buyback, we have spent EUR 150 million. This represents already 30% of the total share buyback program.

If you follow me on the next page, we are now looking into our Q2 volumes. Our global sales volumes were only slightly down by 2.1%, an opposing effect occurred in 2 regions. As mentioned earlier, the peak of the coronavirus lockdown induced strong volume decline in April. From there, slowly normalized already throughout May, leading to a total loss of 11.5% in sales volume in Asia Pacific. The region North

America is showing an opposite trend as the sales volumes 2021 were hit by the Winter Storm Uri, forcing us to shut down our production site in Texas. The rebound of volumes in the second quarter 2022 now caused an increase of 7.9%. This increase could compensate the decline in Asia Pacific to a major extent. A steady sales volume could be observed in the region Europe.

Looking closer into the different industries, you can see that across the board, many of them have been experiencing a decline from the lockdown in China. This particularly impacted the electro industry. And the most drastic decline we observed in the auto industry additionally burdened by the shortage of semiconductors.

In the COVID years, 2020 and 2021, many people invested into their homes and bought new furniture and mattresses. This trend is now starting to reverse, and we saw a decline in the second quarter in these industries as well. Construction, however, is still mostly flat, with some minor areas of decline. But overall, the demand here was mostly steady in the second quarter.

With this overview of our market environment, I'm handing over to Thomas, who will guide you through the financials.

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

Yes. Thank you very much, and also a very warm welcome from my side to our earnings call. I'm on Page 4 of the presentation, which is the sales bridge.

And as you can see, we achieved quarterly sales of EUR 4.7 billion. That is actually the highest quarterly sales number in the Covestro history, even slightly higher than what we had in Q1. And you can also see that our sales increased 18.9% year-on-year, and that was pushed by a 14.5% rise in prices. And the price increases actually came from both segments. You can also see that FX contributed positively with 6.5%, that is EUR 259 million in the bridge. And I should also say that the price increases were enabled by solid demand, especially in the beginning of the quarter. Nevertheless, overall, our volumes declined slightly by 2.1% mainly driven, of course, by the lockdown situation in China.

So with that, let's turn to Page 5, where you have the EBITDA bridge. You can see that year-over-year, our EBITDA declined from EUR 817 million to EUR 547 million in the second quarter of this year. Obviously, we had increasing raw material and energy prices that impacted our EBITDA negatively with EUR 789 million. We could compensate it to a big extent with price increases of EUR 574 million. Nevertheless, as you can see in the graph, there remains a negative pricing delta of negative EUR 215 million.

FX is positive with EUR 40 million, and you can see a negative other items. That includes EUR 73 million from lower provisions for variable compensation. And on the negative side, of course, it includes cost inflation mainly related to freight and logistics. And you have some more details on that in the box on the right-hand side of the page.

So with that, let's turn to Page 6, where you have more details on our 2 segments, and let's start with Performance Materials. You can see on the upper half of the page that there's a steady increase of quarterly sales. And the increase in the second quarter of this year relative to the second quarter last year is particularly driven by price increases year-over-year.

If you look at the lower part of the page, you can see EBITDA came in at EUR 367 million. That was EUR 277 million below the second quarter of 2021. And of course, the lower margins that were caused by strong raw material and energy price increases played a role here. And these cost increases could only partly be compensated by price increases and positive FX.

The volume played a minor role in the year-over-year comparison. And if you look at the EBITDA margin in the second quarter, you can see it declined to 14.9%, of course, also impacted by the raw material induced sales inflation that we've seen.

If you look at the EBITDA sequentially, the EBITDA of this quarter is actually EUR 253 million below Q1 of this year. And also here, it was mainly the negative pricing delta from higher raw materials that could not be fully compensated by price increases.

Let's go to the next page on Page 7. You see the same set of numbers for our Solutions and Specialties segment. And you can see the quarter development and the flow of quarters over time. Again, on the upper half of the page, you see that the sales increased 11%

year-on-year, positively impacted by the selling price level and also the exchange rates movement, however, burdened negatively by volume decline. And sequentially, the sales decline mainly came from our Engineering Plastics, BE, because this business entity is heavily geared towards Asia and also to the automotive industry, so that the lockdown in China, of course, had a big impact specifically on that business entity.

If you look at the lower side of the page, you see that the EBITDA in the second quarter of this year is slightly below Q2 of last year because price increases and also positive FX effects could not fully compensate the decline in the volumes that we sold. However, the EBITDA margin only showed a minor decrease quarter-over-quarter to 9.8%.

And with that, I would like to do a quick hand over back to Markus for some more details on the strategic initiatives that we have specifically in this segment.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Yes. Thanks a lot, Thomas. If you look on to the chart, you will see that we are committed to profitably grow our solutions as well as specialty business. Here, you see also examples of 2 business entities. In the business entity coatings and adhesives, we invest mid-double-digit [million] (added by company after the call) euro in 2 production lines in Caojing, China to expand our leadership in water-based polyurethane dispersions, and that is affecting the merged business from Covestro as well as RFM that we successfully meanwhile integrated into Covestro. We see here a very clear support of customers in growing with environmentally compatible as well as versatile products. The clear time line here is that we ramp up from 2024 onwards with this production also supply the market [with environmentally more compatible products] (added by company after the call). The expected EBITDA contribution is building up to low to mid-double-digit million euro at normal utilization levels.

The second example is from the business entity Elastomers, which is investing a high double-digit million euro, amount into 3 new plants in Thailand, Caojing, China as well as Barcelona in Spain to accompany growth of our customers. Here, we expand production on 2 high-value elastomer product lines that involve new basic isocyanate production as well as a downstream conversion. The expected EBITDA sales contribution is building up to low to mid-double-digit million euro at normal utilization levels. These are just 2 examples how Covestro is aiming to deliver on the 17% EBITDA margin target that was set for 2024 and the year beyond.

With that, back to Thomas.

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

Yes. After the sales and EBITDA, let's now turn to free operating cash flow, and you have this on Page 9. As you can see in the graph, free operating cash flow came in at minus EUR 445 million. One key driver is obviously the bonus payout of EUR 475 million for our successful year 2021. And you can see the effect of that in the line item other effects in the table below the graph.

Furthermore, you can see in the table that changes in working capital was negative with EUR [695 million] (corrected by company after the call). And I would like to emphasize and reiterate the statement that you can see in the box on the right-hand side because the current working capital to sales ratio of 21% really is more a technical effect because it's driven by higher sales and raw material prices impacting our receivables and inventories, while, of course, the last 12 months sales is based on a lower average price.

Other components that you see in the table is our CapEx of EUR 330 million. That is fully in line with our budget and our full year guidance. And you can see income tax payments of EUR 360 million reflecting some unfavorable geographical mix and also higher pre-payments, which are based on the taxable income of 2021. And last, but not least, the other effects, as I said, that reflects the bonus payment for 2021 as well.

So with that, let's turn the page to Page #10 and look at our debt situation. As you can see, the total net debt increased by EUR 493 million versus the end of 2021. However, our net financial debt increased by roughly EUR 1.4 billion. And that is, of course, driven by the record dividend of EUR 3.40 per share that we paid after the resolution of the AGM in April, and that led to a EUR 653 million payout. And that's also driven by our share buyback program. We repurchased shares of EUR 150 million between March and June, and that already represents a 30% execution of the total program that we had announced.

What you can also see is that there is a decrease in our net pension liability by EUR 886 million driven by the increase in pension discount rates in Germany and also in the United States, resulting in EUR 309 million net pension liability. And you can find some more details of that in our half year report. Specifically, our pension provisions actually amount to EUR 473 million. And then they are partly offset by the net benefit assets of EUR 164 million. So the net number is then the EUR 309 million.

Last, but not least, I would like to mention, as you can see in the box on the right-hand side that our total net debt to EBITDA stands at 1.1x. And I would like to reiterate our commitment, of course, to a solid investment-grade rating for the company.

So with that, that brings me on Page 11 to the adjusted guidance for the full year. As a consequence of the rising energy costs, the weakening global economic outlook, a lower demand, leading to lower volumes and also a negative pricing delta for the second half of 2022, we amend our forecast for our EBITDA corridor from previously EUR 2.0 billion to EUR 2.5 billion, now down to EUR 1.7 billion to EUR 2.2 billion. This guidance revision has been done under the assumptions that our global energy bill will rise to around EUR 2.2 billion and that the global GDP growth will now be only around 2%. And we would attribute roughly 2/3 of the guidance revision to the increase in energy costs, including an expected gas levy according to the Section 26 of the German Energy Security Act, and we would attribute 1/3 of the revision to the loss of volume as an effect of the deteriorating economic climate. We do not assume, however, any severe impact from a potential gas curtailment in our guidance.

Now the current mark-to-market estimate comes out at about EUR 2.0 billion based on the July margins flat forward. So slightly higher than the midpoint of our revised EBITDA guidance.

Let's go to the next page. On Page 12, you have the overview of all the remaining KPIs. And let's go from the top to the bottom. So due to the higher price levels impacting working capital, we are also adjusting our free operating cash flow, which we now expect to come in between EUR 0 million and EUR 500 million in 2022. Also in line with our EBITDA adjustment, we guide now for a ROCE above WACC between minus 2 and plus 2 percentage points. We then slightly reduced our guidance for our greenhouse gas emissions to now 5.3 million to 5.8 million tons due to lower production volumes. And last, but not least, in Q3 of this year, we expect an EBITDA of between EUR 300 million and EUR 400 million, which is lower than the previous year of EUR 862 million, mainly driven by a negative pricing delta.

And with that, I would like to hand back to Markus.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Yes. Thanks a lot, Thomas. So now we come into maybe a more complicated part of the presentation, talking about energy. But we deem it to be very helpful for you to understand how the overall energy market is developing and how Covestro is also positioned in that market with regard to purchasing but also with regard to locations that we have, particularly in Europe and Germany.

As you all know, the situation of energy supply has become a major issue that requires our continuous full attention. The price increases for natural gas and electricity keep us busy in trying to pass them on to the market. To be very clear, up to now, all Covestro sites in Europe, and especially in Germany, are fully supplied with natural gas to run our plants flat out. We are liaising with the federal government and the network agency responsible for the supply coordination on a frequent basis.

Throughout 2021, we have seen quarter-by-quarter an increase in our energy spend compared to 2020, finally leading to energy cost that almost doubled from 2020. The increase of quarter 4 2021 of EUR 260 million has since then continued to be the magnitude of the quarterly increases in Q1 and Q2 of 2022 on top of the energy costs of 2020 and 2021.

Our initial evaluation of the energy spend for 2021 was EUR 1.5 billion. With the revision of our guidance in May, we incorporated an increase of up to EUR 2 billion. Given the current extremely volatile situation, we expect quarter 3 to show another sequential increase of EUR 350 million to EUR 400 million on top of the cost of 2020 and 2021. We are now assuming our total energy bill around EUR 2.2 billion for the full year 2022, which reflects the prices of last week of July flat forward.

As you can see, on the 3 pie charts on the lower part of the slide, the major driver for the cost increases are the European energy prices, which represent also the major share of our global energy purchases. Our energy mix comprises roughly 50% electricity and roughly 50% energy from other sources, including gas and other fossil fuels. Our sourcing activities are focused on the spot market. Covestro does not engage in any hedging activities for its energy purchases.

Let's turn to the next page. If we now come to the specific situation of Covestro in Europe, you can see that Covestro entertains a large production base in Europe, and especially in Germany, with 25% of our global capacity for core products being located here. The shortfalls of current gas deliveries from Russia are posing a threat to the energy supplies to Germany and by that also to Covestro. We believe that our other European sites are not impacted at all or to a much smaller extent.

In Germany, the Federal Network Agency, which is responsible for gas supply coordination and allocation, has declared gas warning level 2 on June 23 this year. But basically, nothing has changed fundamentally. The lacking gas volumes could so far be sourced from other sources, and no gas restriction has been imposed. To minimize possible risk scenarios, scenarios of 10% to 40% gas curtailment have been evaluated in Covestro, and detailed plans to reduce or stop production to align with the potential reduced gas supply have been developed.

For example, we have simulated a scenario with 25% curtailment of gas supply to Covestro in Germany, and the impact would be a low to mid-double-digit million euro impact on EBITDA per month. However, we are fully cooperating with the authorities and Federal Network Agency and are evaluating all measures to reduce our gas consumption by working with our suppliers, and the chemical park operators providing us with raw materials and steam.

Please follow me to the next page. If we're now looking a little bit deeper in how the German natural gas network is structured. In the past, 55% of the German gas supply came from Russia through the different pipelines, Nord Stream 1, Jamal, Brotherhood and Soyouz. The transfer points for Russian gas through these pipelines are concentrated in the eastern part of Germany. Accordingly, the German gas grid has been built for the flow direction east to west. As you can see, the lacking gas volumes from Russia have partly been replaced by supplies from Norway and the Benelux countries, starting from the first quarter 2022 with handover points mainly on the western German border. This is where the plants of Covestro in North-Rhine Westphalia are located. The Covestro plant in Brunsbuettel in the northern part is close to the majority of the new LNG floating storage and regasification units FSRUs. So these terminals are planned to be erected and brought online by the fourth quarter of 2022 or early 2023.

The grid has therefore a major flow direction east to west, but now more imports and LNG volumes come in through the western side. So it is not sure that the grid can transport as much volumes west to east. This needs to be simulated, tested and might even require additional infrastructure measures.

In the case of curtailments, there is a possibility that some regions in Germany, especially in the eastern part, will have stricter rationing than some regions in the western part. What I want to say to sum it up: The plants of Covestro are favorably located and might be even part of a critical infrastructure that could result in a reduced curtailment of gas in case such a curtailment is seen as a necessary step by the Federal Network Agency.

With that, I would like to quickly summarize. So please follow me on the next page. We had record sales of EUR 4.7 billion in the second quarter 2022 driven by significant price increases mitigating the extraordinary inflationary pressure. We also delivered an EBITDA above the guidance range in the second quarter 2022 due to faster-than-expected normalization of COVID situation in China.

The guidance revision reflects the challenges ahead in the second half of 2022. Therefore, we reduced the EBITDA guidance from EUR 2 billion to EUR 2.5 billion to now EUR 1.7 billion to EUR 2.2 billion. We also had seen a record dividend payout of EUR 3.40 per share, and that represents a payout ratio of 40%. And the 2-year share buyback program of EUR 500 million has been started. And now we have EUR 150 million bought back during the first 4 months. So overall, we had a solid second quarter in a challenging environment.

I'm sure you now have a lot of questions. Thomas and myself are here to answer them now. With that, I hand it back to Ronald.

Ronald Koehler ***Covestro AG - Head of IR***

Yes. Thank you for that. And obviously, we will take your questions in the order we receive it.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first questioner is Mr. Christian Faitz from Kepler Cheuvreux.

Christian Faitz ***Kepler Cheuvreux, Research Division - Equity Analyst***

I have 2 questions, if I may. First of all, related to your updated outlook, you mentioned broad-based demand weakness across key customer industries. Can you please elucidate this a bit more? What are you seeing in your order books? What are your salespeople reporting back?

And then second question, can you please comment on your view how the low Rhine water levels, which is now going actually into the dry season, could cause supply issues, for example, in nitric acid as we saw for, I believe, in 2018?

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Yes. Christian, thanks a lot for your question. This is Markus speaking. So if you look at the current overall environment for our end market, you could say that the so-called stay-at-home categories are across the board affected. And notwithstanding the specific situation that we have alluded to in our presentation in China due to the lockdown that has amplified some of these effects quite significantly, you can say that those so-called home categories are very broad-based across the regions. And that includes furniture, mattresses, electro-electronics. And on top of that, we also have seen impacts on the automotive industry, for example, but not only limited here to China and also to Europe. And that has numerous reasons. One reason for that, for example, is that we have had since months a so-called microchip crisis. But on top of that, we also have seen the effect, particularly in China, also because of the headquarters of our engineering plastics business being in China. And that engineering plastics business has above-average exposure in the Covestro portfolio to the automotive industry.

So long story short, I would say those 3 categories, so Asia Pacific, on the one hand, the automotive industry as well as the so-called stay-at-home categories have seen a downturn. And also to be clear here, that downturn, particularly on stay-at-home categories, has accelerated in July.

On the Rhine level, what we have seeing so far, and we monitor the situation day by day, that we currently can handle the situation and we are much better prepared than we were about 4 years ago when it happened first time in October, November 2018. So that is maybe not a news that would totally please you. However, as I said, we are much better prepared. Currently, we have no issues to supply our plants in Europe next to all other supply chain issues that we have in the overall scheme with regard to specific issues with regard to the Rhine level and water levels. So from that perspective, I would say that currently, the situation is under control. And that even if things deteriorate from here a little bit, we still think that we can keep our supply to our North-Rhine Westphalia plants intact. And from there, we don't see currently increased risks.

Operator

The next questioner is Ms. Georgina Fraser from Goldman Sachs.

Georgina Fraser ***Goldman Sachs Group, Inc., Research Division - Associate***

The first one I wanted to ask is -- you provided in the slides mark-to-market for July. I imagine that includes an average of prices across the months. So maybe if you could let us know where the mark-to-market is today and if you'd be willing to give us a sense of the EBITDA contribution by each major region.

And my second question on the same vein is -- TDI in Europe, I think, is probably loss-making today. Could you possibly talk us through any reasons for or arguments against scaling back production?

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

Yes. Georgina, this is Thomas speaking. Let me maybe start with the mark-to-market question. Even ourselves, we do not have daily margins or anything, but we have monthly margins. So therefore, I would struggle to give you any specific development over the course of July. However, currently, what we would see in August is probably a further margin decline relative to what we had in July, simply because we're seeing that the energy costs are higher and they affect us negatively and we do see the price level that we have. On the other hand, what we also see is that going forward, raw material prices are decreasing. That should then be a positive with a certain delay of, whatever, 60 days or so. So I think there are some negatives and some positives that we already see. Therefore, we do think that the mark-to-market is fully intact. And it's still a good guidance. So I think that will be my statement on this one. Markus, do you want to take the TDI question?

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Yes, Georgina. This is Markus speaking. Thanks for your question. So looking at TDI, and in all fairness, we can't, as you might understand go into too many details here. But TDI in Europe, given current peaking levels of raw materials on the one hand, but still, on the other hand, also energy prices, might be loss-making at an EBITDA perspective, but still has a positive contribution in terms of fixed costs or diluting the fixed costs. So in that perspective, I don't want to go into too many details because I think this is not appropriate on such a call. Nonetheless, we are closely observing and monitoring the situation with regard to how the cash costs and how the overall profitability levels are developing from a global perspective and also on a respective site level.

But just as a reminder, and that has not changed, given the fact that we have a proprietary technology, the so-called gas phase or hot gas phase technology for TDI in place in a world scale plant in Dormagen, we are still convinced that we are the cost leader in TDI in Europe. So regardless of a global picture within our own cooperation when it comes down to European assets, we believe that we have a very competitive cost position with regard to TDI in the European asset landscape. I hope that gives you some flavor.

Operator

Next questioner is Mr. Markus Mayer from Baader Bank.

Markus Mayer ***Baader-Helvea Equity Research - Lead Analyst of Chemicals***

Two questions more on a potential change in trade flows given the higher cost curve in Europe. Can you give us some flavor how your European-based Performance Materials business, how much of this is really for the regional market and how much for the export market? Or is it only for regional market? And if you also expect any kind of change in trade flows for your business globally.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Yes. Markus, thanks a lot for your question. And let me take this one up. This is Markus speaking. In general, we produce in the region for the region. So we try wherever we can to avoid transporting, in particular, highly reactive products like TDI and MDI simply for the reason, let's say, of serving out of one region permanently other regions. For sure, we have respected trade flows, but this is mainly driven by other reasons.

For example, if we have planned or, in some cases, unplanned shutdowns, we need to make sure that we, based on these facts, deliver and supply respective markets, then we put, for example, highly reactive goods and transport them across regions. Or yes, in case there's short-term arbitrage opportunities, then we might also consider to transport goods. In that context, however, in general, we serve the respective markets from the region in the region.

Have we seen trade flow activities now from one region going into other regions increasing? Yes, we have. So there is clear evidence based on import/export data that there is material flow, particularly from Asia Pacific, arriving in Europe and here, particularly in Southern Europe. And there's also a slightly increased level from North America also coming into Europe. Not all of that, but at least, I would say, a significant part can be attributed to material trying to find its way from the currently lower cost production areas in Asia Pacific into high cost and, therefore, low-margin production areas in Europe. And that is very easily explained because, particularly in Asia Pacific, if you look at the energy costs that have hardly moved during the crisis as well as raw materials, which have not moved that significantly, but they also have moved and now even slightly coming down, we clearly have to say that it obviously makes sense for one or the other producer to import from Asia Pacific into some regions of Europe.

There is a couple of things that work at least on the long run currently, not on short term, against significantly increased levels of imports. Number one, it's logistic capacity. And number two is you have to build also the respective infrastructure. So it's a limit at least short to midterm to how much you could actually import. And the second bit is for TDI and also some MDI applications, the reactivity of the material for the quality of material, given the higher reactivity deteriorates the quality. And we've seen it in the past already numerous times that then only some applications can be served. I do not want to include that this might have structural effects in many years to come. But for now, these short-term effects are as I have described them. I hope that helps a little bit.

Operator

Next, we have Mr. Chetan Udeshi from JPMorgan.

Chetan Udeshi ***JPMorgan Chase & Co, Research Division - Research Analyst***

I think the first question is probably to Thomas. Thomas, can you maybe help us understand, when we think about the bridge from Q2 to Q3, what are the key moving parts? Because to be honest, I was probably getting to the midpoint of your guidance even without the incremental energy costs just because when I look at all of the margins or spreads so far in July versus Q2 revolvers, and especially polycarbonate in China. So I'm just thinking are you guys assuming better volumes in Q3 versus Q2? Or any color on how you're thinking from Q2 to Q3's change that would be useful.

The second question is, can you remind me now what have you assumed for bonus provisions for 2022 in new guidance? And I remember in 2019 when your EBITDA fell, you guys had like EUR 300 million of bonus provision release or lower bonus provisions. Are you taking all of that this year now? Or is there room to see some reduction even next year if the earnings don't improve?

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

Okay, Chetan. Let me start with the bonus provisions maybe. So at the current guidance range and I mean, let's take maybe the midpoint of the guidance, [1,950] (corrected by company after the call), that would be a bonus provision that is below 100%, clearly, so more in the 80% range. And that, of course, is also what we have or will then reflect in the financial statements as they materialize in Q3. But that is what is consistent with the guidance that we have given.

So on your bridge question, if you move from Q2 to Q3, the main effect is that we do see a negative pricing delta with volumes that are roughly flat quarter-over-quarter. So that would be the main factor that lets us believe that EUR 300 million to EUR 400 million is the right guidance. Hope that helps.

Chetan Udeshi ***JPMorgan Chase & Co, Research Division - Research Analyst***

I'm sorry, I didn't understand your point on 80%. What is 80%?

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

What I said is if you take the midpoint of the guidance, so give or take, the EUR 1,950 million EBITDA, so the midpoint between 1,700 and the 2,200 that corresponds to the roughly 80% bonus provision level that corresponds with that.

Chetan Udeshi ***JPMorgan Chase & Co, Research Division - Research Analyst***

And how much is that in absolute number, lower this year versus last year? Do you have that number?

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

That is lower than we had last year, yes.

Operator

Next, we have Mr. Thomas Swoboda from Societe Generale.

Thomas Swoboda ***Societe Generale Cross Asset Research - Research Analyst***

I have 2, a bit more of a long-term question. I noticed that on Slide 11, you have left the mid-cycle EBITDA potential unchanged. I mean we all don't know what is in the future on the energy costs, but it looks like energy costs in Europe will remain on a higher level than the pre-conflict levels we have known. So my question is, have you left this mid-cycle EBITDA potential unchanged because you think, in any case, you can catch up on the gap by reducing costs? Or how should we basically think about the mid-cycle potential now?

And the second question is related. I mean there is a couple of products in your portfolio we don't talk about very frequently or never. Some of them are in Europe. I'm just wondering if you had time to think about under the premise that energy will remain somehow more expensive going forward. Is there anything you would have to trim to write off, to shut down? If you could give us a view on that, that would be helpful.

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

So let me maybe, Thomas, start with the last question. So do we have to trim anything down or close or whatever? I would say we're not seeing that at all. I mean we are the low-cost producer in the industry with our proprietary technology. Markus talked about it earlier on one of the questions. So therefore, I think what is still intact is that it is pretty much still a regional market where it is more favorable to produce and deliver in one region rather than to ship the product across the ocean. Yes, there are always some short-term arbitrage windows that open and that also close. One of them was driven by the benzene costs, which were extremely high most recently, but which are currently also normalizing in Europe. So I'm also saying this because there's more to the situation in Europe than just the energy prices.

The high production costs currently are very much driven also by the benzene costs. And as I said, they are normalizing. And therefore, I think we're pretty comfortable that the position should then also normalize over the months to come relative to the other regions.

And therefore, that brings me also to the mid-cycle topic that you addressed. Yes, our assumption, of course, is that the business as such and the products remain attractive, especially in markets with high energy costs because MDI is the greatest insulation material in the world. So we do think there will be more demand for it.

And again, what drives the margin is the question of how big is the demand? How big is the supply? That's extremely favorable for MDI. We are the cost leader. So we do think that until 2024, there will be some normalization coming along the way.

Operator

Next question comes from Charlie Webb from Morgan Stanley. .

Charles Webb ***Morgan Stanley, Research Division - Equity Analyst***

Just a couple from me. So first off, just on thinking a little -- I mean obviously there have been lots of talks around of the gas availability, gas prices in Europe, and certainly, some question marks around kind of local ammonia production. And I guess as we think about yourselves, what does that mean for nitric acid? So I'm just wondering, if we were to see more significant shutdown of ammonia capacity across Europe, are you comfortable that you will be able to secure supply of nitric acid for production? And what measures are you taking to ensure should you see force majeures from your suppliers that you'll be able to navigate that? Or is this just something that we need to remain vigilant of?

And then second question, just kind of -- we talked a little bit about mid-cycle, but just thinking about trough, I guess, historically, looking back over kind of Covestro's cycle in terms of EBITDA. I guess there's been a kind of a view that trough earnings, trough EBITDA on an annualized basis probably was around EUR 1.3 billion, EUR 1.4 billion like in a very extreme situation. Just kind of -- with the current portfolio. Just kind of wondering, with the current energy price environment, is that now a triple-digit million number in your mind in terms of that trough EBITDA worst case in a kind of a deeper recession with these energy prices? Just trying to gauge how that maybe has moved given the kind of run rate we're expecting in terms of earnings kind of through the second half of this year.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Yes, Charlie, let me take the first question here, ammonia that goes actually into our production here. I think first and foremost, it is important to know that partially, we are producing ammonia ourselves. So we have supply of ammonia, yes. We have own production of ammonia. And I think it is important that the plants that we are using, to the largest extent, are producing ammonia not for the use of fertilizers but for industrial use. And that is, in that sense, less price-sensitive. Ammonia plays a role as an input factor into our raw materials. And yes, if the ammonia costs are going up based on the fact that they to a majority rely on natural gas input, prices will increase. However, it is less price-sensitive that application than if ammonia goes into fertilizers. And versus what, for example, the respective agro industry is able to charge from, for example, farmers.

So in that context, we observe that situation very closely, simply due to the fact that you have mentioned. But we are not overly concerned in short to midterm. And on top of that, midterm, we are working also on alternative supplies. You might have seen that letter of intent with Fortescue Future Industries where we're actually also looking into so-called green hydrogen that could also be used as a source to produce ammonia so of about 100,000 tons. Just to remind you, we have an order of magnitude of a couple of hundred thousand tons of ammonia that we need, but we could also imagine that we replace a significant amount of that over time with alternative sources.

So yes, that's a topic that we definitely monitor, but major area of concern not as of now, to be clear in that context. So if you look at the trough, I would like to hand over to Thomas.

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

Yes, Charlie, on the trough question. The trough question is a tough question because it's always a question of definition. So fundamentally, I say we're absolutely convinced that we're getting better trough to trough. And structurally, we're improving the earnings quality of the company.

If you look at [2019] (corrected by company after the call) when the last trough happened, the EBITDA came in somewhere at below EUR 500 million. In 2020, it was EUR 1.5 billion. Admittedly, in 2020, there was probably 1 recovery quarter included, which was [Q4] (corrected by company after the call). So that it only reflects 3 real recession quarters and 1 recovery quarter.

And I think now it comes to the assumption that you would take, if, of course, you took 4 full recession quarters that you could construct a case that comes below the EUR 1.5 billion. How likely is that? I would say there is a good likelihood that at least there's a little bit of recovery somewhere happening in between. And therefore, again, we do think that under comparable conditions, the company today is in a better shape and has a higher earnings quality to withstand a recessionary scenario. And therefore, I think that makes us confident that this increasing line that we're showing for the mid-cycle EBITDA is not only driven by increasing peak earnings, but also by increasing trough earnings. And therefore, I think that conviction from us has not changed.

Charles Webb ***Morgan Stanley, Research Division - Equity Analyst***

Helpful. Maybe if I could just get one clarification and one additional question. So just on the ammonia piece, how much is kind of self-produced in Europe relative to your kind of demand? Just trying to understand that.

And then going back to the slightly different question. What are you seeing in China? Obviously, spreads have obviously come under a lot of pressure there. We've kind of alluded to some of that. But are you seeing any supply rationalization from the market leader in terms of kind of trying to get a grip on kind of pricing spreads in the region? I'm just trying to understand if there's any sense that things could get better or whether it's just the current supply and demand lends itself to the weakness we see.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Charlie, on the ammonia split, honestly speaking, I have to come back to you because that doesn't pop any number in my mind right now how much we really produce. But it is important to recognize that the ammonia quantity that is out there in the market is, to a large extent, captive. And the one that is not captive is contracted. That means also from that perspective, we believe that the majority of ammonia that we have is produced by ourselves or directly on-site produced and, for example, transported to us via pipeline. So understanding your concerns here, I truly believe that we have a very good supply basis for ammonia. But we would have to come back with the exact number. Currently, I don't have the exact number here at hand.

With regards to the spreads in China decreasing, I would like to hand over to Thomas.

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

Charlie, I'd say that Wanhua, I mean I jokingly tend to say they are our favorite competitor because they do behave in a very rational way, and that's also what we're seeing here. So I think they are not the problem. What we are seeing is that, of course, the industry utilization in polycarbonate is very low and that there are many players that are newcomers to the market or are not in a strong market position. So therefore, here, the situation is slightly different. This is also why we do differentiate more and more into engineering plastics where we compound the material to decouple ourselves from the real wetside pricing. But on the Wanhua side, we do really observe that they behave in a very rational manner, which is absolutely helpful for the market.

Charles Webb ***Morgan Stanley, Research Division - Equity Analyst***

And are you seeing them curtail supply of MDI as in like do extended shutdowns or whatever? Is that starting to become more of a feature? I mean MDI spreads -- I mean, of course, pending prices have been part of it but still look pretty pressured.

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

Yes. I think that specific question, it would be great if you could direct that to Wanhua. I don't feel we're positioned to give that answer on their behalf.

Charles Webb ***Morgan Stanley, Research Division - Equity Analyst***

Okay. So you don't see anything in the market at this stage per se?

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Once again, it is Markus speaking, I would love you to turn to Wanhua and ask that question. One thing that is in that context sometimes maybe forgotten is that the overall situation is the most impactful for the market leader. And we have seen Wanhua being a very rational player in the past.

Operator

The next questioner is Mr. Geoff Haire from UBS.

Geoffrey Haire ***UBS Investment Bank, Research Division - MD and Equity Research Analyst***

Two questions. First question is a little bit detailed. But I think if my math is right, your working capital chance in Q2 was about EUR [68] million. I just wonder -- it seems low given energy cost prices and raw material cost increases as well. I just wonder if you could maybe give some details on that.

And then the second question, and I apologize for this, but going back to the new MDI plant decision, given that BASF has announced a doubling of that capacity in North America, does this make you sort of more favorable to considering building the plant in Asia now?

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

So let me start with the first question. So first of all, your math is right. I have the same number in my mind. The reason, of course, is that the price increases already happened, to a large extent, in the first quarter of this year, and we're continuing on that very high level. Plus there's a little bit of different working capital buildup in Q1, Q2 last year versus Q1, Q2 this year. But your math is absolutely right. And you can also see that overall, the working capital buildup this year relative to last year, if you look at the free cash flow statement, is only a little bit more than EUR 100 million more. So I think that those numbers do square for me. It's really the price level that was already pretty elevated at the end of March.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Geoff, and then your second question, if you look at the overall MDI capacity development globally and look also what has been announced around the BASF plant decision, as you call it, is exactly in line with what has been announced a couple of years ago. So that was part of our long-term supply-demand assumptions and is now just, if you want to say so, materializing as planned. That is unusual, an exception, because most of the announcements either come too late or come never or do not come to the announced extent. So this is an example of the 40% to 50% of announcements that obviously come on time and in full, and with that, do not have a new facet to the already known information that we will make the basis for our MDI decision.

Operator

Next question comes from Isha Sharma from Stifel.

Isha Sharma ***Stifel Europe, Research Division - Analyst***

I have 2, please. The lower end of your full year guidance implies basically no EBITDA for Q4, while on the upper end, it implies a step up quarter-over-quarter. Could you please put these 2 extreme scenarios in context? And if I may ask, how should we think about this exit rate going into '23?

The second question is on free cash flow. Of course, according to the EBITDA, also we have a bleak outlook. Here, would you reconsider your buyback program? And how should we think about the dividend for '22?

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

Maybe, Isha, let me start -- this is Thomas, with the share buyback program. The way I would characterize it, we have set ourselves a time line, which is 2 years. We have set ourselves an amount, which is EUR 500 million. We're just executing within that framework of amount and timeline. And there is no change in our plan.

And in terms of dividend, I think that's a little bit too early to comment on the dividend. We fully stick to our dividend policy. That's the 35% to 55% payout ratio. You know that we target to be rather in the upper half of that range for a weaker year to make it more attractive in absolute terms and that we tend to the lower end in stronger years. So also that, I would say, unchanged, but too early to comment on that more specifically before we don't have more clarity on where 2022 comes out.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Yes. Isha, this is Markus speaking. Thanks for your questions. So your first question I am taking. So let me start with the upper end. Raw materials are currently at least seeming to come down and that will help us then maybe in 30 to 60 days because that's normally the time it needs, depending on production volumes, whatever, to run through our books. So if you take this into consideration, those lower raw material prices would then help us in the fourth quarter, particularly if we are able to keep the prices flat, which I have to say might be not easy in the current environment. So if you put yourself now on the opposite side, as you asked for it, the low point would be more a scenario in a really recessionary environment where it gets more severe. So to sum it up, I would say, from today's perspective as risk weighted and balanced, we think that the midpoint of the guidance is a realistic scenario.

Operator

And the last question comes from Matthew Yates from Bank of America.

Matthew Yates ***BofA Securities, Research Division - Director in Equity Research, Head of European Chemicals Research & Research Analyst***

A couple of questions around your capital allocation and balance sheet headroom. Thomas, I didn't really understand your comment on the buyback in terms of saying it's in keeping with the existing time frame. If you've done the EUR 150 million already, that looks to me like you're trying to complete the program over 1 year rather than 2 years. And given the whole buyback was intended to be opportunistic and countercyclical, wouldn't it makes sense to accelerate the buyback at this point.

And then maybe the second question, just following up on what Geoff asked about, the CapEx. Is there any update on the timeline of investment decision there? And any debate about pushing that out given the weaker demand backdrop?

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

So yes, let me on those 2 questions. So, the CapEx decision you are referring to the MDI decision and the question, where to build it, I mean, we always said a decision would be taken after the summer break. I would feel this is still valid if you define it as a long summer. So please don't nail us down at the 1st of September, but we will come to a decision then, I would say, second half of the year, but not in December, rather September, October, we will come up with something that is then also discussed by the various committees that we have to go through. Of course, it needs Board approval. It needs Supervisory Board presentation, et cetera, et cetera. So I think September, October is a realistic timeframe here.

On the share buyback, what I wanted to say is, I mean, we have the 2 years. We have the EUR 500 million. We're not saying just because we were already executing EUR 150 million, there is necessarily an acceleration. Our goal is to execute it, as I said, over the 2 years with the amount -- there can be some periods that are a little faster and some other periods that are a little slower. There is no indication of what we did so far that we always must accelerate it and be done within the year. I think that would be not exactly our target.

And sorry, I think you asked whether share buyback was independent of MDI? Yes. I think those 2 things, we don't see them as intellectually connected.

Matthew Yates ***BofA Securities, Research Division - Director in Equity Research, Head of European Chemicals Research & Research Analyst***

Thomas, I guess my point is when you announced the buyback, you said that you wanted to be opportunistic and countercyclical. Therefore, I'm struggling why you wouldn't adjust the pacing buyback in response to a price signal from your share price.

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

Yes. But I think we've done this. We do think that the share price is attractive at the level where we bought and even more attractive where it is. But of course, I'm struggling to nail down a specific timing on exactly the buyback. And this is why I'm saying I definitely do think that the share price level is attractive. I definitely do think that we will continue the anticyclical way, but I struggle to give you some micro timing of exactly the share buyback will be continued.

Operator

There are no further questions in the queue. I hand over to the company for some closing remarks.

Ronald Koehler ***Covestro AG - Head of IR***

Thank you. Thank you all for your questions. If you have additional questions, don't hesitate to contact the IR team. And with that, I wish you a good afternoon. And bye-bye.