Good afternoon, everybody.

We achieved another record quarter. This excellent performance represents a solid foundation to deliver on our full year targets.

As expected, our core volume growth accelerated to 4.4% in Q2. So we are well on track to reach our full year guidance of low to mid-single-digit growth.

In continuous tight industries with high utilization rates, we further improved our earnings with a strong year-on-year EBITDA increase of 16% to EUR 985 million. This translated into a net income increase of 25% year-on-year. Additionally helped by our ongoing share buyback program, we achieved an earnings per share of EUR 3.07, which represents a 28% year-on-year increase.

Our free operating cash flow improved by 14% year-on-year to EUR 364 million. Net debt went slightly up to EUR 2 billion, given the usual seasonal cash out for dividends and short-term incentives.

In addition, we bought back shares for more than EUR 400 million in Q2.

Based on this excellent performance, we feel confident enough to upgrade our full year 2018 guidance for EBITDA above previous year’s level. This follows the free operating cash flow guidance update we gave during our Capital Markets Days in London.

I would like to provide you with some more insights into our core volume development by regions and industries.

Asia-Pacific and especially China, remains the region with the highest growth rates. We achieved double-digit growth rates driven by many industries like sports and leisure, medical, wood and furniture and automotive and transport.

Growth in Europe accelerated and we generated high single-digit growth among others in automotive and a double-digit growth in
medical and footwear.

Volumes in NAFTA slightly declined especially due to a weak market development in construction and wood and furniture. We achieved a positive growth in automotive.

Globally, we once again, achieved a growth of 7% in automotive, well above the original equipment manufacturer light vehicle production growth of 5%.

In construction, we slightly underperformed the market driven by polycarbonates. On purpose, we allowed declining volumes in order to further upgrade our product mix towards higher margin applications.

I will now hand over to Thomas.

Thomas Toepfer  Covestro AG - CFO & Member of Management Board

Well, thank you, Markus. And also from my side, a very well welcome to everybody on the call. I would now like to go a little bit deeper into the numbers. And I am on Page 4 of the presentation, where you have the sales bridge for the quarter. So as you can see, our second quarter sales posted a double-digit growth of 10.4%, and that was driven by a price and also volume increase.

First of all, higher volumes had a positive sales effect of 4.9%, and all segments contributed to that uplift. And the main driver of our top line growth were higher selling prices, mainly in polyurethanes and polycarbonates, which accounted for 9.9% year-on-year. And that is the EUR 346 million that you see in the bridge on this slide.

On the other hand, the FX headwind mitigated almost all the positive volume effects in the second quarter. And burdened our sales by 4.4%, and that is the EUR 152 million that you see in the bridge.

So please turn the page to #5, where you have the EBITDA bridge. So in Q2, we were able to increase our EBITDA again in the year-on-year comparison. And with that, we improved our EBITDA each quarter versus the respective prior year now over the last 14 quarters in a row.

So our year-over-year EBITDA increase of 16.2% that you see on this slide reflects the sound operational performance of our businesses and we recorded a positive pricing delta in all 3 segments, mainly driven by polyurethanes and polycarbonates.

And the further improvement of our utilization rates was a clear contributor as well, reflected by the high volume leverage of 58%, which is also stated in the bullet on the right-hand side of the page.

On the other hand again, the FX headwind burdened our EBITDA in Q2 also. Although, to a lesser extent than in the first quarter. And with respect to the other items in the EBITDA bridge, I would like to say that first, the prior year quarter benefited from 2 positive one-time items, an insurance payment and also a book gain from an asset disposal.

If you have it also in the bullets on the right-hand side. And if you take these out, you can see that the EBITDA would have increased by even 27%, on the like-for-like basis instead of the 16%, if you ever said to take these 2 items out and look at it from a like-for-like perspective.

And second, we also faced higher operational costs which is reflected in the other items bucket. On the one hand, for intensified maintenance activities. And on the other hand for logistics due to a higher rate of interregional shipments.

So with that, please turn the page to #6. In Q2, as you can see, we saw our path for profitable growth at Covestro confirmed again in all aspects. We increased our sales, our core volumes and also our earnings for the group on a year-on-year comparison. So specifically, the EBITDA margin improved from 24.2% to 25.5% in the second quarter.
And again, we would like to put this margin a little bit into perspective. That means if you exclude the TDI fly-up, our margin would have been at around 22% in Q2, 2018. We do believe that this is a better reflection of this quarter's underlying performance.

However, it still represents a progression and a margin uplift of 3 percentage points versus the prior year, if you also strip out the TDI fly-up from Q2 2017 for, as I said, like-for-like it's a 3% uplift.

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

Markus Steilemann  
Covestro AG - CEO & Member of Management Board

Thanks, Thomas. And we start on Page #7 now with the polyurethanes segment.

In the second quarter, demand remained strong for polyurethanes. The industry broadly continued to operate at its limits, quickly absorbing added capacities. Still constrained by limited production availability but helped by a lower comparison basis year-on-year, our core volumes increased by 3.9%.

Globally, we experienced a strong volume growth in construction, after a rather sluggish start to the year. Another major positive contributor for growth was a solid volume increase in the automotive industry.

In MDI, we see a robust demand in diverse end markets and all regions, driven by solid GDP growth and ongoing substitution of other materials.

For the full year 2018, we continue to expect our average MDI margin to be flat versus the average MDI margin in 2017. From today's perspective, this seems conservative given that we achieved margins above the average of 2017 in the first half of 2018.

For TDI, we again realized a contribution from fly up margins of around EUR 170 million in Q2 due to a tight industry. In the first half of 2018, the TDI fly up contributed around EUR 370 million, more than we had expected.

With further capacities being added, the industry should rebalance soon. TDI prices are currently normalizing but less than expected, however. Therefore, we now assume a positive fly up margin in the third quarter as well.

As a consequence, it seems that during 2018, we might lose only a little of the EUR 0.5 billion fly up recorded in 2017. However, we still assume that TDI margins will be back to a normalized level at the year end. Finally, the margin in polyether polyols remains resilient but slightly below the long-term average as higher raw material prices were not fully compensated by price increases.

We're now turning to Page #8. In polycarbonates, we delivered a strong core volume growth of 5.3% in second quarter, despite a major maintenance shutdown at our Shanghai site. The ongoing product mix improvement and the deemphasis of low-margin businesses are well reflected in the Q2 figures. A highlight was once again the development in automotive with a double-digit increase. Electronics also contributed nicely with a high single-digit increase.

The EBITDA margin progressed from 21.6% in the second quarter, 2017 to 27.0% in the second quarter of 2018. The margin increase was mainly driven by a strong pricing delta, supported by a positive volume leverage and the ongoing product mix improvement.

In Q2, higher raw material prices could again be more than compensated by increased selling prices. However, prices came slightly under pressure end of the quarter due to the ramp-up of new capacities in China. Nevertheless, the start to third quarter was encouraging, supported by the launch of new products for diverse applications.

Overall, the industry outlook for polycarbonates remains very attractive. We consider the industry supply and demand to remain balanced mid-term.

Turning to Page #9. As we indicated, coatings, adhesives and specialties returned to core volume and earning growth during second
quarter. Core volumes increased by 5.8% and EBITDA by 14.9% year-on-year. The earnings improvement was driven by a strong volume leverage.

In Q2, the selling price increases could just compensate the impact of higher raw material prices. Our single largest raw material in CAS is so-called HMDA, a nylon 6.6 intermediate. This product is currently extremely short due to several force majeure incidents. Prices spiked during the second quarter. Please note that we source our raw materials usually based on monthly contract prices, whereas we sell our products mainly on 6- to 12-month prices. We expect a significant negative earnings impact from higher raw material prices during the second half of 2018, most pronounced in the third quarter.

Remember, also that CAS tends to see lower earnings in the second half compared to the first half of the year driven by the usual seasonality. This year, the effect will be even more pronounced, given the increasing raw material prices. That said, third quarter EBITDA of CAS is expected to decline quarter-on-quarter and most likely also year-on-year.

For the full year 2018, we expect to achieve a core volume growth rate in line with the group, which means low to mid-single-digit. Given the slow start in the first quarter, finishing at the upper end of the range is ambitious. However, as demand seems to be further improving, it is still possible.

Long-term, we strive for a growth of 3% to 4%, slightly above GDP. In order to secure enough volumes, we will increase capital expenditure also in CAS. However, CAS is an asset light business with much less CapEx needed compared to polyurethanes and polycarbonates.

We are now moving to Page #10. A good example is the recently announced CapEx of EUR 100 million in specialty films between 2018 and 2020. The specialty films industry is growing by 6% to 7% per annum. We are together with 3M, the industry and innovation leader. We believe this is a highly attractive investment that should allow us to grow at least in line with the industry.

For more details about the different businesses of CAS, I encourage you to look at the CAS presentation at our Capital Markets Day last month. You can find the file for downloading on our IR website.

Back to Thomas.

Thomas Toepfer Covestro AG - CFO & Member of Management Board

Thank you, Markus. I’m on Page 11, that shows you the cash flow development. As you can see in the right-hand column of the page, we generated EUR 728 million for the first half year of 2018, and that was clearly above the 2017 level. So clearly, this development combined with our expectations for the rest of the year encouraged us to recently upgrade our free operating cash flow guidance for the full year, and we’re now expecting to see above EUR 2 billion for 2018.

And along with this, we also upgraded our free operating cash flow target for the period 2017 to 2019 to above EUR 5 billion.

And so let’s look into the number more specifically. Until the end of June, the strong free operating cash flow development was driven by a significant EBITDA increase and also reduced working capital needs. And components that partially offset the improvement were the higher Capex and also some higher tax payments.

If you look at working capital, the sales ratio temporarily reached 19.1%, in June, a similar level as in the first half year of 2017. However, for the full year 2018, we are confident that we will be back to our target range of 15% to 17% working capital to sales ratio.

The relatively low cash tax rate is a result of tax payment phasing. So for the full year 2018, we expect tax payments in line with the effective tax rate, which we have guided at 25% to 27%.

So the rate should normalize. And with respect to CapEx, we also upgraded our guidance last month. And we slightly increased the range by EUR 50 million to now EUR 650 million to EUR 700 million for the full year 2018 in order to secure our production reliability.
And in terms of D&A, our updated number is that we're now expecting EUR 620 million to EUR 640 million for this year.

So if you turn the page, you have the overview of our balance sheet. As you can see, our total net debt level increased to around EUR 2 billion compared to the EUR 1.47 billion at the year end 2017. And as a consequence, the ratio of total net debt to EBITDA slightly increased to 0.5x.

If you look at the components, you can see that the high free operating cash flow overcompensated the cash outflow of EUR 670 million, which we spent for the share buyback program. And on top, the [EUR 436 million] (corrected by company after the call) for dividend payment also took place in the second quarter.

So that overall, we returned more than EUR 1 billion of cash to our shareholders within the first 6 months of this year.

The pension provisions increased partly due to slightly lower interest rates in Germany. However, that's an effect that took mainly place already in Q1, and just for your reference, as you can see in the bullet, our equity ratio also improved to 50% versus the year end of 2017.

Now please turn the page to #13, where you have the update on our guidance. So first of all, our Q2 results do confirm that we are heading for new records in 2018. The core volume growth posted in Q2 confirmed our expectations of an acceleration of growth for the remainder of the year and after somewhat muted start in Q1, we do expect the core volume growth rate to further improve in the course of the year, provided that there are no significant production issues. So we are confident that we will achieve our guidance of low to mid-single-digit percentage increase year-on-year for the full year of 2018.

We also confirm our upgraded guidance of above EUR 2 billion free operating cash flow for the full year 2018, which we had communicated in our Capital Markets Day. And we do expect a return on capital employed around previous year's level.

So now if you look at Q3. For Q3 2018, we guide for an EBITDA of around previous year's level. And please note that around implies a single-digit percentage deviation to the up- and potentially also to the downside.

And now in terms of the components, the volume growth should positively contribute. And I would assume here a mid-double-digit number as a positive contribution. The pricing delta, which we expect should be slightly negative year-over-year. Of course, specifically depending on the price development of TDI. Thirdly, we still budget increasing in costs so that means that the others line should be slightly negative. And last but not least, the FX effect should be relatively neutral in Q3.

If we look at the full year 2018, we upgrade our EBITDA guidance range from around to above previous year's level. And I would like to point out that above in this context means from today's perspective a single-digit percentage year-on-year improvement.

And of course, let me just remind you at this point that our guidance is, of course, based on a normal GDP environment on a worldwide basis.

So with that, I would like to turn it back to Markus for some strategic highlights.

Markus Steilemann Covestro AG - CEO & Member of Management Board

Thanks again, Thomas. And please follow me to Page #14.

Let me close our session with strategic highlights. As detailed during our Capital Markets Day, demand growth remains favorable. We plan to grow in line with our industries, so above GDP, driven by innovation and sustainability trends.

We estimate a core volume growth of 4% on average per annum to contribute to EBITDA for the next 5 years. This translates into an EBITDA contribution of EUR 200 million to EUR 300 million per year or cumulative more than EUR 1 billion until 2022.
This was well demonstrated by generating EUR 100 million EBITDA volume contribution just in the second quarter 2018.

A logical financial implication of our long-term strategy is the need to invest more into our business by increasing CapEx. We support our growth path by a debottlenecking approach short term, and with new world scale investments long term.

We are confident of delivering a cumulative free operating cash flow of more than EUR 5 billion between 2017 and 2019.

With the continuously high cash generation and the strong balance sheet, we are looking more intensively into clever uses of excess cash. There is no preset priority between the use of cash for external growth or for returning it to shareholders. For every decision, it is the best value creation option that leads us.

During the first half of 2018, we returned more than EUR 1 billion through dividend payout and the buyback program. Up to now, we have bought back our own shares for a total amount of more than EUR 800 million. We are fully on track to execute the EUR 1.5 billion share buyback program by mid-2019.

Thanks for listening, and we are now open for your questions.

QUESTIONS AND ANSWERS

Operator
(Operator Instructions) The first question comes from Mr. Patrick Lambert, who's calling from Raymond James.

Patrick Lambert Raymond James Euro Equities - Research Analyst

Patrick Lambert, Raymond James. Two questions, please. The first one regards polycarbonates price evolution year-on-year or sequentially. If we could get some more colors about the geographical volume growth that you've seen in polycarbonates? And the spread evolution by region? Just checking what we can track and what we can see in terms of spreads? Looking pretty good in Europe and in Asia but still flattish in the U.S. That's what we can tell from data. So if you could put some colors on this evolution, that would be good. And the second is very specific to automotive, good growth there. But could you comment, also geographically, where it was? And now the impact of EV inside of that electrical cars, which was a good driver. I know it is a small part of a business, but fast growing and if you could comment on that on H1 trends?

Markus Steilemann Covestro AG - CEO & Member of Management Board

Okay, Patrick, this is Markus speaking. And I'm glad to hear from you. It was a quite far-reaching question I have to say. So I try to give you some flavor. If you look at the Polycarbonates development, actually in the second quarter and this is a year-on-year perspective, we are seeing that Polycarbonates has grown at around 5%. And there was a very strong growth in automotive as we said, 10% globally automotive growth. And we have, in that context, also significantly shifted the product mix, for example, deliberately away from the construction segment towards, for example, higher margin segments like the automotive but also electrical electronics business. And this is part of the pricing development. If you now look more, let's say, into the respective regions, you can definitely say that depending on the pattern in the region, that was not a pattern that was driven by regions but by particular industries. Because we don't have strong pricing differences within the region application-by-application but rather the, let me call it, application mix in the respective region - due to the maturity of the market- is driving the pricing differences. And that is also why it's not a clear picture about where the prices are going down or up that would reflect maybe higher competitive pressure. It just a matter of the product mix that we normally have within the given regions and that for sure is why you will see a slightly stronger price impact in the respective Asia-Pacific region than you would, for example, see it in the North American region or in the European region. Just because, by a matter of fact, you have still a slightly higher share of commoditized grades of polycarbonates in Asia-Pacific than you have it for example, in the United States or here, in particular, in Germany. I hope that gives you a little bit of flavor.

So talking about e-mobility, Patrick. You're absolutely right. It is still a rather small segment. Yet it is very fast and very quickly growing. And that's why we still believe in our estimate that electric vehicle, I mean, fully electrical vehicles or cars actually could use up to 3x the amount of our materials due to several reasons. And we still see that this is a very, very strong growing segment. To give you some flavor,
the battery manufacturers in China from time to time just jump in terms of technology immediately to the next level instead of going
through what other producers, for example, of battery packaging have gone through. And that's why we see, for example, a very nice
growth in battery packaging. And we got a lot of requests from Chinese manufacturers in terms of battery packaging, where they are
using polycarbonates not only for safety reasons but also for design reasons to make sure they have the best cooling for the batteries that
are surrounded by respective materials. So we see very nice growth. We also see a lot of technology that is driven now [originate]. And
clearly, only in China simply due to the fact that they're innovating for the Chinese market and that they're jumping over some technology
developments that we have seen in the other regions.

Patrick Lambert Raymond James Euro Equities - Research Analyst
Just a quick follow-up. I have in my estimates or reading that the EV cars sales were up about 60% in Q2. Is that in line with what you're
seeing also on that application?

Markus Steilemann Covestro AG - CEO & Member of Management Board
Sorry, can you just repeat that? The 60%, are referring to what?

Patrick Lambert Raymond James Euro Equities - Research Analyst
Well, EV car battery, electrical car sales in the quarter grew about 60% globally.

Markus Steilemann Covestro AG - CEO & Member of Management Board
Well, that sounds to be in a reasonable range, yes.

Operator
The next question comes from Mr. Christian Faitz, he's calling from Kepler Cheuvreux.

Christian Faitz Kepler Cheuvreux, Research Division - Equity Analyst
Christian Faitz from Kepler Cheuvreux, 2 questions for now, if I may. First of all, you mentioned interregional shipments in the
presentation part of the conference call. Can you please elucidate this a bit. And then second, can you give us an indication of how your
price mix and the MDI grades moved in Q2?

Thomas Toepfer Covestro AG - CFO & Member of Management Board
Well first of all, with respect to the interregional shipments, I think the quick and easy answer is that this almost does not play a role for
our business. It's a de minimis amount because as a general rule, we are producing our products in the regions where we sell them to our
customers. We are truly global with our world scale plans in the United States, in Europe and also in China. So I think as a rule of thumb,
these interregional shipments do play a minor role. However, they were slightly increased in Q2. And that had a minor effect on our
others cost line item. But if you look at it from a tariff and tax perspective and the question is, would taxes and trade barriers hamper us?
The answer to that is no.

Christian Faitz Kepler Cheuvreux, Research Division - Equity Analyst
Okay, so nothing structurally going the wrong way?

Thomas Toepfer Covestro AG - CFO & Member of Management Board
Yes. I mean part of it was simply we had some maintenance shutdowns in Q2. So specifically in Q2, we had to cater maybe one region a
little bit more from another one. But structurally, as you correctly said, it does not play a role. And then, Markus, do you want to answer
the price mix?

Markus Steilemann Covestro AG - CEO & Member of Management Board
Yes, Christian, also, warm regards from my side here to you. I think if you look at the polymeric MDI prices, we have seen in the last
couple of months that those prices at least in 2 regions were coming down and that was not unexpected. That is exactly how we have
guided the market so far and that is exactly also how we have come to the conclusion that we would expect the average MDI margins in
2017 to reflect the average MDI margins in 2018 and we also have been quite clear also in this call, already beforehand that currently, we
are even a little bit above the average 2017 levels. So we regard, let's say, the current overall MDI margin, that's also price situation, from
a conservative side, if you look for the full year 2018. So polymeric MDI is coming down but not beyond our expectations. Monomeric MDI is still in very high demand and is still also in terms of pricing, very stable. So from that perspective, that may give you a rough reflection about where we are in terms of price mix and also in terms of where the different rough types of MDI are going. Not to forget that MDI in total has more than 100 grades we are selling. And that is also exactly why you see parts of the MDI portfolio in our view to be considered to be differentiated and more resilient in terms of cyclicality than others.

Operator

The next question comes from Thomas Swoboda, he's calling from Société Générale.

Thomas Swoboda Societe Generale Cross Asset Research - Research Analyst

This is Thomas Swoboda from Société Générale. I would try 2 questions, please. Firstly, on the negative volume development in the U.S. and NAFTA overall. It looks like it's polyurethanes and polycarbonates. Could you just describe what were the drivers behind this decline? And secondly, financial question. I think that goes to the CFO. It seems you have changed the way you are treating your trade accounts payables. I understand this change is supportive to your free cash flow generation in the long-term and the question I have is how much does the change in the accounting brings you in terms of free cash from now on, per quarter or per year, however you like?

Markus Steilemann Covestro AG - CEO & Member of Management Board

Hi Thomas, this is Markus speaking. And if you don't mind, I would like to answer the first question in terms of the drivers behind the volume development in the United States. We have had a significant decline in the construction industry. And that in particular, in the Polyurethanes segment but also in the Polycarbonates segment. However, due to slightly different reasons. In the Polyurethanes industry, it was some decline in demand. So there was really a slightly weaker construction activity going on. So that we sold less of our Polyurethanes insulating foams into the respective industry or the raw materials for the insulating foams. Whereas for polycarbonates, it was a deliberate decision because we wanted to shift high demand in the higher value and less cyclical business like automotive but also electro, electronics away from the construction industry, which is normally much more cyclical and sells at much lower price than we normally can achieve. So we deliberately shifted the product mix towards higher value applications in automotive, in electro, in electronics in the United States. And actively took away this share from the construction segment. So you have similar consequences that the construction segment in terms of volume went down. But you have different reasons why that actually has happened. We saw a decline in the demand for polyurethane raw materials, on the one hand. And on the other hand, we deliberately moved away from the construction segment in the Polycarbonates area. And in total, both of that has led to a decline in the volumes that we have sold in North America. However, in total for sure due to the active product mix shift, we earned more money with it. I hope that answers your question.

Thomas Toepfer Covestro AG - CFO & Member of Management Board

And then Thomas, with respect to your question in terms of cash flow, I hope that I understood your question correctly. So first of all, what we have in our accounts are the effects from IFRS 15 and also IFRS 9, what we have not yet reflected is IFRS 16. As you can see in our report, I think it's page 32, in fact, it has also an impact on our accounts payable and receivables for some EUR 24 million and EUR 43 million, respectively. However, in the cash flow statement, it does not have an effect because also the previous year's numbers have been restated. So the IFRS 15 application does not have an impact on our free operating cash flow. What will have an impact is next year when we will apply IFRS 16 lease accounting because then the leases that will be on balance sheet will be split into an interest portion and also an expense portion. So this will positively impact the nominal amount of free operating cash flow. And we will give you a reconciliation at this point in time. But I think currently, I can say that there's no impact on our free operating cash flow. But I'm happy, of course, to take this question offline, should you have meant some other effects that I was not correctly capturing here.

Thomas Swoboda Societe Generale Cross Asset Research - Research Analyst

No I think that's fair enough. I wasn't clear about the base that was cleaned as well.

Operator

And the next question comes from Georgina Iwamoto, who's calling from Goldman Sachs.
Georgina Iwamoto Goldman Sachs Group Inc., Research Division - Associate

This is Georgina from Goldman Sachs here. I just got one question. Thank you for the confirmation that your MDI margin is potentially flat, if not even higher year-over-year in 2018. I remember in the past you've talked about a through-cycle EBITDA margin for MDI of around 20%. I was just wondering how you're thinking about the MDI margin or contribution for 2019. So given your expectations for supply and demand, would you expect a similar contribution in 2019? Or are there reasons it could be higher or lower?

Markus Steilemann Covestro AG - CEO & Member of Management Board

Hi, Georgina, this is Markus. Thank you for your question. Very clearly and shortly stated, we believe it will be flat compared to 2017 and '18.

Operator

The next question comes from Isha Sharma, who's calling from MainFirst.

Isha Sharma MainFirst Bank AG, Research Division - Analyst

This is Isha Sharma from MainFirst. I have 2 quick questions, please. So we see that there is a high EBITDA volume leverage this time. Could you please explain that? And if it is sustainable and should we consider it as going forward to be the norm? And other question is that in the other items, there are high maintenance and logistics costs to the tune of EUR 100 million. Are these also recurring? Should we consider them also for the second half and 2019 going forward?

Thomas Toepfer Covestro AG - CFO & Member of Management Board

Well Isha, first of all with respect to the volume leverage. Yes, we do think we will have significant volume leverage going forward. I think as we stated in the Capital Markets Day based on the growth rate that we're expecting of 4%, that should translate into an EBITDA number of EUR 200 million to EUR 300 million uplift per year. And as Markus also said, if you cumulate that we're looking at over EUR 1 billion over the next 5 years. So yes, the answer is that this will be sustainable. And then I think your questions on the other line items. So as I said, it will be slightly negative also in Q3. So yes, we will face some cost increases albeit to a lower extent than what we have seen in the first half of the year.

Operator

We have a follow-up question from Patrick Lambert, who's calling from Raymond James.

Patrick Lambert Raymond James Euro Equities - Research Analyst

Patrick Lambert, Raymond James. Two quick ones. Just could you update us before tomorrow's BASF numbers, your impression on their ramp up? And the impact on TDI, which doesn't seem to be very big. But yes, if you can help us there. And second, update us also on your debottlenecking program. I think we were targeting some 150 kilotonnes altogether available in 2018. If you could comment where we are? And also if you have started to use your swaps in the first half?

Markus Steilemann Covestro AG - CEO & Member of Management Board

Yes, obviously, some people are very happy that you asked the second question, Patrick. So I try to answer the first one. So we have similar information like you have. That is the only information we also have available. So I would suggest that you use the opportunity in tomorrow's BASF call to raise the question again. And now I'm handing over to Thomas.

Thomas Toepfer Covestro AG - CFO & Member of Management Board

Yes, with respect to our debottlenecking. I think I can just confirm that all the projects we have stated are fully on track. I mean specifically, we said there is an expansion of TDI of 20 KT in Dormagen, that is coming along. We have the MDI expansion of 40 KT in Caojing. And the 50 KT in terms of PCS expansion also this year. I think the next major thing that is obviously in the pipeline are our activities in Brunsbüttel, where we are essentially doubling the capacity of the plant from 200 KT to 400 KT. And the timing is largely unchanged. So the technical installation should be ready by the end of the year. So that beginning 2019, this expansion will then also be put in place practically. So I think fully in line and on track with statements that we have made on our debottlenecking.
Patrick Lambert Raymond James Euro Equities - Research Analyst

And the swaps?

Markus Steilemann Covestro AG - CEO & Member of Management Board

We are currently still, let’s say, net in-swapper. The current net out-swapper has not yet started. So we still have opportunities from that perspective.

Operator

(Operator Instructions) The next question comes from Chetan Udeshi, who’s calling from JP Morgan.

Chetan Udeshi JP Morgan Chase & Co, Research Division - Research Analyst

Chetan from JP Morgan. Just a couple of questions. I'm sorry I joined late so apologies if this was already answered previously. But just reading some press reports, of course, the famous ICIS over the last maybe few months, there have been more talks about MDI being substituted by some other material in construction and other end markets. Is that something you see much more prominently? Or now given that you see some moderation in MDI prices, is that sort of reversing? And the second question is on Polycarbonates. You've been talking about increasing mix of resilient products. Is there a way for you to give us a sense of if commodity polycarbonates pricing has moved say maybe 30%, 40%. How has the pricing development been in the say more resilient part? I mean just trying to assess if we've seen the same sort of margin uplift or pricing uplift in those specialty grades of polycarbonates?

Markus Steilemann Covestro AG - CEO & Member of Management Board

So on the MDI substitution, I think it is true that some industries which are, for example, doing insulation for buildings try to move to other technologies that are available. However, that has happened to a very limited extent. Simply also due to the fact that that would mean investment into lines so you cannot just easily switch from A to B. That is a more long-term shift. And we must not forget that MDI raw materials are still producing the most effective insulation material that is currently available, at a similar price range than other insulating materials, in the market. So that's why, long-term, we do not see that this will become a trend. It's just a short-term measure that people try to shift due to limited availability but mid- to long-term, we do not see that this is really going into a direction of substitution or full replacement.

To your second question in terms of Polycarbonates, we have seen that there is actually an ever-increasing total higher price level in recent quarters, but it also means that the selling prices for the high resilient part, that you actually mentioned, move down and up slower. So that is exactly the nature of resilience. It does not necessarily mean that the overall price level will go significantly up at a given point in time like now, but it means that if overall market demand, for example, is dropping a little bit or the market demand is increasing, then we have a similar pattern like in the coatings, adhesives and specialty business, where we see just more stable margins, more stable pricing over raw materials. So from that perspective, if you look at the current price range, we have grades that we sell for EUR 1.5 per kilogram. And at the same time, our specialty grades going up to EUR 15 per kilogram of Polycarbonates. So that gives you a flavor. And these days, the lower end of the Polycarbonates highly commoditized grades is still sold for a price of a little bit above EUR 2 and the higher. Highly specialized grades are still sold at EUR 15, so what we try to achieve here is to upgrade the overall margin and pricing quality of the entire product mix that we are having in the Polycarbonates portfolio. And that is a path that we are continuously and successfully pushing forward.

Chetan Udeshi JP Morgan Chase & Co, Research Division - Research Analyst

Maybe can I follow up on the auto market. Maybe I'm not sure if this has been asked. But we've seen over the recent days auto companies’ warning on raw materials and how they plan to sort of squeeze the suppliers more in the future. Is that something you notice in your conversations with your customers in autos, given the price increases they seem to be facing at this point?

Markus Steilemann Covestro AG - CEO & Member of Management Board

I think the majority of the price increases stems from different raw materials, steel maybe also aluminum. And they have not yet focused, for example, on materials that we are producing. So we have not yet been approached by any of them in terms of those discussions. Actually, as we have stated also earlier, we continue to replace other materials mid-to-long term in the passenger vehicles in particular. Because our materials are lightweight materials, our materials are upgrading the customer experience in terms of quality. And our materials are also used to replace in electric propulsion systems other incumbent materials like metals because of higher design freedom. But also because of their contribution to the lightweight of the car. And also in terms of the safety, for example, of car batteries.
Laura Lopez Pineda Baader-Helvea Equity Research - Analyst

Laura Lopez from Baader-Helvea. I only have one remaining question. So it's more about a macro view. And so we've heard also not only from the automotive industry but also from electronics and in many industrial companies that they are becoming more cautious with the cycle and with demand also in Asia in the second half of the year. So how good is your visibility? How do you actually see at least until now how the construction is developing and also electronics and how can that maybe impact or put at risk what you're expecting for the remaining of the year? So more from a macro view, how do you see industries developing? And how big can the risk be for you in the third and fourth quarter this year?

Thomas Toepfer Covestro AG - CFO & Member of Management Board

You've seen our volumes grew 4.4% essentially in Q2. We see good momentum also going forward for the rest of the year. As we stated for the full year, we want to achieve low-to-mid single-digit growth rate numbers. I think we're less concerned because we have a very broad-based customer spectrum we're essentially serving all the industries and within the industries we're specifically serving segments which are highly innovative. As Markus said, our focus is to do joint innovations and application development with our customers so our materials cannot so easily be replaced, so the contrary, they are actually replacing other materials. Therefore, our overall view is that, unless there should be a major massive decline in the economic activity worldwide, we're very confident that we have a solid growth outlook for the second half of the year.

Operator

We have a question now from Thomas Wrigglesworth, who's calling from Citi.

Thomas Wrigglesworth Citigroup Inc, Research Division - Director and Chemicals and Basic Materials Analyst

It's Tom Wrigglesworth from Citi. Two questions please. The first one is on your co-products like caustic soda and styrene monomer that you're producing. Could you just remind me how much of contribution that's making for the first half year results in 2018? I presume that the styrene monomer margin has been very strong as have caustic soda prices, quite interested to know what are your numbers. And then secondly, I was wondering if you have felt the effects in the U.S. in the MDI market, forgive me if you've made this comment already, given that there's a significant competitor outage that's going on at the moment. And any comments around the Chinese environmental constraints and whether you feel they're still having an impact? Or if they are actually beginning to ease?

Thomas Toepfer Covestro AG - CFO & Member of Management Board

Well maybe with respect to the intermediates, I mean just to give you a rough impression, I would say the contribution in terms of EBIT that we're generating with those materials is mid-to-high double-digit EBIT numbers. And they are then attributed to the respective segments so that you don't find them all in the other segments in the reconciliation. Of course, that number that I was just giving you is on a yearly basis just as a ballpark number.

Markus Steilemann Covestro AG - CEO & Member of Management Board

So talking about, obviously, the unplanned shutdown of one of the plants in the U.S. of a major player, we have witnessed that there's some nervousness in the market just due to the mere fact but we have not witnessed any impact in terms of people approaching us or any impact in terms of price movements or things like that for the time being.

Thomas Wrigglesworth Citigroup Inc, Research Division - Director and Chemicals and Basic Materials Analyst

And in China -- is your sense that the Chinese constraints are still in place? Or is there any sign that actually they're beginning to abate their impact on MDI and polycarbonate?

Markus Steilemann Covestro AG - CEO & Member of Management Board

Currently, we don't see any constraints. So if you would like to elaborate a bit further, what this, let's say, statement or assumption is based on?
We'll take this offline. I thought that we were seeing that environmental constraints limiting people's ability to produce.

Markus Steilemann Covestro AG - CEO & Member of Management Board

No.

The next question comes from Geoff Haire calling from UBS London.

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

Just on the buyback, at the rate you’re going, the buyback could be finished by the end of this year. Is that a reasonable assumption to make? And what can we expect once that's done, if you do get it done quicker than the mid-2019 target?

Thomas Toepfer Covestro AG - CFO & Member of Management Board

Well on the buyback, I think you’ve seen that we were well underway. We will very soon finish the second tranche of the buyback. And then, I think nobody should be surprised if relatively quickly we then embark on a third tranche of the buyback. However, that does not change the overall frame and that is we want to do up to EUR 1.5 billion or 10%, whatever is reached earlier and the timeframe of that is up to middle of 2019. So I think that does not change.

Operator

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

Ronald Koehler Covestro AG - Head of IR

Thank you very much. Thank you all for your questions. I hope we have answered everything. If you have more questions, don't hesitate to call the IR department. And otherwise, we will talk latest with our Q3 conference call then in October. See you, bye-bye.