Ladies and gentlemen, thank you for standing by. Welcome to the Covestro Investor Conference Call on the Fourth Quarter and Full Year Results 2019. The company is represented by Markus Steilemann, CEO; Thomas Toepfer, CFO; and Ronald Koehler, Investor Relations. (Operator Instructions)

I'd now like to hand over the conference to Ronald Koehler. Please go ahead, sir.

Yes. Good afternoon, and welcome to our fourth quarter conference call and also to obviously the full year conference call. And as usually, we have posted our presentation and as well the annual report on our web page, and you can obviously download it. And we assume you have read our safe harbor statement.

And with that, I would like to turn it over to Markus.

Thanks, Ronald, and also a very warm welcome from my side. 2019 was a year in which we saw, as expected, lower levels of financial performance in a year-on-year comparison. Still, we delivered every quarter on expectations and achieved our full year guidance despite several headwinds from internal as well as external factors. We achieved a solid core volume growth of 2.0% on the back of the anticipated growth acceleration during the last 2 quarters of the year.

Our EBITDA decreased significantly year-on-year. Thanks to a strong volume leverage and despite a pronounced negative pricing delta, we managed to reach an EBITDA level of EUR 1.6 billion.

On the cash side, the management actions taken to optimize working capital showed positive effects and delivered the intended catch-up effect towards year-end. Thus, we could achieve a solid free operating cash flow of EUR 473 million for the full year despite increasing CapEx year-on-year.

For our return on capital employed, we achieved 8.4%, earning a premium on our cost of capital even in a challenging year. We also intend to return further cash to our shareholders by proposing a stable dividend of EUR 2.40 per share at the next Annual General Meeting on April 17.

We now go to Page #3. In 2019, we delivered on our promises and fully achieved all financial targets we set ourselves. These results were possible, thanks to our agile organization, our reliable asset base and the extraordinary motivation and dedication of our employees. All
these strengths enabled us to react quickly in challenging situations.

On Page #4, you can see that APAC, and especially China, continued to drive global core volume growth. Despite a negative volume development for automotive, we still achieved high single-digit growth rates for China and Asia Pacific for the full year. In furniture and many other smaller customer industries like medical, we posted double-digit growth rates in this region. In Europe, Middle East, Latin America, strong core volume growth in furniture almost counterbalanced the pronounced weakness in automotive demand, a weakness which affected Germany especially.

NAFTA, and the U.S. in particular, also suffered from a weak automotive industry as well as a sluggish demand in electronics in 2019. Unfortunately, an unplanned outage at our Baytown plant affecting TDI and Polycarbonates further affected growth in Q4. Strong growth rates in construction, combined with positive growth in furniture and diverse other industries, were almost able to counterbalance the weak spots.

Globally and for the year overall, we achieved a solid growth rate of 2%. Strong growth in furniture and in electronics, coupled with a solid growth in construction, more than compensated the high single-digit decline in automotive.

I now hand over to Thomas for the full set of financials.

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

Well, thank you, Markus, and also a warm welcome from my side to everybody on the call. I'm on Page 5 of the presentation, which shows you the sales bridge, and it shows you a year-on-year sales decline of 15.1% for the full year in 2019. And as you can see, the main drivers were the deteriorating prices in MDI, TDI and PCS, which together reduced our sales by a total of EUR 2.5 billion. On the other hand, we were able to deliver a relatively small but visible positive volume growth contribution of EUR 124 million. And FX effects added another EUR 277 million, and that is mainly attributable to the U.S. dollar.

On the right-hand side, in the bullets, you can see that we have listed all the units that we acquired and that we sold over the course of the year, and we also listed the European PC sheets divestment, which will only have an effect in the reporting year 2020. And for 2019, the overall effect of these acquisitions and divestitures was a negative EUR 70 million, which we have labeled as portfolio effect in the bridge.

So with that, let's turn the page to Page #6. As you can see, and as you know, we have, for the full year, achieved an EBITDA of EUR 1.604 billion. And as forecasted, the higher competitive pressure in Polyurethanes and Polycarbonates led to a continued decline in contribution margin, so that the negative pricing delta amounted to more than a negative EUR 2 billion overall. But on the other hand, the positive volume development translated into an EBITDA contribution of EUR 73 million, thanks to a volume leverage of 59%. And FX had a small positive effect, too, which is depicted in the bridge.

With respect to the other items, the main contributors were the lower bonus provisions and the positive effect of EUR 131 million linked to the adoption of IFRS 16, which we adopted in 2019. And obviously, the progress of the prospective cost-cutting program could not fully compensate the higher costs driven mainly by an increased number of employees for production and CapEx programs as well as investments into digitalization.

So please turn the page for the individual segments, and Markus will guide you through those.

Markus Steilemann Covestro AG - CEO & Chairman of Management Board

Thanks, Thomas. Looking at our Polyurethanes segment on Chart #7. Over the course of 2019, we recorded a solid core volume growth of 2.3%. Overall, industry utilization stays at a low level due to additional capacities added during the last 18 months. Industry demand growth is expected to remain solid at our predicted long-term trend of around 4% to 5%.

In MDI, 2019 was characterized by few ramp-ups but no new start-up, leading to a slightly lower average industry utilization. Due to the currently low visibility on demand, we stay cautious about the further development in the short term. Midterm, we expect that current
overcapacities will be absorbed by growing market demand. For 2020, the only new MDI facility being added to the industry seems to be ours in Brunsbüttel, Germany. We are glad to confirm that we started the plant in December and, at the ramp-up of the 200,000 tons nameplate capacity, has been going smoothly since January.

In TDI, the simultaneous ramp-ups of 3 world-scale plants have increased supply pressure and continued to lower average industry utilization in 2019. From current margin levels, which are at a historical trough, we see rather limited further downside risk as we believe that high cost producers are currently operating at or below cash breakeven levels. Potential upside would, for example, come from closures of high-cost plants. Recently, we have already seen the temporary closure of some smaller plants in Asia with around 200,000 tons nameplate capacity. As announced and awaited for some time, one mid-scale plant is announced to close down in Eastern Germany beginning of the second quarter 2020. Finally, margins in polyether polyols continue to be below the long-term average. Overall, the EBITDA margin of 11.2% in PUR in full year 2019 was clearly below last year's level, primarily driven by significantly lower MDI and TDI margins.

Let's turn to Page #8. In Polycarbonates, we recorded a solid core volume growth of 2.7% for the full year 2019. The ongoing demand weakness in automotive was compensated by strong volume increases in construction, electronics, medical and other smaller industries. Thanks to our position in the industry, we have some flexibility to switch sales from one application and industry to the other, thus helping us to counteract any short-term weakness in one industry. Net sales decreased by 14.3% year-on-year, driven by further price declines.

The EBITDA margin of 15.4% in full year of 2019 was clearly below last year's level primarily driven by the pronounced negative pricing delta. Taking a quarter-on-quarter perspective, the decrease reflects the continuing price pressure and seasonally lower volume leverage.

Let us take a short look at the overall industry prospects. Due to the automotive weakness accounting for roughly 20% of the industry demand, we estimate that the overall polycarbonate market growth was relatively low at around 2% in 2019. On the other hand, we saw capacity additions of around 6% in the same period. Thus, capacity utilization came down from 87% in 2018 to 83% in 2019. More than 10% additional capacities have been announced for 2020. This is expected to lead to a further declining industry utilization. However, over the cycle, we are convinced that polycarbonates remains a highly profitable business for us with an attractive growth profile.

If you turn to Page #9, you will see the Coatings, Adhesives and Specialties business development. The impact from globally weaker demand affected our Coatings, Adhesives and Specialties segment during the whole year 2019. As expected, volumes declined in almost all customer industries, thus, we recorded a negative core volume growth of minus 1.0%.

Accordingly, net sales in Euro were affected by minus 2.1% from the volume decline and by minus 1.1% from lower prices. This was compensated by positive effects from currency and the portfolio impact from the DCP acquisition. For the full year 2019, the sales development was kept stable.

The EBITDA margin of 19.8% in full year 2019 was comparable to last year's level. EBITDA suffered from the negative volume leverage and slightly negative pricing delta. Lower selling prices were not balanced out by a decline in raw material prices and therefore cut into margins. Decreasing costs and the onetime gain from consolidating DCP had a positive effect on EBITDA. Taking a quarter-on-quarter perspective, the decrease reflects the seasonally lower volume leverage.

Observing the current macroeconomic environment, we do not expect a fast recovery of the coatings and adhesives markets. In addition, a tougher competitive environment could further increase the pressure on prices.

Thomas will now explain more financial details.
2019. We managed to improve the free operating cash flow significantly during Q3 and Q4 after we had digested the negative phasing effects, which occurred in the first half of 2019.

And additionally, effective countermeasures reduced our working capital. At the beginning of 2019, we initiated a working capital optimization program, which brought the expected cash benefits so that for the full year 2019, we delivered EUR 411 million positive contribution from changes in working capital to our free operating cash flow. Thus, we were able to generate a positive free operating cash flow of EUR 473 million for the full year, which is at the upper end of our narrowed guidance that we've given.

Please turn the page to #11, where you have the balance sheet. As you can see, overall, on December 31, 2019, our total net debt level increased by EUR 1.16 billion to around EUR 2.95 billion. In combination with a lower EBITDA, these developments led to an increased ratio of our total net debt to EBITDA to 1.8x at the end of December 2019 compared to 0.6x at the end of 2018.

However, of the increase, around EUR 1.1 billion are triggered by accounting effects, and therefore, we continue to regard our balance sheet as being solid. So on the EUR 1.1 billion, firstly, the new IFRS 16 accounting standard led to an increase of EUR 575 million in net financial debt by the year-end, and you'd find that item in the bridge. And secondly, the pension provisions increased by EUR 520 million over the course of the year due to the decrease in the pension discount rate, specifically in Germany. So we continued in our tradition to return a high amount of cash to our shareholders, and we paid out dividends in a total amount of EUR 440 million over the course of 2019.

With that, let's go to Page #12, and the chart highlights the 2 major effects driving our EBITDA development: firstly, the volume growth; and secondly, the pricing delta. Whereas the volume growth can be controlled by management action, unfortunately, the pricing delta is determined very much by the supply/demand balance in the global industry.

So on average, we generate a strong volume leverage of around 50%. And based on our strong cash cost positions, we strive to grow above the global GDP. So our current CapEx plans allow for a planned volume growth of 3% to 4% CAGR for the next years because we need to invest around EUR 3,000 for adding 1 additional ton of capacity. And this said, we need around EUR 0.5 billion, so roughly EUR 500 million, of growth CapEx per year on top of the maintenance CapEx to support this growth. At this rate, we expect volume leverage to continuously contribute to EBITDA every year, and this also applies to 2020, even if the magnitude may be somewhat subdued in light of the current challenging environment.

Now outside of management control is very much the fluctuation of the pricing delta, which highly correlates with the global industry utilization. And Covestro was benefiting from a favorable pricing delta development between 2014 and mid-2018 due to strong demand and limited new capacities coming on stream. However, in 2019, as presented earlier, EBITDA decreased by more than EUR 2 billion caused entirely by the pricing delta. Now applying the latest mark-to-market analysis, we assume a negative year-on-year pricing delta of around EUR 0.6 billion to EUR 0.7 billion for 2020. And if you take it all together, we expect that the cumulative volume growth contribution will be almost offset by the cumulative pricing delta contribution if you take all the years that are depicted on the chart. So based on this, I can tell you that we focus our management efforts to continuously grow and at the same time, we're absolutely focused on increasing our efficiency of the company.

So therefore, if you turn to Page #13, definitely, one key pillar to drive Covestro's efficiency is to reduce costs. And we presented the Perspective program to you in 2018, and this savings program includes around 900 planned headcount reductions and a deep screening across all the areas of the group for possible savings.

So that by the year-end 2018, we were already slightly ahead of plan with additional EUR 8 million. And in 2019, we even slightly further accelerated the pace of Perspective so that we realized cost savings of cumulated EUR 150 million, EUR 10 million more than than the upgraded plan at the start of the year 2019. For 2020, as you can see also on the chart, we expect cost savings to reach an increased target of EUR 250 million, which is EUR 20 million more than originally we had foreseen. And overall, we continue to target EUR 350 million in overall savings by the end of 2021.

Please turn to Page #14. Obviously, in light of the situation where the economic situation is deteriorating, we have put even more focus
on reducing costs in the short-term, and reducing costs is closely linked to reducing headcount. As a result of the Perspective program, we already realized a decrease in FTEs of 8% in the marketing and general administration area in 2019. But on the other hand, as planned, FTEs increased at the same rate in the production to staff the expanded production facilities and to accompany the growth projects. Overall, including the R&D department, we recorded, therefore, a slight increase of FTEs of 2.7% in 2019. Now as I told you, we are very much focused on this so that I can tell you that until the year-end 2020, we target to reduce our overall FTEs to the 2018 level through further execution of our Perspective program, and you have the full commitment that by the end of [2020] (corrected by company after the call) we want to be at around 16,800 employees, so the same level as in 2018.

With that, let’s turn the Page #15, where you can see the EBITDA development. And our EBITDA suffered from a pronounced negative pricing delta in 2019. As I just said, this will continue to 2020 as we start the year on historical trough levels in most of our supply/demand-driven businesses. And as I already explained, we calculate a mark-to-market year-on-year pricing delta of a negative EUR 600 million to EUR 700 million in 2020. We, as the management team, will do the utmost to mitigate this external pressure via cost reductions and a positive volume effect.

And we are confident that we can achieve a low single-digit core volume growth in 2020 by running our plants as reliably as possible as well as on the back of additional kilotons from our new MDI plant in Brunsbüttel, which came on stream as planned at the beginning of this year. So this would translate into an EBITDA contribution of around positive EUR 100 million in 2020.

In addition, our EBITDA is expected to benefit from additional short-term cost savings of EUR 200 million in 2020. Half of the savings are driven by cost avoidance versus the original budget, for example, lower CapEx-related operational expenses. And the other half comes from various measures like reduced consultancy costs, travel restrictions and other expense cuts. So overall, this leads us to a guidance of EUR 1 billion to EUR 1.5 billion for the EBITDA 2020. And you, of course, may consider this guidance range as rather wide. However, it just reflects a usual or the very volatile economic environment that we’re currently facing.

Now we also give you some guidance in terms of mark-to-market. And based on our latest mark-to-market analysis, at average margins as of January 2020, the EBITDA would amount to EUR 1.1 billion in 2020 if you multiply it out with our expected volumes. So in order to achieve the midpoint of our EBITDA guidance, we need to see some price improvements over the course of the year.

And that leads me to the remaining items of our guidance, which you can find on Chart 16. As you can see, we assume a low single-digit percentage core volume growth in 2020. Declining EBITDA at a stable CapEx of around EUR 900 million is expected to reduce our free operating cash flow in 2020. And we guide for a range of EUR 0 to EUR 400 million, and we guide for ROCE after tax between 2% and 7%.

For the first quarter of 2020, we assume an EBITDA of between EUR 200 million and EUR 280 million. Now this guidance includes the so far visible impact from the coronavirus on our business in China, and we assume that we will lose roughly 50% of our sales in China in February due to the prolonged holiday season and a lot of logistical challenges. And we expect a smaller but still visible effect in March. So this said, we expect volumes should slightly decline on a year-on-year comparison in Q1 2020. And accordingly, our EBITDA guidance includes a direct impact from the coronavirus outbreak of around EUR 60 million in Q1 2020. For the other quarters, so Q2 to Q4, our guidance is based on a normal business environment as the further development for us is not foreseeable.

With that, let’s turn the page and look at the use of cash, and the main uses of cash remain unchanged. We are committed to our progressive dividend policy, where we target to increase the dividend per share every year or at least keep it stable also in difficult times like now.

We continue to invest in a focused way in our businesses by executing our CapEx program since this is the most value-creating use of cash. And we are disciplined and we carefully weigh the right times. And therefore, we have postponed, as you have seen in our press release, our MDI world-scale plant in Baytown by 18 to 24 months. Opportunity-based, we continue to screen the market for potential acquisition targets. And finally, in case of excess cash, we could kick off a new share buyback program with the necessary shareholder authorization in place.
And we have put on the page for you that, since our IPO, we think we do look back on an impressive track record in terms of the use of free cash: so we paid EUR 1.7 billion of dividends, including the proposed one for 2019; we did reduce our net debt and funded our pensions with roughly EUR 2 billion; we invested a total of EUR 2.6 billion in CapEx; and finally, we also bought back shares for EUR 1.5 billion, as you can see on the right-hand side.

So with that, please go to the next page, where you can see the dividend. Since our IPO, we have built a track record of increasing and stable dividends. We limited our dividend increases in the years 2017 and ’18, taking into account our usual cyclicality. And the low payout ratio in these years strengthened our balance sheet. And looking forward, we would be willing to also bridge a year with below mid-cycle earnings and low cash flow generation to pay a stable dividend out of the balance sheet while at the same time, maintaining a solid investment-grade rating. So that for 2019, we propose a stable dividend of EUR 2.40 per share, and this corresponds to a dividend yield of 6.1% based on a share price of EUR 39.20, which was the closing price yesterday.

So please go to the next page, where you have our CapEx program and our guidance with respect to CapEx. We went through a thorough analysis of all projects in the last months, and we cut some planned investments and we reviewed certain timings. And we now plan to keep our capital expenditure stable over the next 2 years at around EUR 900 million per year, which is a reduction versus the previous guidance by EUR 500 million over the course of 2020 and 2021. And it does give us some more financial flexibility.

We have shown -- or we are showing on this page that we have a maintenance CapEx budget of around EUR 350 million per year. And I can also tell you that the top 10 projects on our list represent roughly 1/3 of our total CapEx budget, and they include the new chlorine plant in Tarragona and the new aniline in Antwerp. And this said, it's also true that we have today around 100 projects with CapEx of more than EUR 10 million each, with the spending divided by several years. And these projects should all generate a return on capital employed well above our cost of capital.

And in Polycarbonates, we continue to debottleneck our existing production lines in Caojing in China, which is an opportunistic and therefore, optional approach. And we have optional expansion plans to increase the output to up to 600 kilotons in multiple steps until 2024.

And with that, I would like to hand it back to Markus, who will give you the strategic outlook.

Markus Steilemann Covestro AG - CEO & Chairman of Management Board

Thanks, Thomas. And we are going to Page #20. Prior to the close of the presentation with our summary, allow me to highlight the main strategic pillars where we made further progress in 2019.

We see healthy long-term demand for high-tech plastics to enable a more sustainable development across a wide range of different key technologies. Therefore, besides the traditional expansion of our production network we already spoke about, we are consistently gearing our business towards circular economy.

In 2019, we launched a global strategic program to implement circular economy in all corporate divisions going forward. In particular, the company aims to use alternative raw materials and develop innovative recycling. Linked to this and to increase the share of green electricity and production, we signed a 10-year corporate power purchase agreement with Ørsted in December 2019 to buy the output of 100 megawatts from the planned Borkum Riffgrund 3 offshore wind farm.

With regard to our portfolio optimization, we divested several low-growth and low-margin businesses in 2019, amounting to around EUR 600 million of sales. Finally, the dedication of Covestro to innovation remains unchanged. One highlight exhibit of the K fair was an interior concept for future mobility that Covestro developed together with partners along the automotive value chain. The main features were newly designed surfaces that allow 5G communication, the integration of ambient lighting, the latest infotainment systems and
forward-looking seating concepts.

Allow me to now summarize and flip to Page #21 because this brings us to the end of the presentation. 2019 was marked by a number of geopolitical and macroeconomic uncertainties. Nevertheless, demand for our materials remains intact, which confirms our view that plastics are more valuable for the future than ever.

On the back of a more challenging economic environment as well as less favorable industry balances, we delivered earnings below mid-cycle levels. The management is clearly not satisfied with that. However, we did our utmost to counterbalance the market-driven price pressure with internal measures. Based on our global cost leadership, we are convinced we will come out even stronger once the cycle turns.

We thank you for listening, and are happy to take your questions.

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, at this time, we will begin the question-and-answer session. (Operator Instructions) And the first question comes from Mr. Christian Faitz calling from Kepler Cheuvreux.

Christian Faitz  Kepler Cheuvreux, Research Division - Equity Analyst

Yes. Christian here, Kepler Cheuvreux. Couple of questions, please. First of all, thanks for giving us a number for the coronavirus impact for Q1. That's very helpful. Could you qualitatively describe the situation in China a bit? What I mean is how impacted is the logistics chain at present for the precursor material that you need? And how impacted do you see current end demand in China? And potentially also affecting customer productions for China-produced products geared to international markets?

And then second question, your reported tax rate has risen 2 years in a row now. What would be a good tax rate assumption for 2020? That's it for now.

Markus Steilemann  Covestro AG - CEO & Chairman of Management Board

Yes. Christian, good speaking to you again. This is Markus speaking. I cannot give you the complete picture that you’re asking for. I have the slight suspicion that you asked me to explain the overall situation for all industries in this context, but I try to do, let's say, my best to provide you with anecdotal evidence for the situation that we have. So first and foremost, as usual, over the Chinese New Year, we have had normal shifts in place, which were running our continuous processes in the major sites that is not only Caojing, but also sites for smaller production in South China, and some of them in the eastern part of China, a little bit more north of Shanghai. And we were able to continue running almost all plants at reduced rates for the entire time. And now we see that some of the plants are going back to full operation in recent days. And that applies for our continuous process plants, but also for smaller system houses/compounding plants and film plants that we have. So overall, we are trying to get back as quickly as possible to normal operations. And we currently seem to be successful in that from all we hear from our Chinese colleagues.

The logistics situation remains a true challenge. And that is sometimes very small items like packaging, for example, barrels that we need to have, but also pellets that we need to have. And then another challenge is the drivers, actually, the truck drivers. Even if you are able to produce, even if you are able to package, then you need to have truck drivers, which are shipping stuff to the customer. And then some of the customers actually do not have resumed operation. That means it's difficult to ship the material to them because nobody is at the receiving end. So there's lots of bits and pieces. So the overall supply situation will remain, at least from our perspective, for some time, quite fragile. And that describes a little bit the overall situation in China, and I do not assume that this situation is different in most of the industries that we are currently delivering to. And that's why I also -- and we have done that - confident that the current estimate for the first quarter and the current guidance is reflecting the picture pretty well. However, to look beyond what will happen then beginning of April for us today is simply impossible. And that's why this is also not included by any means in the full year guidance, everything that goes beyond end of March. And that's, from my perspective, the current situation as good as I can describe it. But please feel free to ask any additional question.
With that, I would like to hand over to Thomas to deal with the tax rate.

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

Yes. On taxes, I mean, we had a P&L tax rate of 26.8% in 2019. Our guidance for 2020 would be that our ETR, so our P&L tax rate, should be in the range between 24% and 26%. However, be aware that our cash tax rate will be roughly 15 percentage points higher than that. But that is in line also roughly with the guidance that we had given for 2019 before because the cash tax rate is expected to be above the ETR, simply because of phasing effects. So I think fundamentally, no changes to what the ranges that we had given out for 2019 going forward.

Operator

The next question comes from Mr. Thomas Swoboda calling from Societe General.

Thomas Swoboda  
Societe Generale Cross Asset Research - Research Analyst

I have 2 questions, please. Firstly, on supply-demand and price stabilization, if you see any. I mean if we look through the coronavirus challenge, do you see normalizing, stabilizing supply-demand and hence stabilizing pricing already? Or are prices still coming down as we speak? Could you just please go through the major product lines, if possible? That's the first question.

And the second question, sorry to come back on the dividend. I perfectly understand that the dividend for 2020 should be safe. You have a strong balance sheet. That's not a problem. What I would like to understand is what would be the main criteria for you to consider changing your dividend policy going forward, if it should become necessary? Just if you could share your thoughts on how do you look at your dividend guidance as the major criteria behind it?

Markus Steilemann  
Covestro AG - CEO & Chairman of Management Board

Yes. Thomas, thanks for the question. I'm happy to take the question on supply-demand before Thomas then will talk further about the dividends. There's many factors that flow into what I'm about to say, and I do not want to bother you with too many details in this context. If you look at the current picture as we look at it, despite, let's say, all the temporary shutdowns that we're seeing availability of plants, coronavirus effects and so on and so forth, I think bottom line is that for the 3 major products, polycarbonates, MDI and TDI, we see that all are at or close to trough levels from today's perspective. So if you would like to sum it up, we see that prices are stabilizing on very low levels. And we see very limited opportunities for further decline in prices. And as a ray of hope, if there's any product where we could potentially see at some point in time a potential upward trend that would be in MDI, because in TDI and polycarbonates, no matter what you take long, short or mid-term effects, there, the market remains long. Whereas for MDI there is at least with the normalization of demand, some opportunity that supply-demand will balance out. So from that perspective, there might be some support for potential price increases, though it is very difficult to foresee when that might happen.

With that, I would like to hand over to Thomas.

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

Yes, Thomas. On the dividend, I mean, obviously, we are in a cyclical industry. And we have said, and I can just repeat it, we would be and will be prepared to bridge the dividend and pay it out of the balance sheet in the short term if need be. But of course, in the medium to long term, the company has to be in a position to earn the dividend. Otherwise, we would lose our investment-grade rating. And therefore, the management is putting in place all the actions that we have to put in place so that we make sure that in the medium to long term, the dividend is fully covered.

Operator

The next question comes from Laurence Alexander calling from Jefferies.

Laurence Alexander  
Jefferies LLC, Research Division - VP & Equity Research Analyst

Two questions. First, can you characterize what level of year-over-year change in the bonus pool is embedded in the free cash flow bridge for 2020?
Thomas Toepfer  Covestro AG - CFO, Labor Director & Member of Management Board

Yes. First question, it's roughly EUR 300 million in the free cash flow -- that is embedded in the cash flow statement, in cash flow assumption for 2020.

Laurence Alexander  Jefferies LLC, Research Division - VP & Equity Research Analyst

Okay. And then secondly, on your movements towards a circular economy, how would you characterize current benchmarks for how much alternative feedstocks are as a percentage of your total input stream? And how much of your products are recyclable of the ones that are physical or that are solid as opposed to liquid?

Markus Steilemann  Covestro AG - CEO & Chairman of Management Board

To be very clear, the circularity topic is a decade topic or a multiple-decade topic. So why do I emphasize that so much? Because you have to start very early, which we're currently doing to do fundamental research, but also have some of the major products being investigated for what level of recyclability to have with which methodology. So this is a huge undertaking in terms of transforming the way how we are doing business. And that's why we are just at the very beginning of this undertaking. However, it will mean that we will have to take, as of today, some major steps and major decisions. Because otherwise, we will not make any progress in that. Let me explain what I am heading at.

If you, for example, would be willing to enter into a circular economy, at one point in time, you must, over time, switch from oil, gas and coal-based carbon feedstock that you need for the production of polymers into, for example, carbon dioxide as a feedstock into, for example, bio-based materials and into, for example, recycled plastics as a feedstock. And that decision would require that you also work with industry partners on the supply side. And they have to switch the entire supply chain.

On the recyclability, you have to talk to your customers, because most of the high-tech materials that we are producing and that they are producing and using in their applications cannot be, as experts would say, mechanically be recycled. That means you cannot just chop them, heat them and produce same quality of plastics with that. That means you have to decompose them and use them in a different way. One of those ways is what we call chemical recycling. That means you break it down to the molecular structure, sorry for being so detailed. But it would mean that at the end of the day, you go down to molecular levels, and then you can use this as a perfect drop in feedstock and produce exactly same quality plastics for same applications like they have been used before. That is just one of the aspects you have to consider.

Long story short, this requires a lot of fundamental research. It requires collaboration across the entire value chain, including customers who return the materials at one point in time, and that also would require that you entirely manage to switch from a linear to a real circular model. So this is a many-, many-year undertaking. However, first steps you need to take today where you say you switch your R&D portfolio entirely towards circular economy and circular economy applications. It would mean that you build your entire electricity supply from today, coal and gas and whatever type of electricity, towards renewables, which we already have undertaken. So today, we take the steps. Today, we decide on resource allocation that will benefit us in the next 5, 10, 15 or even only 20 years.

What does that mean in terms of your question? Today, there's only a fraction of our feedstock, that means way below 1%, not crude oil based. And today, there is only a fraction of the materials that we can mechanically recycling. However, we made very promising first attempts and have very promising first research results that say that our materials can be entirely recycled by different means, for example, chemical recycling. But the percentage of recycled grades that we are using based on our own products is also way below 1% in total.

With that, I would like to give back to the operator, yes.

Operator

The next question comes from Markus Mayer, who's calling from Baader Bank.
Markus Mayer Baader-Helvea Equity Research - Lead Analyst of Chemicals

The question remaining, first one on the free operating cash flow guidance for 2020. Can you help us to understand what kind of oil price or raw material cost movement, this also net working capital potential reduction you've taken until the free operating cash flow guidance? That is my first question.

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

I think -- I mean, we don't give out a specific guidance for the oil price. What I can tell you is that we have, obviously, for the EBITDA, assumed a negative pricing delta, which is roughly the EUR 600 million to EUR 700 million, which we talked about, that contains a small positive relief from raw materials, roughly between EUR 100 million and EUR 200 million positive and a negative pure price effect, which then all together brings it to EUR 600 million to EUR 700 million, which we gave you. And that obviously then also flows into the free operating cash flow.

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

Okay. Understood. The second question is on polycarbonate again. Oops, quite a difficult question, but it looks like those are part of the sharp cut at polycarbonates, of course, was (inaudible) capacity addition, but rather also to the destocking in the automotive industry. Do you have any kind of idea where the inventory levels at your customers of the very standard polycarbonates where they are, are they ready at levels where the customers can't destock further? Or is there still a downside potential for destocking?

Markus Steilemann Covestro AG - CEO & Chairman of Management Board

Markus, this is Markus speaking. It is very difficult to judge for the time being in very much detail. And I'm, however, less concerned about the inventory levels on polycarbonate for the automotive industry. Why is that? Most of the grades we are selling to the automotive industry are grades that we would consider to be more on the specialty side for polycarbonate. So it's not the mass market that is normally served towards the automotive industry. So it's not the big commodity grades, but rather specific grades, for example, for headlamps, even that, even though it is a clear polycarbonate grade, that is something that is considered to be a specialty. And then if you go into the interior applications, most of the applications are considered to be specialties.

What does that mean? They are particularly ordered to produce very specific model. And they are normally ordered when the demand is really there and not put on stock that much. That means currently, what assume that the stock level at the automotive industry is rather on a low level as there anyhow, at any time the automotive industry is managing these type of stocks rather well, and they just order what they really need for production. What concerns me more, though, is how do the stock levels for the automotive industry look like in terms of finished cars? And that is something which we consider also in our forecast, and which we also consider into our outlook how we expect the automotive industry developing in 2020. Because once consumers are back and are willing to buy new cars, from my perspective, there is still a lot of inventory sitting there in finished cars, which still needs to be sold.

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

Yes. Okay. And then my last question would be basically, again, CapEx, particularly in 2021 and beyond. The estimate this large project. Of the -- your CapEx plan for 2021, how many of the projects are basically already prelocked in and can't be changed? Can you quantify this maybe in percentage terms?

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

I mean, it's difficult to give an exact guidance, but I think we could always take out a couple of hundred millions. If we took a decision today, I think, directionally, this would be probably the number that you should have in mind.
The next question comes from Mr. Charlie Webb, who's calling from Morgan Stanley.

Charles L. Webb 
Morgan Stanley, Research Division - Equity Analyst

Just a couple. First off, just can you help us -- given all the moving parts and where we ended up at the end of FY '19, can you give us your kind of view on what you see as mid-cycle as well as what you see as kind of trough EBITDA for Covestro today? I mean, you alluded to the fact that spreads across many of your commodity verticals are close to trough levels. So perhaps, can you just help us -- is EUR 1 billion the right kind of trough EBITDA number? Or do you see a number that's a little bit lower than that, excluding kind of the one-off effects like coronavirus, et cetera? And then the kind of second -- and then also, sorry, mid-cycle as well relating to that.

And then secondly, just in terms of demand, in terms of what you've seen so far this year outside of China, clearly, China is a focus, and again, here, thank you for sharing what you think that looks like for February and March. But how have you seen demand evolving in Europe and in the U.S. kind of through the end of the year and in the early part of this year? That would also be very helpful.

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

Yes. This is Thomas speaking. Let me start with the first question. I think what I can tell you is for all of our 3 big products, namely, MDI, TDI and PCS commodity grades, we are currently at or close to historical trough margins. So I take this as an indication that the company as a whole, I would also assume we are at or at least very close to historical trough. Now you can always, of course, construct a scenario, and you name corona, et cetera, which stands out of the normal development. But I think taking normal conditions, this is how we would see it. And then in terms of mid-cycle, obviously, this is a somewhat -- yes, there's a little bit of a judgment call, but I think we have depicted on Page 15 in the dotted line, where we roughly see it. And I think this would be a number which is around EUR 2 billion EBITDA for the company.

Markus Steilemann 
Covestro AG - CEO & Chairman of Management Board

Charlie, on your second part on the demand, how we look at it, I think we had a good start into January globally without giving you too much detailed flavors on individual industries. In February, we have seen a slowdown in China that went beyond the normal seasonality that you see with regard to Chinese New Year, exactly because of the reasons that have now been widely discussed. So China is weak in that sense. The rest, United States and also Europe, is okay. I would even say a little bit more than okay because we see that global supply chain seem to continue to adjust to what some people would call the new normal.

We have the trade tariffs, as you know, that have already led to some shifts in the global supply chains. And on top of that, I would say that now the coronavirus also has led to some additional shifts and rearrangement of global supply chains. It is not a large extent, but I would guess that some of the developments in Europe as well in North America also are the result of people trying to desperately shift supply chains so that might lead to a little bit of a compensation of the slowdown in China by Europe and the United States. How material it is, difficult to say.

The next question comes from Jaideep Pandya, who's calling from Millennium.

Jaideep Pandya 
Millennium Capital Partners LLP

If you don't mind, I will ask 3 questions. Firstly, on polycarbonate. Can you just tell us with regards to Bisphenol A, if ban of this material, if there is going to be a ban in Europe, is going to have an impact on you guys? And the second question I have on polycarbonate is basically, if I look through 2014 to 2019, this business back in the day in troughs used to make sort of 4%, 5% EBITDA. Now I know that you had a CD business back then. There's a lot of capacity still being added. Recently, a very big oil company has announced a big project. So you're making about 11% margin. How do we think that this is trough, if there's still new capital coming into this product? And then just a final question really on leverage. I take your point on stable dividend, but at what point in terms of leverage are you comfortable when you define that you want to be investment-grade rating?
Markus Steilemann Covestro AG - CEO & Chairman of Management Board

Yes, Jaideep, thanks for the question and for giving us a different spin. The Bisphenol A topic in Europe for me is a topic that is very well-managed by the entire industry. Bisphenol A is a very widely used chemical substance, maybe one of the best research substances that we have in the entire chemical industry with research going back more than 50 years and also studies that actually cover entire lives of people in this context. So from that regard, I think -- and that has also been confirmed by many institutions, for example, the EPA, but also the FDA in the United States. Bisphenol A is absolutely safe for all its intended uses. And the few restrictions that we have seen, for example, on thermal paper, printing devices, do not have any major impact on the sales of the respective industry. So from my perspective, for me, I have a very hard time to imagine why there would be a potential ban on Bisphenol A that would have a major impact on our business, to be very clear.

To add on that, some of the applications have already been deselected that were of some concerns from consumer perspective, for example, baby bottles, many, many years ago. So there is not one single kilogram of sales going into this application from our perspective anymore. And then also, from that perspective, I think I would not see any impact from today's perspective.

You asked on polycarbonates, let's say, in trough times, 4% to 5% EBITDA margins, if I understood you correctly. I think we need to rethink how we look at polycarbonate from a Covestro perspective and how much impact we really have from additional capacity additions. Why is that? Looking back 2005, where 30% of the global demand was just optical data storage and where the majority of capacity was just selling primary products into the market, the Covestro portfolio has, over the last 15 years, significantly moved on and moved forward into more specialized products.

So that as of today, our portfolio consists to the majority of those specialized products, which gives us support on less volatile margin business, on the one hand. Secondly, we have developed over the years a leading cost position and managing more efficiently and effectively a much larger business than at that time. So that means in terms of overhead compared to what are we actually selling in terms of absolute volume, so from that perspective, the threat of additional capacity stations by high-cost producers into the low-margin area has, over time, become lower and lower for the Covestro portfolio because we are moving at a disproportionate speed away from those commodity grades more into higher specialty grades. At the same time, we are significantly increasing our leading cost position.

One last example is here, this mother of all polycarbonates plant, which currently sits in China, with a very large capacity of 400,000 tonnes being now expanded to 500,000 tonnes and with the optionality to expand it to 600,000 tonnes. And that also gives an entirely different position than we have seen it from a historical perspective.

Jaideep Pandya Millennium Capital Partners LLP

Just to ask you differently, Shell's moved into this industry or into this product with 250kt capacity announcement with the so-called "different technology" doesn't concern you. That's what I was trying to ask you.

Markus Steilemann Covestro AG - CEO & Chairman of Management Board

We're looking at the competitiveness on customer side and not just at one single plant of one new entry into the market. And from that perspective, I would not say that one single plant really worries me.

Operator

The next question comes from Jean-Baptiste Rolland, who's calling from Bank of America.

Jean-Baptiste Rolland BofA Merrill Lynch, Research Division - Associate

I just wanted to get some clarity on the phasing of the EUR 200 million cost savings that you have planned for this year? And also, if you have any expectations in terms of the phasing as well from the raw materials relief?

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

Well, I mean, on the phasing of of the EUR 200 million cost savings, I think you can assume for your models an equal distribution across the quarters, give or take. So there will be no major ramp up to -- for that to be needed. And the raw material, again, I would rather think in terms of pricing delta, which is the EUR 600 million to EUR 700 million, and in that sense, it's also evenly distributed.
The next question comes from Geoff Haire, who's calling from UBS.

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

I just have one left from my point of view. I just wondered if you could help us with your thoughts around capital allocation. You've clearly said that you can't borrow to pay the dividend indefinitely. The CapEx, obviously, remains high relative to maintenance CapEx in a low point in the cycle. How do you think about -- is investing in new capacity more important than the dividend? Or how would you think about that?

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

Geoff, thank you for the question. Unfortunately, those things are difficult to reduce to a single statement. Yes. So obviously, we're trying to manage the magic triangle here. We have a 7-year CapEx horizon. So we cannot cut CapEx short term. But we're absolutely convinced, as you correctly said, that investing into our capacities and maintaining the 4% long-term growth rate is value creating to our shareholders. We're obviously making short-term adjustments in the CapEx as much as this is sensible. But we have to also manage the friction cost that an up and down in CapEx spending would introduce. At the same time, as I said, we are committed to a solid investment-grade rating, which we think is important for the company, and we think we will be able to pay a stable, ideally rising dividend, and we would be prepared to finance this out of the balance sheet in the short term. So quite frankly, I cannot give you an exact priority. We're managing all 3 priorities. And we think in the mid of the cycle, where the company is earning the EUR 2 billion of EBITDA, we can fulfill all targets that we're managing.

But if it took us, let's say, 4, 5 years to get to mid-cycle of EUR 2 billion, we could be 2, 3 years of having to borrow and what you're saying is that you're happy to do that to pay the dividend?

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

No. What I said is we can bridge the dividend in the short term. Short-term is definitely not 4 years. Short-term is maybe 1 to 2 years.

The next question for today comes from Chetan Udeshi, who's calling from JPMorgan.

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

Just, firstly, on EUR 200 million of additional savings, can you help us understand how suddenly EUR 200 million have come through? I mean, it seems a big number as such, even if it's -- given that it's just short-term savings. And can you clarify whether EUR 200 million is just net or a gross number? So in other words, should we be adding EUR 200 million total to our bridge? That's number one question.

Number two, your free operating cash flow definition, which you probably are using to juxtapose your dividend payment besides it, but I don't know whether that free operating cash flow definition is necessarily the right free cash flow definition, given that you have some of the lease liabilities or lease payments of EUR 130 million have been moved from operating cash flow to financing cash plans. You still have some interest charges. So is free operating cash flow a right definition to use? Or you think maybe one should be adjusting it for the below-the-line payments?

And last question, sorry, is, having volume growth as a key KPI -- maybe just help us understand why not the absolute earnings rather than just volume growth? Because clearly, one of the key moving parts for Covestro's earnings is pricing. So to some extent, how best can you optimize the absolute earnings is probably more important than just volume growth. So just some thoughts on that.

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

Okay. Let me take the first question, and then come to the more fundamental ones that you've raised. So on the EUR 200 million cost savings, I mean, I have a long list in front of me, and I think it would probably be too much for this call to read them all out. What I can give you in terms of rough cut is that we're looking at 3 buckets of 1/3 each. The first one is cost savings, simply because we have cut our CapEx program. And less CapEx also means savings on the OpEx side.
So this roughly is 1/3 of those savings. Secondly, the next 1/3 is various cost saving items. So those are the usual suspects and smaller things like consultancy costs, travel, training, catering, et cetera, et cetera, and marketing, where you can always take a break. And then the third bucket, which again cater for 1/3 of it is that simply, we have reduced our budgets for some of the growth initiatives where we wanted to spend more money. This is in part digitalization. This is in part IT, where we think we can, for a year, also live with less growth in our cost. So those are the 3 buckets. If you ask what of that is cost avoidance versus real cut versus 2019, it's a 50-50-50 split. So 50% is cost avoidance versus a higher budget, and 50% is real cost reduction relative to 2019.

And then I think on your other questions, I mean, I think we've been very -- I mean, Chetan, this is something we can obviously debate. But I think we've been very open about what is the effect of IFRS 16, and I think we're obviously very mindful that below free operating cash flow, there is still a dividend to be paid and interest to be paid, and that includes the interest for the leases. So I think something that we will take into consideration. And on the volume growth side, I mean, I can assure you that we are not pursuing volume growth per se as a KPI, but we think that out of our value-creating or value-focused strategy to invest into new capacities that have a return above our weighted cost of capital, that should lead into growth for the company. And since we are in an industry where we have cost inflation every year, growth is a necessary condition so that we can cover those cost inflation. So it's, for us, not, I would say, a single-minded road where we say, we have to achieve growth at our cost. But it's a balanced approach between growth, the profitability and the efficiency, which is reflected in our ROCE number. And we think in that sense, to have it as 1 KPI, which is equally weighted with the others, it is a sensible way to look at our business.

Operator
The next question comes from Georgina Iwamoto, who's calling from Goldman Sachs.

Georgina Iwamoto Goldman Sachs Group Inc., Research Division - Associate

Sorry for keeping you on the line so long this evening. And I've got 2 questions left. So the first is to Thomas on the dividend. I just wanted to understand the rationale for not rebasing the dividend in the current environment. Does it signal that you think the earnings are going to rebound next year? You've been very clear, Thomas, about not funding the dividend from debt in the medium term. What do you need to see to have confidence that the medium term looks good?

And then also kind of on that topic, can you maybe elaborate on your preference for a high dividend over a share buyback, which potentially offers more flexibility and could arguably be seen as attractive? And if you think that FY '20 is the trough?

And then one question for Markus. Aside from M&A, are there any in-house technologies that you think you can develop or grow organically to diversify your product or end market exposure? I appreciate the color that you gave us on projects in circularity and recycling, but do you think that product or end market diversification is also possible?

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

Yes, Georgina, let me start with the dividend question, and I hope that I can cover the scope that you alluded to. So first of all, I mean, our rationale is, if you look at this company in the midpoint of the cycle, and I mean, you can always debate what is exactly the EBITDA number that is midpoint, but just give and take, if it was a EUR 2 billion EBITDA, then we just think the dividend payment of EUR 2.40 that we currently have is at least in line with a mid-cycle point in order to have our shareholders participate in the success of the company. And we only paid EUR 2.20 when the earnings were much higher, and we think now that we are approaching trough levels, we should maintain the dividend payment. Therefore, it is somewhat geared to a reasonable payment given the midpoint of the cycle that we assume for this company.

And yes, you said it, I think we can find it out of the balance sheet in the short term, short term being 1 or 2 years, but not in the medium to long term. But medium to long term, we have to take the right efficiency measures. And I can tell you, we're laser-focused on implementing exactly those savings that we try to describe in this call. On the rationale of a share buyback, I think the feedback that we've gotten so far is that a reasonable dividend payment is the preference of many shareholders. But I think we've shown some flexibility in the past, where we embarked on a share buyback, and we've also received the authorization to embark on another one. If we should be in a position where our balance sheet is becoming inefficient, I think currently, this is nothing that is immediately in the cards.
But I think we've shown our commitment to return excess cash to our shareholders in the past, and we will stick to that commitment, should the situation arise again.

Markus Steilemann  Covestro AG - CEO & Chairman of Management Board

Yes, Georgina, this is Markus speaking. Yes, it's a quite challenging question in terms of innovation, I have to say, simply because of the fact that our development cycles also in with regard to new technologies, but also new products take a while, I would say. And in particular, in our end markets, when we only talk about chemical products, there's smaller contributions because at least as of today, the so-called blockbuster that you see in other industries are difficult to find here.

However, if you would like to have some flavor on what we do in the circular economy, one thing is where we believe a big opportunity also to increase competitiveness in the market if you provide solutions that help to, for example, recycle some of the products that we bring into the market. And here, we're talking about opportunities in terms of chemical recycling. We talk about technologies that are not necessarily chemical-product related, but that are related towards online process optimization with our customers. So where we tell our customers online how they could optimize the mixtures that they're using to use, for example, less scrap, when they are going for rigid foam manufacturers and things like that.

There's other opportunities that we have to provide products to our customers that are more environmentally friendly. And one of the fastest-growing segments, for example, in the Coatings, Adhesive, Specialties area is all our waterborne polyurethane dispersion systems, which still are very much like our customers and show several other benefits, not only benefits in terms of greenification of the production and so on and so forth. So the entire topic of circular economy goes across the board from recycling technologies through solvent-free systems, through nonfossil-based raw materials, and they go even beyond.

Just to give you another example, if you think about products that have been produced with green energy, that means the higher your usage of green electricity is, I think, the better your position with some of the customer segments that we have are. So only looking at the product view, only looking at the chemicals that you sell to customers may fall short a little bit. You have to look at this from an overall life cycle assessment perspective, and I think that is exactly the journey that Covestro currently is embarking into, and that provides technologies, that provides better footprint in terms of CO2 emissions, but it also provides better solutions in terms of applied technology and methodologies of recycling, just to give you some flavor.

Operator

And the last question for today comes from Isha Sharma, who's calling from MainFirst.

Isha Sharma  MainFirst Bank AG, Research Division - Analyst

First one would be, what is the magnitude of price increases from the current levels that you would need to achieve the midpoint of your guidance? And then related to that, how likely is it that high-cost producers who burn cash in the situation and are doing shutdowns because of which the prices should improve would start producing again once the prices are, again, at an attractive level? This would be the first one.

And the second one would be, if we assume that there's a little bit of recovery in prices during the year and a pickup in business activity, would you still prioritize the short-term savings of EUR 200 million?

Markus Steilemann  Covestro AG - CEO & Chairman of Management Board

Isha, this is Markus speaking. We're just debating here in the background a little bit to be a little bit more transparent about what we are doing by being so quiet here on the other end of the line. Because I think we have been quite clear about how we see the current mark-to-market situation. And Thomas has alluded on that quite nicely that he said, this is about EUR 1.1 billion. And if you would translate that now in terms of sales and would say that everything comes through, which we sell more in terms of pricing and about 1% to 2% of additional sales would maybe lead to about EUR 120 million additional EBITDA. And you can now choose to what extent you would like to distribute that to which product portfolio. Because I think we also made it very clear that in the polycarbonates as well as TDI business, we would not see quick recovery in prices. So the only remaining larger commodity segment would be MDI, and then you would need to just make your own math about how much additional price increase you would need on MDI, let's say, in terms of
generating additional EUR 120 million EBITDA. If you would increase our sales by 1% to 2%, just to keep in mind, MDI is 20% of our portfolio. It would maybe lead to a 10% price increase on a year-on-year basis -- I mean, full year-on-year basis, and that gives you some indication. So where you would need to end up. Is this unusual? Have we seen that historically? Yes, we have. So it is not unusual. Would we see it for the full year? Would we see it from which point in time? Very difficult to say, frankly speaking.

So that also leads me to the second part of the question, where you said, well, when will those high-cost producers enter? We have to take into consideration that some of the high cost producers have small plants. And it is very difficult to say when they will restart and what will be the effect. Just to keep in mind, there is significant capacity currently not producing. That also means that if the market prices would recover, there will definitely be a few producers lining up to immediately start and resume production again. And that will also subdue price movements in TDI, but also polycarbonate -- only on the commodity segment for polycarbonate for quite some time. And that's why it's very difficult to say where exactly would be the price from which high-cost producers will immediately end up. On TDI, if you just take the cash cost curve, it is very steep. So low-cost producer to high-cost producer, 50% difference. On MDI, we assume it's 30% difference. And so I would assume whenever the prices will increase by 1%, 2%, there will be a first one in line who would immediately produce. But then it would be a staggered approach. It is very difficult to judge, frankly speaking.

**Operator**

Mr. Koehler, there are no further questions at this time.

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

Maybe we forgot one question to be answered. Would we still give priority to short-term savings? Sorry for that. In case of a pickup of profitability, I think the clear answer is yes, for sure.

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

Good. Then thank you all for participating and for your questions. If you have additional questions, don't hesitate and just call the IR department, and we will try to help you. We will be obviously having some conferences and roadshow after that quarter. So happy to see you then on the Street as well. Thank you. Bye.

**Operator**

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

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