



Leverkusen,
February 19, 2020

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Fiscal 2019: Further volume growth while prices remain at a low level

Covestro achieves targets in continuing challenging market environment

- **Core volumes up by 2.0%**
- **Group sales total approximately EUR 12.4 billion (–15.1%)**
- **EBITDA as forecast at approximately EUR 1.6 billion (–49.9%)**
- **Program launched to promote circular economy**
- **Dividend proposal of EUR 2.40 per share**
- **Outlook for 2020: Full year remains challenging**

Covestro has achieved its targets in a challenging market environment in fiscal 2019. Core volumes increased by 2.0% compared to the previous year. Group sales fell by 15.1% to approximately EUR 12.4 billion as selling prices remained low due to increased competitive pressure in all segments. Consequently, EBITDA declined in line with our forecast by 49.9% to approximately EUR 1.6 billion. Net income fell to EUR 552 million (–69.7%), while free operating cash flow (FOCF) came in at EUR 473 million (–71.7%). On this basis, Covestro plans to distribute a dividend at the previous year's level of EUR 2.40 per share.

“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 before,” said CEO Dr. Markus Steilemann. “2020 will remain challenging for us. However, we still see long-term demand for high-tech plastics to enable a more sustainable development across a wide range of different key technologies. Therefore, we are consistently gearing our business towards circular economy.”

In the 2019 fiscal year, Covestro 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, develop innovative recycling and establish broad-based cooperations and new business models.

Efficiency ensures ability to act

“Covestro has a solid financial base, even though the operating result for fiscal 2019 was, as expected, below the record levels of previous years due to continuing pressure on prices. Nevertheless, we still achieved our targets in this environment,” said CFO Dr. Thomas Toepfer. “We will only be successful in the current market environment if we position ourselves even more efficiently, prioritize projects and question investments in order to maintain the necessary financial flexibility.”

Given the continuing challenging economic outlook for 2020, Covestro has accelerated the implementation of the multi-year effectiveness and efficiency program launched in October 2018. That enabled Covestro to cut costs by around EUR 150 million in the past fiscal year. For 2020, the company aims to achieve savings of EUR 250 million, while the cumulated savings by the end of 2021 are expected to be around EUR 350 million annually. In addition, various short-term measures were taken, such as more efficient cost management and another review of all existing and planned investments. This should result in additional savings of EUR 200 million in the current financial year. In addition to the continuous improvement of the company’s commercial clout, the focus in 2020 will therefore remain on increasing efficiency.

Full commercial leverage of product innovations

At the plastics trade show K 2019 in Düsseldorf last fall, Covestro presented numerous product innovations that deliver answers to global challenges such as urbanization, mobility of the future or climate change. As an innovation leader, Covestro and its materials are in tune with the times. In the coming years, the focus will be on fully exploiting this potential commercially. Sucheta Govil, the new board member and Chief Commercial Officer at Covestro since summer of 2019, will work on enhancing Covestro’s sales strength. The objective is to intensify customer centricity, digitalize and optimize marketing strategies, and identify attractive market opportunities even sooner.

Continuous review of investment projects: Focus on long-term success

Covestro invested a total of EUR 910 million in 2019 (previous year: EUR 707 million), the highest figure in its history. Investment projects are managed consistently with a focus on efficiency and the best possible use of capital. Since the market environment remains challenging, Covestro



announced in January 2020 that the MDI investment project in Baytown (United States) will be paused for 18 to 24 months.

Nevertheless, Covestro is still confident that the long-term growth prospects for MDI are highly promising. The new MDI plant at the Brunsbüttel site in Germany started up as planned in the first quarter of 2020. Annual production capacity there will thus be doubled to 400,000 metric tons. That will make Brunsbüttel one of the three largest MDI production sites in Europe and secure Covestro's leading position in this market segment.

Guidance for fiscal 2020: Market environment remains challenging

For 2020 as a whole, Covestro anticipates low single-digit percentage growth in core volumes. The Group expects FOCF to come in between EUR 0 and 400 million and ROCE between 2% and 7%. Covestro assumes that EBITDA for the year as a whole will be between EUR 1.0 and 1.5 billion. In the first quarter, EBITDA is expected to be between EUR 200 and 280 million.

The financial impact of the corona virus on the current fiscal year 2020 cannot yet be fully predicted.

Positive volume growth in Polyurethanes and Polycarbonates

Core volumes in the Polyurethanes segment increased by 2.3% year on year. A positive demand trend in the furniture and construction industries and in the electrical, electronics and household appliances industries more than offset weaker demand, especially from the automotive industry. Sales decreased by 21.5% to EUR 5,779 million, mainly on the back of the negative trend in average selling prices due to intensified competition. The low level of prices cut deeply into margins despite a decline in raw material prices. EBITDA consequently fell by 63.2% to EUR 648 million.

In fiscal 2019, core volumes in the Polycarbonates segment increased by 2.7% year over year, mainly due to stronger demand in the electrical, electronics and household appliances industries and the construction industry. Sales fell by 14.3% to EUR 3,473 million and EBITDA by 48.3% to EUR 536 million. The declines were likewise attributable to the year-over-year decrease in selling price levels as a result of increased competitive pressure. Moreover, the sale of the U.S. sheets business in the third quarter of 2018 impacted sales in fiscal 2019 with a negative effect of 2.2%.

Core volumes in Coatings, Adhesives, Specialties for fiscal 2019 were down 1.0% from the prior year. The prime reason for this decline is weaker demand for coating precursors from the automotive industry. At EUR 2,369 million, the



Coatings, Adhesives, Specialties segment's sales remained stable year over year (previous year: EUR 2,361 million). EBITDA increased by 1.1% to EUR 469 million. Declining margins, due to lower selling prices, and lower volumes had a negative impact on earnings, whereas exchange rate effects and the portfolio effect of the step acquisition of shares of Japan-based DIC Covestro Polymer Ltd. increased earnings.

Fourth quarter of 2019 also marked by fierce competition

Core volumes in the fourth quarter of 2019 increased by 3.8%. Group sales fell by 12.5% over the prior-year quarter, mainly due to lower selling prices as a result of increased competitive pressure in all segments. EBITDA was therefore EUR 278 million (-5.1%) and net income was EUR 37 million (-53.2%) in the fourth quarter. FOCF decreased by 9.1% year on year to EUR 330 million.

About Covestro:

With 2019 sales of EUR 12.4 billion, Covestro is among the world's largest polymer companies. Business activities are focused on the manufacture of high-tech polymer materials and the development of innovative solutions for products used in many areas of daily life. The main segments served are the automotive, construction, wood processing and furniture, and electrical, electronics and household appliances industries. Other sectors include sports and leisure, cosmetics, health and the chemical industry itself. Covestro has about 30 production sites around the globe and as of the end of 2019 employed approximately 17,200 people (full-time equivalents).

Below please find a table showing key data for Covestro AG for fiscal 2019.

Find more information at investor.covestro.com.

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Forward-Looking Statements

This press release may contain certain forward-looking statements that are based on current assumptions and forecasts issued by the management of Covestro AG. Various known and unknown risks, uncertainties and other factors could lead to material differences between the actual future results, financial situation, development or performance of the company and the estimates given here. These factors include those discussed in Covestro's public reports which are available at www.covestro.com. The company assumes no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.

Covestro Group Key Data

	4th quarter 2018	4th quarter 2019	Change	2018	2019	Change
	€ million	€ million	in %	€ million	€ million	in %
Covestro Group						
Core Volume Growth	+1.7%	+3.8%		+1.5%	+2.0%	
Sales	3,272	2,864	-12.5	14,616	12,412	-15.1
Change in Sales						
Volume	+2.9%	-0.7%		+2.3%	+0.8%	
Price	-9.3%	-13.3%		+4.5%	-17.3%	
Currency	+0.3%	+1.5%		-3.0%	+1.9%	
Portfolio	-1.0%	0.0%		-0.4%	-0.5%	
EBITDA	293	278	-5.1	3,200	1,604	-49.9
EBIT	140	93	-33.6	2,580	852	-67.0
Net Income	79	37	-53.2	1,823	552	-69.7
Free Operating Cash Flow	363	330	-9.1	1,669	473	-71.7
Polyurethanes						
Core Volume Growth	+2.4%	+3.6%		+0.8%	+2.3%	
Sales	1,597	1,336	-16.3	7,362	5,779	-21.5
Change in Sales						
Volume	+2.5%	-0.2%		+0.9%	+1.5%	
Price	-17.6%	-16.9%		+1.9%	-24.7%	
Currency	+0.2%	+1.5%		-3.1%	+1.8%	
Portfolio	0.0%	-0.7%		0.0%	-0.1%	
EBITDA	111	123	+10.8	1,763	648	-63.2
EBIT	27	24	-11.1	1,412	250	-82.3
Free Operating Cash Flow	222	114	-48.6	972	32	-96.7
Polycarbonates						
Core Volume Growth	+1.6%	+3.5%		+3.0%	+2.7%	
Sales	924	814	-11.9	4,051	3,473	-14.3
Change in Sales						
Volume	+4.2%	0.0%		+3.8%	+2.4%	
Price	-2.3%	-13.5%		+9.7%	-16.5%	
Currency	+0.3%	+1.6%		-3.4%	+2.0%	
Portfolio	-3.8%	0.0%		-1.7%	-2.2%	
EBITDA	133	95	-28.6	1,036	536	-48.3
EBIT	88	39	-55.7	861	300	-65.2
Free Operating Cash Flow	165	120	-27.3	468	404	-13.7
Coatings, Adhesives, Specialties						
Core Volume Growth	-2.2%	+6.2%		+2.3%	-1.0%	
Sales	534	533	-0.2	2,361	2,369	+0.3
Change in Sales						
Volume	+0.3%	+0.1%		+3.5%	-2.1%	
Price	0.0%	-4.2%		+0.6%	-1.1%	
Currency	+0.6%	+1.9%		-2.6%	+2.3%	
Portfolio	0.0%	+2.0%		0.0%	+1.2%	
EBITDA	63	62	-1.6	464	469	+1.1
EBIT	39	32	-17.9	371	352	-5.1
Free Operating Cash Flow	71	115	+62.0	203	191	-5.9