

# Press Release



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Group sales and profitability substantially increased

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## Strong second-quarter earnings for Covestro

- **Group sales up 17.0% to EUR 3.5 billion**
- **Core volumes down slightly by 1.6%**
- **EBITDA grew 56.5% to EUR 848 million**
- **Net income more than doubled to EUR 484 million**
- **Free operating cash flow (FOCF) up 34.6%**

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After a successful start to 2017, the second quarter continued to be positive for Covestro. Ongoing robust demand for polymer materials led to a year-on-year improvement in utilization of available capacities for the industry as well as for Covestro. The result was a sharp increase of 56.5% in EBITDA and 110.4% in net income. At the same time, core volumes dropped slightly by 1.6% against a strong prior-year quarter. On a half-year basis, however, core volumes increased by 3.5% over the same period in the previous year.

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The company is optimistic for the medium term as well: “We want to keep growing in line with our customer industries, which are expected to grow faster than the global gross domestic product. In the next five years, we anticipate generating a cumulative total of EUR 5 billion in free operating cash flow,” says CEO and interim CFO Patrick Thomas. “This cash could be used for bolt-on acquisitions in the specialties segment, if the opportunity arises. Moreover we follow our intention to grow organically.”

### Sales and FOCF significantly higher

In the second quarter of 2017, sales rose by 17.0% to EUR 3,498 million, mainly due to higher selling prices, which had a positive effect of 15.3% on sales. The increase in selling prices is attributable to strong capacity utilization and a year-on-



year rise in raw material prices. FOCF amounted to EUR 319 million and was up 34.6% over the prior-year quarter.

“We want to continue to take advantage of the ongoing robust demand for our products as much as we can. Especially in the Polyurethanes and Polycarbonates segments, we will further invest in our production plants and take steps to eliminate bottlenecks,” explains Chief Commercial Officer Dr. Markus Steilemann.

### **Forecast unchanged, EBITDA guidance for the third quarter**

The company keeps the forecast for the full year unchanged which was adjusted after the strong first quarter. Covestro still expects core volume growth in the low-to-mid-single-digit percentage range, with free operating cash flow still significantly above the average of the last three years. For fiscal 2017, Covestro continues to anticipate ROCE significantly exceeding the previous year’s level.

The same is true for this year’s EBITDA, which is also projected to be significantly above the previous year. For the third quarter of this year, Covestro expects EBITDA to increase substantially above the prior-year quarter.

Covestro also still anticipates positive global economic development with stronger overall growth of 3.0% for the world’s economy in 2017 compared to the previous year.

### **Polyurethanes and Polycarbonates segments boost profitability**

Core volumes in the Polyurethanes segment were down 2.3% year-on-year in the second quarter. The decline was attributable primarily to the polyether polyols product group and constrained product availability in the MDI and TDI product groups. EBITDA in the segment grew by 143.9% over the prior-year quarter to EUR 556 million, largely due to improved margins. In the interest of optimally meeting high demand, Covestro had already announced a decision in March to continue production of the rigid foam precursor MDI in Tarragona, Spain, for the time being. At the same time, the company is doubling its MDI capacity at the Brunsbüttel plant in northern Germany to around 400,000 metric tons per year by the end of 2018.

The Polycarbonates segment recorded modest growth in core volumes of 0.7% compared with the prior-year quarter. As expected, growth was weaker than in the strong previous quarters. On the one hand, this lower growth rate in the second quarter resulted from the constrained volumes available in Europe. On the other hand, it was due to capacity expansion at the Shanghai site from which the company has benefited since the second quarter of 2016. The segment’s EBITDA rose by 3.1% to EUR 197 million. To address growing demand, particularly in the



APAC region, Covestro plans to further expand its plant in Shanghai, starting in 2019. Covestro is already one of the world's largest producers of polycarbonates.

Core volumes in the Coatings, Adhesives, Specialties segment decreased by 3.0% from the prior-year quarter. The reason was volume shifts in the first six months. At EUR 114 million in the second quarter, EBITDA was 19.7% below the previous year's figure. Above all, higher raw material prices and the slight decline in volumes negatively affected EBITDA. Covestro is expanding its production capacity in this segment as well: in China a world scale plant producing raw materials for coatings began operating last year.

### **First half of 2017 very positive**

On the whole, the first six months of 2017 were very strong for Covestro. Core volumes rose by 3.5% over the prior-year period due to continued healthy demand. Sales were up 20.8% on a 14.4% total increase in selling prices to EUR 7,084 million. EBITDA grew 61.3% to EUR 1,694 million, primarily driven by earnings growth in Polyurethanes. FOCF also increased significantly by 68.8% to EUR 530 million.

These results underscore Covestro's strong position in various customer industries and in key regions. Taking a forward-looking approach to continuing this success story, Covestro announced changes in its Board of Management in May: Dr. Markus Steilemann was named by the Supervisory Board to succeed Patrick Thomas after he announced not to renew his contract, which is set to expire in September 2018. Following the resignation of CFO Frank H. Lutz, Chief Technology Officer Dr. Klaus Schäfer additionally took over the position as Labor Director. Patrick Thomas is serving as CFO until a successor is found.

### **About Covestro:**

With 2016 sales of EUR 11.9 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 and electronics industries. Other sectors include sports and leisure, cosmetics, health and the chemical industry itself. Covestro, formerly Bayer MaterialScience, has 30 production sites worldwide and employs approximately 15,600 people (calculated as full-time equivalents) at the end of 2016.



**Note to editors:**

*Below please find a table showing key data for the Covestro Group for the second quarter of 2017.*

*This press release is available for download from the Covestro press server at [www.press.covestro.com](http://www.press.covestro.com).*

*The full Interim Report together with the presentation and audio recording of the analyst conference are available at [investor.covestro.com/en](http://investor.covestro.com/en).*

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**Forward-looking statements**

This news release may contain forward-looking statements based on current assumptions and forecasts made by 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](http://www.covestro.com). The company assumes no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.

## Key Data for the First Half of 2017

|   | 2nd quarter<br>2016 | 2nd quarter<br>2017 | Change | 1st half 2016 | 1st half 2017 | Change |
|---|---------------------|---------------------|--------|---------------|---------------|--------|
|   | € million           | € million           | in %   | € million     | € million     | in %   |
| <b>Covestro Group</b>                       |                     |                     |        |               |               |        |
| Core Volume Growth                          | +7.7%               | -1.6%               |        | +8.1%         | +3.5%         |        |
| Sales                                       | 2,990               | 3,498               | +17.0  | 5,865         | 7,084         | 20.8   |
| Change in Sales                             |                     |                     |        |               |               |        |
| Volume                                      | +4.5%               | +0.6%               |        | +4.9%         | +5.2%         |        |
| Price                                       | -8.7%               | +15.3%              |        | -9.6%         | +14.4%        |        |
| Currency                                    | -2.7%               | +1.1%               |        | -1.7%         | +1.2%         |        |
| Portfolio                                   | 0.0%                | 0.0%                |        | 0.0%          | 0.0%          |        |
| EBITDA                                      | 542                 | 848                 | +56.5  | 1,050         | 1,694         | 61.3   |
| EBIT  | 364                 | 687                 | +88.7  | 704           | 1,375         | 95.3   |
| Net Income                                  | 230                 | 484                 | >100   | 412           | 952           | >100   |
| Free Operating Cash Flow                    | 237                 | 319                 | +34.6  | 314           | 530           | 68.8   |
|   |                     |                     |        |               |               |        |
| <b>Polyurethanes</b>                        |                     |                     |        |               |               |        |
| Core Volume Growth                          | +9.0%               | -2.3%               |        | +9.7%         | +2.1%         |        |
| Sales                                       | 1,481               | 1,889               | +27.5  | 2,884         | 3,783         | 31.2   |
| Change in Sales                             |                     |                     |        |               |               |        |
| Volume                                      | +6.4%               | -0.8%               |        | +6.7%         | +3.4%         |        |
| Price                                       | -13.1%              | +27.0%              |        | -14.4%        | +26.4%        |        |
| Currency                                    | -2.8%               | +1.3%               |        | -1.9%         | +1.4%         |        |
| Portfolio                                   | 0.0%                | 0.0%                |        | 0.0%          | 0.0%          |        |
| EBITDA                                      | 228                 | 556                 | >100   | 442           | 1,038         | >100   |
| EBIT  | 124                 | 460                 | >200   | 241           | 856           | >200   |
| Free Operating Cash Flow                    | 89                  | 168                 | 88.8   | 81            | 157           | 93.8   |
|   |                     |                     |        |               |               |        |
| <b>Polycarbonates</b>                       |                     |                     |        |               |               |        |
| Core Volume Growth                          | +8.5%               | +0.7%               |        | +8.5%         | +7.5%         |        |
| Sales                                       | 831                 | 911                 | +9.6   | 1,617         | 1,865         | 15.3   |
| Change in Sales                             |                     |                     |        |               |               |        |
| Volume                                      | +7.9%               | +2.5%               |        | +8.3%         | +9.5%         |        |
| Price                                       | -4.3%               | +6.1%               |        | -4.8%         | +4.6%         |        |
| Currency                                    | -3.4%               | +1.0%               |        | -2.1%         | +1.2%         |        |
| Portfolio                                   | 0.0%                | 0.0%                |        | 0.0%          | 0.0%          |        |
| EBITDA                                      | 191                 | 197                 | +3.1   | 368           | 429           | 16.6   |
| EBIT  | 142                 | 152                 | +7.0   | 269           | 336           | 24.9   |
| Free Operating Cash Flow                    | 70                  | (25)                | .      | 152           | 16            | -89.5  |
|   |                     |                     |        |               |               |        |
| <b>Coatings, Adhesives,<br/>Specialties</b> |                     |                     |        |               |               |        |
| Core Volume Growth                          | -1.8%               | -3.0%               |        | -2.3%         | +2.3%         |        |
| Sales                                       | 532                 | 533                 | +0.2   | 1,044         | 1,097         | 5.1    |
| Change in Sales                             |                     |                     |        |               |               |        |
| Volume                                      | -0.6%               | -1.2%               |        | -1.1%         | +3.8%         |        |
| Price                                       | -2.7%               | +0.6%               |        | -2.5%         | +0.2%         |        |
| Currency                                    | -2.0%               | +0.8%               |        | -1.2%         | +1.1%         |        |
| Portfolio                                   | 0.0%                | 0.0%                |        | 0.0%          | 0.0%          |        |
| EBITDA                                      | 142                 | 114                 | -19.7  | 281           | 260           | -7.5   |
| EBIT  | 119                 | 95                  | -20.2  | 238           | 218           | -8.4   |
| Free Operating Cash Flow                    | 58                  | 26                  | -55.2  | 101           | 53            | -47.5  |