

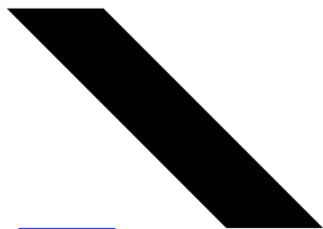


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HALF YEAR 2024 COVESTRO AG EARNINGS CALL

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CORPORATE PARTICIPANTS

- **Ronald Koehler** Covestro AG - Head of IR
- **Markus Steilemann** Covestro AG - Chairman of the Management Board, Chief Executive Officer
- **Christian Baier** Covestro AG - Chief Financial Officer, Member of the Management Board

CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Christian Faitz** Kepler Cheuvreux - Analyst
- **Sebastian Bray** Berenberg Bank - Analyst
- **Jaideep Pandya** On Field Investment Research LLP - Analyst
- **Chetan Udeshi** JPMorgan Securities PLC - Analyst
- **Sebastian Satz** Citi - Analyst

PRESENTATION

Ronald Koehler Covestro AG - Head of IR

Welcome to the Covestro earnings call on the second quarter results. The company is represented by Markus Steilemann, CEO; and Christian Baier CFO. (Operator Instructions) You will find the quarterly statement and earnings call presentation on our IR website. I assume you have read the Safe Harbor statement.

With that, I would now like to turn the conference over to Markus.

Markus Steilemann Covestro AG - Chairman of the Management Board, Chief Executive Officer

Thank you, Ronald, and hello and a warm welcome to our second quarter call. The highlights of the second quarter were the continued strong volume increase of 9.3% year-on-year. With this, we are fully on track to our target of a high single-digit percentage volume increase in the full year 2024.

However, lower prices are still affecting sales, which came in at EUR3.7 billion. We achieved an EBITDA of EUR320 million landing on midpoint of our guidance range. Free operating cash flow was minus EUR147 million, in line with our expectations. And we are narrowing our EBITDA guidance to EUR1 billion to EUR1.4 billion.

Let me take the opportunity and give you a brief update on Adnoc. As we stated on June 24, we believe that Adnoc and Covestro can generally reach a common understanding regarding core aspects of a possible transaction.

Therefore, we have decided to open our books for a confirmatory due diligence and to start concrete negotiations regarding a potential transaction, including the potential conclusion of an investment agreement.

This phase is ongoing in a constructive manner. We pursue the negotiations in accordance with our fiduciary duties in good faith, open-minded and in the interest of our shareholders, our company, our employees and all other stakeholders. This said, we ask for

your understanding that we will not make any further statements at this stage and do not intend to comment further on this issue unless legally required.

Let's turn pages to page number three. Turning back to the business and the volume development in the second quarter of 2024. Year-on-year, the global sales volume continued to increase by 9.3%. This is driven by an improving demand, but also by fixing our reliability issues in Europe.

Going through the different industries, construction showed the highest growth rates with a low teens percentage increase. Furniture and electro, follow with a high single digit increase. Auto exhibits a flattish development.

Looking into the different regions, EMLA continued to benefit significantly from the resolved internal availability issues. Drilling it down into the different industries, we see a mixed picture. Construction and furniture are exhibiting strong growth, mostly associated with better availability of our core products MDI and TDI.

Electro & Auto, however, are showing a strong decline. Overall, sales volumes in North America increased slightly, driven by strong growth in furniture and a slight increase in the construction industry. Electro developed rather flattish while auto shows significant decline.

Asia Pacific continues with positive growth across all industries that Covestro is focused on. Furniture, auto and construction exhibited significant growth, while electro showed a slight increase. With this summary of the demand development, I'm now handing over to Christian, who will guide you through the financials.

Christian Baier Covestro AG - Chief Financial Officer, Member of the Management Board

Thank you, Markus, and a warm welcome also from my side. We are on page 4 of the presentation. Sales for Q2 2024 are stable at EUR3.7 billion. The strong increase in volume was offset by negative pricing and FX. Prices declined by 9.7%, counterbalancing the volume increase of 9.3%. The negative FX effect of minus 0.4% was neglectable and mainly driven by the weaker Chinese RMB.

With that, let's turn to the next page where we are showing the Q2 2024 EBITDA bridge. Year-on-year we have a decrease in EBITDA of 17% to EUR320 million. This is at the midpoint of our Q2 guidance range of EUR270 million to EUR370 million.

Selling prices declined stronger than raw material costs due to the ongoing unfavorable industry supply-demand ratio. As a consequence, EBITDA was impacted with minus EUR186 million from a negative pricing delta.

The volume increase only partially compensated the negative pricing delta and the volume leverage was clearly below the long-term average due to the historically low margins. FX and other items also contributed to the negative development to a minor extent. Just to provide full transparency on the EBITDA bridge, other items were impacted by EUR23 million of restructuring costs in the S&S segment as part of the transformation program STRONG.

On slide 6, we are breaking down the details for the different segments and are as usual, starting with Solutions and Specialties. In S&S, the year-over-year price decline of 7.7% was leading to a sales decline of 3.3% despite increasing volumes of 4.8%. FX negative impact was neglectable.

Sequentially, sales growth was recorded in APAC and North America, while EMLA was declining. The EBITDA in Q2 2024 was lower year over year, mainly due to a negative pricing delta and the already mentioned restructuring cost.

The positive volume development could partly compensate the negative effects from pricing delta and other items. The quarter-over-quarter EBITDA decrease was driven by a negative pricing delta and the before mentioned restructuring cost being booked in Q2 2024. With that, the EBITDA margin decreased to 9.6%.

We are now expecting S&S EBITDA to contribute around the 2023 level. This adjustment compared to the previous guidance of a significant improvement is driven by the assumed mid-double digit million EURO restructuring costs and pressure from higher raw material costs.

After Solutions and Specialties we are now looking at the segment Performance Materials. Year over year sales increased by 2.5%, driven by 15% from volumes and minus 12% from pricing and minus 1% from FX. Quarter-over-quarter sales increased across all regions.

North America and APAC also showed sequential volume growth, whereas EMLA was stable. Q2 24 EBITDA of EUR196 million is 35% below last year. The year-over-year decline is mainly driven by the high comparison base.

Please remember that in Q2 2023, we booked an internal insurance reimbursement of EUR75 million, which at the same time burdened the segment others. Nevertheless, also the underlying business was down due to a negative pricing delta, which could not be fully compensated by the volume increase.

However, sequentially the EBITDA in Q2 2024 increased benefiting from a positive pricing delta and positive volumes. In line with the overall narrowing of our FY24 guidance we are also narrowing our EBITDA guidance for Performance Materials to now EUR400 million to EUR700 million instead of EUR400 million to EUR800 million.

The next topic is the free operating cash flow development. As you can see from the graph, the free operating cash flow in H1 2024 was negative EUR276 million with the Q2 FOCF contributing negative EUR147 million. The free operating cash flow declined year-on-year, driven by lower EBITDA and the bonus payout for FY 2023 in Q2 2024.

Changes in working capital of minus EUR350 million in H1 2024 were mainly resulting from the seasonal buildup of inventories. Given the sharp reduction of inventories at the end of last year, we would not exclude a rebuild in 2024, leading to a negative working capital cash out for the full year 2024.

H1 '24 CapEx of EUR272 million is stable year over year. We increased the CapEx into maintenance to reduce the risk for any major reliability issues like we have seen in '23. The growth CapEx focuses on a few selected expansion projects. Income tax paid of EUR80 million was slightly below previous year.

The minus EUR167 million other effects are mainly comprised of the bonus payout. All in all, the Q2 '24 free operating cash flow is seasonally depressed. Our planning still assumes a negative [free operating cash flow] (corrected by company after the call) in Q3, but a strongly positive free operating cash flow in Q4 2024.

Let's now look at our balance sheet on page 9. Our total net debt slightly increased by EUR308 million compared to end of 2023. The increase was mainly caused by the seasonally negative free operating cash flow of EUR276 million and negative others.

The decrease in the net pension liability of EUR133 million was driven by an increase of the pension discount rates in the US and Germany. This comprises pension provisions of EUR265 million and the net defined benefit asset of EUR98 million.

Summarizing our net debt position, the total net debt to EBITDA ratio is at 3.2 times based on a four quarter rolling EBITDA of EUR1 billion. However, based on our mid-cycle EBITDA, the ratio would be only around 1.1 times.

Covestro remains committed to a solid Baa2 investment-grade rating that was confirmed by Moody's in May 2024. Back over to you, Marcus.

Markus Steilemann Covestro AG - Chairman of the Management Board, Chief Executive Officer

Yes. Thanks, Christian. And let's turn to page number 10 and also let's turn now the focus to the future.

On June 25, we launched our new transformation program STRONG. With strong we are shaping the sustained competitiveness of Covestro with effective structures and efficient processes and supported by a broad AI implementation.

After a ramp-up phase, beginning 2028, STRONG targets to generate annual savings of EUR400 million. This is slightly below 10% of our global fixed cost base. In order to make this happen, we are expecting cumulated EUR300 million restructuring costs.

Our updated 2024 EBITDA guidance assumes a mid-double digit million euro positive impact from STRONG as savings will be partly counterbalanced by restructuring costs.

What are we doing content-wise with STRONG: We have an underlying set of measures that leads to these savings, one-time cost and potential impairments. For example, we are streamlining our structures and our asset footprint, and we are pushing forward our near- and offshoring activities.

We also skipped already our 2024 non-tariff salary increases. Further content, we will share with you based on the implementation of further steps and after having informed the respective employees.

On the next page, we are now coming to the outlook for Covestro for 2024. We are narrowing our EBITDA guidance for full year 2024. We are now expecting the EBITDA for full year 2024 to come out between EUR1 billion and EUR1.4 billion.

The mark-to-market EBITDA is calculated at around EUR1.2 billion based on June 2024 margins flat forward and our current budget assumptions for 2024. The updated guidance now assumes only limited changes in our product margins per ton, a more

pronounced rebound from the historical low levels is getting rather unlikely in the second half of 2024.

As there has been no significant change in the global demand picture and the industry outlook, we are skipping the comprehensive discussion and the slide here. Let me just highlight the overall trend: The market outlook on global GDP is now around 2.6%. And the outlook for our core industries is mostly unchanged versus the Q1 Call.

And with this, I quickly hand over to Christian for the full set of KPIs.

Christian Baier Covestro AG - Chief Financial Officer, Member of the Management Board

Let me now focus on the additional guidance elements for FY 2024. In line with EBITDA also ROCE above WACC has been narrowed to minus seven to minus four percentage points. The free operating cash flow has been adjusted to now come out at minus EUR100 million to plus EUR100 million.

The greenhouse gas emissions in Scope 1 and 2 are estimated stable between 4.4 million and 5.0 million tonnes. In Q3 2024 we expect an EBITDA between EUR250 million and EUR350 million. We are on track for the forecasted high single digit volume growth for Q3 and also for fiscal year 2024. However, margins remain on the historically low level, which is expected to lead to a continued negative year-on-year pricing delta in Q3, all other KPIs remain stable. And with without back to Markus.

Markus Steilemann Covestro AG - Chairman of the Management Board, Chief Executive Officer

Yes, thanks Christian, and allow me to quickly summarize. We have seen a rebounding of volumes in a challenging environment in the second quarter. And this continued strong volume growth was driven by globally higher demand and improved internal availability.

Sales was stable at EUR3.7 billion, continued strong volumes increase, while lower prices and unfavorable currency effects were the main root causes for this development. EBITDA in the second quarter of 2024 came in at EUR320 million at the midpoint of our guidance range, and that was burdened by the already mentioned negative pricing delta.

Full year 2024 guidance has been narrowed with now an expected EBITDA of between EUR1 billion and EUR1.4 billion and the transformation program STRONG has been launched with intended savings of annually EUR400 million by 2028. And now Christian and myself are happy to answer any questions that remained open.

With that, I hand over to Carsten, who will guide us through the Q&A session. Thank you.

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions)

Christian Faitz, Kepler Cheuvreux.

Christian Faitz Kepler Cheuvreux - Analyst

All right. Good afternoon, Markus, Christian, Ronald and team. Two questions, please. First of all, your cost of goods sold for the first time in five quarters are increasing again year-on-year, but also sequentially. Can you please explain why?

And second question also a nitty-gritty question, sorry, for that. What's the reason for the relatively high tax expense at present and what kind of tax payments should we model for the remainder of this year? Thanks very much.

Markus Steilemann Covestro AG - Chairman of the Management Board, Chief Executive Officer

So Christian -- I'm just going to take the volume question and then Christian -- so our Christian here -- is maybe then talking about the tax topics. Cost of goods sold, Christian, is mainly due to higher volumes, but also slightly higher raw materials. And here to mention, just as an example, benzene, and that's the simple answer. So higher sales in terms of higher volumes and slightly increasing benzene costs as a large commodity raw material that we buy.

Christian Faitz Kepler Cheuvreux - Analyst

All right, understood. Thanks, Markus.

Christian Baier Covestro AG - Chief Financial Officer, Member of the Management Board

Yes, on the tax perspective, yes Q2, there has been a bit higher expense, but overall, for the full year, you should be expecting EUR250 million to EUR350 million. We are on track with that for the full year, Q2 is a little bit of an outlier in that respect.

Christian Faitz Kepler Cheuvreux - Analyst

Okay, why is that outlier? Any particular reason?

Christian Baier Covestro AG - Chief Financial Officer, Member of the Management Board

There's a bit of more topics with respect to deferred tax assets from that perspective on the German tax group, which is causing a little bit of a higher expense at that stage, non-cash and therefore relevant, is that EUR250 million to EUR350 million for the entire year.

Christian Faitz Kepler Cheuvreux - Analyst

All right. Thanks very much, Christian.

Operator

Sebastian Bray, Berenberg.

Sebastian Bray Berenberg Bank - Analyst

Hello. Good afternoon and thank you for taking my questions. I have two, please. The first is related to the operations in Germany, and I think you touched on it already in response to Christian's questions. How close to net income breakeven are the operations in Germany currently? And has there been a sequential improvement or is it roughly stable between Q1 and Q2?

And my second question is on trading by geography. Could you give us a feel for how China is developing and if you expect any bigger recovery moving into '25? Likewise, any comments on Europe and the US are welcome. Thank you.

Christian Baier Covestro AG - Chief Financial Officer, Member of the Management Board

Yes, very happy Sebastian to take the first one and then Markus will go on the second one.

With respect to operations in Germany and between the quarters, it's broadly the same development that we see here. Operationally, we are reasonably close without any special items, if you will, to the zero line. If you take into account the German tax group, it obviously also includes relevant parts of administrative functions, which are then trending in that context.

So operationally, stable, reasonably close to the zero line from the bottom and then a further burden, if you will, from an administrative perspective, which is then driving also the tax losses that we do have sitting in Germany that can be used indefinitely.

Markus, please.

Markus Steilemann Covestro AG - Chairman of the Management Board, Chief Executive Officer

Yes. Thanks, Sebastian, also warm welcome from my side. Well Asia Pacific - and it is mainly China - continues with a positive growth actually across all industries that we are serving, particularly strong has been auto as well as electro. And currently we see this trend ongoing for us also in the third quarter.

For Europe, the picture is different, we have seen also here a good second quarter. But if you now look at the base in Q3, 2023, that base was already increasing because we started to fix the reliability issues exactly from the third quarter 2023 onwards gradually continueing into the fourth quarter then.

And that means that also the base for comparison is therefore increasing, that would then lead to lower comparable year-over-year growth rates, which doesn't indicate a weakness in the market, just a different comparison basis, to be clear.

And for the US, we see and expect that the third quarter should be relatively stable and steady with regard to the growth rates. Helpful?

Sebastian Bray Berenberg Bank - Analyst

Yes, that's helpful. Thank you.

Operator

Jaideep Pandya, On Field Research.

Jaideep Pandya On Field Investment Research LLP - Analyst

Thanks a lot. The first question is on the different products in the portfolio of Performance Materials. Could you give us some color, where are we with regards to margin development for MDI, TDI, PC and polyols, like what do you see sort of in the market?

And sort of a related question, I think your utilization has now jumped to around mid-80s. So maybe you have another 5%, 7% to go, but spreads are really not tightening in the market. Could you give us a reference point to last time, when utilization was 85%, what was the sort of mark-to-market you were looking at back in the day?

Because I'm just trying to understand, what is the leverage Covestro has internally versus, let's say, improvement in external factors to get out of this EUR1.2 billion, EUR1.3 billion EBITDA ZIP Code.

And then sorry, my last question and apologies, I'll stick to the party line, but just want to understand from the Adnoc situation, is there any sort of scope for the deal to break because obviously you have made considerable progress in terms of even reporting or communication. I understand there's a three month window. But is there any reason why we should be worried or is that completely off the table now and it is really merely a question of a price and a timing point of view. Thanks a lot.

Markus Steilemann Covestro AG - Chairman of the Management Board, Chief Executive Officer

Yes, Jaideep, also welcome from my side. So on the different commodities in our portfolio, let's start with MDI. We perceive the current situation compared to the previous situation that we have talked about to be at a stable margin situation, TDI as well as polyols going slightly down from our expectation and also what we currently see in the first couple of weeks in Q3 and the polycarbonate business is also stable.

But more importantly, in this context is getting by the day basically the respective downstream business because we're selling the minority of polycarbonates in the commodity area, this has now only be about on-fifth of the entire polycarbonate selling externally, whereas four-fifth is in the more stable downstream business. And that EP part of our solution and specialty business has shown to be -- from my perspective, at least a very resilient in the overall context. So shell I continue then with the second part or --?

Jaideep Pandya On Field Investment Research LLP - Analyst

Yes, please.

Markus Steilemann Covestro AG - Chairman of the Management Board, Chief Executive Officer

Okay. So -- I could also dwell further on MDI, but let's talk about Adnoc. So from my perspective, the situation and also the information we can provide has been provided. It has been from my perspective as you said, a significant step forward on June 24, where we opened the books where we entered into clear and efficient negotiations.

And I can only reiterate what I have said today, numerous times, I think in this phase the ongoing process is going well, yes, to be very clear.

And I know that Christian and I have used numerous ways to say it today. But from that perspective, I would take it as we have said in numerous ways today not as an indication that something is going right or something is going wrong, but rather is the best thing that we can say in terms of how we currently perceive the situation.

Because anything we would say in terms of well, likely wise has increased likely wise has decreased, would maybe not express where we currently are. I can only say that everything that I have experienced so far personally is that the phase in which we are currently in is going on constructively.

And yes, I could say it in different ways but that's really what it is. You could now start to speculate and say, well, could this be faster or could that be slower? Is there anything that we should worry about. But I think given the very confidential environment in which we have worked so far has served us well, even though I can also fully understand that at times you for sure have more desire to get even closer to the matter and maybe your desire is there to earlier get more information than we're currently providing it.

But rest assured, we are continuing to negotiating in good faith, open-minded and in full alignment with our fiduciary duties.

And secondly, I also would like to reiterate once again, that we need to balance on one hand time and on the other hand, quality of the outcome. And really we balanced this each and every day to the best extent possible, also in your interests.

Christian Baier Covestro AG - Chief Financial Officer, Member of the Management Board

And Jaideep , I just also add on top the topic with respect to mark-to-market when we look at the utilization rates, first of all, it's important to see that for us we have grown in the first half our volumes by broadly 10%. That brings us up on the personal Covestro utilization rate in order to see market developments, certainly that does require also the overall global market utilization rate also seeing further growth.

We would expect there is a mid to high-single-digit volume growth in the overall market as it is required to really get into a balanced supply-demand situation, which then would be leading to pricing power. And from our perspective, this should be happening over time driven by the demand growth that is continuously ongoing, although sometimes masked by overarching topics these days.

But there is still relevant demand growth that is also expected structurally down the road or helped by unplanned outages as we have also seen historically. But the one piece that we can bank on certainty is the structural demand pattern that needs to grow supply demand into a slightly better shape than where we are right now in order to see pricing power and a higher mark-to-market EBITDA.

Jaideep Pandya On Field Investment Research LLP - Analyst

And if I may just follow up, Markus with the point about your balance of the outcome versus the time?

Yes, we are closing in on like a year anniversary, I think, in a couple of months' time. Is there any timeframe a year or the next three months where we should see a outcome, given now that you are let's say you have opened the books and talk second strike or again, is there still no time line to the matter?

Markus Steilemann Covestro AG - Chairman of the Management Board, Chief Executive Officer

Jaideep, it is a very challenging situation, obviously not in terms of the negotiations, but in terms of communicating in the right way in this context, let me put some flavor on it. As far as we are concerned, we deem a normal DD to run usually for roughly three months, a normal DD. We intend to be faster.

Jaideep Pandya On Field Investment Research LLP - Analyst

Thank you.

Operator

Chetan Udeshi, JPMorgan.

Chetan Udeshi JPMorgan Securities PLC - Analyst

Yes, so it takes time on the call to allow us to unmute. But thanks for taking my call. I was just curious, is there any short-term disruption that you see in the market for any of your products in terms of supply, I'm not aware of Covestro has any issues where we know we've heard about some chlorine outages in Europe, which might be impacting one of your competitors is that something you actually seen in the market?

The second question was just looking at your third quarter guidance, which is slightly down versus what you delivered in Q2 at the midpoint of the Q3 range. I'm just curious, you know, your Q2 actually included about EUR25 million of restructuring provisions, so that's imply almost assuming there are no further restructuring provisions in the numbers, but it feels like your EBITDA is down EUR40 million or so at the midpoint of the range underlying like-for-like.

So maybe just help us understand how do you see the dynamics from Q2 to Q3? And within that, you know, how does the -- at least there is some concern on auto slowdown fit in that respect?

Markus Steilemann Covestro AG - Chairman of the Management Board, Chief Executive Officer

Yes, Chetan. This is Markus speaking. Also very warm welcome to you. Let me take the first question. Overall for us supply run steady. And that is also the picture that we currently have from an overall industry supply perspective, we know that there are some small disruptions, but these are not meaningful/not material enough to really change the supply-demand balance. So in that context, yes, few disruptions and not material enough to change the big picture. And looking at Christian, he is happy to answer your second question.

Christian Baier Covestro AG - Chief Financial Officer, Member of the Management Board

Yes, exactly. I think if we take the midpoint we are about EUR20 million down quarter-on-quarter. There is volumes slightly up in the expectations there. Margins are probably slightly down when we also look at the quarter-to-quarter sequential and basically pricing delta development that we see in others. In EBITDA, we actually see some slightly negative value and therefore, in some we expect to be slightly down your specific one with respect to volume perspective, yes, on auto or you have also seen in our report, we are slightly softer in the overall growth.

EV plays some role in that context. However, if we look at electro electronics, we see a slightly better development also in our order books. And from that perspective, confidence to have the overall high single digit volume increase in Q3, but also for the remainder

of the year.

Chetan Udeshi JPMorgan Securities PLC - Analyst

Thank you.

Operator

Sebastian Satz from Citi.

Sebastian Satz Citi - Analyst

Yes, hi, everyone. Thanks for taking my questions. And I've got a couple as well. And first, I want to dive in Specialties and Solutions where I saw your margins declined quarter-on-quarter and year-on-year even adjusted for the restructuring charges. So I was just wondering what was driving that net pricing turned negative. Could you just let me know what's the reason behind it and how we should think about that for the coming quarters, please?

And second question was on auto. You just mentioned that weaker development. Just wondering what you're seeing there, flat in the second quarter, I assume adjusted for your availability issues, that was probably down. Again wondering what the outlook. I mean, do you have fewer orders in the second half?

And then lastly, I was interested in your free cash flow guidance, the change there that you lowered it. I was wondering, again, what has changed there. I assume your outlook has always been a little bit back-end loaded anyway. So again, wondering what led you to lower the outlook for free cash flow? Thank you very much.

Markus Steilemann Covestro AG - Chairman of the Management Board, Chief Executive Officer

Yes, Sebastian. Warm welcome from my side. So on the Solutions and Specialty margins down even under adjusted conditions that you rightfully mentioned that negative pricing that remains is driven by the earlier mentioned higher raw material costs. And you might wonder why is that just going up the value chain?

So commodity prices were slightly up for standard polycarbonate, and that was recalling what I said earlier due to the higher benzene prices.

So input cost for Solution and Specialties higher at the same time, yes, it is Solution and Specialty business. That's why we need time to pass these higher raw material costs simply on to our customers. So therefore, Q3 from our today's perspective, looks slightly stronger quarter-on-quarter as we were and are able to increase selectively the prices in that segment.

And not to forget, engineering plastics is amongst the two largest segments in the Solution and Specialty area, and that's why these developments have a significant influence on the overall performance of the segment.

Christian, would you like to say something on free operating cash flow?

Christian Baier Covestro AG - Chief Financial Officer, Member of the Management Board

Happy to take this one and then there is still that auto question somewhat related. When we look at the free operating cash flow, yes, we have slightly reduced that to minus 100 to plus 100 from 0 to 300. I think that's especially driven when we look at the working capital development where we want to absolutely ensure the continuous operational setup that we have at any point of time, the good availability which is in focus, as mentioned in the speech and therefore, it might be that we basically put the prime on that when we go into the later part of the year, given that last year, we have basically gone down reasonably strong on the inventory levels and therefore, that slight adjustment on the free operating cash flow side and back to Markus on the order one.

Markus Steilemann Covestro AG - Chairman of the Management Board, Chief Executive Officer

Yes. Thanks, Christian. So coming back on auto, if you look at the full year, we anyhow expected that we would see a flattish. So just a technologist dropping down the table here, but we just continue. We have just seen or expect for the full year 2023 that we will see a flat development.

So actually no growth in the overall light vehicle production from a global perspective. As we have seen it in the first quarter year-over-year, we have grown in auto by roughly 5%. In the second quarter auto was year-on-year, flat and from that perspective, this slightly weaker global development.

You might have read the news, in particular on electric vehicles that are globally not selling as well as expected. That has an impact. At the same time, we still see strong development on EVs, as well as still combustions in China, but in Europe and US, a weaker trend.

So what we tried to do to counterbalance that or what is counterbalancing that is currently developments in other industries and here, particularly to be mentioned the electro/ electronics sector. So yes, auto is a bit weaker than we might have expected it, but there's counterbalance opportunities in other industries.

Sebastian Satz Citi - Analyst

Great. Thank you very much.

Operator

So there are no further questions at this time. So with that, handing back to Ronald.

Ronald Koehler Covestro AG - Head of IR

Thank you very much, Carsten. Yes, thanks for your participation and your interest. I know it was a busy day for you. So I can understand there are less questions, and I know some of the questions we couldn't answer completely. But as time will tell, we are obviously moving on. So let's see. Thank you and we will see you then on our normal roadshow activities coming up mainly for September. Thanks and bye.

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