

News Release



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BASF: Sales and earnings in the 4th quarter considerably above prior-year quarter

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4th quarter 2016:

- Sales €14.8 billion (plus 7% compared with prior-year quarter)
- EBIT before special items €1.2 billion (plus 15% compared with prior-year quarter)

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Full year 2016:

- Sales €57.6 billion (minus 18% compared with prior year)
- EBIT before special items €6.3 billion (minus 6% compared with prior year)
- Significant earnings increase in the chemicals business; considerably lower earnings in Oil & Gas and Other
- Earnings per share €4.42 (plus 2%)
- Dividend proposal for fiscal year 2016 €3.00 (2015: €2.90)

Outlook 2017:

- Considerable sales growth through increases in all segments
- Slightly higher EBIT before special items

Speech by
Dr. Kurt Bock, Chairman of the Board of Executive Directors and
Dr. Hans-Ulrich Engel, Chief Financial Officer of BASF SE

The spoken word applies.

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Ladies and Gentlemen,

Welcome to our Annual Press Conference in Ludwigshafen.

In 2016, we achieved the goals we set for ourselves for growth and earnings. We successfully grew in the chemicals business and further improved profitability. It was foreseeable that earnings in Oil & Gas would again not match the previous year's level. As we had expected, growth of the global economy and the chemical industry slowed in 2016 compared with the previous year. Global industrial production grew at about the same level as in 2015. Our main customer industries performed on average better than industrial production. Positive impacts came particularly from the automotive industry. We used the momentum of individual customer industries and, overall, we grew faster than in the previous year.

As the year progressed, we were able to increase BASF's growth. Our sales volumes rose from quarter to quarter. Particularly in Asia, we continually increased our sales volumes in the chemicals business and grew strongly. This shows that the high investments we made in research and development and new production capacities in recent years are paying off. The Performance Products and Functional Materials & Solutions segments, where we provide our customers with tailor-made solutions for their applications, significantly improved their profitability, even more than we had expected a year ago. In the Chemicals segment, our earnings nearly matched the previous year's level and were thus slightly better than expected. Despite considerable price decline for many products as a result of lower raw material prices, we were able to keep margins stable for many key products.

Political uncertainties also accompanied us in the past year and influenced our customers' behavior. The British voted to leave the EU, geopolitical conflicts escalated, and in the United States, uncertainty increased with the election of the new president.

2016 also painfully demonstrated to us that, despite all our caution and protective measures, risks in the chemical industry cannot be

ruled out. In October an accident occurred during maintenance work on a pipeline in the North Harbor at the Ludwigshafen site. An explosion resulted in the deaths of four people, others were injured, some severely. Our sympathy is with their families and we wish the injured a full recovery. We are doing everything we can to fully investigate the accident. We do not compromise on safety at BASF and that remains a top priority worldwide.

The BASF team worked hard to quickly implement solutions to the initial major disturbances to the logistics supplying the site. As a result, the economic consequences are considerably smaller than had been expected in the immediate aftermath of the accident. This was an impressive demonstration of the strength of the BASF team. For this, I would like to extend a heartfelt thanks to all employees on behalf of the Board of Executive Directors.

Sales and earnings of BASF Group in the 4th quarter and full year 2016

Now, let's look at the numbers for the fourth quarter of 2016. Sales increased by 7% to €14.8 billion compared with the same quarter of 2015, mainly due to higher volumes. For BASF Group, as well as our chemicals business, which comprises the Chemicals, Performance Products and Functional Materials & Solutions segments, volumes rose by 6%. Income from operations (EBIT) before special items was €1.2 billion, €157 million higher than in the prior-year quarter. Considerably higher earnings in Chemicals, Functional Materials & Solutions and Oil & Gas more than compensated for lower earnings in Agricultural Solutions and Other.

For the full year 2016, sales decreased by 18% to €57.6 billion. This was mainly due to the divestiture of the gas trading and storage business as part of the asset swap with Gazprom at the end of September 2015. This business had contributed €10.1 billion to sales in 2015. In total, portfolio effects lowered sales by 15%. In addition, lower raw material prices led to a drop in sales prices (minus 4%). We were able to continually raise sales volumes over the course of the year. Compared with the previous year, volumes increased by 2%,

and in the chemicals business, by 4%. Currency effects slightly dampened sales (minus 1%).

At €6.3 billion, EBIT before special items was €430 million below the prior-year level. This was largely a consequence of a decline of about €850 million in the Oil & Gas segment, mainly resulting from falling prices and the divestiture of the natural gas trading and storage business. The activities transferred to Gazprom had contributed around €260 million to EBIT before special items in 2015. In the Agricultural Solutions segment, EBIT before special items matched the previous year's level. We achieved a considerable increase in the chemicals business thanks to sharply improved contributions from the Performance Products and Functional Materials & Solutions segments.

Hans Engel will provide additional details on the segments and financial data.

Dividend proposal of €3.00

In a volatile market environment our share price developed very positively. BASF shares closed out the year at €88.31, around 25% higher than at the end of the previous year. The performance was impressive: with dividends reinvested, the value of our shares rose by 30%, considerably outperforming the DAX 30 (+7%), the DJ EURO STOXX 50 (+4%) and the MSCI World Chemicals (+11%). We are continuing our dividend policy and at the Annual Shareholders' Meeting we will propose to raise the dividend again, by €0.10 to €3.00. BASF shares thus once again offer a high dividend yield of 3.4%.

“We create chemistry” strategy

Our “We create chemistry” strategy is focused on growth from investments, innovation and the further development of our portfolio. Allow me to demonstrate the progress we made in 2016 with a few examples.

Investments in new plants

In recent years, we increased our investments in new plants worldwide. We have thus created the conditions to enable further profitable growth. After a phase of high investments, we scaled these back in 2016 by more than €1 billion as previously announced. We invested a total of €3.9 billion in capital expenditures (excluding additions to property, plant and equipment resulting from acquisitions, capitalized exploration, restoration obligations and IT investments). In the coming years, we plan to invest at a comparable level. We are now filling the existing capacity in our new plants and thus building on the volume momentum seen last year.

In the long term, Asia will continue to be the growth driver in the global chemicals market. And China is by far the largest market. Thanks to our long-term commitment to these markets, we can offer local customers tailor-made solutions. We have built up research centers and extended our sales and marketing network. Thus we have laid the foundation to successfully participate in this growth. In China, we started up plants in Korla and Shanghai in 2016. This year, we are starting production of citral and L-menthol at our Verbund site in Kuantan in Malaysia.

We want to grow profitably through innovation and proximity to customers in North America as well. In Freeport, Texas, we are building a new ammonia plant together with Yara and are expanding our capacities for herbicides in Beaumont, also in Texas. At our Verbund site in Geismar, Louisiana, we plan to expand our MDI production. In South America, we have set the foundation for growth with investments in new plants over the past years. We are well positioned to utilize these capacities when Brazil emerges from recession.

In Europe, we have implemented large investment programs in the past years, mainly at our site in Ludwigshafen. We are now planning to replace our acetylene plant with a modern, highly efficient plant by 2019. Acetylene is a precursor for many products and value chains. And we will thus be able to fully reap the benefits of the Verbund,

which include the efficient use of resources, production synergies and short supply routes. With this investment, we are strengthening the competitiveness of our largest Verbund site worldwide.

Innovation

A growing need for food, clean water and energy, limited resources and a booming world population – reconciling all these factors is the greatest challenge of our time. Innovations based on chemistry play a vital role here, as they contribute decisively to new solutions. Effective and efficient research and development are a prerequisite for innovations and an important growth engine for BASF.

Our research pipeline comprised approximately 3,000 projects in 2016. Expenses for research and development amounted to €1.86 billion and we strive to maintain spending at the high level of prior years.

Driving digital transformation

Our researchers are working on using digital technologies in research and development even more than today. In the years ahead, existing expertise in fields like modeling and simulation will be consistently expanded and new digital work areas will be developed. At its core, this is about driving higher efficiency and effectiveness. We want to achieve our targets faster, with less resources. And we want to discover promising new research approaches. We are integrating digital technologies even more in our research processes. And we also want to make greater use of scientific models to predict the properties of chemical structures. These measures help us strengthen our long-term competitiveness and take advantage of new growth opportunities.

Digitalization will change BASF in other areas, too. We have bundled, focused and accelerated our digitalization activities under the name BASF 4.0. The digital transformation will influence the way we manage our factories in the future. It will also allow us to work seamlessly with our suppliers and customers, and to tap and develop new business opportunities and markets.

Under the banner of “Smart Manufacturing,” we are implementing digital technologies and applications in our plants with the goal of making production more efficient and even safer. This includes the “predictive maintenance” approach. A model-based analysis of the data can, for example, better predict the optimal point in time and scope of our maintenance measures. This helps reduce unscheduled repairs and shutdowns and optimizes coordination between maintenance and production processes.

The steam cracker – the heart of production here in Ludwigshafen – already uses predictive maintenance through the application of state-of-the-art information and automation technology. Several thousand sensors track process data such as pressure and temperature around the clock in order to monitor and optimally direct the plant. Another Smart Manufacturing project is “Augmented Reality.” Plant employees are supported in their maintenance work with industry-specific tablet devices that provide access at any time to digital information. Working processes are made more transparent and efficient. We see digitalization as a great opportunity for BASF and for our employees – and we will actively shape it.

Active portfolio management

We also want to continue to grow profitably with acquisitions. In 2016, we purchased Chemetall, a leading global supplier of surface treatments. Through this acquisition, our Coatings division expands its portfolio and becomes a complete solutions provider. BASF combines its know-how in chemistry and coatings applications with Chemetall’s market-leading expertise in surface treatment. The combined businesses benefit from each other’s global footprint, scale and market access, driving new growth opportunities by offering an unmatched solutions competence to customers.

Where necessary, we adapt our structures or divest activities that are no longer an optimal fit for our portfolio. In December 2016, we completed the sale of our industrial coatings businesses to AkzoNobel Group. The transaction included technologies, patents, trademarks,

customer relationships and inventories as well as the transfer of two production sites in England and in South Africa.

The process of structural change in the chemical industry continues, following what appear to be the prevailing trends. BASF adheres to simple principles: Every business should achieve a leading market position if possible and be successful on its own – especially in comparison with its direct competitors. And each business benefits from BASF and from our Verbund – not only in production and logistics but also in research and development and with customers. The Verbund is and will remain the core of BASF.

Outlook for full year 2017

Now to our outlook. We are cautiously optimistic for 2017. We want to grow further, with all segments contributing to this growth. More importantly: We want to increase our earnings again, also in the oil and gas business. The global economy will presumably grow about as fast as in 2016. In light of significant political uncertainty, volatility will remain high. We forecast a considerable slowdown in growth in the European Union. For the United States, we currently anticipate a slight upturn in growth. Growth in China is likely to continue to slow further. And we expect the recession in Brazil and Russia to end.

For our outlook, we assume the following economic conditions for 2017 (previous year figures in parentheses):

- Global economic growth: +2.3% (+2.3%)
- Growth in global chemical production (excluding pharmaceuticals): +3.4% (+3.4%)
- An average euro/dollar exchange rate of \$1.05 per euro (\$1.11 per euro)
- An average oil price (Brent) of \$55 per barrel (\$44 per barrel)

We expect BASF Group sales to grow considerably in 2017. This will be supported by slightly higher sales in the Performance Products segment and by considerable increases in the remaining segments as well as in Other.

We want to slightly raise EBIT before special items compared with 2016. We anticipate considerably higher contributions from the Oil & Gas segment. In the Performance Products, Functional Materials & Solutions and Agricultural Solutions segments, we assume EBIT before special items will be slightly higher, while the contribution from the Chemicals segment will match the prior-year level.

In light of the major uncertainties, we will continue our strict discipline with respect to expenditures and costs. Our strategic excellence program, DrivE, contributes to this aim. Starting at the end of 2018, we expect this program to contribute around €1 billion in earnings each year compared with the baseline 2015. The earnings contribution amounted to €350 million in 2016.

And now Hans Engel will provide more details on the segments and financial figures.

Development of the segments

In the **Chemicals** segment, fourth-quarter sales increased by 12% to €3.6 billion, driven by higher volumes and prices. EBIT before special items rose by €386 million to €635 million. This was mainly due to higher margins, especially in isocyanates and cracker products. For the full year, sales decreased by 8% to €13.5 billion. This was attributable to lower prices as a result of a decline in raw material prices, especially in the Petrochemicals division. Higher volumes could not compensate for this. EBIT before special items fell by €92 million to €2.1 billion, mainly because of higher fixed costs from new production plant startups. Lower margins in the Petrochemicals and Intermediates divisions also dampened EBIT before special items. Higher margins for isocyanates in the Monomers division helped slow the decline.

In the **Performance Products** segment, sales in the fourth quarter declined by 1% to €3.6 billion. EBIT before special items rose slightly to €231 million supported by improved margins. At €15.0 billion, full-year sales were 4% below the level of the previous year. This was primarily attributable to falling sales prices and the divestitures

completed in 2015. We raised EBIT before special items by €379 million to €1.7 billion. This was mostly due to significantly reduced fixed costs thanks to restructuring measures and strict fixed cost management, in addition to improved margins.

In the **Functional Materials & Solutions** segment, fourth-quarter sales grew by 10% to €5.0 billion driven by higher volumes. EBIT before special items increased by €69 million to €458 million due to volumes growth, a favorable product mix and continued cost discipline. Sales for the full year increased by 1% to €18.7 billion. By increasing volumes in all divisions, we were able to more than compensate for lower prices and mildly negative currency effects. The volumes growth was mainly attributable to higher demand for our products for the automotive industry. Business with the construction industry saw sales volumes at a high level overall. We raised EBIT before special items by €297 million to €1.9 billion compared with 2015. All divisions contributed to this considerable earnings increase, particularly the Performance Materials division.

In the **Agricultural Solutions** segment, sales in the fourth quarter rose by 10% to €1.3 billion thanks to higher volumes. EBIT before special items decreased by €65 million to €79 million due to higher fixed costs, partly resulting from new or expanded production facilities, for example for the herbicide dicamba. For the full year, sales fell by 4% to €5.6 billion as a result of lower sales volumes and negative currency effects. The challenging market environment for crop protection products particularly dampened demand for insecticides in South America and for fungicides in Europe. Prices matched the level of 2015. Strict cost management enabled us to reduce fixed costs in the Agricultural Solutions segment. Thanks to this development, EBIT before special items matched the previous year's level at €1.1 billion despite the sales decline.

In the **Oil & Gas** segment, fourth-quarter sales increased by 26% to €922 million due to higher volumes and prices. EBIT before special items grew by €36 million to €163 million. Sales for the full year decreased by 79% to €2.8 billion year-on-year. Owing to the asset

swap with Gazprom completed at the end of September 2015, contributions from the natural gas trading and storage business and from Wintershall Noordzee B.V. ceased as of the fourth quarter of 2015. These activities had contributed €10.1 billion to sales in 2015. In the continuing oil and gas business, we raised volumes by 15% compared with 2015, while price and currency effects amounted to minus 15%. EBIT before special items declined by €849 million to €517 million in 2016. This was primarily the result of falling oil and gas prices, in addition to the divestiture of our gas trading and storage business to Gazprom. The activities transferred to Gazprom had contributed around €260 million to EBIT before special items in 2015.

Sales in **Other** decreased by 22% to €518 million in the fourth quarter. EBIT before special items declined to minus €386 million, down from minus €114 million in the fourth quarter of 2015. Full-year sales fell by 28% to €2.0 billion compared with 2015. Lower prices and volumes in the raw materials trading business were primarily responsible, along with the expiration of supply contracts in connection with the disposal of our share in the Ellba Eastern Private Ltd. joint operation in Singapore at the end of 2014. EBIT before special items in Other declined by €162 million to minus €1.1 billion. This was largely attributable to valuation effects for our long-term incentive program. Positive currency effects helped slow the decline.

Earnings development of BASF Group in 2016

At €6.3 billion, EBIT for the BASF Group in 2016 matched the level of 2015 (€6.2 billion). Special items in EBIT amounted to minus €34 million in 2016, compared with minus €491 million in the previous year. In 2015, we had high impairments on assets in the Oil & Gas segment.

At €10.3 billion, EBITDA before special items in 2016 was down by €181 million compared with the previous year; EBITDA amounted to €10.5 billion, €123 million and thus just below the level of 2015.

The financial result fell to minus €880 million in 2016, compared with minus €700 million in the previous year. Income before taxes and

minority interests declined from €5.5 billion in 2015 to €5.4 billion in 2016.

Income taxes were reduced from €1.2 billion in 2015 to €1.1 billion in 2016. At 21.1%, the tax rate was below the prior year's level (22.5%).

At €4.1 billion, net income exceeded the previous year's level of €4.0 billion. Earnings per share increased from €4.34 to €4.42. In 2016, adjusted earnings per share amounted to €4.83 compared with €5.00 in the prior year.

Cash flow of BASF Group in 2016

At €7.7 billion, cash provided by operating activities in 2016 was as expected below the record level of the previous year (€9.4 billion). Contributing to this was the lower year-on-year level of cash inflow from changes in net working capital.

Cash used in investing activities amounted to €6.5 billion in 2016 compared with €5.2 billion in 2015, primarily due to the acquisition of Chemetall. Payments for property, plant and equipment and intangible assets were at €4.1 billion, below both the prior year's level and the level of depreciation and amortization. At €3.6 billion, free cash flow was at the level of the previous year.

At 42.6%, the equity ratio remained very solid (December 31, 2015: 44.5%). Net debt grew by €1.5 billion to €14.4 billion, due to financing associated with the acquisition of Chemetall.

Additional information is available in our Report 2016 that was published today. It also includes the audited financial statements of the BASF Group.

And now we look forward to answering your questions.