BASF Q4 / FY 2012 Analyst Conference Call Transcript - Q&A session by Topic

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Ludwigshafen

A) Group-related questions

Martin Rödiger (CA Chevreux): Thank you for taking my two questions. The first question is on the reversal of the tax provisions, which looks to me as a tax relief of roughly 360 million. Can you explain the details behind that reversal of tax provision?

My second question is on your performance in the full year 2012. You said that you target for the chemical industry a growth rate of 3.6% in 2013 after the chemical industry grew by 2.6%. When I make the maths for BASF and exclude the Oil & Gas division and exclude Other, so the four chemical activities plus agro, then the organic growth rate of BASF was minus 2.7%. So you have massively underperformed the chemical industry in 2012. When do you intend to outperform the chemical industry, because you have the target that you want to grow 2% above the chemical industry?

Dr. Kurt Bock: I think Hans will start with the tax question, where we don't give all the details, by the way.

Dr. Hans-Ulrich Engel: Kurt is absolutely right; we don't give all the details on tax provisions and the like. But if you go to the notes, you get a pretty good view on what we actually did in the year 2012. It's not quite your 360 million, but it is a sizeable amount and that relates to the tax years 2002 through 2006 where the audit is now concluded. That leads to the situation that we had booked certain reserves for certain situations which we now do not use any more. So, again, the time frame is 2002 through 2006.

Dr. Kurt Bock: With regard to growth, I think you hit the nail on the head, so to say. We made this very clear in our little speech that we underperformed in terms of growth in 2012. We did not achieve our volume targets last year. But let me explain why.

First of all, we had a very slow first half in Asia. We clearly stated this back then that we were really surprised about the low growth in Asia. This has partially then been compensated in the second half. We still don't know yet whether we really lost market share in Asia in the first half, in China in particular, or whether that was the overall market development. This is still a very opaque picture from our point of view.

Secondly, we have restructured businesses; you have to keep that in mind as well. We gave up certain activities, e.g. in construction chemicals. We shut down our EPS, expandable polystyrene, activities in Asia. There are a couple of other businesses where we slimmed down. This all takes growth away. You are also right when you say that our medium-term goal is to outperform the market. We have done this in the past, as you know, and I would say, also very consistently. Now, this year we expect that the chemical market will grow slightly faster than last year, 3.5% approximately, up one percentage point. That seems to be feasible from today's point of view. I don't see any reason why BASF should not get back on track with regard to its past performance and growing slightly above the market. We have done this in the past. We will make this in the future as well, but what I can assure you for certain is that we will not go for volume at every price. I think that is very, very important. We gave up some market positions in 2012, simply because pricing from our point of view was not attractive, which is a short-term hit also to your bottom line, but it can help to restore market profitability in some cases. We have seen this in the past as well.

Jeremy Redenius (Sanford C. Bernstein): Thanks for taking the questions. First of all, if I look at the shale oil production in the US – not the gas, but the oil – where would you have to believe for that to have a material impact on your business? Would it be positive or negative? I am thinking about a scenario in which there is a local oversupply of shale oil creating lower naphtha prices locally, therefore lowering the cost of naphtha cracking. Would that create a meaningful advantage for chemical producers there?

Second, more specifically, on wages and personnel cost. I see your wages and salaries were up all over 7% this year. I think personnel costs were up 6%. I think this year last time you said, you probably expect something more like 4% if I remember it correctly. Can you describe what has happened there, where the strong inflation has come from? And some expectations for the next couple of years, please.

Dr. Kurt Bock: Shale oil, so the liquids, part of the shale gas story. It is hard for me to say whether we really will have an independent pricing of shale oil, so to say. Right now what we see is that the shale gas companies make money by selling liquids. For oil you have a global pricing today in place.

To expect that we will have an independent pricing for shale oil in North America and completely decoupled from the global price for oil – I don't see it happening right now because oil is easily transportable, which is not the case with natural gas, obviously, where the transportation costs are much higher and the logistical requirements are much higher as well.

Let me say: Overall we see an opportunity here for BASF in North America. We already implemented a couple of investments based on shale gas. Others might follow as well. We are a pretty big chemical company in the United States as well, as you know. As you also know, we have a slightly different portfolio than other companies. We are less C2-based. That you might perceive as a competitive disadvantage in a shale gas world, but, frankly, that was a very conscious decision to move away from that value chain or to lessen the impact of that value chain on BASF's bottom line.

If we had not wanted to do that, we would have invested e.g. in the Middle East, where you always had access to cheap gas over the last 10, 15 years for sure.

So again, I cannot give you a perfect answer, but a completely independent local pricing for shale oil - I don't have any evidence on that, frankly.

Dr. Hans-Ulrich Engel: Jeremy, on the personnel cost: If I recall it correctly, 2012 personnel cost in the BASF Group: 9.1 billion. If you look at that, the increase is resulting from two things. 1) You have an increase in personnel, if I recall that correctly, from roughly 111,000 to 113,600. And I recall what you just mentioned, Kurt quoting about 4%. If I recall that correctly, that was in the context of the expectations for the negotiations that took place in the year 2012 in Germany. That was actually pretty close to the outcome of what we have then seen for an 18-month contract.

William R. Cross (Eaton Vance): The question is really prompted by the graceful, but lamentably upside down graph at the very end of the hand-out, on page 10 of the Fact Sheet, with respect to the free cash flow development. I wondered if you could just give us a primer on your use of return on invested capital in your compensation system and in your management of the businesses, including the decisions as to whether to divest subsegments.

You referred to returns on capital but not in great detail. To the best of my knowledge, you don't disclose it by segment. Should we infer from that that returns on capital are not so critical in terms of your management of the businesses? Or are they important, but, if so, why not disclose them at least by segment, if not by subsegment?

Dr. Kurt Bock: We have several ways of looking at our businesses. I already talked about the, let's say, competitive landscape. And there we essentially look at growth rates, EBITDA margins, what you also would do as an analyst or investor. When we talk with our business heads how to run their businesses, this is based certainly on agreements, medium-term agreements with regard to sales development, business development and earnings development. But the underlying yardstick is earning a premium on cost of capital; that is very, very important.

Cost of capital implies obviously the usage of capital. So we are very cognizant that capital is a very scarce resource in our industry. It's a very expensive resource and we try to hammer this message home as often as possible. I can assure you: For our businesses to make it, to earn a premium on cost of capital, is really an important yardstick.

Again, then you have to be very specific. For some of them it's relatively easy to overcome that hurdle because the underlying industry profitability, competitive situation allows it to achieve that and then we really have to look at what is the best-in-class performance, what should be the underlying performance target of that business.

For others – I talked about a few of our, let's say, restructuring businesses – it's a challenge to earn the premium on cost of capital. But I can tell you: It really drives management behaviour in terms of investments and working capital, which in terms of cash out is certainly equally important as investment capex.

Does this answer your question?

William R. Cross (Eaton Vance): Premium on cost of capital, if it is the most critical measure of performance, as it sounds to be from your answer, why not disclose it at least by segments?

Dr. Kurt Bock: Actually, you could do the maths pretty easily yourself because we publish the cost of capital rate and we publish the capital employed by segments. Then you can clearly see where we deliver and where we do not yet deliver.

In general terms, we don't make our cost of capital in those segments where we have heavily invested in acquisitions – which is, I think, easy to understand because you acquire assets essentially at fair market value. You cannot write off goodwill anymore and you have elevated asset values. But still, our target is then to earn a premium on this capital employed as well.

Jean de Watteville (Nomura): My question is just broadly on specialties. Mr. Bock, I am curious about your view. Clearly, what we see in Care Chemicals' performance seems to us to be below some of the pure plays. It is the same in construction chemicals, if you compare to SIKA. It's the same in Nutrition if you compare it with DSM. The broad question where I am interested in your view is: Is it more difficult to manage specialties within a large corporation or conglomerate like BASF? Is it fair to ask this question? What is your view on that specific matter?

Dr. Kurt Bock: Regarding the specialties question, I will talk about relative competitiveness of BASF. I think that is the core of your question. I think it is a very, very valid question, because it is exactly the same question we are asking ourselves: Are we competing at the levels of what we call our pure-play peers, so to say?

Internally, what we do is: We segment our business in a much more narrow sense than what we see here. Here we talk about segments and divisions. We run our business – you know this – based on about 80 strategic business units. For essentially every business unit we have identified who are the most competent competitors. What we do is: We monitor them very closely, as you can imagine, in terms of growth, profitability, innovation, capacity, investment strategy etc. We ask that same question you are asking our business heads: Are you performing at the maximum level the market permits? In some cases we do. Or in many cases we do. We have very many good examples where we have excellent market positions, great R&D capabilities and it really translates into excellent growth and earnings.

In other cases we are not happy. I am not sure those are exactly the cases you just mentioned. But we are very, very self-critical. If I talk about performance improvement measures, e.g. for construction chemicals, this is certainly based on the one hand on the, let's say, absolute performance of construction chemicals. At the same time it is also based on our peer review: Where do we stand in terms of relative competitiveness and can we do better? Then the lesson was: Yes, we can do better and there are lots of things we can improve internally as well.

So the question is: Can a large company run a specialty business? Yes, I do think so. We have many, many businesses which are running at best-in-class levels. We have other businesses where we have to improve. It would be a surprise, given the size of BASF's portfolio, if all of our businesses at the same point in time perform at a very high level. You have a certain volatility.

Sometimes you have nasty surprises and you find out: Oops, something happened in the market which you did not recognize early enough. This also happens to BASF. But essentially, I think we have proven over the last 20 years that we are able to run a specialty chemicals business, even very bizarre businesses, you might say.

We run a high class, first-class decorative paints business in Brazil. That is the only place in the world where we run this business. It is highly, highly profitable. We are market leader for decorative paints. It is a consumer-driven business. Where you would say, BASF and a consumer business, that cannot really work, it works – great! We have a great team in place and they gain market share. They make good money and they are very, very innovative. So I think we have many good examples how to run those businesses, but we will also always have construction sites where we have to improve. And we are very self-critical in that respect. We take exactly your position. We look at our relevant peers, competitors and try to find out where we are within that range and what we could do differently in order to outperform them.

Thomas Gilbert (UBS Limited): What is your impression of the new Chinese government in terms of the long term? Is this business as before? Is it more a protectionist government? Is it open to foreign investment? What are sort of your first impressions there?

Dr. Kurt Bock: My first impressions are very limited. Actually, I haven't had any real first impressions. I will be in Beijing in March. There will be a conference with the Chinese government where they essentially brief the international business community about their plans and their intentions.

What we normally would expect is that a new government coming in would also provide a growth stimulus. That at least was the case in the past. You saw a little bit of a slowdown over the course of 2012. Some people think that was already a reflection of the change in government in China. But that is essentially everything I can tell you right now with regard to macroeconomics.

On a more business level our relationships are very fruitful and very friendly and very professional. There hasn't been any change to the negative at all over the last couple of years.

We have to explain what we want to do in China. We have to explain how we benefit China by investing. But I think we overall make good strides. We just recently announced e.g. an investment for a plasticizer pre-product, INA, together with Sinopec. It is a new joint venture we are forming and we are very positive for the development of that particular business in Asia.

Operational excellence

Andrew G. Benson (Citi Investment Research): You are looking for 300 million of restructuring gains this year. There are, within the Chemicals sector, companies with an EBITDA of 20% and 40% of the level you do that are planning on delivering that sort of magnitude of savings. I am not saying that this is a bad target, but I am just wondering whether you could push that further, whether there is a plan to perhaps drive that if an activity disappointed, and the scope there is to accelerate a restructuring.

The second question: We talked a lot about where there is a perception of challenge. Which are the businesses where you have got a high degree of confidence that you are going to deliver improved profitability and EBITDA in 2013?

Dr. Kurt Bock: So the question, Andrew, is: Is the 300 million really everything we can achieve as BASF in terms of savings this year? Certainly not. This is just the part of this programme what we have labelled STEP, 1 billion savings until 2015. A couple of additional measures – I talked about construction chemicals and all the improvement measures there – which are very much portfolio related, not pure cost savings measures which are not part of STEP. We certainly strive for further improvements on top of what we have told you here. So, yes, more could be done.

But if your question is, is there a need for drastically re-ramping, restructuring major parts of our portfolio, then I would say – I talked about this – no. We have certain businesses where we are not performing at the level where we need to be. We are tackling this in a very consistent way. We have done this in the past as well. Sometimes it takes a little bit of time. But we are getting there in almost all cases.

We have a book where we wrote down what we want to do over the next couple of quarters and we will deliver on those measures for sure. I hope this answers your question essentially.

You talked about which businesses we are very confident about. “Very confident” sounds almost like overconfidence. I would refrain from giving you specific answers here. We have a couple of businesses which are developing very nicely into 2013. They had a good start into the new year. But I think it is premature now to talk about this.We have some good ideas which are being implemented. But giving you specifics business by business is a little bit difficult here.

Laurence Alexander (Jefferies): Two quick questions, one is just a clarification: You’ve alluded to a few restructuring and productivity opportunities. If you take those impacts in 2013 and balance them against your planned maintenance turnaround schedule, is the net impact neutral compared to 2012 or are you expecting a slight tailwind?

Secondly, longer term a lot of your large cap peers midstream and downstream have been ratcheting down their GDP multiplier assumptions and also their GDP forecast, not in the near term, but five to seven-year out. To the extent that they are becoming too cautious and just reacting to near-term data points and exaggerating the impacts, does that create opportunities for you in some areas where therefore you should be ratcheting your capex up faster to take share in the medium term?

Dr. Kurt Bock: Gee! The first question was a difficult one, a complex one. The question was: Will the improvement in unplanned shutdowns in 2012 balance the additional burden from restructuring happening in 2013? Right, that was the question? – That’s hard to answer actually. We don’t know how many actual shutdowns we will have. But if you just look at our budgeted ones, there should be an improvement over 2012 and that improvement is pretty much in line with what we will invest in additional restructuring going forward.

GDP multiplier: I can only talk about BASF. We have said as part of our long-term strategy: We do think that the chemical industry can grow faster than GDP. The reasons, I think, are well understood: a higher share of emerging markets and rate of innovation in existing markets. For instance, if you talk about solar and wind energy, this is all based on better chemistry at the end of the day.

If now some other companies might become a little bit more sceptical about their future outlook, does it mean that we can capture market share? It’s difficult to answer that question in such a generic way. Again, we have to be very specific, looking at individual businesses, whether we really do see opportunities for BASF to grow. I can only tell you: Our investment projects are based on 10, 15-year market growth projections. That does not change overnight simply because one of our competitors adapts his GDP multiplier.

Oil price impact on BASF

Rakesh Patel (Goldman Sachs): Just on a more longer term question. I wondered if you could talk a little bit about what the impact of a stable to falling oil price would be on BASF in the mid term. Would it be fair to say you would benefit from a lower feedstock price, but you might have to give some revenue away in terms of pricing?

Dr. Kurt Bock: Stable or falling oil price: I think this is kind of a loaded question, because we essentially said we see the oil price at current levels and actually right now it is slightly above. You always have to ask the question: Why is the oil price then coming down, falling? If this is a reflection of a weaker underlying global economy, it would be bad for BASF, no doubt about it. If it is the case that just the political risk premium is taken out of the equation, that might have a positive effect on BASF.

Again, in Oil & Gas you have to be very specific because the schemes we have in place with our hosts, so to say, sometimes do not mean that every additional cent of oil price will directly go into our koffers. Sometimes it is capped, sometimes there is a different price formula in place so that we do not really participate if the oil price is growing very fast and very high, which also means if the oil price comes down, the volatility of our earnings is kind of buffered as well.

We have said this before: Essentially for BASF, a high oil price is not a negative, if this reflects a strong underlying economy, because then we make good money on oil and gas and over time we are also able to pass on higher feedstock cost to our customers and have better margins in Chemicals.

So the correlation between Chemicals earnings and Oil & Gas earnings actually is a slightly positive one. I hope that answers your questions.

Feedstocks

Thomas Gilbert (UBS Limited): Thank you very much for my question on security of feedstock supply.

When you talk to Total and Shell and the integrated oil companies, they are all getting sick and tired of the downstream volatility in butadiene, benzene and they are not building any refinery plants. So refinery cap ex is 1%, which basically means, we are going to go right into a shortage of benzene on a ten-year basis. How does BASF respond to that? Are you worried? If so, what are you doing against it? If you are not worried, can you let us know, why not?

Dr. Kurt Bock: Security of supply: Yes, you are right. We are heavily dependent on refineries and on the big oil companies being in that business. As we all know, benzene is a by-product to a very large degree. There has been a lack of refinery investments, but there also has been in mature markets a reduction in demand for gasoline because cars become more fuel-efficient, obviously.

For the time being, I can only tell you: We haven't seen real shortages. Product always has been available. What we have seen are price variations and volatility in pricing.

Pricing obviously reflects sometimes shortage, perceived shortage of product. C4 is a very good example for that, obviously.

What you also can say is that over time markets react to that. They normally find a new equilibrium. That is our experience. Even if a shortage develops in a short period of time, there will be a counter-reaction.

I cannot talk about the long-term investment plans of the oil companies, obviously, but we are not particularly concerned that all of a sudden our major feedstocks would not be available any more. It might become a question of pricing, but right now we don't see this.

William R. Cross (Eaton Vance): The first question is just a factual one; the second question is a bit longer. So maybe I give you the first now. The question really is following on Thomas' question about feedstock. Can you just tell us which key feedstocks you are short on and in what regions?

Dr. Kurt Bock: The feedstocks we are short on? You mean where we have a net buyer position?

William R. Cross (Eaton Vance): It sounds like that's the case …

Dr. Kurt Bock: It's benzene. Obviously we are short on naphtha, that is for sure, natural gas as well. We are short on C4 in North America. We are pretty balanced in C3 and we have a slight positive position in C2. That essentially describes our world. And in methanol we are also short, we are a big buyer of methanol.

William R. Cross (Eaton Vance): So the notable ones are C4 in North America, methanol – globally?

Dr. Kurt Bock: Globally, yes.

William R. Cross (Eaton Vance): And then natural gas in North America and benzene globally.

Dr. Hans-Ulrich Engel: No natural gas production in North America.

<u>Styrolution</u>

Peter Spengler (DZ Bank): My question is on Styrolution. Do you have plans to change the joint venture? Are you satisfied with the performance so far? Do you have an option to go out?

Dr. Kurt Bock: Let me take the last question first, the Styrolution activity. We are very happy with the development so far. I cannot really comment specifically on the performance of Styrolution. It is an independent company so to say. They are also in the capital markets and they will have their own reporting as we all know. But I think the team has done an excellent job in bringing the former INEOS and the former BASF activities together to create the synergies which we envisioned and to form a very, very strong market player.

You are also right; we have an exit option. We have a put option. We have not yet made up our mind what we are going to do. We have that option. For the time being, we are, let's say, a happy shareholder of Styrolution.

Martin Rödiger (CA Chevreux): Only one question, it’s on the financial result. It appears to me that this was very low compared to estimates. This is primarily because of the mark-to-market valuation of your put options for your stake in Styrolution which was minus 88 million. Can you explain why you treat these minus 88 million as a special item for your adjusted EPS calculation?

Dr. Hans-Ulrich Engel: For the same reason that we showed the positive result last year as a special item and adjusted for it, we are adjusting it also for the minus 88 million that’s coming from the Styrolution options. So we showed the profit of roughly 600 million last year. Now we do the ongoing evaluations of the options. And since we have shown the gain last year as a special item, we show the same way the special item, the minus 88 million.

Dr. Kurt Bock: Again, this is pure accounting – IFRS at its best! It doesn’t tell you anything about what’s going to happen if, at some point in time, we might put our stake on the block.

Capex, Financing

Andreas Heine (Barclays Capital): I would like to know whether the capex budget will be a little bit lower as the growth rate is lower than might be expected some years ago. Does that have an impact on your mid-term plans specifically in the Chemicals business?

Dr. Kurt Bock: Let's start with capex. We announced that we intend to spend about 4.5 billion euros this year. This is about 400 million more than we spent last year. It’s, I would say, considerably more than what BASF has spent over the course of the last ten years on average. It reflects, first of all, the bigger size of the company. BASF has grown bigger over the last ten years, obviously. So there is a bigger underlying need to support our growth. It also reflects, I would say, a certain cyclical uptake in capex, because we see growth opportunities and we have major projects under way.

We have the big polyurethane investments here in Ludwigshafen, but also in China. We have big acrylic acid investments in China and in South America. We have shale gas based investments in North America. This all adds up to a bigger investment budget. This budget is not based – to make this very clear – on the growth rate of 2012 or 2013. This is based on medium and long-term volume market forecasts, demand/supply balances which we see developing over time. There we have no reason to change our capex budget at this point in time. I think you know BASF very well, also in the past we have not done this.

If a market really slows down, you sometimes can slow down an investment as well. But as soon as an investment is being approved and is being built we will complete it on time and on budget. This is the most economical way to deal with such a situation. But, frankly, we don't see this situation right now. We still see underlying demand for chemicals. The 3.5% which we kind of forecast for 2013 is slightly below the 4% which we discussed with you about 18 months ago when we talked about our longer-term strategy. So this is not completely disaligned from long-term market developments.

Final remark: Many of the investments also go to emerging markets where we – I mentioned China and Brazil – expect higher growth rates and they will materialize for sure.

Ronald Köhler (MainFirst Bank): Second point: Capex 4.5 billion. I still remember that you had a 16.5 billion five-year capex plan. Is that still valid? Which means: Will you then reduce capex in the years to come or is it now an upgrade of that 16.5 billion capex programme?

Dr. Kurt Bock: Capex: Yes, we do have the famous five-year plan. The famous five-year plan always sees a certain decline of investments in year 4 or 5 because we are then running out of ideas. Most likely, we will not be running out of ideas three years down the road. But this is nothing we can decide today. Today we are focusing actually on 2013 and 2014 in terms of investments.

I don't think that we will have this level of investment which we have seen over the last 18 months for the foreseeable future. On the other hand, if there are additional opportunities in the marketplace, then we will also be able to grab them, if they have a long-term viability for BASF.

Paul Walsh (Morgan Stanley): My first question relates in parts to what Bill was asking earlier on returns. To what extent do you think you can grow returns this year following some pressure in 2012 due to cyclical weakness, particularly in light of the rising capex burden? Do you think we are going to go through a period where returns fundamentally are a bit under pressure as you are spending more?

Secondly, a balance sheet/cash flow question: We saw some pretty big working capital outflows last year, but net debt to EBITDA is below one. Can you talk a bit about what you can do to generate more cash in 2013 and what you might do with your balance sheet?

Dr. Hans-Ulrich Engel: On the cash flow and your question on 2013: I think, one of the signals for 2013 we already set with our dividend proposal that we'll make to the AGM. You see us increasing dividend from 2.50 to 2.60 euros. As Kurt has alluded to, the plan is clearly to improve performance across all businesses in the year 2013. That should lead, obviously, then also to a higher operating cash flow in 2013.

If your question is also about what we do with respect to a share buyback programme, if there is anything immediate and coming, the answer to that is no. As you are well aware, we have the approval of the AGM of last year to buy back shares, but at this point in time we don't have any current plans with respect to share buyback programmes. Other means to use the cash: I already mentioned the dividend, but also the capex programme.

Dr. Kurt Bock: Margin management: Again, we have to be very specific here. Look at our Chemicals segment. We have seen an oil price increase recently. We have seen that naphtha prices have gone up slightly. This certainly means that margins in our petrochemical business are slightly under pressure and we have to work very hard to bring margins up again. I think this is something which is ongoing.

We talked about caprolactam earlier on. That is a good example where we need to restore better margins. I think we talked about vitamins as well where we see a little bit of a softness recently. So, again, you have to be very, very specific.

If that is your question – you referred to capex as well: We will not give up on our return expectation with regard to investments. We have not changed our metrics, they have stayed the same. If we invest a little bit more today than in the past, this is based on market expectations, market opportunities and, I would say, sound economics and very solid return or very, let's say, challenging return expectations with regard to our investment.

The bigger budget also reflects the bigger size of BASF and certainly also the fact that, let's say, seven, eight years ago we were coming out of a phase where the entire industry had invested heavily and there was excess capacity available and it was simply possible for quite some time to invest far less. This was a period in time when BASF also invested for a couple of years below depreciation levels. That is not the case right now.

But frankly, continuously spending below depreciation, even taking technological achievements and advancements into account, does not create organic growth from my point of view. So there is a slight increase in capex. At the same time we are a little bit more hesitant to do acquisitions, as you also noticed.

Markus Mayer (Kepler Capital Markets): You said that there is cheap refinancing. Do you see that this will be an important trigger for the chemical industry to drive the consolidation of the industry and therefore then to increase pricing power in certain markets?

Dr. Kurt Bock: Hans will answer the question with regard to financing and whether that should drive another wave of consolidation. That is a difficult question to answer, actually. Maybe there should be a business logic for consolidation and not just money being available.

Dr. Hans-Ulrich Engel: On your question about cheap financing and whether that will lead to a new M&A spree in the chemical industry: I can basically build on what Kurt just said. First of all, if you look at the data for the year 2012 and now going into 2013, what you see is what I would describe as an uptake in M&A activity, but not any type of significant increase. I'd say, the jury is still out on that. Let's see what is going to happen. But I think that the respective decisions will be driven by the financials and by reasonable businessmen making these decisions.

Consolidation is a topic in the chemical industry that I am hearing about as long as I am in the industry and that is now for 25 years. When I look at it, it doesn't look to me like the number of players in the chemical industry has really significantly reduced over the years.

Outlook

Andreas Heine (Barclays Capital): Could you a little bit elaborate on what you see from today's point of view how 2013 started and how volume and pricing trends in this quarter compare to the last quarter Q4? Is there anything more than a little bit seasonal up-tick? What do you see here?

Dr. Kurt Bock: How did we start into the year 2013? Let me start by talking about December, because December was kind of a remarkable month, since essentially on 20 December our customers stopped buying. It was a remarkable month in that respect. They just stopped sending orders and the business came pretty much to a full stop. Then they came back on January 1st. That now seems to develop into a pattern. We have seen this now for a couple of quarters where at the end of a quarter customers seem to be managing their inventory levels very, very professionally. So we had a little bit of a restocking effect in January.

But even if you take that restocking effect out, I would say that in most markets – Europe, North America, South America is relatively small and off-season – the business came back in a very nice way. So, from today's point of view, we have no reason at all to become skeptical with regard to the growth numbers which we have explained to you here for 2013.

There is a certain uncertainty on our side with regard to Asia and China, because, as you know, Chinese New Year just came to a conclusion. It is simply too early to say how the Chinese economy now got into the new year. That we will see in a couple of weeks from now. But everything we have seen so far in January and February, I think, was okay in terms of order entries and ongoing sales.

Ronald Köhler (MainFirst Bank): I have a question on the outlook. You obviously state you would like to exceed the 2012 clean EBIT level or EBIT before special items. We heard already that you had a good start into the year. The question is a little bit: Do you see any kind of phasing here? Might it be more year-end related? Or do you think there will be a steady path? Put it that way: For the chemical industry the first quarter might be potentially a more challenging quarter as a comparison base. So can you put that a bit into perspective?

Dr. Kurt Bock: 2013 – business development so far: You remember that last year we had the expectation that the second half of 2012 should be better than the second half of 2011 and probably also a little bit better than the first half of 2012. We don't think that that is the case this year. What we need is a pretty steady development, starting on January 1, going into the year. If we don't make it in the first six months, I don't think there is a very high likelihood that then we would make it in the second half of 2013.

So far, as I said before, the start was a good one. You also saw the Ifo business expectation indicators for the chemical industry which were positive again in February, which indicates that maybe, at least for the German or European business, there is some improvement possible. That is what we try to describe right now.

Timothy W. Jones (Deutsche Bank): Dr. Bock, about 18 months ago – maybe a bit less – you gave us 2015 targets for EBITDA. Now we know that things will change with accounting. But assuming no changes with accounting, do you think the Group still has the potential to deliver what you targeted 18 months ago by 2015?

Dr. Kurt Bock: Our 2015 targets. Actually, Hans will – I think, on March 22nd – talk about the specific effects of our change in accounting, IFRS 10 and 11. To make a long story short, we get rid of the oil taxes. We have tried to get rid of those taxes for many, many years by negotiating with the Libyans, which was not possible finally any more, by talking with our auditors: Can we change our accounting? No, we cannot. Obviously, now we can, based on new accounting rules. We will then book Libya at equity, which means we get rid of all this noise and clatter which you have in our numbers, which we always have to explain when you look at our overall earnings. This, I think, is good news.

The one number which is not affected is EPS or net income, because that is a clean figure essentially. There might be a very slight impact. But essentially, it is a clean number.

Your question is: Are our targets achievable? Frankly, what did we say? We target for 2015 7.50 euros earnings per share. If you look at our current earnings, is this something we can achieve? Yes, I do think so, absolutely. There is no reason why that shouldn't be possible. There is always, as we all know in our business, in our industry a kind of a cyclical factor. A year ago we were at a better point in this cycle, so to say, than today, obviously, with regard to many products. But overall – and don't now nail me down for one specific quarter or year – I think the pattern is intact.

We will also then explain what the effects will be on the EBITDA numbers, which we also publish, and the targets we publish because those numbers are affected by the IFRS changes. That Hans will do later on this year.

B) Segment-related questions

Chemicals

Norbert Barth (Baader Bank): My question is on the Chemicals segment. Can you give us a figure for the negative impact of the unplanned shutdown in Port Arthur? It looks to me that the impact was higher than expected, also if I see the regional result of North America. So it looks to be a quite significant number or a not so small one.

Dr. Kurt Bock: Shutdowns: The effect year over year, for the entire year, of shutdowns planned and unplanned, is a negative 100 million euros essentially. That negative 100 million is almost entirely within the chemical segment. A good part of that was in Q4; this explains at least partially the decline in earnings we saw in Chemicals.

This is a very clear statement here. The number of unplanned shutdowns last year was too high. So we are not satisfied with what we call our asset effectiveness, the run rate of our plants. This is a major exercise right now to improve in that regard as well. Certainly we strive to see a major improvement in 2013.

We don't want to have any unplanned shutdowns, but we saw an increase last year and this was more than unwelcome.

Dr. Hans-Ulrich Engel: If you look at the results in the region North America, there on the EBIT, there are three things that we have to keep in mind. Number one is: Chemical business performance was weaker than what we had in the record year 2011. So what we are seeing on Group level we also see in the North American business.

The second effect that we have is the shutdowns that we had in 2012, a six-week planned shutdown of our Verbund site in Geismar, a two-month planned shutdown of our cracker in Port Arthur and then, coming out of that shutdown, the cracker in Port Arthur had several hick-ups; we have taken care of that now. We had it down again for two weeks in January, fixed all the problems and since then – knock on wood – the cracker is running as the big machine is supposed to run. So there were two effects.

The third effect we have is: We had a number of positive special items in our results in 2011 which we don't have in the year 2012. To name just two, which both have a significant order of magnitude: One is the regional impact of the Styrolution divestiture gains that we had. That was booked in the region North America. The second one is a settlement of a long dispute that we had with Lyondell which was after a period of six years settled out of court. These are the three key drivers for the lower result in North America in the year 2012.

Dr. Kurt Bock: In case there is confusion: Regionally we report booked EBIT, not EBIT before special items. That is very important. Therefore, you see influences from special items here.

Plastics

Timothy W. Jones (Deutsche Bank): My question is on polyurethanes. 2012, obviously, showed recovery in polyurethanes at the margin level. Are we now on a level in

TDI and MDI that you are happy with the performance of the business or should we see this as year one into a recovery and still expect further improvement in 2013 and 2014 as well?

Dr. Kurt Bock: We don't really report or talk about individual products. We saw a recovery in polyurethanes in 2012; that's correct, which was an uphill battle, frankly. It started about a year ago and the price increases which we announced finally were accepted. Are we happy? Not yet. We are never happy. It is an ongoing task and, as you know, there is also new capacity coming on stream including our investments in Chongqing for MDI and our TDI investment here in Europe. It is certainly also our task to phase those capacities into the markets in an intelligent way, which also makes sure that margins and profitability are maintained.

Norbert Barth (Baader Bank): I know, Mr Bock, you don't like to talk about products. But as you mentioned also performance polymers, the polyamide precursor, Caprolactam, has a major impact also on that. As it is not so unimportant also for the Group, can you give us a little bit your thinking about when perhaps supply and demand could be more in balance and about volume and price developments there, what you expect in the time frame?

Dr. Kurt Bock: Capro: a steep decline in profitability in 2012 – no doubt about it. We think it’s bottoming out right now. At least we try to become a little bit more aggressive in pricing again.

The background is – you know the numbers – that new capacity has come on stream over the last couple of years, especially in Asia, in China. That needs to be absorbed by the markets. I think we were all aware that in 2011 we had historical record margins, which were unsustainable.

When you are in the midst of that period you want to believe that it is sustainable, but we knew it would not be sustainable. So the decline in 2012 did not come as a surprise, but certainly we want to restore prices to a level which is satisfactory from our point of view, because right now it is not the case. You have seen this not just in our numbers, but when you look at our competitors as well.

Performance Products

Peter Spengler (DZ Bank): Thank you for taking my questions; good afternoon. My first question is on Performance Products. I guess the performance of this segment was also not satisfying. Do you plan further restructuring, especially for this segment?

Dr. Kurt Bock: Performance Products is not performing as it is supposed to perform, I fully agree. I think we made that statement as well in our own description of our business development. We are not satisfied. There are various reasons why the performance is not where it is supposed to be.

We have a mixed bag of activities here and we have to be very specific when we talk about performance within Performance Products, within that segment.

Let's take Care Chemicals, which was a hugely profitable business in 2011 and saw a decline of profitability in 2012, to a level which is still a very good one, but where we say we can do better. And we proved in the past that we can do better. Again, there are specific reasons why there was a decline of profitability. We gave up certain volumes. We saw a decline in margins in e.g. surfactants. But that is something we can restore over time.

Then we have Nutrition & Health. This is also partially a former Cognis business, as you all know, where we, by the way, just made the acquisition of Pronova, of Omega 3 fatty acids. There we have essentially one topic, which is vitamin pricing, which has been weak over the second half of last year. The question certainly will be: What is our expectation for future pricing? The margins, from our point of view, are not satisfactory. Again, we have seen this in the past already. These are kind of slightly cyclical products as well and we try to restore a better pricing in that market. But that needs also good timing and sometimes you have be a little bit patient for the right point in time to induce certain measures. But that is essentially what we are talking about when we look at Nutrition & Health.

Then we have Paper Chemicals. We all know about paper chemicals. It is a difficult customer industry. It is essentially a shrinking industry in the mature markets in Europe and in North America. We have reacted to that by dramatically shutting down capacity over the last couple of years here in Europe and in the United States. At the same time, we have expanded our capacities in Asia. We just brought on stream two new major plants for paper chemicals in China, which started to deliver in Q3 and Q4.

We are shifting that portfolio away from printing paper, which is declining, as we know, at least in the mature markets, more into the direction of packaging material, which is a growing market. I don't have to explain why. Everything we hear from our customer base, which is very important, when you talk about long-term competitiveness, how BASF is being perceived as a player, as a supplier in that industry, is very, very positive.

However, the restructuring of the industry itself is an ongoing exercise and I would also foresee further consolidation of capacities in the paper chemical industry – which will bring this business to an acceptable level of profitability.

Will it at any time in the future be the star performer of BASF's portfolio? That is not very likely, given the, let's say, underlying industry attractiveness of paper. But it can come to a level where we are satisfied and we have seen progress, actually, in 2012 when we see how the performance improvement measures were implemented.

Then we have Performance Chemicals, again, partially being acquired over the last couple of years, where we essentially have one topic which we are addressing very aggressively; that is water chemicals. Water chemicals, by definition, should be a growth story. It is a growth market globally, but it is under intense margin pressure. We are acting in that regard looking at our production footprint, at our set-up. We already had a couple of restructuring measures last year being implemented.

Then, there is one final division. As I said, it is a complex segment, so it needs a little bit more time to discuss, which is Dispersions & Pigments. There it’s essentially one part of that business, which is pigments. Pigments always have been challenging. They are still challenging. There is intense competition from Asian companies. We are streamlining that business quite drastically and I would also foresee that the performance will improve over the next one to two years.

There are lots things being implemented. You saw already some of the special items which we booked in 2012. Some of that goes to the Performance Products segment. I would foresee that the business will improve over the next 18 to 24 months.

Markus Mayer (Kepler Capital Markets): On Performance Products and in particular on Care Chemicals. Are there structural problems in this business as well, e.g. are you losing market share? Croda highlighted several times that they are quite happy that they gained one of your former customers.

Secondly on this business unit or division as well: You highlighted that there will be an asset base optimization. Is this just in paper and water? Are there other assets where you are unhappy as well?

Dr. Kurt Bock: Actually, what you just said with regard to a competitor: One of our many competitors was already mentioned this morning at our press conference. So I went back again and asked our people: What happened? Do we miss something? I am sorry to say: They say, no, we did not lose any market share at all.

It can be that at one or the other customer there is a share shift. That happens all the time in our business. But actually we don't come here then and brag about: Oh, we just got a new customer or more volume at an existing customer. So, specifically in that personal care business, sorry, we cannot see any market share loss.

When you look at the overall volume growth, which had been published today, it doesn't look like a huge market share gain – not to me. The numbers are a little bit difficult to fully understand. But again, we are competing here with a very small part of our business, which is highly, highly competitive, which has an excellent profitability, which is part of a larger division. We hate to talk about that particular business in more detail because you always have some jewels you want to develop and protect.

Asset optimization: I refer to the paper industry where we probably will see a further adaptation of capacity in the mature markets and that certainly also has effects on the paper chemical industry, yes. I think BASF already over the last couple of years has contributed tremendously to the adjustment of capacity in our industry.

Lutz Grueten (Commerzbank): One final follow-up question from my side on Performance Products: In your earlier statement you said that you are not satisfied with the current performance and also the margin of that division. And you said that within the next 12 to 18 months you expect an improvement here. What’s the financial target? What’s the aim to achieve in that division on a clean EBIT base? Do you want to come back to the double digit? Is this what we should expect in the longer run, or is it just stopping the erosion of margin here for the next 12 to 18 months? What’s your aim here, please?

Dr. Kurt Bock: Frankly, I don’t think we have an erosion of margin in that business in general. We have a slight cyclical business downturn in that business and you have seen this in other companies as well, frankly. We have some businesses – I mentioned this – where we have structural issues and we have to resolve them. And we will do this over the next, as I said, 18 to 24 months and you will see the results of that exercise for sure.

We refrain from giving individual profitability return targets for our segments, with one exception: That is Agricultural Products because Agricultural Products is a clearly defined business which can easily be compared with its peers in its industry. I think that makes a lot of sense when we talk about the 25% EBITDA on sales number.

In other businesses, in Performance Products in particular, you have a mixture of many different businesses and I don't think providing one relative number would help you very much. Frankly, when you remember what we did with our strategy: We talked about an absolute EBITDA number which we'd try to achieve in 2015, that is still valid.

Functional Solutions:

Christian Faitz (Macquarie Capital): In your automotive OEM coatings business, one of your major competitors had a change in ownership. Do you see any change in the competitive landscape in terms of pricing etc.?

Dr. Kurt Bock: With your question you refer to the sale of Dupont's business to Carlyle. I am not aware of any change in market behaviour for the time being. Certainly, a change in ownership always creates a little bit uncertainty on the customer side and we have to see how this works out over time.

Rakesh Patel (Goldman Sachs): I wondered if you could talk a little bit about the restructuring that you have been doing in construction chemicals, especially in Europe. Is it fair to say that that is now being completed and we should see the benefits of that in 2013?

Dr. Kurt Bock: Construction chemicals: As you know, we were not happy with the performance of construction chemicals. Part of the problem was obviously the underlying weakness of the major markets – Europe, North America, but also parts of Asia. Part of the problem was the complexity of our product portfolio. This last factor we could influence and that is essentially what has happened over the last 18 months.

So we took essentially two measures. One is: We slimmed down the product portfolio quite dramatically, really focusing on the, let's say, most profitable products. This is a very textbook case like exercise, ABC analysis. You just look at your portfolio regionally, customer-wise and you find out where you make money and where you don't make money. Then you draw the conclusions, adapt capacities, adapt sales force etc. So there was a real reduction in business focusing on those parts which are profitable and there are major parts which are very profitable. Which, by the way, also means that we exited certain markets. We made conscious decisions to leave certain countries completely, because we said it doesn't make any sense to try to be in that market as well, because a long-term perspective is not there and we don't make money today and most probably we won't make any money in the future. That is one piece of the restructuring.

The other piece was then the sale and divestiture of some of those businesses which I mentioned in my little speech. This was an exercise which was essentially done in 2012. We found what I would call good homes for those activities. In most cases medium-sized companies acquired those businesses which fit very much to the structure and the nature of the businesses we sold. There was a company for tunnel equipment. You might ask: What is BASF doing in tunnel equipment? I think the question is rightfully asked. Some other niche businesses which we gave up.

The improvement measures will continue. That is quite clear, because the market is not forgiving. We see a little bit of an improvement in North America, it looks like it is bottoming out. So we might get a little bit more tailwind in 2013 than we had over the last couple of years. But nevertheless, there is a constant pressure on that business to reduce its costs and to improve its competitiveness. I think we have the tools in place to have a continuous improvement process in that regard.

Agricultural Solutions:

Christian Faitz (Macquarie Capital): I have two quick questions. First of all, can you comment on agro chemical conditions going into 2013, related also to US fungicides? Do you see any channel inventories? If not, why not?

Dr. Kurt Bock: I think Hans talked about this. The agro chemical business was for us a very good business in 2012. Once again, we achieved our EBITDA target of 25%. We had good solid growth. Some of you commented earlier today that the Q4 numbers look kind of disappointing. But please really keep in mind that Q4 is kind of a special quarter for agricultural chemicals. If you look at the second half of the year, actually I think we did very well and we always prefer to not just look at one single quarter.

I looked up the data here. In the second half we had an EBIT of 205 million compared with 136 million in the second half of 2011. I think this is a major improvement. We also had a nice increase in sales.

Just referring to the 25%, it is also interesting: We always refer to the relative number 25%. This essentially means that today our ag business has a 200 million higher EBITDA than just two years ago. I think that is a major achievement in that business.

It is based, as you were referring to, on a very solid pipeline. We have good products in the market. We are cautiously optimistic for 2013. We think we will be able to once again deliver growth and better earnings which would make then 2013 another record year for agricultural solutions. So far we have seen nothing which should prevent us from achieving those objectives.

Field inventories: I am not aware of any lingering danger in that respect, frankly.

Hans just added: Our business had a very good start in January and February. It took off very nicely.

Christian Faitz (Macquarie Capital): In all regions?

Dr. Kurt Bock: Yes.

Ronald Köhler (MainFirst Bank): A question, if I may, on agro pricing: It was slightly negative in Q4, minus 1%. Obviously, it might be just a blip in a quarter, whatever. Can you elaborate a bit on the current pricing development and how you see that in 2013 in agro?

Dr. Kurt Bock: Actually, agro pricing is a statistical artefact. That happens only because in Brazil we have prices based on US dollar, but the invoicing is in Real and then currency changes can lead to a situation where, translated into euro, the prices are going down. But this is really a statistical artefact. In the market itself, you saw a positive price development.

Oil & Gas

Jean de Watteville (Nomura): The question is more an update on Oil & Gas. You have realized two important swaps in Q4, one with Statoil and one with Gazprom. I am just wondering whether you are ready to share with us an update on two figures that are important that you shared with us back a little more than a year ago: 2P reserves were 2.8 billion BOE. My forecast is that you are probably going to go up around 3, 3.3. An update here would be useful.

Production: You guided us for 160 million BOE in 2015. I know it is probably more relevant to talk about a target in 2020, given the maturity of Achimov 4 and 5. You can share your thoughts about where you can bring production in E&P under, obviously, the current reporting basis.

Dr. Hans-Ulrich Engel: Jean, to your questions on Oil & Gas. First of all, on production targets 2015 and 2020: If I recall it correctly, we produced 143, 144 million barrels of oil equivalent in the year 2012, a significant increase over the year 2011 for the well-known reason.

In short: Libya back on stream. Target for 2015: 160 million of barrel of oil equivalent. The growth path that we have for our exploration and production business is in the range of 3-4% per year. So if you look at it historically, how we have grown that business and what we are doing now, where we are in 2012 and using that as a basis, I think you will see a stable development in that order of magnitude.

We have entered into the two transactions, the one with Statoil, in which we as well as Statoil have disclosed the 2P reserves which are in the neighbourhood of 100 million barrel of oil equivalent.

For Achimov IV and V, due to the very early stages that these two fields are in, we have not given a firm figure, if I recall that correctly. But I am happy to go back for you and check for you and then would come back with that figure if that's okay.

Oliver Schwarz (Warburg Research): Coming back to Jean de Watteville's question: If I didn't make a mistake, I assume that the 160 million production target in 2015 BOE for BASF is maybe aiming a bit too low, given that the Statoil deal plus the increase in oil production in Libya to 100,000 barrels a day should supply you with another 18.5 million BOE per year. So without any other projects coming to fruition, you should easily exceed that target already in 2014. Is that a fair assumption?

Secondly, I got the impression, Mr. Bock, that you are calculating with further increases in the oil price in the mid term and in the gas price as well. Could you please disclose the assumption you made with regard to gas and oil prices when you agreed to the two asset swaps with Gazprom and Statoil? I think that is highly critical input into the calculation when we come up with the fair value of the assets you get in return of the assets you supplied to the respective parties.

Dr. Hans-Ulrich Engel: On your first question: We would be more than happy to increase production as quickly as we can in Libya, but with the 85,000 barrels that we are currently producing, we are fully utilizing the existing infrastructure. The key issue is the shortfall in export capacity. Based on the current situation, we do not see that this will change in 2013.

So our forecast for this year is to produce, if everything goes well, at a level of 85,000 barrels per day in Libya. This means export from the field – so from the pipelines on to the terminal – is still very, very weak.

Oliver Schwarz (Warburg Research): But aren't you building an additional pipeline to get this bottleneck out of the way?

Dr. Hans-Ulrich Engel: Yes, that is true. But we are currently in a situation where the existing pipeline that has some issues is solely used by us and not by the neighbouring fields. The pipeline that is in the process of being built will also be used by others. As I said, there are overall restrictions in the infrastructure at this point in time which we do not see going away in the year 2013. The question is: Do they go away in 2014?

Dr. Kurt Bock: I think your question was also: Do we need to increase our production targets based on the recent deals Statoil and Gazprom? That is something we have to look into. There is a certain likelihood that that might happen, yes.

What is the oil price we apply for calculating or evaluating our projects? Actually, that is a number we do not talk about. No surprise here. But I can assure you: That number is definitely much lower than the current oil price. That is a standard procedure in our industry: You have medium, long-term forecasts for oil prices which do not reflect the 110 we see today. Actually, I think we know that the deals we have concluded last year are beneficial for our shareholders. That is for sure.