

Conference Call Q3 2022

Transcript Q&A

October 26, 2022

Contents

1	BASF Group	2
1.1	Current situation around natural gas	2
1.2	German gas price cap	3
1.3	Regulatory framework and competitiveness in Europe	5
1.4	China and Zhanjiang Verbund site	7
1.5	Cost savings program	8
1.6	Financial aspects (capex, cash flow, earnings volatility, share buyback)	8
2	Segments	12
2.1	Chemicals	12
2.2	Materials.....	12
2.3	Industrial Solutions	12
2.4	Surface Technologies	13
2.5	Nutrition & Care.....	13
2.6	Agricultural Solutions	13
2.7	Other	13

1 BASF Group

1.1 Current situation around natural gas

Christian Faitz (Kepler Cheuvreux): On gas in Europe, looking at Slide 7 in your presentation and comparing this with your Q1 and Q2 charts: Is it correct that the Q3 gas price burden for Europe year on year was about 500 million euros? Can you share with us the rough regional distribution of gas sources for your Ludwigshafen plant at present?

Dr. Hans-Ulrich Engel: I think you did the math correctly: round about 600 million euros additional cost for natural gas in Europe in Q3. If we look at gas and energy in total, we're talking round about 1 billion euros per quarter in the first three quarters of the year.

Related to the gas supply sources: We are sourcing in Europe from Western European suppliers. We do not know what their exact supply portfolio is. There is a relatively high likelihood that it is very close to what the overall supply portfolio is in the respective countries of Europe as well as in Europe. We do not have more information than that.

Chetan Udeshi (JP Morgan): I was just looking at Slide 8 again, which shows the earnings split by different regions. I'm just curious, why is Germany so bad versus the rest of Europe? Because the gas price dynamic is not something which is just German-driven, it's across all of Europe. So why is Germany particularly so bad at BASF? Is that a reflection of maybe a lot of corporate costs? BASF actually sits in Germany. So it's a bit of an unfair comparison, but I'm just curious: Underlying, like-for-like why is Germany so poor versus the rest of Europe for BASF right now?

Dr. Hans-Ulrich Engel: What's important to keep in mind is that Europe does not have one consistent natural gas price and one consistent price for power. Prices in Germany are significantly higher than what you are seeing, for example, in Belgium, in the Netherlands, in the southern part of Europe. And as a result of that, Germany suffers more.

I'll give you an example from the more recent days. In Germany, gas is sold at TTF prices, which yesterday closed at 100 for the forward months, so 100 euros per megawatt hour. At this very same point in time, you could buy spot gas in other countries at prices of 20 to 25 euros per megawatt hour. Now, this is one day, probably not something that you can just extrapolate. But we have had these significant differences depending on the regional trading prices within Europe over the last six months. And as I said, they are, if you look at it on a daily basis, significant and Germany suffers there in particular.

Chetan Udeshi (JP Morgan): The 600 million euros increase in gas costs in Europe in Q3 is actually lower than 800 to 900 million euros that we saw in Q1 and Q2. This is despite the fact that the gas cost in Europe per megawatt hour was actually in terms of year-on-year increase double of what we saw in Q2. So I'm just curious how much production curtailments have you guys taken in Europe as a whole for that number to be closer to 600 and maybe not even double that number?

Dr. Hans-Ulrich Engel: We have in fact in Q3 reduced gas consumption significantly. We have reduced as a result of not running certain plants or running them at lower capacities, substituting by way of purchases from the market. To the extent we could, we have also substituted natural gas on the utility side by using alternative sources, i.e., heating oil. So we've done what we could, but overall, this is an expression of the fact that we've actually consumed significantly less gas. If your question is how much less, it is in the order of magnitude of almost 40% lower gas consumption in Q3 than in the prior-year quarter.

Sheharyar Malik (Pimco): What is your energy cost right now annualized, based on your most recent numbers? Can you give us some sort of indication of how you're purchasing energy. Is it more on spot or is it contract? And if it's contract, what are the timings of the contracts?

Dr. Hans-Ulrich Engel: Regarding annualized energy costs for the BASF Group: The monthly average in Q3 was in the order of magnitude of 600 to 700 million euros per month. Energy purchases are typically spot price-based, and spot price-based can mean anything between day ahead to month forward. As mentioned also earlier, we're buying natural gas from Western European suppliers in Europe.

1.2 German gas price cap

Christian Faitz (Kepler Cheuvreux): Can you share with us your view on how helpful for your Ludwigshafen plant the first draft proposal of the gas aid scheme by the German government is?

Dr. Martin Brudermüller: Let me first say, and this is also what I said in the speech: I think the prime task of companies is to actually improve themselves and to improve their structures. That's why I'm very happy that the BASF team, as always in times of crisis, is exceptionally creative. I will not give you a number, but I can only tell you: We have significantly reduced the critical threshold for gas. We will report to you and give you more background on that in Q1 next year.

This will reduce the vulnerability of the Ludwigshafen site. First of all, because of the availability of gas, but this also gives us the opportunity to react on the structural side by shutting down plants and reducing utilization for the main gas-consuming products. Ammonia is the biggest one, and you saw that we also adapted there. So the prime target is to settle our issues mainly by ourselves.

We very much welcome the proposals of the gas price commission, which is clearly indicating support for the industry, not only for citizens. I think it is still a little bit early to say how it works in detail because although the proposals are great, there are also a lot of questions when it comes to the details. You have also seen in the last days that there was quite a reaction in other EU countries. It's also about a level playing field in Europe in terms of industry. There are also the state-aid rules in Brussels, which have to be complied with. So I think there is still some work to be done before a clear interpretation is possible.

If you look at our customer base and the smaller SMEs, they really are in a difficult situation which is deteriorating very, very quickly because they already came from a difficult post-pandemic situation. So it is really important that there is quick and pragmatic support.

But I also want to express very clearly, that we are asking for flexibility and not too strict rules because, at the end of the day, it has to be a combination of both. Yes, there is public money for those companies who need this support and help, but I think there is also an obligation of each company to adapt its structure going forward. The world is not frozen, and it doesn't make any sense to give the companies money now and say, you have to keep your structure and we wake you up in three years when the energy crisis is over and you just continue from where you are because the world is moving too.

So I think we need this flexibility to do it our own way. And then we will see whether we need it at all and what the conditions are for the use of public money.

Andrew Stott (UBS): You said things are still up in the air a bit with the gas subsidy package. But as things stand, if you were to be able to use that package from January 1 next year, could you estimate what your total cost effects would be?

Dr. Hans-Ulrich Engel: I don't have exact calculations, but if I look at the average natural gas cost in the first three quarters of the year, a rough guess is that the increase, compared to the year 2021, should be half of that if the 70% will be supplied at a price of 70 euros per megawatt hour.

But since there is still so much uncertainty around this, we need to see how things shake out in the end. We will provide you with a better and more sound calculation once it's really clear how the gas price brake will work.

Dr. Martin Brudermüller: I think entrepreneurial freedom is also important.

Jaideep Pandya (Onfield Investment Research): On the German gas package: If there was any condition attached to dividend payouts, given there is a subsidy coming from the government, I just wanted to understand what are your thoughts, at least at a management level when you think about an all-stakeholder approach to returns and capital allocation and gas distribution?

Dr. Martin Brudermüller: We are entrepreneurs and that means we want to decide what is right and wrong for the company. I don't want to have any constraints that limit us in deciding what we think is the right thing.

The dividend policy has a high priority for us. That's also what we communicate. So I have a hard time if anyone tells me or tells us what the right dividend policy is. I think this gives you some indication that, whatever is possible, we try to do on our own. I also think it's very clear: There is a responsibility for everyone, for individuals and companies. It cannot work that everything is paid for by the public. So if everyone just puts out their hand and says, give me the delta and the difference for the next two or three years, and then I continue when energy prices come down, we will be over-compensating and it will be a disaster for the generations to come. That is also why I think there is a responsibility to restructure and to adapt yourself to ensure future competitiveness. If you get lazy now and you receive public funding, I'm quite sure in the next three years you will have missed the boat when it comes to adapting your structures.

In this situation, it's the right measure to have support if you really are going down the drain and it's a question of survival. But if you are powerful and you are proud and entrepreneurial – and that's how we see ourselves – then we will try to avoid that. I hope that gives you an indication where we stand.

Sheharyar Malik (Pimco): The German government's announced fiscal help for industrial names that face spiking energy costs. We're hearing some news of restrictions from the government on potential shareholder payments that those companies can make if they want to access that fiscal package. I'd like to hear your thoughts on that. If you had to choose between shareholder returns and getting help from the government, which way would you lean?

Dr. Martin Brudermüller: I will keep my answer very short as I just elaborated on this: Entrepreneurial freedom has the highest priority for us. So we would not like to take orders from anyone on the decision on the dividend. That is something what we do based on our financial strength and the outlook. I think this gives you enough indication where we are in this respect.

1.3 Regulatory framework and competitiveness in Europe

Gunther Zechmann (Bernstein): One of the points in the deteriorating framework conditions is the regulatory uncertainty. Could you just outline what you would need regulators do to improve those conditions and if you think that's realistic to happen?

Dr. Martin Brudermüller: Maybe a quick review on the regulatory side: Brussels is on its way to implement the Green Deal, basically totally unaffected by the current economic development. There is no Plan B. They think this is a holistic future picture. So all the packages that are coming have no priorities for them. They basically all come at the same time. We currently have already more than 7,000 pages of regulations for the chemical industry. My guess is that at the end of the process we will be at 25,000 pages. So you can ask yourself how particularly small and medium-sized enterprises will deal with that. BASF maybe can because we have the resources, but it is a real challenge.

So we approached them and said, you cannot deny that there is a different economic reality. And the question is now whether they use this in the next weeks. I think we can already see that the national governments and the Council are stepping up. There are many countries where the chemical industry is very important. It's number four in Europe and in many of the countries it's even number two or number three.

One indicator shows how alarming the situation is: The European chemical industry was contributing about 40 to 50 billion euros trade surplus over decades. Since March, this has turned around. Europe is importing more chemicals now than it is exporting. I think this gives you an indication about its competitiveness. So far, no one really talks about competitiveness in Brussels. It maybe just now starts with regard to energy.

So, what should happen? I'll give you one example without going into details. The Industrial Emissions Directive is the last package that recently came out. What is that? It is not only for the chemical industry, but it involves revoking or questioning permits for existing plants. So if you have a plant that is 30 years old with an existing permit, then they basically do a benchmarking worldwide. They say, there is now a new plant, just five years old, with new technology, that has a new threshold for emissions. And that means you have to come down with your old plant and invest to meet the emission threshold of the new plant. So if you do that, you actually take away the financial strength of the current plants to finance the energy transformation going forward.

We told them there is no need to open that box now. So that's one example. I could also talk about REACH and CSS where we do not talk about the what all the time, but also about how we can make things more pragmatic. And this will, I think, very much determine whether there is a business case for investing in Europe. Because if you have a low-growth environment, you have high energy costs, you have inflation, and now you also have regulation, what actually gives you the confidence to invest in plants where you need security for the next 10, 20 years?

I use some of my time as the President of Cefic, the European association in Brussels, to work in that direction for the whole European chemical industry.

Georgina Fraser (Goldman Sachs): Could you maybe give us an idea of how much of the drivers for the structural adjustments are attributed to higher energy prices versus the increased costs of regulation that you're seeing for the industry?

What happens to the customer industries if there is more broad-based than BASF's structural adjustments for chemicals production? Would you expect these customers to invest more outside of Europe? You just also said that you would be looking to do the same with your own production, maybe moving more towards China. Just your thoughts on that would be very helpful.

Dr. Martin Brudermüller: Energy costs are the real driver. Regulation is coming; I elaborated on the Industrial Emissions Directive, which is an additional burden which would also then require additional capex to upgrade the plants. That would also, I think, dramatically affect the industry. I'm really confident that we will get this sorted or at least push it forward in time because it's not a priority topic.

But you have to look into base chemicals here in Europe that depend heavily on natural gas and energy prices. And you have to model the competitiveness relative to other regions. Then you have to ask yourself, whether it makes sense to produce a base chemical in the future, let's say, in Europe and sell it into the market. You have also to consider, however, that BASF, with its value chains, is actually adding value in a lot of the base materials by four, five, six, seven steps in the chain. That means you dilute these costs very much up to the final products. In Ludwigshafen, for example, we have some 8,000 products roughly that we sell to the markets. Many of them are evergreens. These products are needed in industry and we will produce them in the future with reduced or even zero PCFs.

So it is more about these considerations regarding some base chemicals. I think the most evident one is ammonia, which has a huge part of its cost from natural gas. And then it strongly depends. Do you use the ammonia to make, let's say, a fertilizer, or do you produce a specialty amine which is a hardener in an epoxy system, which has certainly then a much higher margin. That is the way we look into this.

On the other hand, this is something we have always done. We have always evolved, redefined ourselves with all the raw material changes in the past, coal tar, then coal, then oil, then gas, now more towards direct renewables. I think this is a normal exercise, but the real reason for the push now is certainly the threat of the energy cost.

This also directly relates to the customers because some of your customers also draw consequences and might stop production. So then you lose the demand here. That is also why we have to very intensively discuss with our customers. You know that our strategy is to invest where the market is. We also look into our customer portfolio: Where are the strong guys of tomorrow? It's not necessarily always those you had served in the past. So if they don't have the potential, you also go to others.

Then, finally, because we talked about regulation, it's also about the CO₂ price. So that comes in if you have the energy price, but you have also the avoidance of CO₂ if you don't produce the one or the other product here. So it's a rather complex picture. But at the very end, we have to come to grips with what are the right measures going forward. But it is always market-related.

Jaideep Pandya (Onfield Investment Research): By my calculation these days, Europe is about 50% on average, in certain cases even more than that, maybe 100%, higher in the cost curve than China and North America. Have you seen any significant imports from China into Europe for any particular product chains? Chinese product prices except for polyurethanes are pretty weak. Is there a big risk that we see a lot of product coming from China into Europe next year? And therefore, even if we see price deflation on the gas side in Europe, we actually don't see any improvement in returns in the upstream.

Dr. Martin Bruder Müller: One of the reasons why the first half was actually working so well and why we could pass on these energy costs basically completely to the market was the high order level we had, the order backlog and overall a good demand. But also one of the reasons was that we did not have functioning supply chains. Actually, arbitrage businesses almost did not work with not enough volumes and not fast enough reactions.

That has changed. With the easing of supply chains, more material is coming in. You can clearly see this basically across all lines. This is also one of the reasons for the deterioration of the margins in the upstream business. You know that two or three big barges for a huge commodity product are totally changing the pricing power. This will not go away unless we have some unforeseen supply chain issues coming up again. But that's something I think we have to live with and this can only be healed, let me say, if we have increasing demand going forward.

So material is certainly flowing in from all other regions. I would say, you see it, for example, in this reversed picture with the European chemical industry, where since March Europe imports more than it actually exports. One of the major products where you can see this, is, for example, caprolactam: That comes now in from China into Europe. In earlier times, it was actually an export product from Europe to China. You see many of these examples, thus a very cautious answer to your question.

1.4 China and Zhanjiang Verbund site

Laurent Favre (Exane BNP Paribas): On the Zhanjiang project: I think last year you told us that peak capex would start already in 2023. I was wondering, given what's happening in China, if you could talk about the flexibility you have to slow down the build rate there and perhaps delay the start-up of phase 1?

Dr. Martin Bruder Müller: There is not so much flexibility when it comes to spending at the Zhanjiang Verbund site. Actually, we also don't want to delay because we also want to have the returns as soon as possible. If you look at the fundamental data from China, they have not changed. We have a sound assessment here. We don't expect old numbers of 6% and whatever was there. We are rather at 4% as a solid projection going forward. It's very much domestic-driven. I think we mentioned that we expect that most of the output from these plants is absorbed by the province of Guangdong alone.

So for that reason, it's in our highest interest to get the returns out of these investments and the sales from that. If you order the material and I just remind you that, at the peak of this construction, we will have about 35,000 workers working on the site. So if you dismantle that now, you would have actually a lot of additional costs and the project results then come in later. So it's not in our interest to do that.

Andreas Heine (Stifel): If it comes to the Verbund site in China, you have quite a number of assets already in China and they produce a cash flow. I would assume that the China Verbund site can be fully financed by your operations in China and by taking out debt locally. Is that a fair assumption or can you elaborate a little bit how you finance this with your assets?

Dr. Hans-Ulrich Engel: Andreas, your assumption is fully correct. That is indeed what we are planning: financing the investment in China with the proceeds of the Chinese business. I think that makes a lot of sense.

1.5 Cost savings program

Peter A. Clark (Société Générale): Around the cost-cutting, the 500-million-euro program, but ultimately the right sizing. Quite a sizable target of 10% of that cost, of the non-productive assets, are in those units or non-productive unit cost. That implies some headcount reduction and, I thought, with a focus on Ludwigshafen, the site agreement precluded forced redundancies for a while. So I'm just wondering how you square the circle of what you can do to believe in that 500 million then beyond that for the cost-cutting.

Dr. Martin Brudermüller: We have no exact data yet on how many positions will be cut. But if you take the non-production part and the units we mentioned, these are mainly personnel-cost related. So the number of people working at the site goes down. And this is also actually what we want to do, but we have to detail it out because it's certainly a sensitive issue for the labor unions.

The site agreement: It's right, that the framework does not allow us to lay off people until 2025. But what is also true is that the workforce of BASF is increasingly getting older. So the number of retirements in the next years goes up significantly. And we also have positions that are not filled. As everywhere in the world, you have problems to get experts and well-trained people. So if we have some of them released from jobs, we can then also put them into, let's say, positions where we do not get the people from the market.

I would expect that, over these two years, the majority of such positions will be handled that way. And then let's see whether we also need other instruments if some people have to leave. But I'm not too worried that we cannot manage this in this timeframe.

1.6 Financial aspects (capex, cash flow, earnings volatility, share buyback)

Gunther Zechmann (Bernstein): On the capex budget: You've not changed the 25.6 billion euro capex over 2022 to 2026. With inflation going up and demand weakening, is the way to see it that you're building less capacity for the same amount of money? And if that's the case, then how much less capacity are we looking in that scenario?

Dr. Hans-Ulrich Engel: We're in the midst of the budgeting process. We'll see what the outcome of that is. Based on what I can see currently, I don't expect any major changes.

You were addressing the moving pieces such as inflation, higher input costs, higher labor costs. There are offsetting costs such as, for example, the steel price. If you look at how steel prices have developed over the last twelve months, they have come down significantly. So all of this will be taken into consideration when we do our budgeting process and we'll see what the outcome of all of this will be. But my expectation is that we will not see major changes compared to what we have communicated so far for the time period 2022 through 2026.

Peter A. Clark (Société Générale): Your investments on the five-year capex projections have come down significantly, Europe having over 60% ten years ago to under 40% in the last three, as you predicted, growth towards Asia and particularly China. But, obviously, the risks with China arguably are growing as well.

I'm just wondering in the context, if Europe continues to diminish, is North America an area that you would be revisiting thoughts again or not? Because, obviously, the span there has come down dramatically in the last few years.

Dr. Martin Bruder Müller: In Europe, if you go for capacities, new plants, this is, I think, a serious question whether there is a business case. Most of the spending we have here actually is maintaining our basis, the one or the other expansion, EHS, but then also very much in the area of battery materials where there is something to come, since this is a growth field for Europe. There you have a clear business case. So the remaining business and the core – we have already mentioned that several times – we have really stripped down to what is needed because we have now higher capex in the other regions.

When it comes to China, I think we can talk at length about that. Yes, you have geopolitical risk. We look into this thoroughly, in all the different dimensions, as you can imagine, and try to apply risk mitigation measures. But what is also clear: There is also a risk not to be in China. If we would now not do these investments, you could imagine that China might question the commitment of BASF in China. It would also most probably affect all the other business we have over there. And overall, we think we still have a sound business case over there. So the risk of not being in China and cutting ourselves off from 50% of the global market is also a serious question.

When it comes to North America, we don't talk much about it, but it is also a market we always look into. I just remind you that we are spending a couple of hundred million over there to expand our MDI plant, which is a very interesting market. We have really used the opportunity, as the market is currently very balanced, and are now building capacity to absorb that growth in the years to come. Hence, we do not neglect North America. But if you look at the North American market over the last five, six years, it was also not growing much, let's say, from a domestic perspective. Most of the capacity is going into export. And that is also, again, a geopolitical question whether you want to build capacities in the U.S., just then to export to China. We have different assumptions here.

We look into these regional spreads very much and are considering all the different aspects for the regions. There's always some kind of opportunity. But now clearly – and I mentioned that in my speech – also looking at the tight situation in Europe and Germany, we are actually happy that we have all these strong positions and a balanced portfolio regionally, and we want to balance that out even a little bit more by deploying more capex in Asia now. This hopefully puts all a little bit into our framework.

Laurent Favre (Exane BNP Paribas): Regarding the cash flow improvement and expectations for Q4: I think you are year to date below 800 million euros, so 2.5 billion euros or so below the absolute amount of the dividend. I was wondering, if you combine the expected working capital inflow of Q4 and the dividend of Wintershall Dea, if you think you can cover the dividend in free cash flow this year, that's a flat dividend with free cash flow this year.

Dr. Hans-Ulrich Engel: Based on what we see and one of the important points you mentioned already, which is the dividend that we are expecting to receive from Wintershall Dea in the fourth quarter: We received that in the first or second quarter of last year. So when you compare quarters, you just have to keep in mind that there is a significant amount of free cash missing when you do the comparison. And you alluded to working capital cash releases that we've already seen in the third quarter and that will continue in Q4.

So the short answer to your question is: We fully expect to cover the dividend with the free cash flow. The expectation is also that, from a free cash flow perspective, Q4 will be a very strong quarter.

Sebastian Bray (Berenberg): Any updates on when you think you can get money out of Wintershall would be great.

Dr. Hans-Ulrich Engel: On Wintershall Dea: What we'll see is, what I would call, a solid, robust dividend payment in Q4 of this year. So that's certainly one way. Everything else, you understand the situation as well as I do, with the kind of portfolio that Wintershall Dea has, will require certain measures. Mario and Paul spoke about that yesterday on the Wintershall Dea call. We're working on it, and I can assure you: We're working very diligently on that.

Markus Mayer (Baader): If you assume for the next year a similar recession as we have seen in the financial crisis and you look at your portfolio, what would you say has materially changed? Do you think BASF has become less cyclical than in the last really sharp recession?

Out of these exercises, what do you see as an earnings level for BASF where you can say the market can draw a line in the sand to have a trough level on what a relation can be based on?

Dr. Martin Brudermüller: I think it's fair to say that our portfolio management was a straightforward one. I think that all made sense. On the other hand, it's also an illusion to think we are not cyclical to a certain extent because you see this now exactly with the upstream business that came down, and this will always stay like this. As long as you have these operations, you cannot get rid of that.

The question might also be when we move forward whether we produce less base chemicals, don't sell them to the market, but use them as captive raw material. Then we might reduce such cyclicity a little bit because then it's not affecting the volume business into the market to third parties.

The other part is – and we are happy about this – that the downstreams actually contributed much more. We always talked about this. I hope you also see that we have significant management efforts and restructuring and have pushed the teams in their performance. I think that is *the* lever we have to balance out. You see in some of these divisions, let me take, for example, Industrial Solutions, which is a very nicely contributing segment. We don't talk much about it, but they have really great earnings. Both of the divisions we have actually cleaned up. So we have divested quite a bit, whether it's paper chemicals, textile and many others, kaolin. This is all in this segment.

You see now that we have a portfolio which has a future, which has growth, which has diversification opportunities. You see now: The management is taking full control to really drive these businesses. They are really, really super and well-positioned. You also see that the portfolio is getting better. That is why I think: What we have done is the right thing, to clean out all that stuff that does not really have a good future and that distracts management. In that respect, I think that's the maximum we can actually do in order to find a balance. But we will always have this stronger swing in upstream to a certain extent, I have to say. We have to accept this.

But overall, I think, you agree. I know no one likes that. We also don't like the cyclicity, but the overall return from our upstream business over a longer period is a damn good one.

So, now when it's coming to the line in the sand, I give it to Hans.

Dr. Hans-Ulrich Engel: The answer that Martin provided is almost the best answer that you can get. What we have done, Martin has clearly explained. I would put this under: We've built a more resilient portfolio. We could now go back to 2008/09 and ask ourselves the question: How did the business react there? We can go back to the year 2020 and the Covid-related lockdowns, and we can try to draw our conclusions from that. But I'd say, overall, that we've built a stronger portfolio over the years and that should be the basis for you in calculating what the line in the sand might be.

Gunther Zechmann (Bernstein): In the report, I was very surprised to see that by customer location Germany is by far the fastest growing region in Q3, up almost 50%. If you could help me understand that a little bit.

Dr. Hans-Ulrich Engel: Your question on Germany: Sales by location of customer, 47% growth, are significantly higher than what you see as sales by company. There's an explanation for that, that's relatively easy and that is the trading business that sits in Other. We had significantly more trading business with customers in Germany than we had in the prior-year quarter, and that's driving up the number. This is raw material trading that we do and that is reflected in the sales of Other. But a big piece of that is actually happening with customers in Germany.

Sebastian Bray (Berenberg): How much of the buyback is done to date?

Dr. Hans-Ulrich Engel: We bought back shares in the order of magnitude of 1.3 billion euros until the end of last week. So the program is progressing as we had defined it at the beginning of the year.

2 Segments

2.1 Chemicals

Andrew Stott (UBS): On the upstream cycle: In the past, you've been pretty good in calling that. I just wondered what you're seeing for the next 12 months, both positives and negatives across some of the key chains.

Dr. Martin Bruder Müller: It's very difficult to predict but, as I mentioned, there is no indication that actually there is an uptick in demand, which is eating itself through the upstream part, both, I have to say, for the internal usage as raw materials for our downstream as well as regarding the market demand. I do not expect that this will change significantly over the next month's.

It is actually somewhat of a global effect. But you saw also from the numbers: It's most severe here in Europe and definitely in Germany. If you, for that reason, look into the margins, then they have been coming down significantly – from a very, very high level, I have to say. But if we look at the contribution from these commodities – and we monitor this all the time every month – then this has now come down significantly to a relatively low level.

I don't expect that margins go down much further compared to what we have. But I think a positive spark going forward might not come from the volumes. The question really is how the energy prices will develop going forward. But there is basically not much pricing power now on the commodity side.

I think it's not a very positive message on the upstream for the next months to come.

2.2 Materials

Andreas Heine (Stifel): The volume in upstream was very much down in Q3, much more than in the other businesses. Could you explain a little bit in detail why that was? Is that that there is a lot of destocking in the value chain or is it due to the fact that you have closed your plants and lost in competitiveness? So what is the reason of this discrepancy?

Dr. Hans-Ulrich Engel: I'd say, it is all of the above. As an example: You know, ammonia is something that we partially shut down in Europe. As Martin said, these are huge volumes. We had to adjust to the cost. But we also saw an element there of lower demand in particular in all regions. And it hit the upstream businesses more than the downstream businesses. And that may very well also mean: We see an element here of adjusting inventories, we see an element of destocking in expectation of lower prices. And then we are approaching at the end of Q3, obviously, also the end of the year and everyone does the same for the end of the year, i.e., tries to manage the inventories as tightly as possible. So all of the above is probably the best answer I can give.

2.3 Industrial Solutions

– no specific questions –

2.4 Surface Technologies

Tony Jones (Redburn): On the battery materials projects in Europe, could you maybe update us on what level of ROCE you're targeting? On the one hand, the industry is getting scale, but then there's also an argument about competitive activity. And perhaps also let us know what internal level of cost of capital you're using for your growth projects.

Dr. Hans-Ulrich Engel: On the ROCE target for the battery materials business: It needs to meet the kind of criteria that we are applying to our entire business. And with the developments that we've seen during the course of 2022, we are quite satisfied with the progress the business is making.

Cost of capital: Is that a question with respect to cost of capital for the BASF Group or was that with respect to specific businesses?

Tony Jones (Redburn): Maybe for the Group would be helpful. Thank you.

Dr. Hans-Ulrich Engel: For the Group, on a pre-tax basis, let's say, round about 10%, between 9% and 10% pre-tax.

2.5 Nutrition & Care

– no specific questions –

2.6 Agricultural Solutions

Chetan Udeshi (JP Morgan): In the Ag segment there is very strong top line growth, both because of high volumes, but also very strong pricing. But when I look at the incremental EBIT growth from that top line growth, the drop-through is pretty low. It's like 15, 16% of incremental sales flowing through to the EBIT line. I'm just curious, why did we not see a much stronger drop-through? It seems that these prices are now strong enough to cover the inflation. Hopefully that is the case.

Dr. Hans-Ulrich Engel: First of all, I think we have 100 million euros improvement compared to prior-year quarter. It is the weakest quarter of the year; that is the seasonality that we have in the business. It comes with significant cost in preparing for the season that has just started in the southern hemisphere and then also preparing for the season in the northern hemisphere. And there's also a mix topic here.

So that explains why this is relatively low margin. But let me say this: Compared to where we were in the prior year, I think our teams in Ag Solutions have done a very good job, and 100 million euro earnings improvement, is I think, also a good basis for a hopefully good fourth quarter for our Agricultural Solutions business.

2.7 Other

Sebastian Bray (Berenberg): Am I right in saying that there is roughly a gain of 100 million euros realized on hedges here? And I come to this figure by comparing the production in Q1, Q2 and the 40% decline in gas figure sequentially for Q3, but it was quite far ahead of market expectations. And I just want to see if that's the right order of magnitude.

Dr. Hans-Ulrich Engel: The order of magnitude is okay. What we show in Other is actually a combination of energy, but also raw materials. And your estimate there is about right.