Strategy Keynote

Transcript Q&A

September 26, 2024

Christian Faitz (Kepler Cheuvreux): First of all, I have a question on current business conditions, as usual. Since we are all here today, this is a public meeting, could you give us an update of what's going on in your key end markets, maybe also regionally, specifically in China, at this point in time? What do you see in the order books?

My second question is: I understand corporate portfolio management. You buy an oil and gas business and sell it on 50 years later. You buy a catalyst business and try to sell it 20 years later; a hostile takeover, by the way. But what criteria that you mentioned for your core businesses is not being met by Agricultural Solutions but which is met by, for example, your Nutrition & Care business? That would be my question.

Dr. Markus Kamieth: First of all: current business, current trading. I can say that right now we're sitting at the end of September. Maybe I'll go back a little bit, a few months. We had quite encouraging summer momentum. I would say, June and July were very good months. Overall, August was a bit of a disappointment, not only for us. I talked to a lot of customers in Europe, Asia and North America. Everybody says the same thing: August was weaker than expected. So, we're looking a bit now: What will September bring? – Not so sure.

What I can say generally is that our core businesses are continuing their good trend. I already said that the first half was actually quite good in prior-year comparison for our core businesses. But the market environment, especially for our agricultural business and for our catalyst business, remains particularly challenging.

So, overall, we will have to wait to see how September really comes in. In early October, we will have the final numbers. Then we will also have a good feeling of what the momentum is that we're taking into Q4. But I would say, Q3 overall was mixed between a good start, but August raised some questions.

Regionally, no change in momentum, I would say. Volume-wise, China is continuing to do fairly well. It's okayish, not as good as we had hoped for in the beginning, but it's a continuing gradual recovery. But market conditions overall in China are such that the pricing opportunity is very difficult. So, margins in China are still very much under pressure. A lot of Chinese competitors have invested in a lot of capacities for growth. And the growth in the last three years has been below expectations. The market is still dealing with long markets in many value chains. So, pricing is an issue, but volumes and industrial activity generally in China are gradually improving.

Europe, I would say, is a tough story. It's moving sideways at a low level. There's no clear sign of a strong pickup in industrial activity in Europe. And in the United States, I would say there is also no big upside momentum overall. There are some rumors about US industrial activity heading into a slowdown mode, but we don't see this.

So, I would summarize the regional picture as the Western world is moving sideways, while China is improving on volumes, but still tough on pricing.

Dr. Dirk Elvermann: One more remark on the current trading: The recent isophytol accident, where we have now done the assessment and are going into repair mode, will unfortunately have an impact of a low triple-digit million amount. So, this is now weighing on our results for the rest of this year.

Portfolio: You mentioned Ag Solutions and you mentioned a comparison. For the Ag Solutions business, let me first of all say: This is a tremendous business. Record business last year, a tremendous improvement on margins, but also top line a very good business.

We simply have the feeling that within the current structure it cannot unlock its full potential. So how do you change that? To crystallize the value, we have to make it a standalone business. First of all, this is very much about the differentiated steering that we already informed you about at the end of last year.

The reason being: A standalone Agricultural Solutions business can certainly command a good double-digit multiple of 12 or 13 times. We simply cannot realize this in the current structure.

We are in no hurry because we like that business. Which is also why we are not talking about getting rid of that business. We really like it. But we want to make it more standalone and create IPO readiness. A minority IPO for this kind of business is probably the way to go because, in that highly consolidated market, any transaction with a peer would not be feasible and also not what we want. So, a minority IPO is a likely outcome. First of all, we want to have that business standing on its own two feet. Then we can see what the next step will be.

The standalone businesses and the core businesses that we currently have are clearly differentiated. Everything that is now standalone is serving a clear industry landscape. The core businesses are connected amongst each other. They are synergizing. This also includes the businesses that you have talked about. So, we feel very good about this distinction that we have implemented now. This is not something we intend to revise or augment in the next couple of months or years.

Dr. Markus Kamieth: I would just add: You will see when we go through the segment presentations for Nutrition & Care and Agricultural Solutions – which will be done by Mike today and tomorrow – there is a huge gap between what we consider personal care. It is very close to chemicals. It’s a sophisticated chemicals business, but it’s about formulations, it’s about molecules, it’s about application know-how on skin versus on a car body. But essentially, from the business model and execution, it is very similar. Plus the value chain integration approach in our personal care business: We still source most of the materials that we sell in-house.

Our Agricultural Solutions business is developing in a very different direction and has been for many years. You’re talking about an integrated business model between seeds, traits, digital solutions and the chemistry that originally was the founding business of BASF. It is becoming a systems business that has less and less to do with what a chemical company considers to be at its core, its innovation engine. Mike will talk about this. This is why I see a huge difference between those two businesses from my perspective.

Sebastian Bray (Berenberg): My first question would be on the insurance claims that you mentioned as part of the German government investment protections related to legacy Wintershall Dea. I never found a figure for how much BASF is actually asking for. Could you provide that? And how long do you expect the process to last?

My second question is on the EBITDA ramp-up of a phasing that is assumed between the €7.7 billion now and the €10 billion to €12 billion targeted by 2028.

I'd have two questions here. The first is: How backend-loaded is this, given that Zhanjiang is only going to start contributing from 2026?

My second question is: What gas price has been assumed in Europe when generating these assumptions? Because a lot of the issues today stem from the fact that gas is twice as expensive relative to 2019 levels in Europe.

Dr. Dirk Elvermann: I will start with the question on the federal investment guarantee. It is an ongoing process. Unfortunately, I cannot help with the concrete figure that we are looking for. I will paraphrase it by saying: It's substantial.

You know the kind of write-offs we had to make. The compensation claim is lower than the write-off amounts, but it is a substantial amount that we are claiming.

The process is a rather structured yet at the same time informal process run by the government in a dialogue form, with some help from an intermediary. The process is very structured. We are narrowing down the arguments for which proof has to be presented. I think we are coming relatively close to the end of that process where we have provided all the evidence needed to substantiate.

I think there is not much doubt about the fact that the expropriation took place, first economically and then legally. So, now it's about the exact amount. Once the process has concluded, we will obviously let the market know.

One more thing: From an investor's perspective, it's certainly an upside for the company because it's not accounted for. The company cannot account for it. So, when it comes, it is a clear upside in terms of cash for the company. As to the rest, I still have to beg your pardon that I can't give you more details now.

Dr. Markus Kamieth: On the second question with regards to the EBITDA ramp-up, I would summarize that it's rather a gradual ramp-up. It's not very backloaded. You will see this also in the individual segment presentation. It's not a backloaded thing.

To your second point: The gas price is not a big influencing factor in our business plan. I'll tell you why: If you look today at the gas price in Europe and our energy bill here in Ludwigshafen, for example, which is basically strongly dependent on natural gas, it's not much higher than it was in 2019.

The natural gas price is not our biggest issue. We have always said that, once the markets recalibrate through sufficient LNG import capacity in Europe, there will be an arbitrage between, for example, an LNG exporting region like North America and Europe of a cost factor that we always mentioned to be between $5 and $7 per MMBtu. This represents the cost to liquefy the gas, transport it and degasify it here in Europe.

The last time I checked, we are getting into that range. So, we're actually getting closer to a balanced supply/demand LNG picture. The European markets for most chemicals are adjusting to this. The gas price in Europe is not a big influencing factor when it comes to the overall profitability development along our business plan.

What will be challenging is, of course, natural gas price volatility, which is always going to be a challenge year over year. But for us, the general gas price level is not a big factor in this game.

Thomas Wrigglesworth (Morgan Stanley): First question: Your ambition is obviously to help customers with the green transformation. Can you give us a sense of what kind of premium you can charge for products, how much of your products touch on this green transformation today and what you've assumed in your 2028 targets in that regard?

Second question, again related to the ramp-up of the China Verbund: As that comes on stream next year, will we actually see an EBITDA headwind for ramp-up costs? Can you help us understand? Or is it such that it's modular enough that we won't see ramp-up costs and that's not part of the calculations that you've made?

Dr. Markus Kamieth: I'll start with the green products. Maybe, Katja, you add your perspective because you looked at this holistically also for the Ludwigshafen site.

Right now, the ability to generate premiums in the marketplace for green products is still all over the place. We have industries where it is accepted. Some companies have either set ambitious targets for themselves and are absorbing the premium because they want to achieve their targets or, in the best case, consumer markets have actually developed already in a way that there's room to pay those premiums.

We've also been vocal about a couple of deals that we have made, for example, where we have fast-moving consumer goods companies that have premium brands on the shelf where they can price a premium on this to the consumer. That is also where we generate premium, also in large contracts with, for example, bio-based materials.

However, I also will tell you: It is still hit and miss. That's why our approach is to say that we cannot anticipate or ultimately forecast these premiums, even within the four-year period; that is the basis of our strategy.

That's why we are pursuing this gradual, phased transformation. Nobody today can tell you what the exact demand for zero PCF is, for example, for any particular chemical in the world in 2028. Nobody knows this because then you're in a chicken-and-egg situation – it depends on what cost. This is still emerging. That's exactly why we are choosing what we're doing today and not going all in, for example, to build billion-euro new machines to make green olefins right now. Because we don't know where the market will emerge and who is going to pay which premium at the end of the day.

To some extent, it is a walk-before-you-run kind of situation, but it is moving. So, it is emerging, and you will also hear this in the next couple of days: There will be some restrictions on availability of sustainability attributes, coming through energy vectors, for example. There will be a tightness coming up eventually. Whether that's exactly 2030 or not, we don't know. But it will be tight. Then, at the end of the day, the pricing power will increase when you have these capabilities in hand.

But right now, it's case by case, customer by customer. And I will only say: Even customers that target the greatest sustainability transformations and have great commitments out there, are often still reluctant to pay a price premium for biomass-balanced products, for example.

Dr. Katja Scharpwinkel: I think there is not much to add. – As Markus just explained: We have looked into different macroeconomic scenarios. That's also what I outlined when we assessed the chemical demand in Europe for Ludwigshafen, which will be the relevant markets. These macroeconomic scenarios depend also on the ambition level – basically, how fast CO_2 reductions should be achieved.

The answer that you just gave is basically right. We cannot forecast it. It very much depends on the scenario. It depends on the industries; it depends on individual customers and the supply/demand balance. That is why, we can pursue this gradual transformation with our Verbund, going with the pace of customers, with what they are willing to pay for it. We see this as a huge advantage for BASF.

Dr. Markus Kamieth: On your question on Zhanjiang: There's no magic to it. It's like any other chemical plant that we are starting up; it's just a big one.

So, yes, there will be startup costs. There is an EBITDA drag when we start up the plant. We have also, in the past, communicated big startup-related costs for other facilities. I don't have a number now for Zhanjiang in my head, but this is one thing we have to take into account. Certainly, when the big machines start up late 2025 and 2026, there will be a cost element to it.

There's also cost associated with pre-marketing. We have to bring materials from other locations to China to do the pre-marketing for the ramp-up. Then there's one other element that we have taken fully into account when we did our cash planning, for example. Of course, you have to fill up the supply chain. For such a big site, this is a drag on current assets. But Dirk and the team have taken this fully into account in our financial plan.

Zhanjiang was a big one-time project in our capex plan, and you will see it now over the next years in the cost and current asset development. It is a big factor, but this is all fully accounted for in our gradual ramp-up toward the targets that we just presented.

Peter A. Clark (Bernstein Société Générale Group): It's on the restructuring. As you flesh out the detail of how you get to the €2.1 billion, I'm actually surprised it's not going up. I'm sure if you're dissolving the regional structure, more delaying, simplification, this is something you're going find more. So just your comments on that.

Then, obviously, you gave us the number for Germany being in loss of €600 million on EBIT last year. I'm just wondering, with all the work going on, your projection for Germany on your targets of 2028 with your €10 billion to €12 billion EBITDA.

Dr. Markus Kamieth: I'll take the first one on further cost improvements. Everything that we're doing in the strategy under "Accelerate" – simplifying our organization, streamlining cost structures, also applying AI to increase productivity – will increase our ability to reduce cost, increase productivity, you name it.

But this is all outside the cost programs that we have announced. I'm not a big fan of always running from one program to another. If we want to live a winning culture at BASF, we have to become a company that is continuously addressing cost improvement and making this part of our daily life.

We have to get out of this rhythm that the Board announces big programs and then we do these big operations, big surgeries and big teams running through after these cost savings with big one-time costs. We had to do it because we were in an exceptional situation, also over the past years here in Germany because of everything that happened in 2021, 2022. But if it's up to me, this is the last time we come out and do this one-thing package, where we are tracking and you guys ask us every quarter: Well, how much of this €2.1 billion do you already have?

I want to see the productivity increase on an ongoing basis every quarter in my P&L. Then all the measures that you mentioned and many more in the strategy measure list are going to contribute to this.

We have to become a very cost-conscious company because, especially in our core businesses, we are operating in a very competitive environment. That's the spirit we want to get to with this winning culture, this improvement mindset: You have to be always as good as your competitors and not only if the Board announces a project.

Anything to add for Germany?

Dr. Katja Scharpwinkel: Not that much. But as you refer to the regions: As Markus already outlined, the idea is that we move into a continuous productivity improvement mode.

Not everything is captured here in the cost savings programs we showed you. The one for Ludwigshafen I presented to you is basically really targeting focused savings in Ludwigshafen. If you address regional structures, they won't pay into that, but rather from a global perspective.

Dr. Markus Kamieth: Let me add one thing that is important when you follow communications of how we report on progress, on the restructuring efforts here in Ludwigshafen, for example.

We don't steer the company by profitability of individual sites or individual legal entities. We steer the business and that's how – we also showed you – we incentivize our global operating divisions and running their P&Ls and their balance sheets according to best-in-class performance.

Ludwigshafen we have now identified as a special topic, so to speak, because the urgency was so high. But we are not setting a target profitability for BASF SE, the legal entity, or the Ludwigshafen site. We have embarked on a journey to make the site cost competitive. That is necessary. But it's very dangerous to look at this one KPI and think this is something we should optimize for the Group because it's also a very convoluted number.

So, it's just a word of caution that it's not necessarily always the legal entity result of BASF SE that is ultimately driving what we do.

Laurent Favre (Exane BNP Paribas): Following up on the points on incentivization, I was wondering if you could talk about areas where you think you are the benchmark, best in class. Can you talk about the areas where there's the biggest upside?

The second question is on M&A. I think the last €12 billion or so of M&A spending has been done in the standalone businesses. What exactly do you have in mind for the core business? Is it upstream? Downstream? Consolidation? Are we talking about significant or potentially significant deals? Or are we rather talking about smaller things?

Dr. Markus Kamieth: I'll take the last question first. I try to be outspoken about the fact we're looking at acquisition opportunities in the core business because I fundamentally believe in the continuous evolution of broad portfolios. The core portfolio is still a very broad portfolio. There has to be a continuous evolution of this.

I believe there are opportunities from consolidation. There are opportunities by enhancing our capability spectrum. I also believe that there are opportunities to rebalance our regional footprint. We're still a very European-centric company. We still have roughly 40% of our asset base in Europe, and we want to move more toward high-growth economies in Asia.

All of these things could be drivers. We're looking at smaller things that are maybe more driven by divisions. So, we're encouraging our divisions: Look in your markets. How can you win, how can you complement your strengths? But we're also looking at some corporate targets. We're thinking about this. We're not boxed into any of these ideas. So there is also a bit of rethinking about taking a more active approach to managing our portfolio going forward. Apart from that, there is nothing else to announce at this point in time.

You asked a very interesting question on where we are already benchmark and where we are not. I have to say: We have it all in the company. We've done an analysis across all our 70 SBUs. We have strategic business units that have significantly underperformed their market for quite some time. We have put them on a clear pathway toward improving this. We also have strategic business units that outperform their respective peers significantly and consistently.

There is not necessarily a pattern where we can say: Upstream with this, downstream with this; Europe we're here, or somewhere else we're there. It's not a clear thing. It really takes holistic performance management across the portfolio to lift up the businesses that have a right to win, but also make necessary cuts in the portfolio. That's why we also mentioned pruning where we are not meeting the benchmark expectations.

But I can tell you: We have quite a number of businesses where outsiders sometimes comment they might not be benchmark, but they actually look pretty good. Sorry for this slightly vague answer. I don't want to pinpoint specific businesses or specific areas. I think, in general we have a broad distribution of benchmark performance, and we have a clear ambition to get everybody over the line.

Chetan Udeshi (J.P. Morgan): First, on the isophytol incident: You mentioned €100 million, triple million euros. Is that sales or is it EBITDA impact?

Dr. Dirk Elvermann: I mentioned a low triple-digit million EBITDA impact.

Chetan Udeshi (J.P. Morgan): Low triple-digit million?

Dr. Dirk Elvermann: Yes.

Chetan Udeshi (J.P. Morgan): And that's all in H2, I guess, because the plant is starting in Q1.

Dr. Dirk Elvermann: That is in H2. In July, we still benefited from the stock that we had. So, it's impacting the aroma business and the vitamins business. But now we feel the impact.

Chetan Udeshi (J.P. Morgan): The second one was just going back to your standalone businesses. I'm very, very surprised that you are essentially saying that those businesses are not going to grow until 2028. If I go back and remember how much money you spent on battery materials expansion – I don't have the numbers, but I remember you guys were talking about €4 billion. Maybe some of that is already in your capex.

It doesn't seem like 2023 was a spectacular year from a margin perspective. If I look at your reported numbers: 14% margin. If I give the benefit of doubt of removing metals, maybe high teens. Why is that part of the business not growing?

I squeeze in a last one: It is fair to say that we waited for a long time for this bonus KPI change from group to divisional. We've debated this in the past in the conference calls. I'm just curious: What sort of accountability do you have within the company? Again, not to pick any division, but I'm looking at your Nutrition & Care business performance over a number of years. It just continues to disappoint, at least from what I compare versus your peer group. It just doesn't feel there is enough accountability, at least from outside. So I'm just curious how that is changing, if at all. Sorry if I'm being a bit firm.

Dr. Markus Kamieth: On the standalone performance: If you look at the relative size of the businesses and standalone performance, you should not underestimate how different the sizes and EBITDA contributions of these businesses are.

Agricultural Solutions is by far the biggest business, with roughly €10 billion in sales in 2023. Battery Materials is still comparatively small. Because of the high ramp-up and R&D costs, it's also not generating a lot of EBITDA as we speak.

I think Anup will mention this tomorrow in the Battery Materials presentation. So far, we have invested roughly €1 billion in this business over the past years, and we are in ramp-up mode. So, the business will grow over the next four years and will also have increasing contributions to EBITDA. But it's tough to compensate performance contributions from our bigger standalone businesses that are not going to be growing from the all-time record year 2023. Let me put it this way.

So, in the mix, this makes sense. You will see the EBITDA ambitions for all of the standalone businesses over the next couple of days. I think they're all ambitious, plausible and based on clear value creation plans. That includes Battery Materials.

Last one: Nutrition & Care. For sure a challenging story, in particular for the Nutrition & Health division over the last years, where we also had various one-time effects. The isophytol incident this year is another one where we will be taking a significant hit. We had significant challenges along the vitamin value chain over the last years. Some of you might still remember: Some years back, we had an incident in the citral value chain. So, it's almost difficult to see a clear baseline of the real performance in the Nutrition & Health business.

What we can say is: We have now changed the approach strategically of running this business as a pure ingredients business. For the key ingredients that we're in, including vitamins, we are in a leading cost position. So, if we get this business into a stable operations mode and without some of these incidents – that's, of course, the plan going forward – this will be a significant profitability contributor and will also stack up very well against competitors in this marketplace.

The same holds true for our Care Chemicals business; that's basically the key outlet for our C2 value chain and our personal care franchise. They actually benchmark quite well. You will also see this tomorrow from Mike.

Matthew Yates (Bank of America): Markus, if I recall correctly, I think you ran the Coatings business for about five years. I'm curious from that experience in the business why you've come to a different conclusion about the ownership than your predecessor Mr. Brudermüller who was fairly outspoken that there was no intention to monetize that business.

To Dirk: The new approach to capital allocation and the owner's mindset. I don't actually know what that means. Can you talk about some of the lessons you've learned from the way things have been done in the past that you wouldn't want to be repeating?

Dr. Markus Kamieth: Coatings is not a special case in that general way of thinking. Earlier this year, when we looked at BASF's overall strategic playing field and said we have to put value creation for BASF and our shareholders front and center in our strategic thinking, we also looked at the portfolio options and the valuation in the portfolio that we have.

To us, it seemed very obvious that it would not be a very value-accretive strategy to try to increase BASF's overall market capitalization by adding more and more high-value acquisition targets with multiples of 10, 15, and making BASF a more specialized company.

So we turned this around: Okay, maybe focusing on what BASF is actually good at, our strength, our core is maybe the opposite strategy. And then you see: Okay, we have the standalone businesses that are actually very valuable businesses.

If you then look at the sum of the parts, the valuations: The value-creating opportunity is obvious. Then, of course, you evaluate: How actionable is this? What is the most plausible way to unlock this value?

I think for Coatings, it's also very plausible to find either partnerships or people who are interested in unlocking this value. This was our pathway to reach the conclusion that, yes, we will engage in this.

As you know, the Brazilian deco business is always a bit of a special case because it's this B2C business that we only have in one country. Of course, here the value creation opportunity is also strikingly obvious.

So, once you have embarked on this strategy to say, look, our value creation strategy is about strengthening and growing the core and unlocking the value of our standalones, you automatically come to the question: Is Coatings actionable? We believe it might be. But we first have to get to a point where we actually have a value-accretive deal or construct in front of us.

That's why I also said that, if that's not the case, we are perfectly fine with running the Coatings business. I think we are a good owner. We have over the last years developed this business very nicely. In our biggest business, in the automotive coatings business, we have achieved the number one market position over the last years. We have actually overtaken some of the big players in this market. And this shows we have a right to win in this market. This is a very good business and that's why we came to this conclusion.

The second question on capital allocation: Obviously, it didn't resonate well with you, my little picture of this owner's mindset. Let me put it this way: As the Board of BASF, you run a very broad portfolio – from TDI to tomato seeds. That's basically the portfolio you work with.

As the CEO of BASF, if you are faced with the question: "Is it better to spend €50 million now on a new vegetable seeds development station somewhere in Europe or debottlenecking an acrylic acid plant in Brazil?", you quickly realize I cannot really decide this because these are two very different things.

You either have a super sophisticated and robust strategic framework process that you run across 70 SBUs and then from this, you have a capital opportunity list every year that is also highly administered, and you always do the budget.

Or you turn this around and say the Board of BASF is not going to make these individual capex decisions anymore but will instead empower the divisions. They will run a P&L, a balance sheet, based on their value creation plan for the next four years. Then based on the needs of the company, I will adapt the value creation plan I have for the group. I will then deduct a capital budget over the next four years that I assign to the division. And with this capital budget, the division can run and deliver its value creation plan. And as long as the division is delivering, I don't need to decide exactly which project they're running, whether it's debottlenecking somewhere or investing it somewhere else.

That's the general idea: decision-making should not be centralized on a too operational level because, from my perspective, this leads to certain inefficiencies in capital allocations. I'd rather empower my divisions to do this. But then I want to hold them accountable for it. We will say to the divisions: If you're successful, you'll really feel it in your pocket. And if you're not successful, the consequences are also going to be different than in the past.

That's a brief overview of the logic of an owner's mindset.

Dr. Dirk Elvermann: Importantly, in later presentations, you will see the equity stories of the segments, the value creation plans, the strategies. There you will feel where the decision on prioritizing the best projects is then going to happen.

It is, if you will, a more strategic approach on the Board side. The decision-making and concrete investments are then delegated to where they belong. You will also see more competition of projects within the businesses. Having just started, we are already seeing the first tangible effect. We are seeing more project plans geared toward growth and profitable growth rather than just kicking the can further down the road. So, there is a tangible effect that comes from this approach.

Andreas Heine (Stifel): I'd like to ask about Ludwigshafen. When I look at what was closed and what was basically in the Chemicals, in the Materials segment, so in the upstream part, I see that what you analyze now is also going into that.

That brings me to the question: One of the strengths was to have long value chains. If you now cut the first part where you have quite some assets being pretty old – 40, 50, 60 years – is that then still valid? That's the first question.

The second: If you sell Coatings – just an example – or automotive catalysts, how do I have to think then about the use of the proceeds? Is that then immediately paid as share buybacks?

If you lose a free cash flow contributor, it makes it more difficult to pay a dividend. But if you reduce the number of shares, the dividend can be the same. Is that kind of thinking behind that?

The last question is on the China Verbund site. There was always talking about a phase 1 and a phase 2 in the investment. Phase 1 is done basically because you cannot change anything anymore. But maybe you can elaborate about phase 2 and the outline of the capex program in the second half of this decade.

Dr. Katja Scharpwinkel: You asked basically which businesses are affected by potential asset closures. When we did the analysis, we identified 22% of our assets that have either a long, medium or short-term competitive risk.

Nevertheless, we have also done a value chain analysis. Here, our findings were that all major value chains are competitive. All those assets that do have a risk – either short, medium or long-term – are rather at the end of our value chains. So, it’s not representing the upstream and the starting points of our value chains. Therefore, this has no or little impact on our Verbund structures.

Dr. Dirk Elvermann: Andreas, on the use of the proceeds: I think this is one of the moments where the word “journey” is the right one because you need, by definition, to leave it a little bit open if and when this is actually happening.

With the positioning of the standalone businesses now, we are clearly saying there is a case for value crystallization when this actually happens. What to do with the proceeds will have to be decided then.

What I can definitely say is: We will take a balanced approach. We want to grow profitably. We want to protect our balance sheet going forward. But we also want to distribute at least €12 billion to our shareholders. So, there will always be this balanced view on this. Then it is a matter of timing when the proceeds are coming in the future.

Dr. Markus Kamieth: On the Zhanjiang question: I will make it short. We will not be talking about a phase 2 in Zhanjiang anymore. We have abandoned the idea of packaging future projects into a phase. We will continue to invest in individual projects in Zhanjiang where either a value chain extension or a new capacity for the respective Chinese market makes sense. This will be rather a case-by-case decision of which projects will, after phase 1 is completed, go to Zhanjiang.

The original concept of doing this in phases was a very technical approach to package it, to also have a discussion with, for example, the authorities in China. We have abandoned this in the meantime. So, after phase 1 is done, we already have ideas for further expansions in Zhanjiang and we will execute them one by one.

Martin Evans (HSBC): I’m just going back to these €1 billion of new cost savings in Ludwigshafen. Some of the things you’ve discovered are pretty basic: procurement, process efficiency, Verbund adjustments.

Markus, you referred to perceived challenges in the past with restructuring here or the perception of that. What are these real savings, given that you would have done this, one assumes, many times before, particularly things like procurements and process?

Or is it the case that you didn’t feel confident enough in the past to aggressively cut costs here, but now you appear to have found the strength to do that? So, what has basically gone wrong at Ludwigshafen?

Dr. Markus Kamieth: These are always tough questions because these are rearview mirror questions: Why haven’t you done this earlier? What went wrong in the past? – I actually don’t like to dig so much in the past.

But let me also say one thing: First of all, I'm a firm believer that things like going through your entire spectrum of activities and looking for cost-savings opportunity is like cutting your hair. You eventually always have to do this and there's never an end point to it. You will always detect things where you say: We can certainly do this much better.

Sometimes it's technology, sometimes it is just lack of attention, sometimes it's bad management. It can be all of those things. But you constantly have to do it.

Let me also say: When it comes to procurement, here also we have found that we have managed procurement spend. Sometimes we have also complicated the responsibilities between who is actually making decisions buying what.

We have detected in our procurement what we call the tail-end spend. We didn't pay a lot of attention to tail-end spend over many years here in Ludwigshafen. Now Dirk has embarked, for example, on a project where we use artificial intelligence to help us manage our tail-end spend and start negotiating again on tail-end spend. When you run a big machine like Ludwigshafen, even the tail end is a pretty big thing. So big numbers can come out.

It's not necessarily that we haven't had the guts to do it, but sometimes it's also lack of attention. And the sense of urgency over the last year certainly has helped, for sure, that we are turning over every stone.

When we announced a billion euros, a lot of people thought: How is that even possible? And now we know it's possible, but you have to go into the nuts and bolts. That's unfortunately an exercise that will never stop.

But let me also say something: If you look at the headcount in Ludwigshafen over the last 20 years, it hasn't really changed a lot. We have roughly the same headcount in Ludwigshafen that we had in 2005. So, of course, our aspiration now is to make Ludwigshafen leaner and stronger. We also have to start bringing our personnel cost down now in Ludwigshafen because it is not foreseeable that the European chemical industry will grow over and above the bubbles you have shown, which is moderate growth, which is good news in Europe. But we have to start adapting to this. I don't know why – I don't want to comment on it – but we haven't certainly done a lot when it comes to headcount in Ludwigshafen.

Dr. Katja Scharpwinkel: I might add also that we are highly confident that we will bring those savings home. I shared with you today that 80% of such savings will be fixed-cost related. I also shared with you that for half of it, the headcount reductions will be a major element. We have set up dedicated projects, dedicated teams, and as Markus explained, for the procurement processes, end to end, there are also potentials in this cross-unit collaboration. Therefore, by involving the teams, it's not an easy exercise. We have to turn over every stone. But we are very confident that we will get there.