# BASF 3rd Quarter 2015 Analyst Conference Call


# Transcript - Q&A Session by Topic
# October 27, 2015

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# 1. Group

**Paul Walsh (Morgan Stanley):** I wonder if you could help me understand the various factors within the changing guidance. Clearly, the major piece is deconsolidating the gas storage and trading from the fourth-quarter cut. You have already pointed towards the fact that this knocked €70 million of EBITDA, maybe 50, 60 million off at an EBIT before special items level.
Is that the biggest piece or do you see similar sizeable impacts from the general slowdown, the lower oil price and perhaps slightly weaker agricultural market? I am trying to get a sense incrementally for where you think things have deteriorated most visibly.

**Kurt Bock:** I think it is a combination what you just mentioned. Clearly, it is the divestiture of the gas trading business. This is around €100 million. This is what we had projected for Q4 to come in.

**Paul Walsh (Morgan Stanley):** Is that EBITDA or is that EBIT before special items?

**Kurt Bock:** EBIT. You know, these earnings in gas trading are kind of volatile between quarters and difficult to predict. That is essentially what was part of our forecast.
Then the oil price certainly plays a role. It is now below USD 50 per barrel Brent. That has certainly – you know the maths – an impact on our bottom line.
In Agricultural Solutions, we had overall, given the difficult environment, especially in South America, not too bad results, if you compare us to our competitors. Yet we believe that in South America we had some pre-buying, simply because people were anxious to avoid a further depreciation of the Brazilian real.
So, forecasting Q4 is a little bit difficult, but overall we now assume that most likely in Agricultural Solutions we will come in below last year's EBITDA number. Our goal was to improve earnings in 2015 over 2014. So, now we see a slight decline. That certainly also has an impact.
The main influencing factors are easy to describe and to identify, and it really comes back to the question of volume momentum and what we do see in our markets.
I think – I already made it clear when we met in late September – that we really saw a very lacklustre demand development, coming out of the summer lull. This has continued going into October. In October, month-to-date, we haven't seen any real volume growth, to make this very clear. So we perceive this as our customers being very cautious right now. They might be holding back orders expecting further price reductions, based on the low oil price.
But maybe this is also an underlying macroeconomic economic weakness. As I mentioned in my little speech, there are a couple of leading indicators which point into that direction. Actually, if I look at our orders on hand and daily sales, it doesn't feel at all like there is any positive momentum.
These four factors in combination led us to look at Q4 renewed. We came to the conclusion that most likely results will be slightly below last year's total number for 2015.

**Paul Walsh (Morgan Stanley):** That is very clear. Just on those fantastic cracker spreads, we are seeing at the moment, Kurt: I guess you feel those are sustainable, given the current tightness.

**Kurt Bock:** You have to be specific here. We had a terrific run in North America, starting in 2014, going into 2015. Margins have come down a bit. We see in Europe now additional capacity coming on stream. We had a couple of turnaround situations, as you know. So, margins in the olefines business will come down in Q4 most likely, compared to Q3. Yes, we do have also not rising raw material costs, but our assumption is that margins most likely will be lower than what we have seen in the previous quarter. That also plays a role.
This, again, Paul, goes back to this deflationary environment which we are facing now, I think, throughout our industry.

**Paul Walsh (Morgan Stanley):** Sure. That's very clear. Thanks very much, guys, thank you.

**Jeremy Redenius (Sanford Bernstein):** I am wondering why capex is up year over year. Can you talk about the extent to which these are your Oil & Gas partners continuing to spend, as you highlighted at the Q2 results, versus how much of the divisions are spending beyond their budgets and how much of a factor the weaker euro is playing a role, assuming that you are spending some of those projects in dollars and that translating them back to Europe inflates the number?

**Kurt Bock:** Thank you for the question, Jeremy. Again, it's a combination. Oil & Gas plays a role, something which we cannot fully control because – I said this before – we are part of consortia and they are essentially handing over the bills to us and we have to pay.
The stronger U.S. dollar or weaker euro also plays a role, just the translation effect of these investments.
Then we saw a couple of projects where we were able to implement faster than what we had expected. This is not necessarily bad news because obviously then capacities are available a little bit earlier. It is the combination of factors here.

**Jeremy Redenius (Sanford Bernstein):** Are cost overruns playing a role in the case here?

**Kurt Bock:** We had cost overruns in Brazil. I think we talked about that one. We are at the finishing line here in Ludwigshafen with the big TDI complex where we had some delays due to the complexity of that endeavour. With the delays slight cost overruns came, but actually, all in all, this doesn't really play a major role.
If we look at our capex projects, we measure them with three criteria: on budget, on time and quality. We call this Triple A. If you achieve Triple A, then you are in safe territory. The vast majority of our projects come in as what we call Triple A projects. This still doesn't mean that the market is always completely ready to buy our product, as we have now seen in Brazil, where we have a recession. But we have a strong focus on executing our projects well.

**Lutz Grueten (Commerzbank):** I have a quick question on cash flow. The net working capital was nicely reduced again in the third quarter. Is this now a sustainable base also for Q4 or should we expect here a reversal in the final quarter?

**Hans-Ulrich Engel:** In Q3, we actually had a much lower impact from the inventory than in the prior quarters. Inventory changes predominantly in Q1 and in Q2 – in Q3 a stronger impact with respect to accounts receivables.
If you look at the balance sheet, please keep in mind that there is also a significant impact in our working capital as a result of the asset swap. But overall, thanks for noting, I think the entire team has done a great job there, a strong focus on working capital management. Overall, you have seen that we have generated €2.5 billion more in cash in the first three quarters of 2015, where in the last three quarters of 2014 we had actually a cash consumption in the order of magnitude of €900 million in the working capital. So there is a swing of €3.4 billion.

**Thomas Gilbert (UBS):** Following up from Lutz' question, trying to fish for a year-end net debt number: Can you remind us what kind of disposal proceeds we should expect for already announced disposals this year in the fourth quarter? Are there any additional impacts in the cash flow statement from the asset swaps yet to come in the last three months?

**Hans-Ulrich Engel:** Thomas, last question first: Based on everything that I have seen, there is no cash impact to be expected. It could be that there is a small compensation payment still to be done. But that will not have a major impact on the cash flow statement.
Your first question was with respect to disposal proceeds from announced divestitures in Q4. The only one of a sizeable nature that we have announced, not yet closed, is the Tellus transaction. There we have disposal proceeds in the order of magnitude of €500 to 600 million. So that gives you an idea there.

**Laurent Favre (Bank of America Merrill Lynch):** My question is actually fairly boring: on the tax rate. If I look at the notes to the EPS calculation, it looks like your tax rate on an adjusted basis was 34 percent in Q3. In the U.S., earnings were down less than everything else; in Germany, earnings were down more. So can you basically give us some kind of sense of where that tax rate will settle, now that the Gazprom swap is done? I am assuming that the current split of geographical earnings stays. Is it still above 30 percent or does it go back to closer to 26 percent and there was something exceptional in Q3?

**Hans-Ulrich Engel:** Let's start maybe at the lower end, in Q3. Laurent, I think the tax rate was at 26.0 percent which compares to 27.6 percent in the prior-year quarter. Obviously, there is an impact from the gains from the asset swap which were not taxed.
Our general guidance with respect to tax rate does not change. We expect our tax rate to be in the range of 25 to 30 percent and that is with the current regional setup that we have and the current business setup that we have. Should that change, that may have an impact, but we will stick to our general guidance and

you know that we have slightly moved that up as a result of the stronger weight that our highly taxed Norwegian oil and gas activities have.

**Laurent Favre (Bank of America Merrill Lynch):** Page 40 in the calculation of adjusted earnings shows a tax of €537 million on pre-tax earnings of €1,577 million. This corresponds to a tax rate of 34 percent. Is there something exceptionally negative in the minus €537 million?

**Hans-Ulrich Engel:** The increased tax rate of 34 percent is due to higher deferred taxes related to our E&P activities in Norway resulting from a currency driven increase in temporary differences to the values used for the calculation of taxable income. More specifically: the functional currency for these Norwegian activities is USD. As a result of the devaluation of the Norwegian crown, the tax book values of our Norwegian assets declined which will lead to a reduction of our tax deductible expenses in USD. This led to higher deferred tax liabilities as our functional currency in Norway is USD.

**Andreas Heine (MainFirst):** I have a question on the volume trend. In the industrial business, you have not shown a volume increase this year and only a minor one last year. But in contrast, you have invested quite heavily in capacity additions. How do you see these capacity additions and what do you plan for the coming years with basically no volume growth?
What you have highlighted in the trends, obviously only going into Q4, does not show any pick-up in volume. I don't know whether you can give any comment on 2016, but I would guess from today's point of view, it will not be a strong start in 2016, either.
Is it not the time to rethink whether all these capacity additions have to be scaled back or delayed a little bit, so that you really run down capex in the coming years?

**Kurt Bock:** Andreas, thank you for your question. I think we have already indicated strongly that we want to reduce capex to a level slightly above depreciation levels, also acknowledging, as you said, that over the last couple of years we have had an investment stream which we still think was necessary to capture growth, essentially in emerging markets, and to improve our production structure in North America and in Europe.
Part of those investments are clearly about growth. That is essentially true for emerging markets. Part of those investments are about improving our Verbund structure. In the United States it is quite obvious: if we talk about topics like ammonia, which is pure backward integration, where we have no external growth coming, we are trying to strengthen our bottom line.
The same holds true for Europe in a certain way where we had this one big investment here in Ludwigshafen, TDI. But here, again, please keep in mind: Yes, we are expanding TDI in Ludwigshafen by around 300,000 tons. But at the same time we are going to shut down a capacity in Schwarzheide, which is 80,000 tons, and we acquired a business about two to three years ago in Poland which is also going out of business, which is another 75,000 tons. So, the net addition is 150,000 tons roughly.
What I am trying to say here is that we are very much aware and cognizant of supply/demand balances and we try to play our role in those markets. But we

certainly want to invest in technologies – we have talked about this again and again – and in Verbund structures where we see a competitive advantage for BASF.
Emerging markets: At least what we see is a pronounced slowdown in Asia/China. Growth in China for us has been unsatisfactory over the last couple of quarters; there is no doubt about it. We have a couple of new capacities coming on stream: polyamide recently, now MDI in Chongqing, INA in Maoming. They all will capture growth going forward. There is underlying demand for these products. Most of these products actually grow above GDP. I think we will demonstrate this going forward.
This is very much the upstream part of the business. In the downstream businesses, we have continued to invest in industries like automotive, where we perceive competitive advantage for BASF. Hans just talked about the catalysts business. Yes, we built a plant in Poland, yes, we are expanding capacity in India and China because we do see growth in these markets. We have grown very nicely. I think we have demonstrated already to you that we were able to grow our automotive business in China – just one example – much faster than the underlying automotive market has developed.
So, going forward, we will remain cautious. I think we have also been cautious in the past. We will analyse very clearly what is ahead of us. At this point in time, referring to your remark about 2016, we would like to stick to our policy to update you on the 2016 outlook in February when we have our annual call. At this point in time, the outlook is a little bit murky and very difficult to interpret.
As I said before, we think that there are also some price conscious buyers out there who, against the background of weak oil prices, are holding back. But there might also be an effect from a weakening overall global economy. That is at least what we are feeling.

**Andrew Benson (Citi Investment Research):** Historically, when you have seen these slowdowns, you have taken action concerning production – which you seem to have done successfully in the working capital reductions. But are there any further measures in terms of efficiencies above and beyond the one billion new programme that you have announced and/or constraints on cost that you think are likely, that are in the planning now to defend profitability?

**Kurt Bock:** There are a couple of programmes under way. As you all know, this is an ongoing, continuous task for management. The one billion programme will start officially on January 1. This will duly be executed and implemented. You also know that in Performance Products we have an additional programme running, aiming at about €500 million improvement savings by end of 2017. We are well on track to achieve that all. But I have to acknowledge, we also have countervailing forces in terms of price and margin pressure in some of those businesses.
I think your question is more structurally oriented. It is not just, do you reduce utilization rates of existing plants or do you also have to more fundamentally rethink some of your production footprints? I mentioned the TDI example here in Europe where we are very much also thinking in terms of industry structure and supply/demand. In the past, I think, BASF has always played an instrumental and positive role in that respect. We will certainly analyse which markets would

require, more drastic actions. But again, that also needs a little bit more visibility, which at this point in time we don't have.

**Tony Jones (Redburn):** I just had a question on some of the pluses and minuses to EBIT in the quarter. I remember in Q2 you had some higher fixed costs. I think you mentioned €350 million in Q2. Could you talk about whether the sum of that reoccured in Q3? What should we be thinking about Q4?
Could you help us think about what the EBIT gain was in Q3 from currency? I think it was €250 million in Q2.

**Kurt Bock:** Maybe I start with the fixed cost picture in general. It's a major focus of our activities; I mentioned this before. We have a couple of effects here which we have to mention, one is certainly – and not to forget about – forex, currency effects. We have about 7 to 8 percent fixed cost increase simply due to the weak euro. This is something we cannot really avoid. So we see the currency effect on both sides, not just in sales, but also in fixed cost.
We have additional start-up cost this year which essentially materialized over the course of Q3 and Q4, now going slightly up in Q4 simply because now capacity is coming on stream.
Then we have, let's say, an underlying cost management which is essentially quite effective which keeps fixed cost without these effects essentially at last year's level.
What we could not reduce – actually, we increased the number – is idle cost because, starting early in Q2, we cut back on capacity utilization rates and this certainly has brought idle cost well above the level of 2014. This is an explanation for the earnings shortfall in Q3 essentially.

**Hans-Ulrich Engel:** Tony, the foreign exchange impact was in the order of magnitude of €200 to 250 million, so a bit lower than what we had seen in the prior quarters. Expect that, based on what I am seeing with respect to currency developments, this will be further diminishing in Q4.

**Peter Clark (SG Corporate and Investment Banking):** I was just looking at the macro cuts you are forecasting now, with the industrial production going down, I think that was slashed 30 percent to 2 percent, but the chemical production still remaining 10 percent or so to 3.5 percent. Obviously, there is a big gap. We don't normally see a gap like that between industrial production and chemical production. I am just wondering if there is something you see as a delay factor there in terms of the hit for the chemical industry.
Does it indicate, as you seem to be suggesting, quite a sluggish outlook ahead? What are your customer industries doing? Everyone seems to be indicating that inventory levels, as far as they can tell, are being pulled down. So they are pretty low. But it's a number that stands out; the gap between chemical production and the industrial production is quite substantial.

**Kurt Bock:** Duly observed, obviously. I think you already gave the answer, Peter: There might be some delay and inventory management certainly also plays an important role. That is what I described before: We see this slow order-entry pattern which, from our point of view, indicates that our customers are simply uncertain about what they have to expect and, therefore, they are holding back placing orders and might be holding back in the future.

**Markus Mayer (Baader Bank):** You already elaborated on the idle costs. Could you maybe give us an indication on the start-up costs you had in Q3 and what you also expect in Q4 for the start-up costs?

**Hans-Ulrich Engel:** Markus, I am happy to do this: What we have experienced during the course of 2015 – this is exactly as we had planned it – is an increase of start-up cost quarter over quarter. Q3 is so far the highest. With the start-up of the TDI plant that we will have next month, start-up cost in Q4 will even increase a little bit, be above what we have experienced in Q3.
Overall, you recall: We have given a guidance there for the segment Chemicals only where we said that start-up costs are in the range of €150 to 200 million. Again, that's for Chemicals only. We will be in that range – more towards the upper end – and have – to give you a little bit more help – significantly less than 50 percent of the start-up cost in Q1 and Q2.

**Evgenia Molotova (Berenberg Bank):** I just wanted to ask on the idle costs and the fact that you bring in capacities at the moment into some oversupplied markets. The demand pick-up is probably developing slower. So what will it do to the return on capital employed over the lifetime of these assets and how does it fall within your strategy of capturing growth?

**Kurt Bock:** Thank you, Evgenia, for your question. Your question is really the more fundamental question about: What is the outlook for the investments which we have made? We now obviously expect growth to pick up for some of these new plants because they are now starting to produce actually. The market environment might be a little bit more difficult with that. I am, again, talking here upstream – to make this very clear with that.
There might be some margin pressure, but in terms of overall profitability what we try to do is: When we approve projects, we do not rely on one single case, but we look at scenarios, trying to understand how our investments would perform under different circumstances. And we certainly will not approve a project based on peak margins and endless growth scenarios. So we also have to take into account that some of these products, by nature, are cyclical and some of that cyclicality we now witness in 2015.

**Evgenia Molotova (Berenberg Bank):** Thank you. Just a clarification: Do start-up costs include idle costs?

**Kurt Bock:** No, that's a separate item.

**Evgenia Molotova (Berenberg Bank):** And you wouldn't quantify those?

**Kurt Bock:** I don't think so, no.

# 2. Regions

**Christian Faitz (Kepler Cheuvreux):** Your EBIT was down – if my numbers are correct – 28 percent in Germany, from €592 million to €426 million. What's behind that?

**Hans-Ulrich Engel:** This is, again, on the German effects. One is: Last year, we had in the gas trading business a price revision which we didn't have this year. As a result of that, the results in gas trading are significantly lower than last year. The second impact – and we have described that – is our long-term incentive programme where we had a reversal of the provision this year. But we also had a much higher reversal of the provision last year. That is the explanation for the reduction in the order of magnitude of €160 million that you see in EBIT before special items for Germany.

# 3. Segments

## 3.1 Chemicals

**Jaideep Pandya (Goldman Sachs):** One question on natural gas: If fundamentally natural gas prices in Europe go down, what implication does it have on your upstream business? Do your Ludwigshafen and Antwerp crackers have the flexibility to crack naphtha and natural gas?
The second question is basically on the upstream business: Could you just put in perspective in petrochemicals the profitability that you saw in Q3? In context of the last one and a half year, how good has it been, basically? Is this the best quarter that you have seen in petrochemicals in Q3?

**Kurt Bock:** Jaideep, let me start with the last question about petrochemicals: Q3 was a good quarter, but it was not the best quarter for petrochemicals. We have had a strong run starting in 2014, going into 2015. All of the quarters were quite excellent. We also had some special factors. There were e.g. a couple of turnaround situations in Europe which helped to improve margins but, overall, we have seen a pretty steady development until recently. Now margins tend somehow lower.
With regard to the crackers here in Ludwigshafen: These crackers are actually tuned to use naphtha because that is essentially what we need as a feedstock for our Verbund structure. And we have no plans to flexibilize them like we did in North America where we actually take advantage of the cheaper natural gas. As you know, natural gas in Europe is, in relative terms, less attractive than in North America.

## 3.2 Performance Products

**Evgenia Molotova (Berenberg Bank):** Just some clarification: You mentioned €150 to 200 million in Chemicals. Could you give guidance on the start-up costs in Performance Products as well?

**Kurt Bock:** Start-up costs in Performance Products in Q3 have been in the order of magnitude of about €20 million. That is a much smaller number, obviously, than in Chemicals.

**Thomas Gilbert (UBS):** Can you remind us what kind of disposal proceeds we should expect for already announced disposals this year in the fourth quarter? How about Performance Products, in particular kaolin, textile chemicals, pharmaceutical intermediates, everything done and dusted?

**Hans-Ulrich Engel:** We have closed the pharmaceutical transaction and the textile transaction. We still have in Q4 to close the paper hydrous kaolin transaction. But that is of a very small nature.

**Laurence Alexander (Jefferies):** Could you give a little bit of extra detail on the Nutrition & Health segment results? Particularly, are you seeing any sign of this business troughing or shall we expect that to stay weak until year-end?

**Kurt Bock:** Laurence, what we have seen in Nutrition is certainly a continued price pressure in vitamin E, just to name one of your favourite products to ask about. We work very hard to bring prices up there, but in Q3 we still had strong price pressures which impacted our overall results.
Obviously, we had also some production shortages. A part of that is citral-related where we had lower shipments than what we had planned earlier this year.

## 3.3 Functional Material &Solutions

**Laurence Alexander (Jefferies):** Could you give details on the catalysts segment results? Particularly, are you seeing any sign that this business has bottomed out or is it likely to stay weak until year-end?

**Hans-Ulrich Engel:** Laurence, with respect to catalysts, keep in mind: In Q3, the catalysts business is typically impacted by the summer months and there sales to the automotive industry, in particular in Europe, are at a seasonal low.
Our expectation for catalysts is actually that the business performance in Q4 will be stronger than the business performance that we have experienced in Q3.

**Martin Evans (JP Morgan):** One of the strong performers in the third quarter was the Functional Materials division. You do refer specifically here to good demand in automotive and construction. Hearing your comments about how the quarter ended and activity levels into the fourth quarter, does your caution, just in general terms, expand to those two industries, auto and construction, or do you see them holding out for longer until the general macro pressures bite? It's encouraging to see e.g. a recovery in construction chemicals demand in Europe, but we do see these sorts of indicators weakening as well fairly quickly.

**Kurt Bock:** Martin, I think this is a question of what the market is and what our own measures to improve our business are. We do think that automotive still will grow slightly this year, a very small increase overall globally. That doesn't sound too exciting, but we have increased our penetration rate quite successfully, especially in China, including – which is very important – the national companies. It's not just the joint ventures and foreign automotive companies; we have had a very good run with national accounts as well. And they are looking for a better technology actually. They want to have best-in-class technology and they are turning to companies like BASF because they know they get what they want.

We are all aware – we have talked about this here for a couple of years – that the development in construction wasn't really satisfying for quite some time. I think we have done our homework here. We now see the effects in 2015. Against a still relatively weak background e.g. in Europe, we do manage our business quite effectively, creating some growth and, more importantly, earnings. We had a particularly good run in the Middle East where we have strong market positions, where we still also see some good underlying growth. But essentially, I think, we have done our homework in that business.

## 3.4 Agricultural Solutions

**James R. Knight (Exane BNP Paribas):** Specifically on Agricultural Solutions, could you help us quantify the pre-buying effect? I know it is difficult, but let's put it this way: Would you expect for the second half, given the overall agricultural environment, to show volume growth or a volume decline?

**Kurt Bock:** That is a tough one, James, I have to say. To identify the pre-buying in a real number is very difficult for us. We are talking about South America, essentially. We do think that the South American crop protection market this year, denominated in U.S. dollars, most likely will decline by 20 to 25 percent. This is a sizeable number.

In South America, this is not just about volume development, it is first and foremost about price management because we have to compensate for this deep devaluation of the Brazilian real. You have seen in Agriculture Solutions that we had quite some good price development, I think, about 10 percent price increases. This is basically our mean to fight against this depreciation in South America. This is actually the "make or break" for the profitability of our business in that area.

So, it is a combination of volumes and prices. Medium/long term, you might say, okay, with the devaluation in South America, these economies become more competitive again internationally and there should be, as they say, a renewed volume drive. But for the time being we are a little bit cautious in that respect.

**Oliver Schwarz (Warburg Research):** Just a quick question on the Agricultural Solutions business: If we exclude South America, could you give us your view on how prices and volumes are likely to progress into Q3, Q4? How is the inventory level at your customers there? Do you expect some form of pre-buying or are customers basically holding out, hoping for lower prices in 2016?

**Kurt Bock:** Oliver, as you know, Q3 is very much a southern-hemisphere quarter. It's difficult to now speculate on Q4 and, essentially, then Q1 of 2016.
We have had a pretty robust business this year. We had some specific issues which we really cannot foresee like droughts, a very dry season in some parts of Europe.
Fundamentally, I am still optimistic for these markets because the underlying trends are still intact. We have a very special situation in South America due to currency and due to the large crops soy and corn which are essentially export products for South America to Asia. And this is not the case in Europe.

## 3.5 Oil & Gas

**Patrick Lambert (Raymond James):** One quick question regarding Oil & Gas: A lot of companies find it difficult to get the cash flow to invest. I was just wondering about Gazprom, especially in Achimov I. Do they see the same urgency of ramping up Achimov I as you do? What is the situation in terms of expanding in both fields?

**Hans-Ulrich Engel:** Your question with respect to: What do we see in Achimov I? We have laid out the development plan for that field in 2011 and 2012 and since then we are implementing exactly according to plan. There will be a total of – if I recall the number correctly – between 120 and 130 wells producing there. We are ramping up exactly in line with the plan that we have developed. I don't have the exact figure, but I think at this point in time there are 90 wells up and running and we haven't seen a slowdown.
By the way, in our joint ventures we have also not seen any type of impact on the production plans that were developed for the year 2015. So also there everything is working exactly according to plan.
With respect to the new fields, Achimov IV and V, I can tell you that the working teams met for the first time a week ago. They are developing the plans. I'll get to see that most probably by the beginning of next year for the first time and then I'll know more. But there is no indication for any type of delay.

**Patrick Lambert (Raymond James):** So the current oversupply of gas in Russia is not an issue for Gazprom and you?

**Hans-Ulrich Engel:** I think that's a question in the end that will have to be asked to Gazprom. I can only speak with respect to the projects that we are involved in. Again, Achimov I – which is the one where we are currently drilling new holes – is moving forward exactly as planned.

**Jaideep Pandya (Goldman Sachs):** Overall, the market situation for natural gas in Europe, could you please say a few words about that?

**Hans-Ulrich Engel:** What we currently see, Jaideep, are certainly what I would call depressed prices for natural gas. I think the average price on a USD basis in Q3 was at 6.80. Let's compare that to where we were a year ago: There we were in the range of 9 to 10 if I recall that correctly.

Going into Q4, we see a bit of a further decline of natural gas prices in Europe, not only in Europe. When I checked this morning, also the Henry Hub price had come down significantly in the U.S. So overall, for natural gas at this time there is a depressed environment. Let’s see what kind of a winter we will experience in the northern hemisphere. A few cold days, as we all know, have a tendency to change natural gas prices rather quickly.