BASF Analyst Conference FY2014

Transcript - Q&A Session by Topic
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1. Group

Andreas Heine (Barclays): Two questions from my side. The first is: You mentioned in your speech sometimes higher fixed cost being the reason for lower earnings. My understanding is that especially the STEP programme and all your efforts in efficiency are to offset inflation in fixed cost to hold this flat. Is that now over, so that the growth you have with capex makes it not possible any more to hold this flat?

Then on the oil price sensitivity: I understand that this oil price sensitivity includes also the gas part which is in any way also linked to the oil price. Could you elaborate a little bit more how I have to understand this oil price sensitivity, given that oil is just 25 percent of the total production and gas the other? What of the gas part is dependent on what? We want to understand what we have to model there.

Hans-Ulrich Engel: On your first question with respect to fixed cost: Andreas, fixed cost is, was and will always be a focus point of our attention. Where I alluded to fixed cost increases, these fixed cost increases are in almost all cases driven either by a currency impact in Q4 or and even more so by start-up cost that we have for plants that we started up in Q3 and in Q4, such as the catalyst plants that we started up in Poland, a new coatings plant that we started up in the Coatings division. There is a dispersion plant in the Dispersions & Pigments division in Freeport that we started up in the fourth quarter, and there is the SAP plant in Nanjing.

If you go through the list where I said there are increases in fixed cost and you compare that to where we started up plants, you will see the correlation there – so predominantly driven by start-up cost for new plants that we have. In my head I differentiate between good fixed cost and bad fixed cost. Good fixed cost are those that will generate future profits for us – so, as a result, they come into your P&L – from new plants. Bad fixed cost are those that you alluded to, e.g. driven by inflation. That is exactly where our operational excellence programmes are focused on.

With respect to the oil price, in fact we increased the sensitivity from 1 US dollar change in oil price equating to ±15 million euros in EBIT for the Oil & Gas segment only, to ±20 million euros on an annual basis. Now, by what is that driven? That is, in the end, driven by more production that we will have in 2015. The target is to move production from 136 million barrels of oil equivalent to 160 million boe. If we look at the sensitivity, we look at oil primarily. But if we also look at the part of the gas business – the split between oil and gas is 25 percent oil to 75 percent natural gas in 2014 – where there is still a link to oil, that is then what the guidance relates to.

Patrick Lambert (Nomura): Again, Oil & Gas sensitivity, more around the gas sensitivity. First, have you seen already some oil-linked contract impact on prices on your gas part? What are the best things to look at in terms of sensitivity for the gas business? Does the rouble have an impact at all on your EBIT or is it the normal spot price which would have a bigger impact on your EBIT?

Hans-Ulrich Engel: It is, in fact, a difficult question. Patrick, thanks for asking it. And because it's so difficult, we decided not to come up with a guidance on the gas price. Some of the issues you alluded to already, which is currencies that play a role. And we have to look at various currencies there. The rouble is one that we have to look at. The Norwegian krone is another one that's relevant for our gas production. The Argentinian peso is also in that mix.

So you have a number of interesting currency factors. I would like to help you to fill your spreadsheet, but, unfortunately, I would probably more misguide you than anything else. Please understand that we came to the conclusion not to provide guidance on natural gas.

Ronald Köhler (MainFirst): A bit more short-term, Q1: You mentioned that you expect a growth in line with the chemical markets, 4 percent volume growth in chemicals for 2015, if I rightly understood. But can you elaborate a little bit on what happened so far, in January/February? Are chemicals volumes similar to that?

Kurt Bock: How did January and February develop so far? It was an okay start into 2015. It's rather difficult now to interpret individual daily data which we also get because there are so many moving parts. You know that prices are coming down in some businesses, obviously driven by raw material costs. Volume developments are pretty different in the various regions. So I don't want to speculate at this point in time. But I think what we see right now is incorporated in our guidance for the entire year.

James Knight (Exane BNP Paribas): In terms of the capex plans, I think what you have outlined is a cut to your plans before. Could you give us a bit of a clue either which plants have been cut or where investments have been slowed down?

Kurt Bock: Thanks for your question. What is happening now is a pretty natural process. We are simply concluding a number of major projects. For that simple reason the capex budget will decline, going back to a level which is, let's say, more normal compared to our depreciation levels. We haven't really slowed down any investments. We haven't really decided against any investments which we deem to be profitable and strategically relevant.

What we do, however, in Oil & Gas is that we certainly take a second look at the speed of investment in certain fields, keeping in mind that the oil price has come down. But actually, I am not aware that we have put any major projects on the shelf for the time being. It's quite a natural development going into 2015 from our point of view.

Laurent Favre (Bank of America Merrill Lynch): I have got a question on the MMTP project, please. When you presented this project about nine months ago, I guess you were talking about the strategic side which was about not being short in propylene in potentially a short market. Then there was an economic side which was making a good return on a potentially huge investment. Can you talk about those two sides in light of what we have seen in the past six months in terms of energy prices?

Are we now seeing 100 percent of the investments in the 19.5 billion capex guidance? Given that this project is slowed down, are we now seeing some of that investment away from the 2015 to 2019 capex budget window?

Kurt Bock: The 19.5 billion euros for the next five years include all the ideas and projects which are under consideration at this point in time. That is the case, yes.

Hans-Ulrich Engel: MMTP at current price levels still looks attractive. It's methane to methanol to propylene. But as we said nine months ago, as you mentioned rightfully, we will take our time to make our decision. And we will make that very diligently.

So don't expect us to make a final investment decision prior to the middle of next year which will be the middle of 2016.

At that point in time, we will have seen more of the current developments. We will get a better feeling for what's going to happen on oil prices, on natural gas prices. Natural gas prices: When you look at them in the first quarter of the year 2015, despite the strong winter that we have at least on the East Coast – Bill is here; he can probably tell you stories from Boston which are quite amazing – the average natural gas price is around 2.80, which gives you a significant advantage compared to natural gas prices when you look at them in Western Europe as an example.

So, at this point in time, I'd say that's still an attractive project, but we will take our time. We will make up our mind and will then make our decision based on that.

Laurent Favre (Bank of America Merrill Lynch): As a follow-up: I think the budget for North America capex is 5.2 billion euros, as a percentage of the 19.5 billion euros. Away from MMTP and the ammonia JV, what are the big investments in North America that you are planning?

Hans-Ulrich Engel: We have a number of investments on the list. There is the ammonia investment. We just announced that we closed the transaction with Yara. So we will start and put concrete and steel on the ground relatively soon.

There are a number of other highly attractive projects that we have in the US. Please accept that I don't reveal what we have in the plan. We also have things in there which we will finalize in 2015, such as e.g. the formic acid plant, the surfactants plant, so a number of things that we have in the portfolio.

Kurt Bock: There is one additional factor which you have to keep in mind, another moving part which is really construction costs. That's also something we have to consider. We have seen quite a steep increase in construction costs on the US Gulf Coast and it needs to be seen whether those costs will become, let's say, more acceptable going forward. That's also something we have to put into our little equation.

Peter Clark (Société Générale): The five-year capex projection is reined in slightly to 19.5 billion euros from 2015 to 2019. Am I right that in the aggregate chemical operation through to 2019 North America is now seeing a similar allocation of capex at around 35 percent of the total as Europe?

Kurt Bock: Peter, I'd say: Yes, that's approximately correct. Please keep in mind that there is also a fair share of oil and gas-based investments included in the European budget. If you take that out, if you just look at pure chemicals, I think your estimation is pretty close to expected reality.

Christian Faitz (Kepler Cheuvreux): In terms of absolute chemical margins, you seem to be of the view that you can keep absolute chemical margins in a declining oil price environment. Can you elucidate how that works?

You also mentioned in your downstream businesses that, obviously, contracts are longer, maybe even up to a year. But, I mean, these contracts are not rolling over on December 31, 2015; they are rolling over all the time. So what are your customers telling you at the point in time when a contract is rolling over? How tough are those pricing negotiations?

Kurt Bock: Yes, our target is clearly to maintain what we call absolute margins. This is demand/supply-driven. So far, demand – not looking at China, in particular a couple of products in China – is still solid or even slightly growing. That is, I think, the precondition for being able to maintain margins.

If we were heading towards a real slowdown, macroeconomic slowdown, then it would become extremely difficult. So far, I think, Q4 has demonstrated that we were able to achieve that in the Chemicals segment, which is essentially upstream. However, the rollover time, cycle time in these businesses is relatively short, 30, 60 days and things are done. In downstream – I think I talked about it – it's extremely difficult to predict what's going to happen, especially when we would really get increased volatility.

If the oil price stabilizes at current levels or slightly above, I think, we can cope with that situation better than if it is going up, going down, going up, going down because then discussions with customers become kind of difficult, more difficult – put it that way.

James Knight (Exane BNP Paribas): Kurt, on the newswire this morning you were quoted that in M&A it's a seller‘s market at the moment. Should we therefore not expect any mid-size deals or significant deals in the next year?

Kurt Bock: M&A: You are aware that we have done only relatively small deals over the last couple of years. We have really very much focused on organic growth and therefore also higher capex, because we do see opportunities to grow in certain markets and with certain products.

We always scan the market. We always try to understand: Is there an opportunity, something which is a good strategic fit and also financially attractive? Financially attractive means: If BASF becomes the owner, we can create more value than the current owner, e.g. by generating additional synergies or bringing additional wisdom how to run the business. That is something we will always observe. For that reason, we will stay very, very disciplined, given the current level of valuations as well as multiples we have seen.

Timothy W. Jones (Deutsche Bank): I have got a follow-on question on M&A: Do you take into account the structurally lower financing cost or what has happened in the market from a fixed income perspective? When you think about asset valuations, would you still look at the same kind of multiples and IRRs as you have done for the past five or six years?

Kurt Bock: Thank you, Tim. I don't think that cheap financing is a good reason to buy a company, to make it very, very clear. We have a cost of capital concept which we apply almost religiously within our company across all types of decisions we have to take, including M&A. The costs of capital haven‘t really come down recently if you look at this more precisely. They have stayed persistently, you might say, high, despite very, very low debt costs.

I know that there are many companies out there who basically say, okay, buying a company and making it accretive at EPS level is a great decision. That is for us just one way of looking at an acquisition. For us it is really about: Do we earn the cost of capital over time? This then goes back to what I said earlier on about valuations and multiples which are currently expected in the market.

Timothy W. Jones (Deutsche Bank): Just looking at some of the numbers or the guidance that you have given us this year: EBIT is flat, capex down. I presume working capital will be better because 2014 wasn't great. You are not going to do any big M&A. So I am just wondering what you are going to do with the big pots of cash that you are going to have at the end of this year.

So it's the age-old question: Buybacks, extra dividends? At what point do BASF management just tip the balance and do step up the pay-out ratio or will do some special dividends or go back to buybacks that you have done historically?

Kurt Bock: Could we answer that question at our Investors Day in September, Tim? Will that be okay? Between now and September, there is nothing new to report actually.

Timothy W. Jones (Deutsche Bank): Okay, we will save it for September then.

Kurt Bock: Okay, thank you.

Peter Spengler (DZ Bank): Could you take advantage of the low euro in relation to other currencies by shipping more from the euro sphere to other currency spheres to have more advantage of a transaction, compared to only translation?

Kurt Bock: Obviously, the weak euro helps a little bit to boost our international competitiveness, but please keep in mind that our essential strategy always has been to produce where we do have our customers. Still, in Asia, there is some way to go. We are not yet where we need to be. We still export quite some product from Europe to Asia and that certainly then also will result in transactional FX gains. That is certainly also reflected in our earnings guidance when we talk about Performance Products and Functional Materials & Solutions. In both businesses we have quite some exports. I think I mentioned that FX also plays a certain role, a limited role in driving the earnings improvement in 2015.

It's a limited opportunity frankly. You cannot just boost product volumes unless you see the competitors in Asia really falling off the cliff, which is not the case.

Timothy W. Jones (Deutsche Bank): Two questions: I apologize to mention FX again. Firstly, on FX: Your budget for the year is 1.20. Obviously, the rate is much more favorable than that at the moment. How quickly does the improvement or the weakness of the euro feed through to your business? I guess, really what I am asking is: What's the hedging policy at BASF and how slowly do FX benefits feed through to the EBIT level?

The second question is about pensions. Obviously, your pension deficit went up materially. Can you just remind us: Is that the unfunded scheme "Pensionskasse"? In which case does that have any impact on your cash flow contributions over the next couple of years? Or is it just purely an accounting issue around discount rates?

Hans-Ulrich Engel: Tim, it is a pure accounting issue, I'd say, at this point in time. We have made one contribution to one of the plans which is the US plan, in the order of magnitude of 200 million. But what you see is completely driven by discount rates. On average, the discount rate came down by 150 basis points in 2014. We provide the sensitivity there for 2014 as well as for 2015.

By the way, that does not only have an impact on our pension contributions. It also has an impact on the asset side because, as a result of the pension obligation increasing by 3.6 billion euros, there is also a roughly 1 billion euro deferred asset position that goes on the books.

Now, with respect to foreign exchange and hedging policy: We are hedged typically for all booked positions in foreign currency. That gives you an idea. When I say “booked positions”, you look at our accounts receivable and the time that we have in the books there, which is on average somewhere in the order of magnitude of 60 to 70 days. But to a certain extent and in certain currencies we also hedge the planned exposure there, in particular for the US dollar. And that can go out to somewhere in-between six to twelve months.

Oliver Schwarz (Warburg Research): Mr. Engel, I think you said that the higher working capital partly came from a higher level of gas inventories due to the warm winter. If gas prices would follow the move of oil prices, would we see write-downs on these inventories?

Secondly, I am a bit puzzled about Chemicals recording sales to ELLBA because ELLBA was consolidated in the “Others” segment. So I thought those sales would have been recorded as internal sales, not external sales. However, if that is only the 50 percent of sales to ELLBA not belonging to BASF, would we see higher sales and earnings with the ELLBA franchise, now that you own 0 percent of that?

Kurt Bock: The situation has changed in ELLBA for a couple of reasons. One is: We divested our share in what we call ELLBA Eastern. So we are not a 50-percent shareholder in that any more. We purchase now propylene oxide. The styrene monomer we actually don’t need any more because we divested our 50 percent share in Styrolution. That is the strategic reasoning behind the divestiture of ELLBA Eastern.

The other joint venture which we run together with Shell at this point in time, as you know, is not in operation. It is being rebuilt, reconstructed. This is going on and this will only actually result in sales later in 2016. So at this point in time it is kind of an almost hypothetical question you have been asking.

Hans-Ulrich Engel: On your first question the clear answer is no, definitely not at current price levels. Natural gas at this point in time in Western Europe is in US dollars at 7 to 7.50 per million BTU, no risk of write-offs there.

Martin Rödiger (Kepler Cheuvreux): Also two questions from my side, first on loss-making activities at BASF: When I see the 5 percent EBIT margin in Asia and you mentioned in this call that you have good margins in the downstream chemical activities, so Performance Products and Functional Solutions, then my conclusion would be that Petrochemicals in Asia as well as Intermediates in Asia are loss-making. Can you confirm that?

Also with regard to loss-making activities: Are your E&P activities in the North Sea also loss-making at the current oil price, right now, in Q1?

The second question is on targets. At the end of last year, you scrapped the target for 2015. At that point we have been told that we should wait for an update for the targets for the year 2020. Now we have Q4 finished and I have not seen any update on your targets for 2020. Maybe you can do that right now.

Kurt Bock: Loss-making activities: No. Our petrochemicals activities in Asia or in China are not loss-making. The same holds true for exploration and production activities in the North Sea, which doesn't mean that we are satisfied with the profitability of our petrochemical activities in China – to make this very clear.

The targets for 2020: I don't think that too many people are really interested in 2020 quantitative targets at this point in time. We have just been talking about 2015 and we made the disclaimer that there is lots of volatility and uncertainty going forward. This holds even more true for five years and not just twelve months going forward.

What we have in mind, Martin, is that we will spend much more time with you in September when we will have an Investor Day – actually it will be almost two days – where we will go through all of our business and then we will have, let's say, an educated discussion about the long-term targets and path forward. I think this is the right point in time to do this.

It's pretty clear, since 2015 target achievement is less certain than what we had said three or four years ago, that, from today's point of view, it would not be very wise if you now just draw a line between the, let's say, new targets for 2015 and 2020. But so far, I have seen no analyst actually doing that.

Timothy W. Jones (Deutsche Bank): It is quite rare to come to a BASF analysts' meeting and see such optimism for a couple of segments on the EBIT side. Don't get me wrong. I think it is a good thing. But when you talk about a considerable increase to EBIT in Functional Materials & Solutions as well as Performance Products, can you give us an idea why you are so optimistic on the growth prospects this year?

Really what I am looking for is for you to break it down between raw material benefits, FX, self help, product innovation, things like that, to give us a better understanding of why you are so confident about growth for those two important segments.

Kurt Bock: The Functional Materials & Solutions business: We are cautiously optimistic. We are never really bullish. We are always cautiously optimistic. We do think that we can grow earnings in that business, for a couple of reasons. One is, we have a very good franchise now in Asia. We have a couple of major investments under way. You see this also on the one slide which we presented here today. This holds true for Coatings, this holds true for Performance Materials, but also for Catalysts.

We just opened up – to name another example – a new catalysts plant, the largest one in Europe, which went into operation in Poland last year. We continue to be very, very cost-conscious. There is always kind of restructuring going on within these businesses because they are under tremendous competitive pressure, also from our customer industries, which is very often the automotive industry. Yet we do think we can grow earnings in 2015 also based on volume growth. FX might help a little bit in that respect as well.

Raw materials: You have to be very specific here. Some of these businesses have almost zero oil-linked raw materials, like Catalysts. In Coatings, it is a little bit different, but even there we estimate that probably 15 percent of the raw material base in Coatings is really directly linked to the oil price.

At this point in time, our task is actually to fight off expectations from our customers who also look at the oil price and now turn around and say, okay, how about lower prices for our automotive supply products, and to explain to them what the real impact of lower oil prices and lower raw material costs on these businesses is.

Then there is a time lag; I mentioned this before. In some of the businesses, more in Performance Products, we have very long value chains, inventories sitting on the shelf, prefabricated products e.g. So it just takes quite some time to see really the effects of lower raw material prices creeping into the production costs of these downstream businesses. So I don't think this will be the most important factor for driving earnings in 2015.

Ronald Köhler (MainFirst): My question is on your previous 2015 guidance, the EBITDA guidance you provided in November last year when you actually stated 10 to 12 billion and rather at the upper end than at the lower end. Could you perhaps say a word on that guidance? How does that fit with your current EBIT guidance? Do you see this still as valid?

Kurt Bock: Ronald, I think our EBITDA guidance for 2015 is still correct. We said something between 10 and 12. I leave it to you to figure out whether it's the higher end or the lower end, but I think we provided you with at least some clues today where it could be. I think you should know us well enough to understand our aspirations and what we try to achieve here.

Markus Mayer (Baader Bank): Can you give us a guidance on your financial result for 2015? What do you expect here?

Hans-Ulrich Engel: We usually don't guide on the financial result. But I think I understand where you are coming from with your question. So if you look at the financial result for the year 2014, you see essentially two special effects in there. One is the effect of the sale of our stake of 15.79 percent in VNG to the tune of 220 million euros on the positive side. And you see a swing in the order of magnitude of minus 160 million euros negative which was related to the mark-to-market that we had to do for the Styrolution options, which was positive year-end 2013 and then turns slightly negative at the end of Q2 when we moved the assets into the disposal group.

So if you take these two effects out, that gives you a pretty good picture on the clean financial result. That actually should be a pretty good guidance.

Thomas Gilbert (UBS): The question is for Dr. Bock: In 2011, you announced the "We create chemistry" strategy. From what I understood, one of your most passionate statements was that the company has to get more market-focused and customer-focused and less molecule-focused. Can you sort of give an idea where the company is on that path, maybe specifically to specialty products that are linked into the upstream Verbund which, from what it looks like, do worse compared to specialties that are not linked into the Verbund, e.g. catalysts? Where are we with that cultural mindshift of the company?

Kurt Bock: Market focus versus what you call molecular focus: That's an interesting way of looking at it. Actually, our task within BASF is to have both in the appropriate businesses. So in upstream it's very much about product focus and producing the right molecules, having the right technologies in place and economies of scale. I think we are pretty good at that.

For me, the ultimate test about our market focus is really when you talk to our customers because they give you a pretty direct and unbiased feedback how they see BASF. In that respect, I don't think we have to be shy to talk about what has been achieved over the last couple of years. There is a clear recognition within our customer base that BASF is probably the best company to go to if you really look for something innovative, a new solution, customer-driven, in close collaboration. And we have many, many examples, not just in the automotive industry, but e.g, also in the homecare, personal care industry, where we very, very closely collaborate with our customers, with our clients. And this has developed very nicely.

This is within a business. That is something you would expect us to do. The more interesting part, from my point of view, is actually: How can you present BASF as one company to our customers, especially to those customers who buy or could potentially buy a broad range of products from different businesses of BASF? We call this industry groups or customer focus groups. And there we have seen very good results over the last couple of years because what we do here is a very simple concept obviously: to present BASF across its businesses to really have what we call "Tech Days" with our customers where we talk about the entire slate of technologies which we have and opportunities to do something together with our customers.

And doing something together doesn't mean that we just sell. It very often means that we develop something together. And this has developed very nicely. Hans e.g. in North America has steered this personally with large customers, organizing this, spearheading these efforts. It is really paying off.

Many customers actually for the first time realize how broad the range of technologies and products that BASF brings to the table really is. Actually, this is a very different entrance ticket when you talk to large customers because they clearly understand what kind of value a company like BASF with its size and innovative power can bring to them. This works very nicely. This is for me an added value of what has been done over the last couple of years.

I think it's self-understood that we are trying to be as customer-centric and conscious in our sales and marketing operations as possible, but really adding additional value on top by talking about BASF as one company adds value from many, many customers' point of view.

2. Regions

Norbert Barth: My question is from a strategic point about the Asian market. You already elaborated a little bit on that. But if you see the results in the last year, the overall performance there clearly must be somewhat of a disappointment also for you. Does that also impact somewhat the Asian strategy, e.g. to go more to other markets like India? Is that something you think about? Or will that also impact other regions in the Asia markets?

Kurt Bock: Thank you, Norbert. Growth rates in Asia have come down. The business has become a little bit more complicated. We said this earlier on: The good times in China where whatever you built would be sold are probably history and they will not come back very quickly. However, Asia is larger than just China.

We also made that clear: We have quite some big investments under way e.g. in Malaysia. We have started up a new production site in India, Dahej, which is in the state of Gujarat. This works so far very nicely.

We have a clear commitment to continue to grow in Asia. If you look at our investment budget, which you also find in your Annual Report here, I think at page 124, you can see the regional distribution. We continue to heavily invest in China. I would say that the focus of those investments will shift more now from what we might call upstream to downstream, which also clearly reflects a life-cycle type of concept.

When you enter a country, e.g. China, you normally start with upstream products building the base chemicals and then you go downstream. We have done this in other parts of the world as well. This is exactly what is happening in China as we speak. I mentioned the resins plant, the coatings plants, the catalysts plant, the performance materials plants which we are building right now.

Lutz Grueten (Commerzbank): The European chemical association Cefic seems to make a quite bullish call on chemical production growth outside Germany, but in Europe. Is this something you can share? Is this something you already experience in countries like France and Italy e.g., that there is a strong growth and a recovery already in 2015?

Kurt Bock: Yes, we have seen a little bit of a recovery in countries like Spain. What is the importance of Spain for the European chemical industry? It has a certain significance, but it’s still limited. So the major chemical hubs are the Netherlands, Belgium, Germany and France in a certain way. This is really where it makes a difference at the end of the day.

I have complained a little bit about the lack of growth in 2014. We are not very optimistic about 2015 when you look at the overall macroeconomic set of figures. So our assumption for our guidance here is that Europe continues to lag behind in terms of growth. There might be a little bit of a recovery, but it’s not really a booster and, according to our position today, will not really accelerate over time. We probably need more economic tailwind for that to happen.

Christian Faitz (Kepler Cheuvreux): Your adjusted EBIT in Asia was significantly down in Q4 – I believe, 2 or 3 percent level, minus 50 percent or something like that. Is that mainly driven by the caprolactam issues, the pricing issues you mentioned etc.? What is behind that?

Kurt Bock: China: We experienced start-up costs for a couple of plants coming into operation plus negative currency effects. This also plays a role if you look at the overall results. Again, in China we saw start-up costs, which impacted earnings, and negative currency effects. Does it mean that we are happy with the earnings development in Asia? Clearly no. There are a couple of measures we put into place to revert that development.

Markus Mayer (Baader Bank): First of all, you mentioned China and the slowdown you saw at the end of last year and at the beginning of this year. Can you give me a kind of flavour in what kind of end market you saw the slowdown?

Kurt Bock: China from our point of view is actually almost a split market. We are doing very, very well in the downstream businesses and I already mentioned the investments which are under way where we can differentiate with technology, with customer service, customer proximity. This is a nice growth area currently for us in China. On the other hand, we have a couple of upstream businesses where we have margin pressure. The most publicized is obviously caprolactam which, by the way, we only produce outside of Asia and then export into China. There has been tremendous margin pressure for this product. In other major product lines, like acrylics, we also see a little bit of that, or in isocyanates.

So the big question for us in China is really: Will the investments continue in chemicals or will this margin pressure which we have seen recently lead to a situation where some of the industry players will think twice about establishing additional capacity?

We feel relatively comfortable in an overall uncomfortable situation because, when you look at industry cost curves and our technologies, we do think that we have good operations in place. But that is pretty much what we are seeing in China. We mentioned that we see a little bit of slowing down of overall growth in China. But e.g. the automotive industry will continue to show good growth going into 2015.

3. Segments

3.1 Chemicals

Thomas Gilbert (UBS): What are you currently feeding into your Port Arthur cracker, ethane, propane or naphtha? Have you played the sonata of variable feedstocks and flexible feedstocks with this volatility?

Hans-Ulrich Engel: The only feedstock that you didn't mention, which we also feed on top of ethane, propane and naphtha, is butane, so the entire slate. You know that we have flexibilized the cracker in Port Arthur now in a way that it can take up to 90 percent of light feed. Yes, we almost work on a daily basis the models.

Kurt Bock: So it works. It actually works. Margins in 2014 were excellent. They have come down a bit in 2015, reflecting the different price levels of gas versus naphtha essentially.

Lutz Grueten (Commerzbank): A question related to that one: You mentioned that the margin in Europe in Petrochemicals was up. Is this only due to cracker margins and raw materials or is this also related to a stronger demand driven by what I have just mentioned before?

Kurt Bock: Demand has been relatively sluggish or, let's put it positively, kind of stable in Europe. So we are very much talking here about a raw material price effect. Yes, absolutely, you are correct. Plus: Keep in mind that there had been outages etc. which also affect the pricing situation, at least temporarily.

Mutlu Gundugan (ABN AMRO): On the Chemicals segment: How much will plant start-ups add to volume growth? And what is the level of expenses that we should expect for the start-ups in the Chemicals segment?

Kurt Bock: Start-up cost this year approximately – I think I mentioned it in my little speech – 150 to 200 million euros. This is slightly higher than what we had expected a year ago. What is the contribution of new capacity, available capacity to projected growth in 2015? When you talk about Chemicals, excluding Oil & Gas, we anticipate to grow more or less in line with overall market growth. We said, market growth in chemicals is about 4.2, 4.0 percent, … slightly above that. About 50 percent of that growth should come from additional capacity which came on stream over the course of last year or will come on stream in 2015.

3.2 Performance Products

Ronald Köhler (MainFirst): My question is on cost savings in Performance Products. You mentioned you have a run rate of 250 million euros in 2015 and an overall target of 500 million euros. Run rate is a little bit imprecise for an analyst, I have to say. What was the level of savings you already achieved in 2014 and what is still left, so-to-say, in achieving additional cost savings in this segment?

Hans-Ulrich Engel: On your restructuring question with respect to Performance Products: If I understand you correctly, you were asking with respect to the P&L impact that we had in 2014 from restructuring. Is that correct?

Ronald Köhler (MainFirst): Yes. What have you already achieved from the 500 million euros and how much is left?

Hans-Ulrich Engel: The order of magnitude of the 2014 P&L impact is roughly 100 million euros. Then we say, 250 million euros P&L impact in 2015 and full impact of 500 million euros in 2017, which is, if you compare it to other restructuring programmes, the ramp-up there, pretty much in line.

Mutlu Gundugan (ABN AMRO): On Nutrition & Health: Why do you expect a considerable increase in volumes?

Hans-Ulrich Engel: Among other things in the aroma chemicals area, from our investment that we did in the menthol plant. That should drive some of the volume growth in Nutrition & Health in the year 2015.

3.3 Functional Materials & Solutions

Rakesh Patel (Goldman Sachs): Just a couple of questions on the Functional Materials & Solutions business: I wonder if first of all you could give us a little bit of color that you are seeing in the chemical and refinery catalyst business. Given the large build-up we have had in the past, are your customers now adopting a “wait and see” attitude on their investments going forward?

Secondly, just in battery materials: Do you think, longer term, this can be as profitable as your auto catalyst business? What share of electric vehicles do you think we need to see to achieve that same level of profitability? I am just trying to figure out what the path is for you to grow that business.

Hans-Ulrich Engel: On your first question with respect to demand in chemical catalysts: We have seen a very strong fourth quarter for chemical catalysts. I was always a little bit concerned when I looked at the forecast that I got from my catalyst folks on their chemical catalyst sales for Q4, but they had an outstanding fourth quarter and it looks at this point in time like Q1 also will deliver good results. So, from a demand perspective, that overall seems to be very healthy.

Your question on battery materials is obviously a difficult one to answer. As you are aware, we are building a business from scratch. It's based on research, on BASF's research. We did a string of smaller acquisitions: We acquired Novolyte, we acquired the electrolyte business from Merck, we acquired Ovonic. We invested in a cathode-active material plant in Elyria, Ohio. We just announced the joint venture with Toda in Japan where we do have a majority position now. But this is a business really in its infancy stage.

We made a conscious decision there. We see this as a very attractive growth area for BASF. At this point in time, it is small, very small, but it should reach sizeable sales in the order of magnitude of minimum 500 million euros by the turn of the decade, so 2020. It's still some time to go.

I said on a similar question that came at the Press Conference in the morning: It's quite interesting to follow the analyst reports on EVs, electric vehicles. They read a little bit like the weather report. Depending what the mood is, you see big numbers for EVs or not so big numbers in the next report.

But looking overall at regulations and emission standards for the automotive industry, our firm belief is: They can only be reached with electromobility, whatever the mix is between hybrid and full EV. That should form a good basis for our business.

Always keep in mind: When we talk about battery materials, this is not about BASF producing batteries. It's not about BASF producing cells. We focus on where we think chemicals can make a difference and chemistry can make a difference. This is electrolytes and cathode-active material.

3.4 Agricultural Solutions

Christian Faitz (Kepler Cheuvreux): On the Agricultural Solutions side you saw significant volume gains in the fourth quarter – I believe 22 percent– while prices were down. It looks like there was a certain sales incentive to go for volume, at least if you look at the prior quarters – Q1, Q2, Q3 which were not that great, neither on the volume nor on the pricing side. Can you give us some background for that? Was it just Xemium and, I believe, the lower Fipronil prices, or a mix?

Kurt Bock: Yes, we had good volume growth in Q4. I think we always cautioned you not to become too much obsessed with individual quarters if you look at the agricultural business. This actually had happened in Q3. There are a couple of factors, some of the sales in the southern hemisphere were a little bit late; they shifted from Q3 into Q4. This all then averaged kind of out.

We think we had a positive, good volume development. If your question is, did we buy market share, clearly no. Actually, if you look at our overall numbers, we have increased pretty steadily our prices in crop protection over the last couple of years. This also holds true in 2014 when we had something like a 2-percent price increase in Agricultural Solutions.

South America is kind of an interesting case. It is very difficult. It is very, very technical because in South America you have a triangle: Brazilian real, US dollar and our accounting currency, which is euro. If you really try to account for all these effects, it becomes extremely difficult to really find out what the true underlying price effect is. If you just look at local prices which are essentially dollarized, we did not reduce our prices in South America, with very, very few exceptions where we had generic competition and had essentially reformulated our products and had then different price points.

So, the policy is continuously to have a good pipeline, innovative pipeline, new products, new innovations and good pricing. That hasn‘t changed at all.

Thomas Gilbert (UBS): This spectacular V-shaped recovery in the ag business from the third into the fourth quarter, you explained it with the way the season started in 2013 versus 2014 in Brazil.

But is there something the organization has learned suddenly from the third into the fourth quarter? I am specifically asking about Becker Underwood because that’s the new business that you have. And I suspect that’s the business that gave you trouble in 2014.

So with your guidance in mind, is it the biologics business that you see considerably improving as you go into 2015? Is that the reason behind the improvement?

Kurt Bock: Again, Thomas, I caution you a little bit to put too much weight on individual quarters in that particular business.

Functional crop care – that is Becker Underwood – actually has developed very nicely and according to our plan and the projection which we had made before we made that acquisition actually. So we are very satisfied with that development.

It’s gaining traction. It has been a very, let’s say, US-centred, focused business. And the task for the team is now to globalize it. They already had made some progress in Latin America. I think we will grow it in a very nice way. It adds new products to our portfolio which we haven’t had before. The growth rates for the functional crop care, biological crop care should essentially be higher on average than for crop protection products. So we are quite optimistic about it.

Patrick Lambert (Nomura): I think that you said, in Q4 you raised prices everywhere, apart from LatAm. Could you comment a bit more on Eastern Europe, meaning Ukraine, CIS in particular? Were you able to raise prices to dollarize your sales there?

In Western Europe, could you comment a bit more on your price increases? Are you still trying to get some US dollarized-type of market in Western Europe or is it a euro-denominated market?

Kurt Bock: Actually, I don’t have pricing data, regional pricing data at the tip of my fingers for Eastern and Western Europe. I would guess that in Eastern Europe we have not been able to fully dollarize our prices because the local currencies both in Ukraine and in Russia have come down so quickly that you cannot adjust simultaneously. So I would expect that there is a certain time lag – –

Patrick Lambert (Nomura): But the strategy is to get there?

Kurt Bock: The strategy is to be there. And you have to keep in mind that we are only now entering the season. That is also very important. Very little has happened in Q3 and Q4 in the northern hemisphere. We are now starting to sell stuff to the distributors, to the big farmers and then it's ultimately sprayed. So I think we are still in the midst of assessing this situation and trying to adjust our pricing levels.

Ronald Köhler (MainFirst): You also have a positive outlook for Agricultural Solutions, a considerable increase of earnings 2015, obviously despite the fact that soft commodity prices are a bit a dragging point for the farmers.

Could you elaborate a little bit on what makes you so confident? I know this business is quite FX sensitive, I guess. So from that perspective that might be a significant driver, but besides that, how do you feel you will do in a potentially more competitive environment in agro in 2015?

Kurt Bock: Ronald, we are cautiously optimistic, again, for 2015. We do think we can continue to grow our business. Yes, you are right: FX will provide a little bit of a tailwind. But essentially, we are betting on our product pipeline and the products which are already in the market or will be introduced in 2015.

I don't think, frankly, that the – because you alluded to it – competitive pressure has increased in the sense that we today face different market circumstances than what we have seen in the past. It is all about bringing new active ingredients to the market and fighting for more innovative products. This has served us very well and this will continue to work in 2015 as well.

So we have a couple of products like Xemium which are developing very, very nicely. We have to – we mentioned that already at Q3 – sometimes a little bit fight off, let's say, generic competition, which is also not unheard of in our industry. I think we also find ways to deal with that situation in the most value-generating or preserving way.

3.5 Oil & Gas

Peter Spengler (DZ Bank): Thank you for taking my questions. On the Oil & Gas business: I think, given the sharp decline of the crude oil price, the operating result was quite decent. Did you cut operating costs like exploration costs? If so, how long could you maintain such a margin if everything stays the same? Or do you have to increase the cost level over time?

An additional question on that: Can you give us an oil price at the level of which your Oil & Gas business would be on par with last year? You gave an oil price for this year and you said that you expect a sharp decline in profits.

Hans-Ulrich Engel: On your question with respect to operational cost: When you get a healthy wake-up call as a result of your oil prices or your natural gas prices coming down significantly what you do is: You go through your portfolio, you review it and you typically come up with one or the other area for fixed cost improvement. This is exactly what we started doing end of Q3, early Q4.

So we broom the portfolio. This is not only the case with respect to the fixed cost; it's also the case with respect to capex and investments. It's a healthy wake-up call, as I call it. You get a lot of attention all of a sudden to topics that you may have taken for granted while you were sailing for three years in an environment where the average Brent oil price was in the range of 105 to 110 US dollars.

Your second question was: At what level of oil price do we get back to last year's result? Unfortunately, I didn't do that calculation for you. The easy answer that I could come up with is: If we go back to an average oil price of 99, which we had last year, we should be pretty much back. But that would not be a fair answer.

All I am trying to say is: I haven't done that calculation for you because there are a lot of moving pieces. There is additional production coming in from the Statoil acquisition. There is additional production coming in from the ramp-up that we have in the Western Siberian field, in Achimov. So I can't provide you with an answer, sorry.

Christian Faitz (Kepler Cheuvreux): A couple of questions, please: On the oil side, can you comment on the current situation in Libya, what is happening there or not happening there?

There was a write-down in a Qatar gas field. Can you also elucidate what happened there? Is it the Qatari government trying to build a football stadium there or something and you had to shut that down?

Kurt Bock: Offshore Libya is okay. We are producing offshore and we can have what you call liftings from time to time. Onshore is very, very difficult. We had to stop again in December. It's extremely volatile. Actually, it's almost not worthwhile to comment on individual days: Are we starting up? Do we shut down again?

What is pretty clear from today's point of view is that in 2015 we will not achieve our "nameplate" capacity in Libya. We always produced something like 80.000 barrels a day. That is very, very unlikely from today's point of view. Frankly, Christian, I cannot give you a forecast. "Volatile" is not really the right word to describe the situation. It's a very uncertain and very dangerous situation.

To exemplify this: At this point in time, we have no expat on the ground because we can't ask anyone of our employees to go to Libya. In some cases, you need expats to increase production levels again because there is also some technology involved.

So the planning assumption is that Libya onshore will stay at relatively low levels. The good news here is that with the lower oil price the opportunity losses of Libya have come down. We always try to look at the positive side of things.

Hans-Ulrich Engel: The "soccer field" in Qatar would have to be offshore, so a floating field.

We had one well there offshore where we had to come to the conclusion in Q4 that it will not be economical to actually continue. As a result of that, we took the write-off. Unfortunately, in the world of oil and gas that happens occasionally. It shouldn't happen too often, but occasionally it happens.

Kurt Bock: To make this very clear: We discovered gas. We could produce. The problem is: We need a link into the pipeline network and that is nothing we can achieve at this point in time. Therefore, it's not economical.

Ronald Köhler (MainFirst): A question on natural gas trading. We obviously had a cold winter. Do you think we can come back to, let's say, historical good quarters, winter quarters on the earnings or is the structural margin pressure too high for the natural gas trading not to come back to this kind of levels?

Hans-Ulrich Engel: My view is: This is supply and demand at its best. With stronger demand, meaning a stronger winter, I think we will be back at higher margins and back to, as you call it, more the historical type of margins.

It's the second winter in a row where we have, at least on this side of the Atlantic, warm weather. If you look at the price development during the course of 2014, I think we have seen the low in price as low as roughly 5 or even below 5 dollars per million BTU in April of last year. From then, we have seen the price increasing. Currently, it's somewhere in the range of 7.50 US dollars per million BTU. There were voices out there that said: Gas will not come back from this 5 dollar price level that we have seen in the second quarter of last year.

So we see that once demand is kicking back in, prices go also back up. And that's also my expectation to see that going forward.

Ronald Köhler (MainFirst): But that means: The strong winter we have seen here in the first quarter in Germany will be quite helpful for your business in natural gas trading?

Hans-Ulrich Engel: A strong winter is always helpful, yes.

Norbert Barth: I have a strategic question on the Oil & Gas business. What we see last year with the failure of the Gazprom deal and clearly above that is the overall political situation about Russia and Europe. How will this impact your Oil & Gas strategy? Can you elaborate a little bit more in detail? Does that e.g. also mean that you perhaps think about the Russian assets or even talk with Russia?

On the other side, there is your gas trading business where you said last year that it is no longer of strategic importance for you. Are you looking for a new buyer or how will you continue with that?

Kurt Bock: Thank you, Norbert. I think we made it pretty clear that we didn't really welcome the result of not having the asset swap late 2014 because we thought this was a good transaction for both parties and there was a lot of good economic and strategic reason for doing this kind of swap – which included, by the way, in case you have forgotten, that we would have increased our exposure in Russia by adding additional licenses and therefore also additional commitments to develop these fields, which means from our point of view: We do feel comfortable operating in Russia. We have been doing this now for quite some time; we have a very, very good collaboration, co-operation on the ground.

The conflict has had no impact on operations. There is a joint understanding with our partner Gazprom how to run these operations. If you look at our Annual Report, you can also see that these operations are profitable. They are profitable and they pay a dividend to BASF. We do believe – and this is not a political statement – that economic ties are still essential to bridge conflicts between countries or within a region.

So we do feel comfortable, we don't see any reason to go back to the drawing board to find out whether it makes sense to have assets in Russia. Yes, it does make sense to have assets in Russia.

We also made clear, by the way, at the same time that we would like to balance our portfolio overall a little bit more. For that reason, we have made these acquisitions in Norway now twice, acquiring producing fields, but also developing fields from Statoil.

With regard to the gas trading business – I think I said it in my little speech: At this point in time, we see no reason nor any need to think about further strategic consequences. It is a good business, by the way. It is not a suffering business, not at all. We know how to run the business jointly with Gazprom. We feel comfortable with our partner there. We will continue running it and then we see where we are. At some point in time we might reflect what needs to be done. But at this point in time, it doesn't add any value to do some soul-searching here with regard to gas trading.