BASF 2nd Quarter 2016 Analyst Conference Call

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Ludwigshafen

Analyst Conference Call Script – long version

Kurt Bock

Hans-Ulrich Engel

The spoken word applies.

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Q2 2016: Financial figures for BASF Group

Financial figures	Q2 2016	Q2 2015	Change
Sales	€14.5 billion	€19.1 billion	(24%)
EBITDA	€2.8 billion	€3.0 billion	(7%)
EBIT before special items	€1.7 billion	€2.0 billion	(16%)
EBIT	€1.7 billion	€2.0 billion	(16%)
Net income	€1.1 billion	€1.3 billion	(14%)
Reported EPS	€1.19	€1.38	(14%)
Adjusted EPS	€1.30	€1.49	(13%)
Operating cash flow	€2.3 billion	€2.8 billion	(17%)

Sales development	Volumes	Prices	Portfolio	Currencies
Q2 2016 vs. Q2 2015	↑ 2%	↓ (7%)	↓ (16%)	↓ (3%)

Kurt Bock

Ladies and gentlemen, good morning and thank you for joining us.

[Chart 3: Q2 2016: Financial figures for BASF Group]

The macroeconomic environment improved slightly in the second quarter and there seemed to be some modest improvement in market confidence. The increase in oil price and a slight pickup in demand since the end of March underline these developments. We experienced robust demand from the automotive and construction industries. However, the macroeconomic situation remains fragile. In particular the UK's recent Brexit decision has added to the overall economic uncertainty and market volatility. More recently, the situation in Turkey contributed to the political uncertainty.

Let's look at the development in the regions.

In Europe, we saw moderate growth across all sectors. Demand in North America was slightly lower than expected. However, the economic environment can still be characterized as robust.

Economic development in South America remained very weak and business confidence continued to be low. Brazil is still in a deep recession, although that appears to be leveling off. While fundamentals in Argentina improved, the country still suffered from weak export demand, fiscal consolidation and high inflation.

In Asia, we saw an upward trend since the second half of March and an overall improvement compared to the second half of 2015. Growth in China remained below the high levels of previous years, but was slightly higher than we had expected at the beginning of the year.

Let me now highlight BASF's business performance in Q2 2016:

- Sales in the second quarter of 2016 decreased by 24 percent to 14.5 billion euros, in particular due to portfolio effects of minus 16 percent. These were mainly related to the asset swap with Gazprom, which we completed at the end of September 2015. The disposed gas trading and storage activities had accounted for 3.0 billion euros of sales in the prior-year quarter.
- We were able to increase our sales volumes in all operating segments, except for Agricultural Solutions, which continues to face a tough market environment. In the chemicals business, volumes were up by 4 percent, mainly driven by Functional Materials & Solutions and Chemicals.
- Sales prices declined by 7 percent following lower raw material prices. Currency effects amounted to minus 3 percent. The headwinds were in particular related to the U.S. dollar, Argentine Peso and Chinese Renminbi.
- EBITDA declined by 7 percent to 2.8 billion euros.
- EBIT before special items came in at 1.7 billion euros, 16 percent lower than in the prior-year quarter. Significantly higher earnings in our chemicals business were driven by Performance Products and Functional Materials & Solutions. However, this could not compensate for the significant earnings drop in Oil & Gas.

- Special items in EBIT amounted to plus 11 million euros. Disposal gains from divestitures, including the sale of our polyolefin catalysts business, were partially offset by expenses related to restructuring measures and other operating charges.
- EBIT declined by 16 percent to 1.7 billion euros.
- Income taxes amounted to 414 million euros. The tax rate of 26.9 percent was at the level of the prior-year quarter.
- At 1.1 billion euros, net income came in 14 percent lower than in the second quarter of last year.
- Reported earnings per share decreased from 1.38 euros to 1.19 euros in Q2 2016. Adjusted EPS amounted to 1.30 euros.
- At 2.3 billion euros, operating cash flow in Q2 2016 was above Q1 2016 but lower than in the prior-year quarter. Free cash flow increased by about 130 million euros compared to the prior-year quarter and came in at 1.3 billion euros. This resulted from lower payments for investment projects in the second quarter of 2016.

Milestones in Q2 2016

Startup of a specialty amines plant in Nanjing, China

Agreement to acquire global surface treatment provider Chemetall

Completion of the polyolefin catalysts divestiture

Startup of a PolyTHF® plant in Korla, China

[Chart 4: Milestones in Q2 2016]

Ladies and gentlemen,

Let me highlight a few milestones of Q2 2016:

- At the end of April, we started up our plant for the production of specialty amines in Nanjing, China. This asset complements our existing facilities in Germany and the U.S. and improves our ability to flexibly serve our customers in Asia Pacific.
- In mid-June, we signed an agreement to acquire Albemarle's global surface treatment business. Chemetall is a global technology and innovation leader in the metals surface treatment market and operates 21 production sites, 10 R&D locations and 24 sales offices worldwide. The company offers a strong strategic fit for our coatings business by complementing our current coatings portfolio. The acquisition will support BASF's aim to grow profitably in downstream, innovation and solution-focused businesses. The purchase price is 3.2 billion U.S. dollars. Closing is expected by the end of 2016. The transaction is subject to approval by the relevant authorities.
- On June 30, we closed the previously announced transaction to divest our polyolefin catalysts business to W. R. Grace & Co. The transaction comprises technologies, patents, trademarks and the transfer of production plants in Pasadena, Texas, and Tarragona, Spain. The disposal gain is in a double-digit million euro range.

- In early July, we started commercial production in the PolyTHF® plant in Korla, China, which is part of a joint venture with Xinjiang Markor. The plant provides an annual capacity of 50,000 tons and complements BASF's existing Asian production facilities in Shanghai, China, and Ulsan, Korea. In Korla, BASF and Markor are now jointly operating an integrated PolyTHF® production, following the startup of the butanediol plant in January 2016. BDO is a precursor for the production of PolyTHF®.

And now Hans will comment on the performance of the individual business segments.

Chemicals

Higher volumes, but continuing margin pressure

Sales Q2 2016 vs. Q2 2015
million €

EBIT before special items
million €

Sales development	Volumes	Prices	Portfolio	Currencies
	↑ 4%	↓ (17%)	0%	↓ (2%)

Hans-Ulrich Engel

Good morning ladies and gentlemen,

Let me highlight the financial performance of each segment in comparison to the second quarter of 2015.

[Chart 5: Chemicals – Higher volumes, but continuing margin pressure]

Sales in the **Chemicals** segment declined considerably. Lower prices in all divisions, resulting from lower raw material prices, and negative currency effects, were the drivers for this development. In all divisions volumes grew – supported by our new capacities. High cracker margins in Europe and a significant improvement of the equity result from our joint venture BASF YPC in Nanjing could not compensate for lower cracker margins in North America and continued margin pressure on key commodity product lines. EBIT before special items therefore decreased considerably compared to the prior-year quarter. Despite the costs for planned turnarounds and the startup of new plants, fixed costs came in at the prior year level.

- In the **Petrochemicals** division, sales decreased considerably. Lower raw material costs, particularly for naphtha, led to reduced sales prices in all product lines. Volumes growth was predominantly driven by higher sales volumes from our acrylic acid production complex in Camaçari, Brazil, as well as by the resumption of operations at the plant in our Ellba joint operation in Moerdijk, Netherlands. Primarily as a result of lower margins for cracker products in North America, EBIT before special items was considerably below the high level of the prior second quarter.

Increased margins in Europe and Asia, especially for cracker products as well as alkylene oxides and glycols, were not able to compensate for this. Fixed costs shrank slightly.

- Sales in the **Monomers** division fell considerably year-on-year, largely because of lower prices brought about by decreased raw material costs. Higher sales volumes of MDI in all regions were responsible for a boost in volumes. Reduced margins for products from the polyamide value chain, and the scheduled turnaround of the ammonia plant in Antwerp led to a considerable decline in EBIT before special items. Fixed costs rose slightly through increased expenses from the gradual startup of our new production facilities.
- We also experienced a considerable sales decline in the **Intermediates** division, mainly as a result of lower prices weighed down by falling raw material costs. All product lines achieved higher sales volumes, especially polyalcohols and amines. A favorable product mix led to slightly higher EBIT before special items compared with the previous second quarter. Yet ongoing market overcapacity decreased margins for butanediol and its derivatives. Fixed costs were brought down slightly.

Performance Products

Significant increase in earnings driven by lower fixed costs, improved margins and higher volumes

Sales Q2 2016 vs. Q2 2015
million €

EBIT before special items
million €

Sales development	Volumes	Prices	Portfolio	Currencies
	↑ 2%	↓ (3%)	↓ (3%)	↓ (2%)

[Chart 6: Performance Products – Significant increase in earnings driven by lower fixed costs, improved margins and higher volumes]

Sales in **Performance Products** declined significantly. The slight volume increase was more than offset by lower prices, currency headwinds and negative portfolio effects resulting from the divestiture of several businesses in 2015. Prices decreased due to lower raw material costs. The competitive pressure in the hygiene business also contributed to the lower prices. Despite this, we were able to increase EBIT before special items by about 200 million euros or 65 percent, supported by lower fixed costs, improved margins and higher volumes.

- In the **Dispersions & Pigments** division, sales were slightly below the level of Q2 2015. This was essentially due to lower prices on account of decreased raw material costs, coupled with negative currency effects. Higher sales volumes of pigments, dispersions and additives supported growth, and more than compensated for the slight volumes decline in our businesses with resins and paper chemicals. Improved margins overall enabled us to considerably increase EBIT before special items.
- Sales in the **Care Chemicals** division were slightly down compared with Q2 2015. This was predominantly the result of price declines brought about by lower raw material costs, although intense competition in our hygiene business was also a factor. Negative currency effects additionally dampened sales. Sales volumes were particularly boosted by substantially higher volumes of ingredients for the detergents and cleaners industry, as well as by greater demand for oleochemical surfactants and fatty alcohols.

Higher volumes, stronger margins and reduced fixed costs allowed us to considerably improve EBIT before special items.

- Sales in the **Nutrition & Health** division saw a considerable year-on-year decline, mainly due to the sale of parts of the pharmaceutical ingredients and services business. A slight dip in sales volumes was mostly attributable to lower demand in the remaining pharmaceutical business and in the human nutrition business, whereas volumes rose for animal nutrition. Currency effects additionally dampened sales. We were able to raise price levels by sharply increasing vitamin prices in the animal nutrition business. Improved margins and substantially reduced fixed costs – thanks especially to restructuring measures – led to a considerable rise in EBIT before special items.
- The **Performance Chemicals** division posted a considerable sales decline, largely on account of the divestiture of the textile chemicals business and the sale of the paper hydrous kaolin activities. Decreased sales prices brought about by a sharp drop in raw material prices, along with negative currency effects, also dampened sales development. Volumes matched the level of the previous second quarter. We were primarily able to increase sales volumes in the fuel and lubricant additive business, as well as in plastic additives, whereas demand declined in, for example, oilfield and mining chemicals. EBIT before special items considerably surpassed the level of Q2 2015. This was mostly due to significantly reduced fixed costs thanks to restructuring measures and strict fixed cost management, as well as to improved margins.

Functional Materials & Solutions

Considerable earnings increase supported by all divisions

Sales Q2 2016 vs. Q2 2015
million €

EBIT before special items
million €

Sales development	Volumes	Prices	Portfolio	Currencies
	↑ 5%	↓ (6%)	0%	↓ (3%)

[Chart 7: Functional Materials & Solutions – Considerable earnings increase supported by all divisions]

In the **Functional Materials & Solutions** segment, sales slightly decreased. This was mainly driven by lower prices, especially in precious metals trading, as well as negative currency effects. Sales volumes, however, increased by 5 percent due to continued high demand from the automotive and construction industries. EBIT before special items rose by 17 percent. All divisions contributed to this considerable increase, particularly Performance Materials.

- Sales in the **Catalysts** division decreased considerably year-on-year, primarily as a result of lower precious metal prices. Currency effects also weighed down sales. We achieved volumes growth overall, predominantly supported by sharply increased sales volumes of mobile emissions catalysts. Lower precious metal prices led to a sales decline in precious metal trading to 554 million euros (Q2 2015: 666 million euros). The volumes growth allowed us to considerably raise our EBIT before special items.
- In the **Construction Chemicals** division, we posted slight sales growth compared with the second quarter of 2015. This was largely attributable to considerably higher sales volumes, especially in North America. Volumes rose in Europe, as well, while they declined slightly in Asia and the region South America, Africa, Middle East. Currency effects had a negative impact, particularly in Asia and in South America, Africa, Middle East. Prices fell slightly. We were able to considerably improve EBIT before special items as a result of increased sales volumes and positive margin development.

- Compared with Q2 2015, sales declined slightly in the **Coatings** division. This was predominantly the result of negative currency effects in all business areas. Volumes and prices rose slightly. We achieved considerable volumes growth for automotive OEM coatings in Europe and North America, as well as in the industrial coatings business. Volumes of automotive refinish coatings slightly exceeded the level of the previous second quarter. The difficult environment in Brazil led to a significant decline in demand for decorative paints. Thanks especially to increased volumes of automotive OEM coatings, we were able to considerably raise EBIT before special items.
- The **Performance Materials** division's sales were slightly below the level of Q2 2015. This was largely due to declining sales prices brought about by lower raw material costs as well as to negative currency effects. We were able to improve sales volumes, however. Our businesses with styrene foams, thermoplastic polyurethanes, engineering plastics and Cellasto® saw especially positive development. Demand from the automotive industry grew significantly. Our businesses with the construction industry remained at prior second-quarter levels, whereas sales volumes declined in the consumer goods sector. EBIT before special items rose considerably thanks to higher margins and lower fixed costs.

Agricultural Solutions

Decrease in sales and earnings due to lower volumes and currency headwinds

Sales
Q2 2016 vs. Q2 2015/H1 2016 vs. H1 2015
million €

EBIT before special items
Q2 2016 vs. Q2 2015/H1 2016 vs. H1 2015
million €

Sales development	Volumes	Prices	Portfolio	Currencies
Q2 2016 vs. Q2 2015	↓ (8%)	↑ 1%	0%	↓ (6%)

[Chart 8: Agricultural Solutions – Decrease in sales and earnings due to lower volumes and currency headwinds]

Agricultural Solutions continues to face a challenging market environment, particularly in South America. Sales decreased considerably due to lower volumes and negative currency effects, while prices increased slightly. EBIT before special items declined considerably, mainly due to lower volumes.

- Sales declined considerably in **Europe**, mainly as a result of lower sales volumes. This was particularly true for fungicides in Germany and Poland, where demand was dampened by high customer inventory levels and by the cool, wet weather in broad parts of the region.
- In **North America**, sales were slightly below the level of the prior second quarter owing to negative currency effects and lower prices. We were able to raise volumes slightly, thanks primarily to increased demand for the fungicides Xemium® and F500® in Canada and the United States.
- Lower volumes in the insecticides and fungicides businesses were primarily responsible for the considerable sales decline in **South America**. These in turn were largely attributable to high inventory levels and the still critical situation of many customers, especially in Brazil. We were only partly able to offset negative currency effects with price increases.
- Sales in **Asia** were slightly reduced by negative currency effects, which could not be offset by considerable volumes growth, especially of fungicides in China.

Looking at the first half of 2016, sales decreased by 9 percent. EBIT before special items came in 3 percent lower than in the same period of last year. For the remainder of 2016, we do not foresee a significant improvement in the agricultural market.

Oil & Gas

Significantly lower sales and earnings

Sales Q2 2016 vs. Q2 2015
million €

EBIT before special items, net income
million €

Sales development	Volumes	Prices/Currencies	Portfolio
Q2 2016 vs. Q2 2015	↑ 2%	↓ (3%)	↓ (82%)

[Chart 9: Oil & Gas – Significantly lower sales and earnings]

Sales in **Oil & Gas** decreased significantly, mainly due to the missing contributions from the natural gas trading and storage business following the asset swap with Gazprom. In addition, lower oil and gas prices contributed to the drop in sales. Higher production volumes could not offset this price decline.

The average price of Brent crude in Q2 2016 was 46 U.S. dollars per barrel compared with 62 U.S. dollars in the prior-year quarter. Gas prices on the European spot markets also fell sharply compared with the second quarter of 2015. Compared to Q1 2016 the average price of Brent crude increased by 34 percent, while gas prices on the European spot markets were almost stable and remained on a low level of about 13 euros per megawatt hour.

In the continuing oil and gas business, price and currency effects together were minus 18 percent in Q2 2016. A strong volume increase of 9 percent driven by higher production in Norway was not able to compensate for this.

Overall, EBIT before special items decreased from 431 million euros to 94 million euros. Strict cost-containment measures partly counterbalanced this decline.

Please keep in mind that throughout 2016 we will have lower earnings from our share in the Yuzhno Russkoye natural gas field. This year, the excess amounts received over the last years will be offset by lower volumes, as contractually agreed with Gazprom.

Net income in Oil & Gas decreased from 250 million euros to 100 million euros.

Review of "Other"

million €		Q2 2016	Q2 2015
Sales		**485**	**757**
EBIT before special items		**(212)**	**(63)**
Thereof	Corporate research costs	(88)	(102)
	Costs of corporate headquarters	(56)	(64)
	Foreign currency results, hedging and other measurement effects	(116)	151
	Other businesses	33	30
Special items		65	(20)
EBIT		**(147)**	**(83)**

[Chart 10: Review of “Other”]

Sales in “Other” decreased to 485 million euros. This was largely attributable to lower contributions from raw material trading. EBIT before special items declined to minus 212 million euros, down from minus 63 million euros. This was driven by a swing of over 200 million euros related to our long-term incentive (LTI) program. While earnings in Q2 2016 were negatively affected by an increase in provisions, the prior-year quarter benefitted significantly from the release of provisions for our LTI-program.

Special items in “Other” amounted to plus 65 million euros and were mainly related to portfolio measures.

Cash flow in 1st half 2016

million €		H1 2016	H1 2015
Cash provided by operating activities		**3,339**	**5,143**
Thereof	changes in net working capital	(1,045)	877
	miscellaneous items	(122)	(32)
Cash used in investing activities		**(1,988)**	**(3,331)**
Thereof	payments related to tangible/intangible assets	(1,979)	(2,845)
	acquisitions/divestitures	51	(15)
Cash used in financing activities		**(1,814)**	**(1,033)**
Thereof	changes in financial liabilities	944	1,723
	dividends	(2,768)	(2,803)

[Chart 11: Cash flow in 1st half 2016]

Let me now turn to our cash flow in the first half of 2016.

- Cash provided by operating activities decreased to 3.3 billion euros. Please bear in mind our initiative to reduce net working capital in 2015. This resulted in an extraordinarily high cash inflow in the prior-year period. In addition, the divestiture of our natural gas trading and storage business led to a new seasonality with respect to our inventories and trade accounts receivable.
- Cash used in investing activities declined by 1.3 billion euros to 2.0 billion euros. Payments related to tangible and intangible assets amounted to 2.0 billion euros compared to 2.8 billion euros in the first half of 2015. Acquisitions and divestitures resulted in a net cash inflow of 51 million euros.
- Financing activities led to a cash outflow of around 1.8 billion euros, mainly due to the payment of the dividend.
- Free cash flow amounted to 1.4 billion euros compared to 2.3 billion euros in the first half of 2015, reflecting the new seasonality and inventory reduction impacts that I mentioned for the first half of 2015.
- Free cash flow in Q2 2016 exceeded the prior-year quarter by about 130 million euros and came in at 1.3 billion euros.

Strong balance sheet

Balance sheet June 30, 2016 vs. December 31, 2015
billion €

- Total assets increased by €1.3 billion on higher trade accounts receivable and deferred taxes
- Inventories were stable at €9.7 billion
- Provisions for pension obligations increased by €3.3 billion
- Net debt at €14.1 billion
- Equity ratio: 40%

[Chart 12: Strong balance sheet]

Finally, let's look at our balance sheet.

- Compared to year-end 2015, total assets grew by 1.3 billion euros to 72.2 billion euros. This was mainly due to the usual seasonal increase in trade accounts receivable in our agricultural solutions business and higher deferred taxes due to the increase in pension obligations. Long-term assets were relatively stable at 46.5 billion euros.
- Total equity decreased by almost 2.6 billion euros to 29 billion euros, driven by non-cash actuarial losses related to provisions for pension obligations following the decline in interest rates.
- As a result of the lower interest rates, provisions for pension obligations increased by 3.3 billion euros.
- Short-term liabilities increased from 14.2 billion euros to 15.6 billion euros due to a reclassification of bonds from long to short-term and a higher utilization of our commercial paper program.
- Due to the dividend payment of around 2.7 billion euros, as well as the seasonal pattern of our business, financial debt rose by 0.7 billion euros to 15.9 billion euros. Net debt increased by roughly 1.2 billion euros to 14.1 billion euros.
- Our equity ratio remained at a healthy level and amounted to 40 percent.

And with that, back to Kurt for the outlook.

Outlook 2016 for BASF Group confirmed

BASF
We create chemistry

Assumptions 2016

- GDP growth: +2.3%
- Growth in industrial production: +2.0%
- Growth in chemical production (excl. pharma): +3.4%
- Exchange rate: $1.10 per euro
- Oil price (Brent): $40 per barrel

Outlook 2016

- Sales will be considerably below prior year due to the divestiture of the natural gas trading and storage activities and the lower oil and gas prices.
- We expect EBIT before special items to be slightly below the previous year level due to significantly lower earnings in Oil & Gas.

Kurt Bock

[Chart 13: Outlook 2016 for BASF Group confirmed]

Our expectations for the global economic environment in 2016 remain unchanged.

We are confirming our 2016 sales and earnings outlook for BASF Group, as provided at the end of February:

- Sales in 2016 will be considerably below prior year due to the divestiture of the natural gas trading and storage activities as well as lower oil and gas prices.
- Excluding the effects of acquisitions and divestitures, we aim to increase sales volumes, supported by our increased capacities.
- We expect EBIT before special items to be slightly below the previous year level due to significantly lower earnings in Oil & Gas.

In the current volatile and challenging macroeconomic environment, we continue to regard our outlook for 2016 as ambitious and particularly dependent on further oil price development.

With this in mind, we remain focused on cost-containment and restructuring measures, which have proven effective in the first half of 2016. Our recent portfolio measures will contribute to the mid and long-term success of our company.

And now, we are happy to take your questions.