1 BASF Group

Andreas Heine (MainFirst Bank): Since Easter was in the second quarter this year and not in the first quarter and as you look onto your sales numbers very closely, from what you see now end of April and what you see going forward, have you seen any Easter impact, being Q1 looking too strong volume-wise and Q2 then having the Easter impact, especially in Europe?

Kurt Bock: On the Easter impact – actually, it is more a topic in Germany and some European countries. There is no Easter Monday in most parts of the world. If you do the counting, we had 65 business days in Q1 last year. We have 65 business days in Q1 this year. We will probably have one business day less in those countries which are affected in Q2. So you can do a lot of math here. But, frankly, I think this will average out in a certain way. So far, we have not seen, coming out of the Easter break, any remarkable or noticeable slowdown of economic activity.

Andrew G. Benson (Citi Investment Research): If you assume you achieve 9 percent growth in EBIT before special items this year, which is sort of your range, it means effectively that you don’t expect to achieve a profit improvement in the coming three quarters of this year, to achieve your targets, given the very strong start to the year. If you look at the higher oil and gas prices, the likelihood of lower unplanned maintenance costs and let’s say you don’t have another accident and all the new capacities are coming on stream, I just wondered what the basis for the caution was for the rest of the year.

Kurt Bock: Your math is probably not wrong; so, I am not arguing about the numbers. What I talked about is the uncertainty going into the second half of 2017. We have seen good volume growth for BASF. We had some nice margin developments, recovery of margin in many of our value chains. At this point in time, to make it also very clear, going into Q2, we don’t see a fundamental change of business environment and sentiment. But we also said back in February at our analyst conference that we will update the forecast in July when we look at our half-year results and then we have most likely also a better visibility going into the second half of 2017.

Andrew G. Benson (Citi Investment Research): What you are saying then is: Perhaps it’s your instinct, you want to be conservative at this point in time – that is driving your judgement here.

Kurt Bock: We are cautious. You might say, we are conservative. What is on my mind? There are a couple of political risks out there. Everybody right now is very, very positive in the United States that things will move into the right direction and the business climate, the investment climate will improve considerably. This might actually happen. But, so far, the United States have not really demonstrated a superior growth in Q1. China started strongly into 2017. It needs to be seen whether that momentum can be maintained. We have a couple of yellow and red lights, when we are looking at Italy for example, which is an important market for BASF. It is more, let’s say, the overall sentiment.
We are certainly hoping that some markets will recover. Russia hopefully will come out of a recession, the same with Brazil. But then look again at a country like Argentina where the recovery is probably a little bit delayed. So, all in all, we think for the time being it is just prudent to be cautious. Actually that shouldn’t really come as a surprise to you. You know BASF.

Markus Mayer (Baader Bank): A question, again on Q2: At the analyst meeting you said April was a strong month and now it looks also that May was not that bad. Can you confirm this?

Kurt Bock: Markus, I think we are still in April, so I am hesitating a little bit to talk about May at this point in time. As I said before, from today’s point of view, we are cautiously optimistic for Q2. That’s all what I would like to say.

Paul Walsh (Morgan Stanley): Can you remind me in which product lines you are still suffering production disruption?

Kurt Bock: On capacity and capacity constraints: Let’s start with China. We are essentially sold out in Nanjing and we had a very gratifying result also due to good volumes, good utilization rates, but also higher margins. Chongqing – that is our MDI plant – is not running at full capacity. We had to interrupt production again and again this year essentially because there is a lack of feedstock availability. That is where a partner of BASF is working to improve reliability. That is certainly a bit painful in a relatively tight market for MDI.

In Ludwigshafen in the TDI plant, we have the repair completed. We started the test runs for the new reactor, which we put into place. That is ongoing exercise. This is an on and off work in terms of test runs. We expect to come back pretty soon.

We have then other markets like BDO where margins still have to recover, where we have a bit of a production issue in Kuantan, to give you one example here where we don’t have full capacity available.

Overall, this year in Q1 the cost of unplanned outages is slightly higher than in the first quarter of 2016. Finally, we have the North Harbor incident here in Ludwigshafen where we obviously had a negative volume effect and earnings effect in Q4, continuing slightly lower into Q1. This will also continue into Q2. This affects essentially the propylene access for our site. So the C3 value chain – which is mainly acrylics – is impacted here in a certain way. What is important – maybe I explain this again: We got this €100 million insurance payment now in Q1. That payment essentially offsets the negative effect of lack of product availability in Q1. So that is essentially a wash. We expect a similar wash going into Q2 where we still then do not have all capacities available and most likely will receive another €100 million insurance payment. Then in Q3 we most likely will have completed the repair of the pipeline grid and are back to normal operations. Then we also do the final accounting from an insurance point of view.
Anthony G. Jones (Redburn): I just wanted to check: Is the insurance gain, the €100 million, all in the Chemicals segment or is it spread partially over a couple of different BASF segments?

Kurt Bock: Of the €100 million about three quarters go into the Chemicals segment and the remaining quarter is distributed mainly in Performance Products, partially also in Functional Materials & Solutions. But the big chunk is really Chemicals and that also holds true then for Q2, most likely.

Andrew G. Benson (Citi Investment Research): I just wanted to confirm: You thought the insurance impact was roughly sort of profit neutral in the first quarter. Then that just replaced the additional costs of the overall logistics. I just wanted to confirm.

Kurt Bock: You are correct; yes, the insurance payment was profit neutral because it compensates for the lack of product availability in Q1. The same will hold true most likely in Q2.

Laurence Alexander (Jefferies): How much of your product lines are effectively nearly sold out, if you continue at the volume growth that you have been seeing recently?

Kurt Bock: Capacity constraints: As you know, we have spent quite a bit of money on capex over the last couple of years. So, we have essentially capacity available to grow. Do we really have acute bottlenecks? I mentioned Nanjing where we are sold out. But, overall, I think there is enough capacity available. In the downstream businesses, those investments are more of an incremental nature anyway. I mentioned, e.g., the doubling of our automotive catalysts capacity in India which we have just completed. These are relatively small investments which are really very much market-driven according to the business we are bidding for and most likely also gaining. So I don’t think that capacity-wise, supply-wise we should be concerned about a lack of growth opportunities for BASF.

Anthony G. Jones (Redburn): Thinking about some of the shutdowns you talked about versus the ramp-up costs which I think we had last year. I think I had in my notes that there were about €200 million of EBIT impact spread over 2016. I was wondering whether we still should be thinking that that continues, at least partially. Then we have got these added shutdowns you talk about. Finally, should we be expecting any major maintenance over the next quarter or two? Maybe one of the crackers goes into maintenance for a prolonged period?

Kurt Bock: As you know, outages and turnarounds are two different categories. Turnarounds we can plan. What we see right now is: In 2017, the cost of plant turnarounds will be at the level of last year. Last year was around €300 million; today’s planning for this year is also €300 million for turnarounds. The unplanned outages were slightly higher in Q1. We certainly aim to come back to more normal operations with respect to that as soon as possible and want to be below the total number of 2016, which was a bit elevated compared with our historical average.
Maintenance: Yes, we do have a couple of maintenance projects going on. But this is essentially covered in what I just told you about the plant turnarounds — so nothing really special compared to last year; this is normal course of business.

Christian Faitz (Kepler Cheuvreux): Could you differentiate the performance in Asia between China and other Asia?

Kurt Bock: Asia: The growth comes — I think this a positive development — not only from China. However, we have had a good double-digit growth in China in Q1 2017 against the background of new capacities, which we have brought on stream over the last two years. So, I think it is also necessary to grow. We feel like we are currently growing slightly faster than the chemical market in China. This is our interpretation. As you know, in China we have very different businesses: Upstream, which is certainly supply/demand-driven, but then lots of downstream activities, especially automotive-driven. We have seen a bit of a slowdown in the automotive growth rate in Q1 compared with 2016 when still higher incentives were being offered to the consumers. However, we continue to grow very nicely in that industry which is very important for BASF.

Jeremy Redenius (Sanford C. Bernstein): I noticed that in the report this morning you mentioned that European volumes have grown year over year. I wonder if you could quantify what the growth is for the business in Europe outside of Oil & Gas and if that’s largely linked to what I would expect to be the auto industry.

Kurt Bock: European growth, non-Oil & Gas Q1 2017 is 7 percent, which was most likely slightly above market growth.

Jeremy Redenius (Sanford C. Bernstein): Which industry has been the driver of that?

Kurt Bock: That is across the board. As I said before, we had a good start into 2017 including Europe. 7 percent: It needs to be seen whether that speed can be maintained over the course of the year. We did quite well in automotive, which continued to grow in Europe. Consumers was okay from our point of view. We talked about ag, which had a slow start. So, if you take Crop Protection out, the growth for the non-ag, non-Oil & Gas businesses would be even slightly higher.

Markus Mayer (Baader Bank): Also on M&A, but more on the divestment side: With the divestment of the leather chemicals business, are there still some non-core assets in the portfolio where you consider a divestment?

Kurt Bock: The strategy at BASF is: You never have a non-core business until the day you decide it becomes non-core. Leather is a relatively small business. This fits, I think, with what we had said before when you looked at, e.g., textile chemicals, which we also put on the block in the past.
Is there anything big? I think this is the question you are asking. There is constantly a pruning going on, a pruning of our portfolio: Is there anything big, material, so to say? I don’t see it at this point in time. We are pretty happy with our overall portfolio composition.

Christian Faitz (Kepler Cheuvreux): A quick question on pension provisions: They are down €600 million from year end. Where do you see them at fiscal year 2017 end?

Hans-Ulrich Engel: That’s a tough one, on the pensions: Where will they be? If you and I can agree first on interest rates on December 31 of this year in the key countries, which are Germany, the US, Switzerland and the UK – if we have an agreement on that, then I can tell you whether pension provisions will go up or will go down.

We have seen last year a roller-coaster ride with our pension provision. It went from €6.3 billion in the beginning of 2016 to €9.6 billion at the end of Q2 and we ended up at €8.2 billion. We are now, at the end of Q1, at €7.6 billion. So in the end, it’s all driven by interest rates and discount rates. Should interest rates increase, then we will see a lower pension provision, but it remains to be seen what really happens with interest rates during the course of this year.

Christian Faitz (Kepler Cheuvreux): Okay. So the biggest part of the €600 million delta was interest rates?

Hans-Ulrich Engel: That certainly has an influence there.
2 Segments

2.1 Chemicals

Andreas Heine (MainFirst Bank): On Chemicals, if I look at the main margins for the main products, I would say that on average the second quarter margins wouldn’t be less than in the first quarter. Is there anything I have to have in mind not to believe that Chemicals should deliver earnings being as high as in the first quarter?

Kurt Bock: Are there reasons to be skeptical about Q2 with regard to the Chemicals segment? Yes, Q1 was a very good quarter for Chemicals, there is no doubt about it, especially for cracker products and for what we call monomers; it is not just isocyanates, it is also a couple of other products, which developed nicely. We have done a bit of restructuring which also seems to pay off, taking capacity out of the market in caprolactam. These are investments which we have made to rebalance the market.

At this point in time, we are cautiously optimistic for Q2. But you can never rule out that there are e.g. supply disruptions. You can never rule out that there are outages on our side or in the competitors’ field. And you can never rule out that people become a little bit more skeptical with regard to economic growth and a little bit more hesitant to buy. So, I think there are reasons to be cautiously optimistic. But again, we do the accounting in July and then we see where we are with regard to the second half.

Martin Evans (JP Morgan): Getting back to the Chemicals segment. The outlook going forward gives them a strong start. Destocking – is that something that you are beginning to see now, given the relative softening and loosening in supply etc.? Or is it indeed something that is partly behind your cautiously optimistic outlook for the rest of the year, the potential that customers, from elevated levels, could start now destocking?

Kurt Bock: As always, it’s very difficult for us to fully understand what is the customer situation with regard to inventory levels. We have no real indication that there has been a restocking of a material nature. For that reason, we are also very cautious now to expect some destocking going forward. Just looking at the nature of our business, these are mainly high-volume, bulk-type of products where also storage is not really what you want to do. Sometimes the supply is even by pipeline. So we don’t really have any data which would indicate that now a major destocking should start, for the simple reason that we haven’t really had a major restocking. What is something which we would watch very carefully, is obviously the volume development overall. We had this sequential improvement quarter over quarter now for the last four quarters. We cannot rule out that, with our capacity installed now and available, we simply also have gained marketshare in some cases.

Patrick Lambert (Raymond James Euro Equities): When do you expect the ammonia plant in Texas to be started?

Kurt Bock: The start-up of the ammonia plant which we build together with Yara is expected for the end of 2017. So this is according to schedule.
2.2 Performance Products

**Peter Clark (SG Corporate and Investment Banking):** With regard to Performance Products, you mentioned again the start-up costs, which I thought were quite high last year as well in that segment. I am just wondering how big they were and how they dragged through the year. Then, of course, the main impact has been the raw material one with a lag of passing that through. I am just wondering if you can catch that up as we go through the year. You are seeing pretty strong volume growth at the moment. I think it was 7 percent in the first quarter. Obviously, with your bearish outlook you might be assuming that might not last. So, I am just wondering how you see that full-year margin in Performance Products perform year on year and the impact of the start-up costs we saw in Q1 and how this progresses through the year.

**Kurt Bock:** Looking at Performance Products: To make it very clear, we are not satisfied with the development in Q1. We have seen volume growth, yet we haven’t seen earnings growth. There are two reasons: first, slightly higher fixed costs, essentially start-up costs, which are a double-digit million number, which was to be expected; that is something we planned. On the other hand, we need to bring up margins and we have to recover margins. We had in some of our divisions pretty steep increases of our feedstock costs. You know that also internally we transfer at market prices. That is very important to keep in mind. The task for the entire team is now to pass this on to the customers as quickly as possible. We have announced a series of price increases already in Q1 – this will continue – reflecting our much higher feedstock costs.

What we don’t like in that respect is certainly volatility, when all of a sudden the oil price came down again quite remarkably. This certainly sends wrong signals into the marketplace and doesn’t make our life much easier. What we really need is a stabilization on the feedstock costs front. I am pretty sure, we will now see price adjustments in Q2 and Q3. Some of the pricing is what we call formula-based. With a couple of customers and for certain volumes we have agreements which basically mean: If our raw material costs increase with a time lag – that is agreed upon then with a time lag between three months and six months – our product costs also go up. So, there is a natural delay in that adjustment. But we are working on that with all hands on deck.

**Peter Clark (SG Corporate and Investment Banking):** So, you wouldn’t want to commit to a full-year margin ahead of this point? It’s just too early and you have got to see how it progresses.

**Kurt Bock:** We are trying to bring them up as quickly as possible; that is for sure. That is an uphill battle, obviously, because we have very, very strong customers who are not really happy about absorbing higher feedstock cost.
Mutlu Gundogan (ABN AMRO Bank): On Performance Products: Can you quantify that negative impact on the margin from higher feedstock prices?

Kurt Bock: On the margin impact: I ask for your understanding that we do not quantify this because we also have discussions with our customers for a very simple reason: We try to pass on raw material costs here, higher raw material costs. There has been a margin impact, but this has been from very different businesses. So I think it would be kind of almost misleading to give you now an average across the entire segment of Performance Products.

Markus Mayer (Baader Bank): On the raw material impact in Performance Products: Maybe you can shed some light in which units this was in particular the case.

Kurt Bock: The raw material effect: We certainly felt it in home care and personal care. We also felt it in Performance Chemicals, less so in Nutrition & Health. In dispersions and resins we felt it certainly because simply – we talked about this – we had higher C3 costs and that translated obviously into higher raw material costs for that business. The higher raw materials mainly affect the higher-volumes, less-specialized businesses in Performance Products.

Laurence Alexander (Jefferies): Could you give a little bit more detail on pressures you are seeing in Nutrition & Health and how you might address those?

Hans-Ulrich Engel: In Health & Nutrition, what we have, obviously, is the developments in vitamin prices where we have seen peaks both in vitamin A and vitamin E in the third quarter of last year due to capacities, in particular in China, being temporarily shut in. After the G20 summit, these plants started up again, which led to significant price declines in both vitamin E and vitamin A. So, that is certainly a watchout. Q1 prices in both are slightly higher than what we have experienced in Q1 of last year. But meanwhile, we are pretty much back to the same level as we were in Q1 2016 due to these capacities being back in the market.
2.3 Functional Materials & Solutions

Laurence Alexander (Jefferies): Could you give a little bit more detail on pressures you are seeing in Construction Chemicals and how you might address those?

Kurt Bock: I think the main reason that we are not completely happy in Construction Chemicals is that we have a very high exposure in the Middle East. The Middle East has weakened considerably, essentially due to a lack of infrastructure investments and a lack of financing availability plus payment behavior of customers has changed as well. So, this is, let’s say, a little bit of an unfortunate combination which hits BASF probably more than others because we have a relatively high share in those countries, which, essentially, are very attractive for construction chemicals.

Markus Mayer (Baader Bank): On the catalysts business: Your statements are quite optimistic on the mobile emissions and the chemical catalysts. What is your prolonged outlook on the heavy-duty diesel market? I know that it is less important than the other automotive catalysts, but what do you expect here? On the chemical catalysts business: Do you already see that the refill business in the stationary catalysts has started the recovery with these maintenance shutdowns not only at your businesses, but also at others?

Kurt Bock: In chemical catalysts, yes, we do see a refill activity. That is certainly helpful. That probably also underlines a more optimistic stance at some of our competitors and customers in that field.

Heavy-duty diesel is an important business, for the very simple reason: Heavy-duty diesel catalysts are very big and quite expensive and very important, obviously, also to clean up the diesel engine. We have had quite a concerted effort over the last couple of years to improve our situation and our business with respect to heavy duty. I won’t give you any market data, obviously but I think we are making good progress with respect to that as well.
2.4 Agricultural Solutions

Christian Faitz (Kepler Cheuvreux): Would you mind updating us on your latest thoughts on agricultural M&A, also pertaining to your own ambitions?

Kurt Bock: On crop protection consolidation: I think we are certainly aware of what’s going on. We have a good business. I have talked about this several times. Do we like to grow the business, also via M&A if this becomes available? Yes, if it makes sense, if it is a good strategic fit and financially attractive. In a normal course of business this takes a purchaser and a seller to agree upon conditions. In what we see right now – the remedy action – that actually takes three. So, it’s a seller, it’s a purchaser and it’s a regulator who have to agree upon the course of action. That’s the only thing I am going to say about this one at this point in time.

Andrew Stott (UBS): On crop protection: Can you just elaborate on the mix comment? Is it more herbicides and less fungicides? Is that the problem on the growth margin?

Kurt Bock: Yes, you are right: It is less fungicides and more herbicides. That is very much also related to the very cold weather we have currently in Western Europe. You have seen in our report that also volumes in Western Europe are below last year’s numbers. But please keep in mind: We are talking about Q1 and the final accounting will only be done after the conclusion of the first half of this year.

Christian Faitz (Kepler Cheuvreux): Can you please give us an indication how the current crop season in Europe has started? Looking at weather conditions, Q1 should have had rather easy comparisons, in my view, simply because March 2016 was very wet. But, I believe that Q2 2017 will get much tougher, given rather dry conditions coupled with low temperatures. Is that a correct observation?

Kurt Bock: We expect overall a relatively flat market in Europe. Economic conditions are quite similar to what we have seen last year with volatile exchange rates and relatively low commodity prices, especially in Russia and Ukraine. Nevertheless, planting intentions foresee relatively high levels for grain and oil seeds in Russia and small gains in oil seeds in Western European countries. This is also due to the pricing which we see currently in the market. So, it is a very mixed picture. I think we have to wait for July to finally see how the season has developed then in 2017.

Patrick Lambert (Raymond James Euro Equities): Can you be a bit more precise on Engenia and the type of growth you are seeing? I know it’s the first season. It’s limited acreage. But can you already guide us a bit for next year in terms of roll-out over the whole trait in North America?

Kurt Bock: Engenia: The roll-out starts. We made a pretty heavy investment actually for this product dicamba in Texas. We start sales now in North America and will also roll it out in South America. And it’s supposed to be a sizeable business simply because resistance to glyphosate is such a widespread issue now. Dicamba is the product of choice to fight glyphosate-resistant weeds.
2.5 Oil & Gas

Andrew Stott (UBS): A question on Oil & Gas: The drop-through on the €200 million plus of revenue growth was a lot less than at least I expected. The D&A was up significantly. So, can you just comment around why we are seeing growth in D&A of about €70 million and whether that then translates to the full year? Just give me a sight from there.

Hans-Ulrich Engel: On depreciation and amortization in the Oil & Gas segment: D&A is up by €70 million. This is due to the start-up of new fields. You may recall: We started up the Vega Pleyade field in Argentina. Also in the second half of last year, we increased capacities, in Norway in particular. This leads to higher depreciation and you can expect this depreciation also to continue in 2017 in the quarters to come.

Paul Walsh (Morgan Stanley): In Oil & Gas, you guys obviously give the sensitivity to moves in oil. Can you help me understand the extent to which gas prices are more important as a parameter for performance in that business and what you are seeing in gas prices, please?

Hans-Ulrich Engel: On the oil and gas price sensitivities: I tried to explain what the difficulty is with the gas price sensitivity before. It is in particular that we have, I would say, on the gas side more than two thirds of our gas activities in regulated markets. That makes it extremely difficult to provide a gas price sensitivity.

If you look at our Q1 results and what we are providing there with respect to volume increase, price increase, structural impacts, you see that we increased prices, if I recall it correctly, by 24 percent, which is clearly less than what you are seeing if you look at the Brent price development. Compare $34 in Q1 2016 to $54 in Q1 2017.

You also see less of an increase in prices than what you would see if you just looked at North-Western European natural gas prices. But, the driver behind that is the fact that two-thirds of our production happens to be in countries with regulated prices.

Paul Walsh (Morgan Stanley): Just to be clear: That is incorporated in your sensitivity of €20 million EBIT in Oil & Gas to every dollar per barrel oil. Correct?

Hans-Ulrich Engel: What we are providing is only a sensitivity for oil. To be more specific on that: That includes our production in Libya where currently – since March 7 – we do not produce and have produced only at very low levels in the first two months of this year.

Jeremy Redenius (Sanford C. Bernstein): You know that we have been working with a model that does quite a good job with your Oil & Gas segment. But it looks like the price sensitivity, the price change that you report has been much different than what should infer from European spot gas prices now.
I heard your comments earlier about the regulated price in many regions. But that has been the case for long. I guess the question is: Has there anything changed in the nature of your contracts so that the price sensitivity would be lower now than it was, say, in the last quarter or in the last couple of years?

**Hans-Ulrich Engel:** On pricing mechanisms in Oil & Gas: no change there. I hope I explained well enough what is happening structurally and why you don’t see the same type of price increases in our earnings as you would see when you just follow Brent and just follow North-Western European gas prices.

The two things that you may want to keep in mind are: Libya almost no production in Q1. That certainly has an impact. In Russia, through the way the price models work there, the mineral extraction tax which was increased works its way through in our pricing mechanisms. That may then also help to understand what you are seeing there on the price side.

**Jeremy Redenius (Sanford C. Bernstein):** Was the mineral tax a recent change?

**Hans-Ulrich Engel:** Mineral extraction tax was increased in 2016 and there was also a slight increase in 2017.

**Mutlu Gundogan (ABN AMRO Bank):** I also tried to take a swing at Oil & Gas. Can you help me with the sequential comparison, so compared to Q4? Your sales are down about €90 million quarter on quarter, while your EBIT is up 7 million. Can you help me understand why that is?

**Hans-Ulrich Engel:** Let me take a closer look on the sequential developments in Oil & Gas and I’ll get back to you.

[Our sales in Q1 2017 decreased compared to Q4 2016 by 10%. This resulted mainly from the lower sales volume effect due to the aperiodic offshore lifting in Libya (full lifting in Q4 2016). Our earnings increased slightly (+4%) due to higher prices.]

**Patrick Lambert (Raymond James Euro Equities):** On the Oil & Gas production outlook for 2017. I think, Q1, you said, was basically flat in terms of mBOE. Can you still confirm the growth of production overall for BASF in 2017 in the same range as last year?

**Hans-Ulrich Engel:** You have seen a significant increase in our production last year. We went up by roughly 10 million barrels of oil equivalent from 153 mBOE in 2015 to above 160 mBOE in 2016. The plan for this year is to stay at this volume of 160 mBOE. The new fields that come on stream will compensate for what’s called natural decline, so the natural reduction that we have from older fields. That’s the plan that we have for 2017 which is roughly 160 million barrels, out of that we have delivered exactly one quarter in Q1.