

BASF Analyst Conference FY2013



Transcript - Q&A Session by Topic February 25, 2014

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1. Group

Andreas Heine (Barclays Capital):

Can you say anything how the year started in 2014, regions and value chain-wise?

Kurt Bock:

The year started, from our point of view, in a way that we have no reason to divert from our guidance which we have provided. We have seen volume growth in January and going into February. We still see currency headwinds. That plays a major role, both in terms of top line, but also bottom line where we talk about the big effects, 300 million last year, predominantly in Performance Products which was really a detrimental factor.

We see raw material prices, after a little bit of a pickup in January, stabilizing or moving sideward which, from our point of view, seems to be good news, put it that way. But I think it's far too early to speculate about raw material prices going into Q3 or Q4. It's certainly also oil price-linked.

Regionally, we had a very good start in North America. China is a little bit harder to read because, obviously, we had Chinese New Year relatively early this year, end of January. South America is a little bit of a disappointment at this point in time, but please keep in mind: That is roughly 5 percent of our total business and the reasons are easy to understand: the currency turmoil in Argentina and relatively low and disappointing growth in Brazil. I think they got a problem over there.

Europe – I said in my little speech: We expect that Europe will continue to recover albeit at a still very low level. So we are now talking about 1.5 percent, I believe, chemical production growth in Europe which is virtually zero, from my point of view. We certainly try to grow faster than that but we don't expect strong tailwinds in Europe.

In terms of industry, we are quite optimistic for automotive. We think that the global automotive production could grow at something like 5 percent this year. That would bring e.g. US production levels back to where they were before the crisis started in the US. We are well positioned to grow with the automotive industry. We also think that the construction industry, e.g. in North America, has a good chance to grow a little bit faster. These are two important industries for BASF and this gives you a little bit of a flavour.

Markus Mayer (Kepler):

You said that the first months of this year were quite okay from the volume development. How do you see currently the inventory level of the global chemical industry? Do you already see a restocking?

My second question: In the outlook you see an acceleration of GDP growth and also industrial production growth. But at the same time, you expect that the chemicals growth is basically flat or even slightly down from last year's level. Why is this?

Hans-Ulrich Engel:

Current trading environment: I would say, it was overall a good start into the year, slightly better than going into the year 2013. Is that the result of a restocking that is taking place, or is that just an expression of slightly stronger demand which, by the way, we have also experienced in Q4 if you compare Q4 2013 to Q4 2012?

Frankly, that is very difficult to say at this point in time. I think we explained here that our visibility with respect to the inventories of the industries that we are delivering to is by far not perfect. So there is a lot of interpretation going on; I don't want to call that guess work. Frankly, it's difficult to answer that question. It looks like demand is slightly stronger out there than what we experienced the same time around last year.

Kurt Bock:

With regard to chemical production growth and GDP growth we now get into the nitty-gritty details of statistics. The major reason is that the weight of the respective regions for calculating the GDP is different from the weight you use for calculating the overall growth rate for chemical production.

So, in GDP the developed countries have a much higher share, but in chemical production the emerging markets have a much higher share. Since, in relative terms, the mature economies in 2014 are supposed to grow a little bit – relatively, again – faster compared to what the difference in the emerging markets is, you see these slight differences.

This is our model for the time being. I think it is a realistic assumption to see something like 4 to 5 percent chemical production growth going into 2014.

Peter Spengler (DZ Bank):

A question on the words “slight” and “slightly” that you use twice in your 2014 outlook: Could you give us an idea what “slight” and “slightly increase” means?

Kurt Bock:

I am happy to do so. In terms of sales, “slight” is between 1 and 5 percent. In terms of earnings, it's been 1 and 10 percent. If we had a 1 percent or 2 percent change, we would not call it “slight”, we would probably call it “stable” or “no change”, to make this quite clear.

We had to find a solution because the German law has changed in terms of how you provide guidance. It's not perfect, but I hope it will help you to do your work.

Andrew Benson (Citi Investment Research):

I just want to qualify the target that you have got for this year of slight EBIT growth. That incorporates the portfolio changes that you are expecting in mid-year?

Kurt Bock:

The guidance we provided for 2014, yes, it includes the portfolio changes we described before, the swap of the gas-trading business.

Paul Walsh (Morgan Stanley):

My question relates to the 2015 targets. Can you talk a little bit about the likelihood of moving towards those targets in 2015 and the moving parts that are necessary for you to get there?

Kurt Bock:

The 2015 targets: You know we have very challenging targets. They are supposed to be challenging for 2015 in terms of growth and in terms of earnings. Earnings are certainly more important than just growth, but both are dependent on each other.

What we can say today: We work extremely hard. We rolled up our sleeves to achieve what we promised to achieve. We have lots of restructuring programmes under way. We are extremely cost-conscious. We try to improve our capital base, as Hans just explained.

I think, from today's point of view, it's more challenging to achieve those targets than, let's say, two years ago. That is quite clear because we essentially had two years in chemical growth globally which were slower than expected, especially Europe which had almost zero growth in 2013. Keep in mind, Europe is still the largest market for BASF. You always talk about emerging markets, but it's still roughly 50 percent what we sell and produce here in Europe.

So it's more challenging today than two years ago. But as I said before, we rolled up our sleeves, we work extremely hard. You asked about the moving parts: A little bit of tailwind would certainly help, a little bit of recovery of some of the margins and some of the upstream products would also help.

We have had some products which tanked. Caprolactam is one good example where the margins really came down quite dramatically. All these are moving parts. I think it's simply too early to make more specific forecasts for 2015. We work extremely hard to achieve what we promised.

Marcus Diebel (JP Morgan):

You put in the press release that you see an uptake in utilization rates, in particular for Performance Products also in Europe. Given what you just said on the exports from Europe into Asia, an increase in the utilization rate is really for now just a function of a macro recovery here in Europe.

Are we going to see flat exports also in the next few years? Or do you see a decline in exports hurting utilization rates despite a macro recovery here?

My second question is on pricing. Could you elaborate a bit more on your view on pricing in the three Chemicals divisions in the next nine months? Do you see a chance that we see positive pricing effects here? Or are you relatively cautious on pricing?

Kurt Bock:

The exports from Europe will continue to grow, unless we make big mistakes – I talked about energy policy earlier on, which really drives our competitiveness as well. So our growth in Asia is a combination of imports from other regions and local production, increasing local production.

We aim to achieve a local content of something like 75 percent. We are not yet there; we are slightly below. Exports are supposed to continue to grow ex Europe, ex North America.

Pricing: You are talking about the Chemicals segment, this is petrochemicals, monomers and intermediates.

Marcus Diebel (JP Morgan):

Sorry, no, the three main divisions, so basic Chemicals, Performance Products and Functional Materials & Solutions.

Kurt Bock:

Okay; that is a broader question. In base Chemicals – we shouldn't be killing ourselves – it is very much a function of raw material cost. Our assumption for the year going forward is that raw material cost will be at about the current level. This is also based on the oil price scenario which we have.

Based on that, you should not really see major fluctuations in terms of pricing. Again, that is today's point of view. There are always short-term fluctuations. You know, there is sometimes arbitrage between Asia and Europe. Sometimes it is open, sometimes it closes. But this is kind of normal operational day-to-day business.

In Performance Products, we have seen a little bit of a price decline in 2013. This is only partially reflecting raw material cost; it is also reflecting increased competitive pressure. We have talked about this here already. That is another reason why we are in a restructuring mode in some of those businesses.

In Functional Materials & Solutions, this is not really a price-driven business. Take catalysts. Catalysts are sold based on technology available, yield improvement, emission reduction performance etc. So there we have, in general, the opportunity to improve pricing whenever we provide additional technology and value for our customer. That is really the game we are playing there. So it is very difficult to give you a general answer. If you take a longer term view of Chemicals, we have seen approximately a 1 to 2 percent price decline over time within the chemical industry. That is pretty much the overall price reduction.

Timothy W. Jones (Deutsche Bank):

A question about cash return: Your pay-out ratio and dividend is around 50 percent now. Is that a level we should mark up to going forward for the next few years? And can you just update us on your thoughts on buybacks, particularly given that some of your global peers seem a bit more aggressive on cash return to shareholders, and the thoughts you have on whether BASF would look to do buybacks this year?

Kurt Bock:

Cash returns: I think we have a pretty aggressive dividend policy to grow the dividend year over year which we have achieved quite nicely overall. We don't have a pay-out ratio, we don't look at pay-out ratios. That's more, I'd say, a secondary aspect to look at and find out what the pay-out ratio is. It continues to be the policy to grow the dividend year over year. I cannot tell you today what the size of the step will be for 2014.

In terms of cash returns, buybacks: We have stopped in 2008 after we had bought back more than 20 percent of our stock and we rebalanced really our balance sheet and our leverage ratio. Since then, we have refrained from doing it. We have the possibility to do buybacks at this point in time. If you look at the use of capital, we have increased capex, we do a little bit of M&A. We have a very healthy free cash flow again, a nice improvement in 2013.

Looking at our overall balance sheet – but this is actually going to the CFO – at least my impression is, there is not a big room for a substantial buyback, a meaningful buyback. And doing something symbolic doesn't make any sense at all. Just to buy back a few hundred million, I don't think this makes any sense at all.

Ronald Köhler (MainFirst):

My question is on working capital swing. You obviously had a lot of cash inflow from lower working capital. Can you explain a bit what the driver behind that was and also give us a kind of an outlook for 2014? Should we now expect, let's say, stable growth with volumes? I read quite often that you expect higher earnings driven by good volumes. So what makes you confident that you will get these volumes? Is it your GDP outlook which drives that or is it, let's say, your own new capacities coming on stream?

Hans-Ulrich Engel:

On the working capital: We have talked about working capital a few times in this round here. It's of utmost importance to us to run our working capital as lean as we can. We have done that, I think, successfully in the year 2013 and you see us using a lot less cash for working capital purposes than what we used in the year 2012.

There is also another impact that you see in our working capital which is the result of netting account receivable and account payable in our disposal group. This is something that we have done in 2013 that also had a positive impact on our overall working capital. Overall, I think an assumption of using capital in line with a growing business is a fair assumption.

Ronald Köhler (MainFirst):

Could you quantify the amount of working capital released by the disposal groups?

Hans-Ulrich Engel:

I would have to look that up for you and get back to you.

Ronald Köhler (MainFirst):

Volumes?

Kurt Bock:

Why are we confident with regard to volumes? It helps if you have a little bit economic tailwind, but we are not sitting here waiting for the economy just to pick up and then we sell more. It's really about being pushy in the marketplace and going for higher volumes. We had a little bit of a setback in China in 2012 where we were not at a growth rate which was, from our point of view, acceptable. There was a little bit of a lack of transparency whether that was the market or our market share. I think it was to a high degree the market. Nevertheless, we became a little bit more volume-focused without giving up on our, what we call, value-before volume strategy. So it's still a price-oriented or profit-maximizing strategy.

Thomas Gilbert (UBS):

Thank you for taking my question and also a request to answer Andrew Benson's question on guidance for financing charges, pensions and interest costs.

In the Other segment, capex is roundabout 3 percent of total capex. Yet, in your Annual Report, for the next five years, you guide the Other capex at 13 percent which quadruples the run rate of the capex in the corporate center. Why is that, please?

Hans-Ulrich Engel:

I wasn't sure whether your question, Andrew, went into the direction of cost of capital. On that I can tell you that it will remain at the 11 percent before tax, as we had it in the year 2013.

That financing cost for the BASF Group will go down. Why? You have seen us being active in the bond market last year and that led to overall financing cost decline in the range of 70 basis points.

Kurt Bock:

Regarding your capex question. I have to assume that we have a couple of projects which have not yet been specified to a degree where we know exactly where they are. So they are place holders, so-to-say. They will be attributed to specific business segments over time, as they become realized.

Jeremy Redenius (Sanford C. Bernstein & Co.):

Reading your letter to shareholders this year and comparing it to the last couple of years, it looks like you have stepped up a bit your rhetoric about your concerns about energy policy in Europe. Could you perhaps put that in the context for global investors? What exactly are the concerns you are expressing here and how would you like global investors to think about that?

Kurt Bock:

Yes, we are concerned about energy policy at two levels, one is Europe, one is Germany. Let's tackle Europe first. Europe has a clear goal to increase the importance of industry again, going back to 20 percent of GDP. At the same time, the European Commission came forward and said: We have to increase our emissions target, CO₂ reduction targets from 20 percent to 40 percent now by 2030.

As you all know, we have no global ETS scheme, we have no global climate agreement; it is a unilateral European measure. To achieve that 40 percent target, energy efficiency in industry has to increase to something like 2.2 percent a year. To put this into perspective: Over the last ten years, we have achieved 1.7 percent in industry.

Please keep in mind: The more you do, the more asymptotic this curve becomes and the more difficult it becomes to achieve these effects, the more costly it becomes. If these targets are being implemented – 40 percent – it would require, given current state of technology and what we foresee going into the future, that the industry in Europe will shrink, not grow.

So there is a certain inconsistency in the European energy policy. I think this is something we have to highlight and we have to press for an implementation of these targets which also take into consideration the effects on economic growth and job creation in Europe. That is the request. I think this is something most people could sign up to. It is kind of pragmatic. It needs to be seen whether the politicians will really follow it.

If you now look at German politics, they demand that the European Commission does even more and impose even stricter targets and expectations. This is all based on the German mentality that we will be able to prove to the world that we can single-handedly change the climate by doing the Energiewende.

The Energiewende is well under way, it includes many components. One is the shut-down of nuclear power. That is consensus within our society; it has to be done until 2020, 2022. Then we go for renewables. We already have 25 percent renewables in Germany. We want to go to 45 percent in 2025, we want to go to 80 percent – hold your breath – in 2050.

If you do renewables, you need backups. If you don't have nuclear, it is gas or coal. Right now it is coal in Germany. We burn more coal than ever before. Therefore, CO₂ emissions of Germany go up. And we have additional costs. The costs are this year more than 20 billion. That is the subsidy being paid to the renewable energy producers to bring their energy to the market. They have no price risk. Actually, the lower the market price, the higher the subsidies. And they have no investment risk. It is a great business proposal.

Now, on top comes that the government finally realizes that something has to be done because, obviously, it is out of control. What they are going to do now is: They try to redistribute the costs of the Energiewende in a fairer way.

It is all about what they call fairness. At this point in time, the small guy pays. People who rent an apartment, who don't have a roof to put solar panels on, who don't have land to build a wind mill, they pay for the energy turnaround. And industry pays as well. The chemical industry in Germany alone last year had 800 million additional cost due to the energy turnaround. So it is substantial.

In our case now, BASF specifically, we produce our own energy, electricity here in Ludwigshafen. We have three power plants which are combined power plants. You produce steam – very important for chemical production – and you produce electricity.

That combination is very, very beneficial, first of all, from an environmental point of view because you have very high efficiency degrees – about 90 percent. A normal power plant has something like 40, 45 percent. Secondly, it can be adjusted to capacity needs here at our site.

For that production, we don't pay into the German energy money pot, turnaround money pot, so-to-say. The government now says: You have to pay as well – although we don't use the public grid, we don't rely on public support. We cannot even buy from the public grid because we also have to produce. We can only buy electricity, we cannot buy steam. We also have to produce steam, we need this combination. We are trapped in that respect.

The current proposal which is on the table is to put additional cost onto the Ludwigshafen site in the order of magnitude of 60 million euros. 60 million doesn't look like a lot of money if you put it into perspective with the overall earnings situation of BASF Group. But, frankly, we have to realize: The majority of earnings today comes out of Germany.

We look at investments on a full-cost base. If these additional subsidies are now put onto BASF, it could make certain projects and investment ideas in Germany simply not economically attractive any more. That is a discussion we are having with the government. We urge them to slow down the implementation of the renewables strategy.

That is not going to happen. If they don't do that, please make sure that you don't burden the export-oriented, energy-intensive industry in Germany because we have no way to escape. The only way to escape would then be to shut down facilities and move production to other places, which is not really what you want to do if you have something here within our Verbund structure which essentially works very nicely.

So it is a heated debate in Germany, sorry for the long answer. The government tries to do something about it. It is a political mine field because the government created losers and winners by artificially creating a completely subsidized market and now, when you want to change it, you have to take money away from people who have now an entitlement mentality. That is always very difficult in a democracy. It is an interesting discussion. But it goes to the core of competitiveness of the German and European chemical industry.

A last sentence: There is a study initiated by CEFIC, the European chemicals association, done by an independent agency, Ecofys, about the implementation of EU energy policy. If that energy policy is implemented as being explained today, it would destroy the very big trade surplus the European chemical industry has always enjoyed over the last decades. The European chemical industry is, I think, the second or third largest exporter of Europe. These things have to be taken into account.

Norbert Barth (Baader Bank):

You have just met, I think, also the Minister of economy. Do you believe they realize what is going on, especially in the industrial world and especially here? Or do you think now the proposal is on the table and there is more or less – so it looks to me – no chance for big changes anymore? Will we see that burden? That is the first question on this overall situation.

The second question is regarding your joint venture Styrolution. I think it performed quite okay. You have this put option. Do you see any change there in 2014 or in the time to come?

Kurt Bock:

Politics: I think Berlin clearly understands what is going on. They clearly want to support the industry. They understand that the industry is core to German competitiveness and well-being. They try to find a solution. But this is politics. I mean, this is not just being right or wrong. It is really about implementation. I don't have to explain this to you. This is now in the making. We sincerely hope – and we try to be very constructive here as a company or as an industry – that we will find a solution which avoids these additional charges because we deem them as, first of all, unnecessary to balance this system and extremely harmful to our industry.

Norbert Barth (Baader Bank):

But would you on the other side be willing to take, if that does not come – as you think it is the right way – major steps?

Kurt Bock:

I don't answer hypothetical questions. Again, we try to be constructive and we sense there is an understanding; they understand the facts. This, I think, can be solved in a constructive way if people really put the competitiveness of German economy and industry at the forefront of their thinking.

Styrolution – that is our joint venture with Ineos for the production of styrenics – has developed very nicely, very successfully; there is a very good management performance. Synergies have been achieved, even more than what we had projected at the initiation of the company.

Yes, we have a put option which we could exercise. For the time being, I think it is simply too early to talk about this. We are a happy shareholder, put it that way. We are very confident that the management is doing the right things. Everything else needs to be seen, again, at this point in time.

Timothy Jones (Deutsche Bank):

Can I ask a general question about consultants and the data that you see is published by consultants. There are a lot of consultants in chemicals, many of us use them, but quite a few of them suggest there is a lot of capacity coming on in the industry in certain regions in the next few years.

From your experience of seeing data being published, do you think that type of data is accurate or do you think they tend to underestimate delays or companies overstate their additions? Your thoughts on that, please.

Kurt Bock:

That is a tricky question, I have to say. Yes, we do also follow what consultants publish. They try to be very accurate in announcing every single change in capacity and new investments. Experience of the last 10, 15 years tells us: They have consistently overestimated capacity increases.

You always underestimate the difficulty of doing an investment. There are delays, there are cost overruns, there are other issues, hopefully not at BASF, but it happens. Projects are abandoned at some point in time.

So I think you have to be very, very specific when you look at these data. We do our own internal forecasting for our important value chains where we try to understand: What are the drivers for profitability? What is the supply-demand balance?

Later this year, we will have an Investors Day about the Chemicals segment. I think this is a good point in time to explain to you in more detail how we do this and how we see the world for specific products which is a more medium to long-term view and not about, let's say, current business what we are discussing here predominantly today.

Then there is the issue of reliability, start-up. There are lots of issues why capacity is always not as high as it is announced or what you see as the name plate capacity. A good example – and then I stop – is isocyanates where there is a name plate capacity and there is constantly somewhere in the world one or the other plant not running because it has technical issues.

2. Regions

Andreas Heine (Barclays Capital):

In North America, you had a very strong increase in earnings. Was that because 2012 was exceptionally weak or was 2013 exceptionally strong? And how do you see this going forward?

Hans-Ulrich Engel:

To North America and the performance there: I would like to repeat what we have experienced in the year 2013 on an ongoing basis which is: improve earnings by, I think, 49 percent.

But what are really the underlying factors there? 2012 is not a good year to compare to. In 2012, we were faced with the big turnaround of the cracker in Port Arthur. We came out of that turnaround with some technical issues which took us quite a while to correct. In 2013, we have a strong performance in our petrochemicals business which is driven by the cracker in Port Arthur. We also experienced for the first time the full benefit of flexibilizing the feed for the cracker in Port Arthur. In addition to that, there was strong demand from the automotive industry. So all business supplying automotive in North America enjoyed a strong demand.

And we had a very good Agricultural Solutions business, which on top of the strong demand that we experienced in all three indications – herbicides, fungicides and insecticides – also benefited from the acquisition of Becker Underwood which we have done late in 2012.

These are the key factors that led to the significant improvement that we saw in earnings in the last year in North America. That is certainly something that we want to build on going forward.

Lutz Grueten (Commerzbank):

Regarding your outlook on China: You have mentioned that you expect somewhat weaker growth in that region or in that country due to the consolidation trend in the country. Isn't that a bit optimistic, given the latest news that we got from the macro side out of China? The money supply is sharply down. Is there not a further downside risk for the outlook you have given for your company here?

Kurt Bock:

China outlook: I think we have always been a little bit more cautious than the consensus forecast, whatever that means. We have seen good underlying growth for BASF in our businesses in 2013 and also going into the new year. There are always these macro factors which you talked about. We have been looking at those factors now for quite some time.

Will this come to a boiling point in 2014? Most people don't expect that to happen. Most observers think that China will be able to create a continuous growth pattern, probably at a lower level. That is factored into our forecast, so-to-say. Something dramatic we have not included in our forecast, but I don't think that this is really the consensus view right now.

Tony Jones (Redburn):

Hi, I have got three questions. Firstly, the EBIT margin in Asia just exceeded 7 percent this year. But I think you talked about China doing very well. But if you think about the long-term capex, around a third of your 30 billion capex is going into the region. Can you just talk through why you still believe that this is a good use of shareholder capital, given the margin at this point?

Secondly, with your views on regional growth and the good cost position that we have got in the US, are we at a point where we should be expecting maybe a step-up in upstream chemical capex for the US?

Finally, on wage inflation: I saw earlier this year that the German unions had agreed on a rate of wage inflation, I think, of about 3, 3.5 percent. I was not really sure how to use that number. So could you help us think about what the net inflation would be for BASF as a group, whether it should be sort of similar or a lot more diluted?

Kurt Bock:

Wage negotiations are collective in Germany, so this applies to the entire industry. It is 3.7 percent for 14 months, which is roughly 3 percent for a twelve-month period. This is being implemented, I think, as of 1 April. It is a cost increase for BASF which we have to overcome by improving on productivity.

The regional growth, more specifically capex in North America upstream, is shale gas-driven. We have announced a couple of projects. Formic acid is under way. We talked about ammonia; we are contemplating other ideas as well. What we are not going to do, Tony, is to venture into upstream products to produce these base chemicals for third parties to sell them to the market.

For us it is really about securing our value streams and getting access to the cheapest available feedstock. So it is a classical make-or-buy decision at the end of the day. Take ammonia. For us, it was a very simple question: Is it useful to continue to buy ammonia in the market or does it make sense to go into a joint venture with Yara and to reap additional benefits by producing based on very attractive feedstock? The conclusion is obvious. That is the thought model which we will apply to our value chains at the end of the day.

It would be a complete change of strategy if all of a sudden we would go into building a cracker in North America to sell ethylene or produce MEG/EO products. Actually, we have reduced capacity in North America about ten years ago because it wasn't profitable.

We will stick to our overall strategy. We will continue to have a very strong Verbund structure in the Chemicals segment, very profitable, very attractive. It is a good business outside of BASF, but at the same time it is a major cornerstone for our downstream profitability.

China, overall profitability. Why is it attractive to invest in Asia more specifically? We have big start-up costs in Asia – that is quite clear – because we continue to invest quite heavily in Asia. This also burdens our bottom line. I talked about China. We have had, I think, a good year in China. We had a disappointing year in ASEAN where we had an excellent 2012, but in 2013 we did not achieve the same rate of growth. We had an extremely bad year in Japan, frankly, talking about profitability, because the devaluation hit us really hard: a devaluation of about 50 percent of the Japanese yen. These factors also influence the overall profitability picture.

To give you a little bit more flavour: If you look at Nanjing, our big site we operate together with Sinopec, that is, according to everything we know in the market in China, one of the best performing chemical sites in China, very attractive, a good combination of upstream and increasingly also downstream. But certainly we have room for improvement – there is no doubt about it – to bring up our profitability.

One last sentence with regard to Asia: We continue to export heavily to Asia. So what we present here to you is essentially the profits which are being made in Asia. The pre-profits we make by exporting from the United States and from Europe to Asia, you don't see. These are profits we show up as regional results in North America and Europe. These pre-profits are relevant and important.

When we steer our business, we actually look at consolidated results. We look at: What is the profit locally? What is the pre-profit from the exporting region? That is how we compare regions in terms of profitability. In that respect, Asia suffers a little bit because there are still relatively high exports, despite all our investments, growing exports to Asia.

3. Segments

3.1 Chemicals

Christian Faltz (Macquarie Capital):

Thanks for taking my questions. First of all, in the US, Port Arthur, can you remind us of what percentage of the crackers run with lighter feed at present because you mentioned the enhanced profitability there? Second of all, related to that: In your European

crackers, in Antwerp and Ludwigshafen, can you talk about current profitability, overall profitability for the crackers?

Hans-Ulrich Engel:

I am happy to take your first question first which was on the cracker feed in Port Arthur. At this point in time, we can use in the range of 80 to 90 percent of total intake in the form of lighter feeds. The way we run it is actually on models that we run there and make decisions on a daily basis what is most economic with respect to intake but also with respect to yield of the cracker. But 80 to 90 percent is the range that we can now use as lighter feed.

On the profitability, on the cracker margins, we quickly look in the three key regions: I'll start in Asia. They continue to be relatively weak. I go west from there to Europe and I say, stable. As you can see in the results that we have generated in North America, we are quite happy with the cracker margins in the US.

Andrew Benson (Citi Investment Research):

You talk about start-up costs in the Chemicals divisions as a key impediment to EBIT progresses here. Can you just dimensionalize what you are talking about there and give an idea of the underlying expectations?

Kurt Bock:

Start-up costs in Chemicals: order of magnitude 150 to 200 million approximately.

Paul Walsh (Morgan Stanley):

Good afternoon! With regard to the major capex projects that are ramping up this year – I think it's TDI, MDI and the SAP facility in Brazil – can you talk about some of the timing of that ramp-up and ultimately the opportunities because those are two markets drawing a lot of attention from the supply-side fears elsewhere?

Kurt Bock:

Thanks for the question, Paul. TDI is under full construction, on budget and on time here in Ludwigshafen. We expect completion in early 2015 from today's point of view.

MDI – that is China – is also under construction. This project is a little bit more complex because there we are part of a larger chemical investment – it's not just BASF's investment – with other adjacent and supporting facilities as well. It needs to be seen how this works out.

We are working full speed and full energy to complete this project as soon as possible, so the 2014/2015 timeframe, but that is a little bit more uncertain than what we see here in Ludwigshafen.

Acrylics in China will go on stream this year. Acrylics in Brazil is under construction and will go on stream end of this year, early 2015.

Your question about capacity and timing with regard to the market: You know that isocyanates for BASF always have been a good growth story. We see an isocyanates growth above GDP levels, to come back to your question, Ronald, earlier on. There are always temporary adjustments necessary when you talk about how to bring your product into the market. But overall, we are very confident that the market will be able to absorb those new capacities.

You know about our approach e.g. here in Europe with TDI where we are not just sitting and building a new capacity, 300,000 tons, the largest single-train reactor in the world, but at the same time we will shut down our 80,000 tons in Schwarzheide and we acquired a business from a company in Poland which means that we will get that business without getting their production, which will be closed down – which essentially already fills up one half of the new TDI plant here in Ludwigshafen.

In acrylics, we have, I'd say, probably one of the best franchises in the industry. We have very good technology, we are heavily downstream-oriented, meaning that we are at the same time building superabsorbent plants which also show very good growth rates in emerging economies where you have a growing middle class which can now afford to buy these products.

3.2 Performance Products

Lutz Grueten (Commerzbank):

A question regarding vitamin E, heavy price pressure in the final quarter of the year. Is there any chance to get it done in 2014 and having a bit more healthy supply-demand balance here?

Kurt Bock:

Vitamin E or vitamin prices in general: Prices are insufficient. That is quite clear and this also explains the unsatisfactory earnings development in our nutrition and health business to a very large degree. We have announced price increases back in November. Those price increases take effect immediately, but we also have medium or long-term contracts which we honour. So we cannot change all our prices on day one.

Frankly, when you increase prices, you are never certain whether your customers like it. Certainly, they will not like it, but whether they look for an alternative that is always the question. So we are also prepared to give up some volume because we think there needs to be a stabilization in that market.

We have seen these kinds of fluctuations in the past. That is very, very clear. We have talked to you about vitamins at least for the last ten years when I was sitting up here in different roles. So this is nothing atypical. We have managed a price recovery in the past and that is what we are working on. No guarantee of success, but we are working very hard on it.

Jeremy Redenius (Sanford C. Bernstein & Co.):

If I look at Performance Products, I see headcount reductions of about 1,400 FTEs over the next few years. How do you feel about the urgency of changing the organization there? Are you pushing that hard enough? Are you seeing the results that you would like to see with factors that you can control?

Kurt Bock:

Thank you for the question, Jeremy. Regarding the restructuring question. There is absolutely sense of urgency on our side. We are pushing very, very hard for these changes. These changes include, by the way, the closure and shutdown of entire sites, e.g. in France, in Scotland, in the UK. These are quite dramatic measures we are undertaking and we clearly understand and I think the organization at this point in time also understands that we have to change in some businesses the way how we do business; we have to adjust capacities, we have to take out cost.

This is, again, under way as we speak. We are working on more ideas. So this is nothing which is complete by now. The projects or the measures we have announced continue into 2014, 2015. But I would foresee that we will have additional ideas how to further improve our business in those segments or in the Performance Products segment.

3.3 Functional Materials and Solutions

Christian Faltz (Macquarie Capital):

The slower construction end markets you flagged in the US in construction chemicals in Q4, was this purely weather-related or was there a structural element in there? If they were weather-related, how should we think about construction chemicals sales in Q1 2014, given the polar vortex?

Hans-Ulrich Engel:

There are no structural effects in the fourth quarter of 2013. After not experiencing a real winter 2012/13 and a severe winter east of the Rockies in 2014, we will see an impact in the construction business.

Despite all of that, based on all figures that I have seen for the construction market in the US, it is seen as positive – if you look at new housing starts, still forecasted in excess of 1 million. This would be the first time since, I believe, 2007, if I recall it correctly, that we would be in that order of magnitude.

But we will definitely experience a slow start into the season in construction chemicals and we will see similar effects also in some of the businesses, such as e.g. dispersions, that supply into the construction industry in the US.

3.4 Agricultural Solutions

Christian Faitz (Macquarie Capital):

Why do you expect a significant sales growth in Agricultural Solutions in 2014, while you only expect a slight increase in EBIT? What's the rationale behind that outlook?

Kurt Bock:

Christian, we have pretty strong currency headwinds in ag and we feel this quite clearly, especially in South America. You witnessed what happened there with the currencies, e.g. in Argentina. That has to be factored in when you think about ag. The earnings potential and the innovative power – I talked about this – are extremely solid, but these are fluctuations we simply see in the day-to-day business.

Norbert Barth (Baader Bank):

A question about a joint venture with Monsanto. It looks relatively quiet at the moment. I don't know if this is the case because there is not so much going on. Can you elaborate a little bit how that will develop and how the pipeline looks from your point of view?

Hans-Ulrich Engel:

I am not sure that we are really quiet about that cooperation there with Monsanto. If I think back to what we usually do, which is a mid-year report on the respective progress, the progress report was in line with our expectations. We focus on corn, we focus on soybean and we focus on wheat and there on yield and stress. So nothing has changed there in the cooperation with Monsanto.

Actually, in the year 2013 we achieved something that I would call a first milestone: The first product was introduced, which is DroughtGuard corn, relatively late in the season. So we have seen only relatively small sales there. But it was well accepted based on everything that I hear in the market.

Norbert Barth (Baader Bank):

From your point of view running as expected – at least?

Hans-Ulrich Engel: Yes.

Oliver Schwarz (Warburg Research):

Mr. Engel, I am still trying to get my head around on your outlook for the Agricultural Solutions business. You stated that the impact of Monsanto was positive. We have

reached the first milestone in 2013 and so 2014, I guess, stems the benefit even more from the business. This is purely earnings related. There is almost no sales in there.

We saw you notch up the peak sales of very important products – you have mentioned Xemium, Kixor – and still we are guiding for a disproportional increase in sales to earnings. I am just wondering what's behind of that. You cited the currency problems, but the currency should also relate to sales, obviously. So I am still trying to get a grip on why the costs – it's got to be the costs – play such a dominant role in your forecasts here.

Hans-Ulrich Engel:

The cooperation with Monsanto, frankly, doesn't play a role here because the income from DroughtGard is minimal and anyhow not reflected in the Agricultural Solutions business because that part is reflected in Other. But, again, it's very, very small.

I think the outlook that you see here is driven by what we expect to see with respect to product mix – that plays a key role here – and to a certain extent it is also impacted by cost that we had, marketing and distribution cost in order to prepare markets in the year 2013 that we will not see in the same order of magnitude in the year 2014. That should be hopefully a good explanation.

Oliver Schwarz (Warburg Research):

Brilliant, thank you.

3.5 Oil & Gas

Peter Spengler (DZ Bank):

On the divestiture of the gas-trading business: You said you expect a slight decline of sales. Does it mean you compare two quarters in 2014 to four quarters in 2013 or do you compare, since it's done retroactively, to the first quarter of 2013 one quarter in 2013 and nothing in this year?

Hans-Ulrich Engel:

On the gas-trading business: I think we need to clearly differentiate between the gas-trading business being part of the swap that we do with Gazprom and the GASCADE deconsolidation that we talked about earlier that created the special item in the fourth quarter.

On the gas-trading business, that will have a significant impact on sales of the BASF Group, as Kurt mentioned, to the tune of 12 billion on a full-year basis. You will see the sales and the earnings from that business in BASF's results till the point in time where we swap that business out, where we divest it out. So let's assume this happens right around mid-year.

Now you look at the seasonality of the gas-trading business: By then we have the first quarter which is a high-sales quarter under our belt. I can give you probably better guidance at that point in time.

But again, on a full-year basis for the gas-trading business that we are swapping out we are talking about 12 billion in sales, while on the GASCADE part I'd say that is a rather small figure, not to talk about.

Oliver Schwarz (Warburg Research):

My two questions are related to the Oil & Gas business. You gave us the number of revenues for the deconsolidated business. Would you be prepared to give the EBIT contribution as well that's going to be divested, let's say, on an annual basis?

Secondly, as GASCADE Gastransport GmbH was deconsolidated and is now showing up in the at-equity result, would you be prepared to give us an impact in Q4 on sales and EBIT, please?

Hans-Ulrich Engel:

I am happy to take these two questions. First of all, it's about 12 billion in sales for the businesses that we have currently in the disposal group that will be part of the swap and an EBIT range of roughly 400 million that goes with that business, which translates then into an EBITDA in the order of magnitude of roughly 500 million.

From the GASCADE deconsolidation, since that took effect on December 31 of the year 2013, there is no effect in Q4, other than the special item of roughly 430 million that you have seen.

Oliver Schwarz (Warburg Research):

Could you specify how much that will be in the future perhaps, if there is no impact in 2013?

Hans-Ulrich Engel:

On EBIT level, a figure of less than 50 million on an annual basis.

Oliver Schwarz (Warburg Research):

Excellent! Thank you. I have a pretty straightforward question: You mentioned that we will see a positive one-off from the asset swap with Gazprom somewhere in the mid of 2014. Would you be so kind to quantify that impact?

Hans-Ulrich Engel:

Yes, we do expect a positive special item there, but the order of magnitude is extremely difficult to forecast. There are so many factors that play a role here. It would just not be appropriate at this point in time to give you even a range.

Timothy W. Jones (Deutsche Bank):

If you look at your Libyan business, if it was running at a normal rate and wasn't experiencing the problems that it is experiencing, what would be the rough EBIT that that business would be generating at current oil prices?

Kurt Bock:

Thank you, Tim. Libya is about 100 million plus EBIT effect per year and there is no production going on, as we speak, onshore. That is important to keep in mind. And we cannot foresee at this point in time when production will be resumed.

Hans just reminded me to talk about offshore Libya as well. That is important when you look at your models because there are these famous, what we call, offshore liftings which is always a major EBIT impact for the Oil & Gas business, for the E&P business. That happened last year in Q1. It's supposed to happen this year in Q2. That is a shift of earnings of roughly 100 million and I am not sure if you already considered this when you built your models for the Oil & Gas business.

Ronald Köhler (MainFirst):

My question is on Oil & Gas, in Argentina specifically. There was this change of the gas scheme, I understand. Could you a little bit elaborate what that is? Is there still a kind of spill-over effect? I think it was implemented more in the second half of the year.

Additionally, obviously we have seen the peso devaluating quite significantly. What does that mean for your Argentina income in Oil & Gas in 2014?

Kurt Bock:

Argentina: an important country for us in Oil & Gas. Actually, to put it into perspective, it's much more important than Libya today, even if Libya were running at full capacity. The government finally realized that the official gas price they offer to the industry was not sufficient to create new investments.

For that reason, they came forward with an approach where they basically said: We offer you a higher price which is quite attractive, if you invest – which we have done over the last twelve months, and that already had a positive impact in 2013. We haven't quantified the effect, but it makes our business in Argentina more palatable and more enjoyable.

That is the positive side of the story. The negative side, obviously, is the currency effect which is quite hard. Currency has two effects: One is on current earnings which are simply translated at a different rate. And even if the business in Oil & Gas is somehow dollarized, you still have a currency effect here.

The second effect is: We have cash sitting in Argentina. You might call it trapped cash. We cannot invest that cash in US dollars or euros, as we would like to do. It's invested in peso and that does not really make it a great investment at this point in time. So what do we do? We look for a natural hedge. And the best way to hedge your liquidity in Argentina is to invest it in oil and gas assets which we have done over the last 12 months. We have initiated additional projects and investments.

Thomas Gilbert (UBS):

You had a press release in January where Wintershall announced an agreement with an Argentinian gas company to explore shale gas drilling in Argentina. Is this company state-owned? Who runs this business? Who spends the money?

Can you repatriate the cash flow once this collaboration starts to generate cash? I am just checking the political and capex risk.

Kurt Bock:

Argentina: Yes, we have a corporation with an Argentinian company. The shale gas field is one of the largest in the world; it is called Vaca Muerta, dead cow. That shouldn't really be the headline for the project. For us, it is a good entrance point into shale gas in Argentina, which is presumably a very attractive business proposition.

Cash flow, bringing it back: At this point in time we are not in a position to bring back cash from Argentina; this is quite clear. There are restrictions. We could not really pay a dividend for quite some time, I think, for about two years. As I said before, the cash is being trapped in Argentina. Therefore, we invest in hard, tangible assets which I think is the right thing to do.

The assumption is certainly that over time redistribution of money back from Argentina will be possible again. Otherwise you would not do those investments.

So it is not a risk-free business in Argentina. But, frankly, in Oil & Gas we have lots of countries which are not completely risk-free.

Andreas Heine (Barclays Capital):

I'd like to try to ask the question whether you can give any update on RWE Dea and your interest in that.

Kurt Bock:

RWE – I cannot speculate on your question actually. If your question is how we perceive our Oil & Gas business, how attractive it is and what the role of Oil & Gas within our portfolio is, I could answer that question, but you didn't ask that question.