BASF Q4 2015 & FY 2015 Analyst Conference Call

Transcript - Q&A Session by Topic
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1 Group

Lutz Grueten (Commerzbank): You are aiming for higher volumes across all your divisions by 2016. Could you give me a trading update? What has happened so far in the first six, eight weeks regarding the volumes? Here I am certainly interested to hear what happens in the volumes in the Chemicals division.

Kurt Bock: It is very difficult to read the first couple of weeks because we had a very early Chinese New Year in 2016. It felt like in China people went directly into the Chinese New Year. So order inflow was relatively slow. This has now improved over the last couple of weeks.

We are cautiously optimistic for 2016 and we made it, I think, very clear that we have the expectations to improve and the plans to improve volumes. We will go for volumes in some markets, quite clearly, always looking at margins. But at the end of the day you have to optimize your results. But the start of the year has been relatively slow; I think that is a fair description – due to the high uncertainty which I described earlier on.

Anthony G. Jones (Redburn): On the non-recurring costs or ramp-up costs – I know we talked about this over the last couple of calls. Could you be specific, just on a full-year basis, what the non-recurring and also ramp-up costs where in this year, so 2015 as reported, and any indication for the coming year would be helpful.

Kurt Bock: Tony, non-recurring cost: 200 million last year, approximately the same number 2016.

Martin Evans (JP Morgan): Just on the outlook, a clarification of your hopes, a slightly lower EBIT than in 2015: Kurt, as you said, that's up to, but not more than 10 percent. But, equally, you say that this will be extremely difficult if oil and gas stay at the current levels. So just in simple terms: If they stay at current levels or if oil stays in this sort of whatever it is, 30/35 level, as an average for the year, you will miss that target, i.e. you move from "slightly" to "considerable", just mathematically, based on the metrics we have on one dollar in terms of the EBIT contribution from oil. That's the first point.

I suppose, related: Just looking through your outlook assumptions – I appreciate it's very difficult at this stage in the year – you are talking about the growth rate being lower in the US, China growing at a reduced level, Japan not expected to show an uptake and recession in South America and Russia. Against that background: If oil were to recover to your average of 40 dollars, do you think you would, therefore, still make this slightly lower guidance against that very difficult macro backdrop? If so, it does seem to be quite an optimistic scenario you are painting.

Kurt Bock: What we have said is essentially: We want to improve, again, earnings in the chemicals business and we have a drastic reduction in Oil & Gas earnings which we cannot completely compensate by higher earnings in the chemicals business.

If – again we are talking here hypothetically – the oil price remains at 30+, it will become extremely difficult to just have a slight decrease of earnings, simply because the reduction in earnings in Oil & Gas is direct and mediate while in the chemicals

business it has to be translated into a widening margin which, obviously, then is prone to supply and demand situations. Then you have to make assessments about the underlying volume development.

So what we sent out here is a note of caution that the oil price of 30+ would make this quite difficult to achieve. But, as I said again, our guidance is based on 40 dollars per barrel.

Thomas Gilbert (UBS): In the letter to your shareholders, Dr. Bock, you mention among other things: "We will continue a disciplined approach on acquisitions" and that not everything that is en vogue in the chemicals industry is a priority for BASF. Can you let us know what is en vogue for BASF?

Also in the context that the petrochemical cycle is unlikely to recover until – experts say – 2019/20: whether you want to go through the three, four years of a downturn … or whether the portfolio needs strengthening downstream. That would be interesting.

Kurt Bock: Thank you, Thomas, for the questions and thank you for reading my letter to the shareholders. I am always wondering who is going to read this.

Yes, I made a comment on M&A in our industry and the ongoing restructuring which we all noticed. I said something like that we have a very disciplined approach with regard to M&A. We really have to create shareholder value at the end of the day. Obviously – we have known this for many, many years – there are always trends in our industry. Currently it's about focusing, because focusing means you are smaller and nimbler and speedier and more disciplined.

We have a one-company approach, as you know. We look at our entire portfolio trying to understand what is the relative competitiveness of our businesses vis-à-vis their respective competitors and then we make decisions how to prune the portfolio, but also how to grow the portfolio.

You have seen a recent example now with the divestiture of our industrial coatings business, which is a good business, but where we believe that somebody else like Akzo can create more value as the new owner.

Vice versa, looking at acquisitions: We really try to understand what can create value at the end of the day. Multiples or at least market valuations have come down a bit recently. Whether that translates into lower transaction multiples needs to be seen. But clearly, we will stay very, very focused in our approach to M&A. That was probably what I referred to.

Thomas Gilbert (UBS): But there is no specific regional focus in terms of M&A? That is not the criteria in how you look at it?

Kurt Bock: We always said, Thomas, we would like to do more in Asia and Asia is awfully difficult. It looks like it is easier in the other direction. So, Asia remains very difficult to really acquire first-class assets. We have done a few things, but these are all smaller and minor from your point of view, obviously.

Other than that, we don't really have a regional approach with regard to acquisitions, but a business approach. Certainly, then we also look at a second glance at the regional product portfolio and production footprint and try to understand what it adds to our regional distribution of businesses.

2 Capex

Paul Walsh (Morgan Stanley): I just wanted to understand around the investment programmes. The numbers you gave us on 2016 to 2019, I guess, it sort of insinuates a bit of an increase after this year. But I suspect some of that is subject to market developments.

You have just talked about the oil price as it relates to the Oil & Gas business. But what I really wanted to know is: What are the main projects, Kurt, that are ramping this year? We know about the ones from last year. Within that capex budget that you are spending, what is the major focus for you?

Kurt Bock: Paul, on capex we said: Five years, 19.5 billion; if I do the maths, that translates into slightly below 4 billion a year. So in 2016 we want to spend approximately 4.2 billion. That means then going forward a slight decline.

Obviously, these numbers are being adjusted annually during the budgeting process. Right now we are focusing very much on 2016. 2016 is already committed to a very high degree. And we also focus very much on 2017 to make sure that we hit our overall budget guidance.

In terms of projects, overall, I think we have a list in our Annual Report. If you turn to page 125, a couple of major things are shown. One is the new SAP technology in Antwerp which we discussed last year here; we even presented it to you. Then we have very important investments in Kuantan, our joint venture with Petronas, especially for aroma chemicals, but also polyisobutene. We have a mobile emissions catalyst plant being built in Thailand. We are expanding capacities for polyamide plastics in Germany.

So there is a pretty wide range of products. What we don't have anymore are these very big investments like TDI in Germany, the MDI in Chongqing or SAP complexes in Camaçari in Brazil and in Nanjing; this is now being completed.

Paul Walsh (Morgan Stanley): That means, certainly for the time being, big potential projects like the MTP plant in the US, that's been shelved, I guess.

Kurt Bock: No. I think this is a little bit too fast concluded. This project is right now being planned. We do the engineering which, since it is a potentially large project, is quite a bit of work. We have to make up our mind at the end of the day about the viability of the project. Obviously, Paul, that depends on a couple of things. One is: What is the competitiveness of the marginal producer? The marginal producer for propylene is essential oil-based. So those thresholds have come down quite a bit.

At the end of the day, we have to have a very firm understanding and expectations with regard to the difference between the gas, i.e. methane, price on the one side and the oil price on the other side. Quite frankly, this is a difficult estimation to be made. We will complete engineering in Q2 and then we look at all the facts; everything we know we put on the table and then we make up our mind where we are.

One thing is quite clear: Going forward with, let's say, a 40-dollar per barrel oil price would make this project unattractive. So you have to have a better understanding about the oil price going forward.

Peter Clark (SG Corporate and Investment Banking): You touched upon, again, the methanol-to-propylene plant still being in. I mean, that's implicit from the numbers. You have got the 19.5 billion out over five years. When you strip out and just look at Chemicals, it looks like North America is still 35 percent, as it was last year. You look now actually under 30 percent. And that's the question. It's around Europe. Obviously, this was an area that was taking almost 50 percent of the capex. The world has changed, your footprint has changed. Do you think you'll ever see that European number creep up towards the 50 percent again or is it certainly the case that the geographical footprint that BASF now has, means that Europe is down in the pack so-to-speak? Because North America is above it and Asia is not too far behind it at the moment.

Kurt Bock: The role of Europe within our investment strategy: Europe is still important because we have a large asset base in Europe, as you know, and we have to maintain this and keep it agile and competitive. But you are probably right with your assumption that the 50 percent in Europe is gone and that essentially then the majority will be spent outside of Europe.

MMTP – I talked about it: The final investment decision hasn't been taken yet.

Markus Mayer (Baader Bank): Is the capex cut enough to adjust for the market environment and, of course, also to help the cash-flow to remain basically on the kind of record level we had in 2015?

Kurt Bock: The 1 billion reduction in capex, I think, is quite a number. This will certainly also help to improve free cash-flow.

As you can imagine, our capex planning is not just one year, but this is medium to long-term. I already reflected on that one, talking about the five-year timeframe and what's going to happen in 2016 and 2017. This adjustment now is what we planned for 2016 and we have capacity in place, as you know, to continue to grow the company.

Jeremy Redenius (Sanford C. Bernstein & Co.): There have been some comments in the press that you are considering a big petrochemical investment in Iran. I wonder if you could comment about those or at least talk perhaps about your philosophy of generally building and investing where the customers are relative to where the feedstock is.

Kurt Bock: As you know, Iran is opening up. It is still, let's say, a volatile and uncertain process. But we do see opportunities going back, first of all, to Iran. We never really left completely. We always followed the sanctions regime. But we always kept people in the country and some business. With 80 million consumers and a relatively good industrial base and most likely also good growth projections, it is certainly a place to look at and try to understand what it could mean for BASF. That is one aspect. So there is a market. There is also feedstock availability, which we also want to understand. That is actually, Jeremy, everything I can comment at this point in time.

3 Segments

3.1 Chemicals

Thomas Gilbert (UBS): In the context that the petrochemical cycle is unlikely to recover until – experts say – 2019/20: whether you want to go through the three, four years of a downturn … or whether the portfolio needs strengthening downstream. That would be interesting.

More specific on the burden from the recent investments. If you take the four big ones, the TDI Ludwigshafen, the two acrylic acid / superabsorbent projects and Chongqing, it is obviously fair to say that these plants are running at very low utilization and are burdening the result. Could you roundabout quantify what the swing factor is if these new investments were to be decently utilized over the next two years?

Kurt Bock: With regard to the chemical cycle, I am always a little bit sceptical about describing one single cycle for our individual industry. I think we refrained from doing that for quite some time in the past. We always talked about the ethylene cycle. I think this is in a certain way history. We know that we have regional differences; we have the emerging market development, which is overshadowing the entire question of supply/demand-driven cycles.

But we do see, certainly for individual products, supply/demand imbalances. You referred to acrylic acid, which is oversupplied in some parts of the world, obviously. That is one example.

The four investments you mentioned: These are ramping up. Acrylic acid is being filled quite nicely, but margins have come under pressure. TDI has started. Chongqing is not running at full capacity because we have capacity constraints in our adjacent supply operations, which are not owned by BASF. So, the net effect of those four in 2015 has been negative. Depending – that is a question-mark in a certain way – on how we can fill capacity it might still be a negative in 2016.

I cannot give you an exact answer with regard to what is the break-even, obviously, and what is the leverage effect if we achieve higher utilization rates. – I hope this answers your two questions.

Andrew Benson (Citi Investment Research): On the Chemicals division where you are looking for a considerable decrease, can you perhaps define the structure of that forecast in terms of whether there are idle costs, one-off costs associated with your plants and the price dynamic? Can you just give a flavour of how you see that business?

You did talk at the start about your determination to drive volumes and you said, in certain areas it's important to achieve volume growth, potentially at the expense of profits. I wondered if you could put that into the context as well.

Secondly, on the major product categories you have got: Are you seeing signs of rationalization? Covestro talked about a TDI player in China shutting an asset. You have just talked about perhaps a rationalization of vitamin E.

Is there anything notable that can give us some sign that we are at the trough now?

Kurt Bock: Maybe I start with the capacity adjustment topic. Clearly, there are some guys out there in the market who reached a pain level. They really feel the heat and they are thinking very creatively about how to adjust their capacities. I think this is important.

There is a second effect which means: Most likely, the number of new projects will come down. This needs to happen, especially, again, in Asia and in China. So this is a to-be-expected development or adjustment which, unfortunately, only works in bulk chemical markets if margins come under pressure. And that seems to be the case now.

The big question-mark in China is obviously: To what extent will state-owned companies really be willing and able to adjust capacity even if the existing capacity cannot be run at a cash-positive level? And that we don't know completely.

In Chemicals, there are a number of factors going into 2016. First of all, yes, we want to grow our business. We have new capacity available; that is quite obvious. That is a positive.

On the pricing side, we expect that margins, on average, will probably be below what we have seen in 2015 where we had a very strong Q1. We have start-up costs; I think I talked about this already. We have a couple of turnarounds also in Q1.

So, if you add all this up, I think it is not unreasonable to expect that earnings will be below the level of 2015.

Coming back to the volume issue – that's very important; you made this side remark: Our goal is to optimize earnings, to be very clear about this. I think we try to behave as smartly as possible in the markets. But on the other hand, we are also not willing to give up volumes to competitors if we have a cost advantage. We have talked about this quite a bit in the past: Where are we with regard to the cost curve of our most important large chemicals? In generally, we are pretty well placed.

Markus Mayer (Baader Bank): Can you remind us what kind of cash contribution came in the past from the Chemicals segment? From your Oil & Gas Round Tables we know that roughly 40 percent came from Oil & Gas. Am I right that roughly 20 percent came from Chemicals?

Hans-Ulrich Engel: I am sorry, I don't have the cash-flow figure for you, but I give you what I would think is a good proxy and that's the EBITDA of our Chemicals segment. The Chemicals segment generates about 3.1 billion in EBITDA. I think that's probably a good number to work with.

Paul Walsh (Morgan Stanley): The question is around the chemical margins. I was wondering to what extent you actively destocked in that business in the fourth quarter, driving idle facility costs; meaning: The actual margin is not the kind of run rate moving into the first half of this year. Or, indeed, should we be taking the fourth-quarter chemicals margin as a sort of reasonable starting point, given that I haven't seen any major changes in petrochemical spreads in the first couple of months?

The second one, I think, you have broadly answered. It was really just if you could remind us what the ramp-up costs were in 2015 and any guidance you did or didn't want to give for 2016. I mean, you have already touched on that.

Kurt Bock: Your question was essentially: Is Q4 a good proxy for Q1? I think, more or less yes.

Paul Walsh (Morgan Stanley): Perfect. – And on the ramp-up costs, are you prepared to give any numbers on that?

Kurt Bock: I think we said it already: non-recurring start-up costs, 200 million euros.

3.2 Performance Products

Christian Faitz (Kepler Cheuvreux): Regarding your guidance for 2016. You obviously seem to count on a positive volume price development in Performance Products and Functional Materials & Solutions. Otherwise, it is hard to imagine how a forecasted EBIT improvement is possible in my view.

Can you please elucidate your view on pricing pressure in those two segments throughout 2016, if there is any?

Hans-Ulrich Engel: Christian, you asked with respect to volume development, price developments in the Performance Products segment. Supporting the outlook that we gave there, please keep in mind: We invested in a number of new plants which we started up in that segment during the last two years. Think about SAP in Nanjing, SAP in Camaçari. Think about the dispersions plants that we started up in the last two years, such as e.g. in Freeport in the US or in Dahej in India and a number of other things that we have done there. And yes, that is clearly meant to support the volume growth that we would like to see in the Performance Products segment.

In addition to that, we have seen tremendous price pressure in some areas in Performance Products. I give you one example: That is vitamin E. You are familiar with the story there over the last years. It now looks like in Q4 we may have reached the bottom there. Price increases seem to stick. I am fully aware of the fact that I said something along these lines also in last year's call in the beginning of the year. But there seem to be competitors in Asia, in particular in China, now dropping out. So that could help there.

We have taken a number of self-help measures – you are also aware of those: a major restructuring programme that is scheduled to deliver 500 million to EBIT by end of 2017. We will make another step there during the year 2016. The programme is fully in plan. All of that combined should help us to achieve what we said in our outlook.

Peter Clark (SG Corporate and Investment Banking): You have touched on Performance Products and the outlook there and why you think the business will be up. Obviously, it is a segment that you have had confidence about delivering before and it hasn't come true.

Just looking at the margin, it's the lowest, I think, I have seen, at 8.7 percent. I know you had a lot of idle cost in there, you had a lot of start-up cost. Where do you realistically think you can get this margin?

You are talking about portfolio pruning etc. Is that an area that is quite actively being looked at in terms of structurally improving the business here?

Kurt Bock: Performance Products: I hear a certain scepticism with regard to our guidance when you talked about it. We have done quite a few things to improve underlying performance. We have had major restructurings going on. We talked about the performance enhancement programme where we have a run rate now of 250 million. This actually has materialized in 2015. We want to achieve 500 million by 2017 and we will achieve that.

At the same time we have margin pressures in some products like hygiene where margins have come down quite considerably.

We have pruned our portfolio, including last year e.g. the divestiture of parts of our pharma business, textile chemicals business, the kaolin business. So this is an ongoing process. It is a very complex portfolio, as you know. So, therefore, it's very difficult to find a common denominator. But quite clearly, we want to improve margins further on. And that is what we are going to achieve in 2016.

Peter Clark (SG Corporate and Investment Banking): Where the margin can go. Obviously, you are under 9 percent on EBIT now. You are doing a lot of work. You have got a cost-cutting coming through. In a normalized economic environment, where would you like to see the business normalize this EBIT margin?

Kurt Bock: I hesitate a little bit to give you a precise margin here because, obviously, this entire segment also has price-sensitive products where raw material prices play a certain role. So sales numbers also can change quite a bit.

There is room for improvement, there is no doubt about it. EBITDA margins have improved over the last couple of years in most of the businesses but we have some pockets where we have to work very diligently to improve further on.

3.3 Agricultural Solutions

Patrick Lambert (Raymond James Euro Equities): On the 2016 outlook: For Ag, looking at the bridge between 2015 and 2016, the outlook, as you mentioned, Kurt, is not very positive for farmers. Are there possibly some developments, particularly on new products and in particular on dicamba, on the launch of your soybean traits, that we should put in in 2016? Is that also what we have seen in Q4 a bit on the herbicide side?

Kurt Bock: Obviously, the market is difficult and it will remain difficult in 2016. Farmer profitability has come down quite a bit. When you look at crop prices, some of them have reached new lows in 2015. They are not even in the range of the five-year average prices anymore. That doesn't bode too well for the industry overall. Yet, it is still an innovation-driven competition. We like it and we have good products in our pipeline.

We just explained that peak sales from our pipeline will increase further on. So we are, again, cautiously optimistic for 2016 – which means: We have to continue very diligently on the cost side. We have taken out cost in 2015. This is going to continue in 2016 as well.

Actually, this is possible against the background of having had quite a few very, very strong years in Ag. Obviously, you also have a little bit of a cost inflation. In a situation like 2015 and 2016 you normally then can cut back quite nicely. And this is happening as we speak.

So, again, cautious optimism for the industry, for our business, despite a rather dim picture for the entire agricultural sector. But we want to continue to grow and improve our profitability. It's challenging, but I think it's necessary to try to achieve it.

Patrick Lambert (Raymond James Euro Equities): And dicamba is a big part of that thing for 2016 in particular, or not really?

Kurt Bock: We are expanding capacities. This will come to the market over time. I don't think it already has a major impact in 2016. But since you mention it: It's a nice product. As you know, it's 50 years old and it now has seen quite a renaissance because, as a selective herbicide, it's quite attractive also for plant biotech application. And that is the driver for the growth of this old product where BASF has a very attractive cost position as well.

Andreas Heine (MainFirst Bank): I might refer to what you have said on Bloomberg. Could you specify a little bit how you think your position is in agro after we see that Dow and DuPont come together and Syngenta might be taken over by ChemChina and how you see BASF's position in this market changing quite rapidly?

Kurt Bock: Crop Protection, Agricultural Products: A couple of things have happened, Dow/DuPont. That will obviously take a little bit of time to re-arrange the seats around the table. It is a new combination. We have been competing heads-on for quite some time. If you look at the numbers which we produced in 2015, I think, overall for the Crop Protection business of BASF, it was a good result. We are certainly not satisfied, but against the market development we have seen in 2015 and what our competitors have produced, I think, BASF did quite well, which underlines that we have a first-class portfolio, a very strong innovation pipeline and we are not shy of competing with the other folks.

Syngenta is very difficult for us to read. Obviously, there is very little industry logic behind it. So it doesn't really change the structure of the industry. But – that is a big question-mark which I cannot answer – this company is now going private. So far, it has been under the discipline of the capital markets; now it is state-owned most likely. I can't really tell you what this changes. But I have to rely on what the management has said. They said it doesn't change anything. So we go from there. If it doesn't change anything, it is still the good old competitor.

Christian Faitz (Kepler Cheuvreux): I have a question regarding yesterday's news release to refocus plant biotechnology. On the one hand, you mention that the Monsanto collaboration is unaffected by the massive cuts announced yesterday. On the

other hand, you talk about streamlining early development projects also in yield and stress, including corn and soy.

I was always under the impression that this area is the feeding ground for the Monsanto cooperation. So does this mean that the cooperation in terms of common R&D in stress tolerance is about to conclude and you will simply reap the benefits from earlier existing projects?

Kurt Bock: Plant biotech, what did we say yesterday? We will adjust our capacities essentially in R&D both in Europe outside of Germany – this is essentially Belgium – and in the United States and focus on the most promising fields of activity; this is essentially fungal and herbicide resistance of plants where we have some very smart projects under way.

We will adjust – not completely stop – our efforts in some other areas where the payback periods are quite long and the level of uncertainty is very, very high. For the time being, obviously, we continue to work with Monsanto. We have a very close and a very good working relationship and cooperation. We inject our genes in that cooperation. Then Monsanto does the field testing and then we see how it works out. There have been products in the market, like DroughtGard recently, which develops, as far as I understand, quite nicely.

But nevertheless, overall, after having gained experience for the last approximately ten years, it is now the point in time where we need to adjust our efforts on those fields where we have the most promising results. Actually, those results are looking quite promising. That is the reason why we do adjust.

Peter Spengler (DZ Bank): Actually, I want to come back to the question of Christian on the collaboration with Monsanto and your biotechnology research. Can you completely rule out to discontinue the contract with Monsanto? I guess it's going to end within the next two years, or maybe you put it on a test now for the next two years. Maybe you can make additional comments on that.

Kurt Bock: With regard to plant biotech, we have an ongoing, very nicely working collaboration with Monsanto. This is, for the time being, everything we want and need. Yes, we have contractual obligations vice versa and we are happy with what we have. That's all I can say at this point.

A couple of years down the road we know where we are and then we will, as you can imagine, always again evaluate where we stand and make up our mind.

3.4 Oil & Gas

Jeremy Redenius (Sanford C. Bernstein & Co.): On the Oil & Gas business: You talked about a severe decline. The decline we saw in Q4, could you help delineate the contributors to that or help size us the contributors to that?

I can understand that the falling oil price would be one big one. What about the fall in European natural gas prices that fell quite dramatically in the fourth quarter, and

then, thirdly, the impact of the Russian rouble depreciation in the fourth quarter as well – just to give us a sense of the sensitivity to those additional factors in 2016?

Hans-Ulrich Engel: Jeremy, I think you summarized it already very nicely. These are the three key contributing factors to the lower results that we have seen in the Oil & Gas segment. First, the oil price is coming down from an average of 77 in Q4 of 2014 to 44 in Q4 of 2015.

Natural gas prices: I don't recall exactly what Q4 of 2014 was. But Q4 of 2015 was at 17 euros per MWh. So there was a significant decline. Average price for 2014 for natural gas in Europe was in the range of 21 euros per MWh.

The third one is the decline of the rouble. You already mentioned that. The rouble came down to, I think, an average of 80 in the fourth quarter of 2015.

We have one more that is currency related; that is the Argentinian peso. That also took a significant hit towards the end of the year. I think these are the four key factors, compensated then by higher volumes. Overall, our volumes increased in 2015 from 136 million barrels of oil equivalent that you are familiar with for the year 2014 to roughly 150 million barrels of oil equivalent in 2015.

Jeremy Redenius (Sanford C. Bernstein & Co.): The relative size of the impact, is that about the right order: from oil to gas to rouble to peso?

Hans-Ulrich Engel: The lower oil price had the biggest impact on the significantly reduced earnings in Oil & Gas in Q4 2015, followed by the lower gas prices. The negative impact on the Group of the devaluation of the Russian Ruble and the Argentinian Peso was smaller and was mainly booked under Other.

Lutz Grueten (Commerzbank): A house-keeping item on the assets. Oil & Gas assets, you were saying, in 2015 were 12.3 billion. I would have thought that that asset base might come down a bit after the asset swap with Gazprom.

Hans-Ulrich Engel: If you think about what the asset swap actually does, it brings us new assets in the form of Achimov IV and V where we have a 25-percent equity participation; so you find that on the balance sheet. In addition to that, you see the results of the deconsolidation of Wintershall Noordzee, which is now a 50-percent participation of BASF, but one where we had to step the values up according to market values. So a significant increase in total in our financial assets versus what you found before in plant and equipment for Wintershall Noordzee. That is the explanation there.

Andreas Heine (MainFirst Bank): I have a question on Oil & Gas and the Q4 results. If I look at the EBIT and strip out what you probably have earned in the transportation business, which I would assume is 50 million a quarter, then there were only 70 million left. Is there something specific what happened in Q4 or would we have to assume that the E&P business with the worsening in the aforementioned things – the oil price in Q1 being lower, the gas price being lower, the rouble being weaker and the Argentinian peso also being weaker – would drop even further?

Is Q4 a good benchmark with all these variables as a forecast? Or was something special happening in Q4?

Hans-Ulrich Engel: I think you set this up nicely by way of saying: Is there anything special happening? There were lots of special things happening, in particular on the price side in the fourth quarter.

The guidance that we are giving, which is that a change of 10 dollars per year equates to 200 million in EBIT or one dollar per year equates to 20 million in EBIT, remains. Actually, if you look at the development in Q4, you see this reflected in our Q4 earnings. Oil prices, gas prices coming further down would certainly have a further negative impact on our Oil & Gas earnings. I believe, Kurt already said that at current price levels you will see a drastic impact on our Oil & Gas earnings.

Andreas Heine (Main First): Basically, with a further deterioration that would mean that E&P is close to zero in earnings? On the current situation, as we see it – with current oil price, gas price, currencies. Is that the right reading?

Hans-Ulrich Engel: It generates a slightly positive EBIT, even in the current environment; let me put it that way.

Kurt Bock: I think, Andreas, what is happening is what I described as a drastic reduction in Oil & Gas earnings. Certainly, the 30+ is not a level where we would generate a decent return on our investment in Oil & Gas. We need a higher oil price. At current levels, we still generate a very, very healthy cash-flow. Our goal is to have a balanced free cash-flow which means we have to work a little bit on our capex side. But in terms of earnings and, therefore, also earnings of the cost of capital 30 to 40 is certainly not sufficient to be happy about that business.

Peter Spengler (DZ Bank): On your impairment of the oil business for last year, the 600 million: I guess it was basically related to the North Sea oil activities. Was Libya a part of this since it has been part of the group for a long time? Or other assets in other regions?

Kurt Bock: On the impairment: Yes, Libya is involved. I think there is a breakdown in our Annual Report as well with regard to the regional distribution of the impairment. But the majority comes from Norway and the Netherlands, which are higher-cost operations.

Paul Walsh (Morgan Stanley): What was the contribution to EBIT pre special items from the assets that went to Gazprom last year?

Hans-Ulrich Engel: To the EBIT contribution of gas trading: The order of magnitude is 300 million in EBIT.

Patrick Lambert (Raymond James Euro Equities): On the 2016 outlook: If I look at Oil & Gas, the production cost per barrel and the exploration cost per barrel actually have not declined in 2015. I was assuming that you were trying to get both down. Is there a possibility in 2016 to get these numbers down in terms of cost, exploration cost or production cost?

And what's your outlook in terms of production? Are you still trying to compensate a bit pricing by volume in the different regions?

Hans-Ulrich Engel: I am looking at my numbers on a specific per-barrel basis and they came actually down nicely.

Throughout the year 2015, we have taken out cost left and right, wherever we could. And I can assure you: That will continue in the year 2016. That is simply the name of the game. And we will have to compare notes here because my numbers show a very nice decline if I look at my 2014 and 2015 figures. Again, I assure you: We'll continue to go that direction in 2016.

Patrick Lambert (Raymond James Euro Equities): And the production volumes?

Hans-Ulrich Engel: Production volumes: 136 million for 2014, 154 million barrels of oil equivalent in 2015. We are targeting a slight increase in 2016 but that also to a large extent will depend on what's happening in Libya where we had a little bit of production in the year 2015, no production so far in 2016. So it remains to be seen what's happening there. But as I said, roughly 15 – 20 million barrels of oil equivalent increase for the year 2015.

3.5 Other

Anthony G. Jones (Redburn): On the currency in hedging in Other. That was a 220 million expense last year. Where is your visibility on your hedging book and where rates are at the moment? Could you give us a bit of an indication how far that will decrease in 2016?

Hans-Ulrich Engel: On the currency result, the 220 million swing that you are referring to is actually not all currency. What you have in there are two components. One indeed is currency; that is an order of magnitude of roughly 100 million. Where is that coming from? That is coming from, in particular, a very favourable development that we had in the end of Q4 of 2014. We had a significant rouble position and the rouble dropped below 80 in a relatively short period of time in Q4. That generated income of more than 100 million. We don't have a position like that in the end of 2015. So there is 100 million of your swing.

The other 100 million of the swing actually sits in our long-term provision for the long-term incentive programme where we had a decrease of the provision in the order of magnitude of 50 million in 2014. We had an increase of the provision, following share price development in the year 2015. So there is the explanation for the swing of 220 million: roughly 50 percent, as I said, long-term incentive programme and 50 percent currency-related.

Now, Tony, you tell me what the currency development is and I tell you what is going to happen with currency results. We have a policy in place where we are almost fully hedged for booked positions and we are partially hedged for planned positions – quite an overall amount that we are hedging there, quite some volatility. But I think the key message is that the positive currency results that we are generating from this type of transactions are by far higher than the cost that you see reported in Other.