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**BASF Group**

**Andreas Heine (MainFirst):** I would like to ask a question on the outlook. You said, the clean EBIT should be up, but reported EBIT will be down. Is it then fair to assume, seeing the difference between these two numbers, that we should look at this point to an increase more in the range of 0 to 5 percent rather than in the upper half?

If we look to what you said on the acquisition and the impact that it might have on 2018 clean EBIT, then I would say that the acquisitions, with agro being in the negative and Solvay not being significant – that the net of these two acquisitions is rather a loss than a positive contribution. – This was on the outlook.

**Hans-Ulrich Engel:** I can fully understand, Andreas, but I think we will simply stick to the guidance that we gave there. What's important to understand is that when you compare EBIT in 2017 to the outlook that we are giving for 2018, please keep in mind that we had a considerable amount of positive special items there, overall a total of 194 million euros for the year 2017, as a result of divestitures, but also as a result of reversing impairments for oil fields in Norway and in the Netherlands that we did in 2016.

Then, yes, there is a result of the acquisitions that we have built into the outlook, i.e. the acquisition of the Bayer assets as well as Solvay’s polyamide business. We have worked with what I would call preliminary integration figures. Due to the status of the two transactions, you will understand that we will not disclose anything there. That then overall leads to the difference in guidance that you duly noted in EBIT before special items and in EBIT.

**Kurt Bock:** Let me add, Andreas: We will certainly try to give you more detail in our call early May, May 4. We hope to know much more by then.

What is important? The seed business by definition is extremely seasonal. The major chunk of the business is done in Q1. So, if closing is not in Q1, obviously we don’t have sales and earnings. But essentially, we get all the cost for the remainder of the year. This is then later reflected in the purchase price adjustment. But obviously, it has impacts. So the closing date really has impact on the forecast here. For that reason, we made it so specific, talking about what we currently see as the most likely timeline.

**Andrew G. Stott (UBS):** On the start to 2018: You said it is more complex this year. I guess it is also complex because you have got the outages, not just citral but also in Chongqing with MDI and, I think, one or two other smaller ones. At this stage, can you give an idea of perhaps an EBIT impact?

**Kurt Bock:** 2018, yes, is a little bit more complex, also due to the outages. I mentioned this in my speech. We have external factors which we cannot control. One where obviously and clearly the magnitude was unexpected is the shortage of natural gas, e.g. in Chongqing, which is not operating as we speak. This certainly has a double-digit-million-euro EBIT impact. We hope to be back in March. This needs to be seen.
Then we had freezing temperatures end of Q4, early this year on the U.S. Gulf Coast. Also some of our suppliers had issues. That has impaired production volumes. This is again a double-digit-million-euro impact.

Volume growth overall in January has been good, as planned. It is too early to talk about February, still a couple of days to go. You know that in some of our businesses volumes come in rather late; in the final days of the month the sales are booked.

So there is a bit of uncertainty. However, we look at the underlying economic drivers, underlying growth in all regions. Most businesses of our customers are still positive about the outlook. That, I think, justifies our intention to slightly improve last year’s earnings.

**Stephanie Bothwell (Bank of America Merrill Lynch):** On new projects: Away from the acquisitions that you have made, could you just walk us through which projects are expected to contribute positively to EBIT during 2018?

**Kurt Bock:** New projects: We have a couple of new capacities coming on stream. One is the Kuantan citral investment obviously, which is now going into a higher gear in 2018. We also just completed an MDI investment in our joint venture in Shanghai; this will also contribute to sales and cash flow and hopefully also earnings, given the level of margins in that business.

We have a couple of smaller startups and some of them I mentioned in my presentation, especially in businesses supplying the automotive industry. We want to continue to grow the business organically. I think, 2017 has shown that this is paying off because we captured growth, especially in Asia and here especially in China, because we had made a couple of major investments in the years before. This is going to continue to provide growth for BASF going forward.

**Alexandra Thrum (Morgan Stanley):** Could you just explain why you decided against a bigger dividend, given the EPS growth that you achieved?

**Kurt Bock:** Dividend: Obviously, we discussed it internally quite a bit: Should we change the steps from 10 cent to something like 20 cent. There were even people outside who said, this is Kurt Bock’s final year and he should wave good-bye with a big dividend increase. That, obviously, is not happening. We have a clear policy in place where we say, we want to increase dividend year over year in a very predictable way. We have done this with one exception right after the financial crisis in 2009, which, I think, is fully understood.

We have now a pay-out ratio – you referred to that – which is below 50 percent. If you take that as a yardstick which we do not really do, we also had years where our payout ratio was 75 percent. For us a steady state, predictable, cash return improvement is of importance and we think this is something we should continue to do.

Whether the Board decides in the future to change the steps and to increase the magnitude needs to be seen. But for 2017, we just felt this to be the right thing to do.
Laurent Favre (Evercore): You are guiding capex flat or down for the next five years, earnings up, at least for next year, not to mention the Oil & Gas potential deleveraging. So, I am just wondering, given what has happened to the dividend, could you consider complementing this progressive dividend with a buy-back? I think in the past you said you didn’t want to do it without having the headroom to do a proper one. But could you consider now doing a buy-back, given the underleverage on the balance sheet?

Kurt Bock: Capital allocation in general: You know our priorities. We want to grow the company in a profitable way, earning a premium on cost of capital. We always said that buy-backs financed via additional debt are not really what we want to do. I know this is kind of a fashion in the United States. But we don’t deem this to be a very intelligent strategy for BASF.

There were a lot of “ifs” in your question: if there is a deleveraging due to Oil & Gas, if there is continued relatively low investment at the level of depreciation, and if we have continued good business development, then we might become very cash-rich. Then we have to think about what to do. I would be surprised if the management of BASF then does not take shareholders’ interests into account.

Talking about buy-backs – it is also interesting –, we get different feedback from our investors, quite clearly. Some like it and some clearly dislike it. This is not a unified opinion whether buy-backs are really the greatest thing on earth. But again, if all the “ifs” work out as described, then, I think, we have a good problem to solve.

Patrick Lambert (Raymond James): Related to the tax impact in the U.S. I think you gave us the non-cash impact on 2017. If you could help us with the tax rate impact or actually the cash flow impact of the tax reform, especially post the Oil & Gas accounting changes.

Hans-Ulrich Engel: The tax impact in the U.S.: We have provided you with the non-cash impact that we had in 2017, roughly 400 million euros. I think the exact figure is 379 million euros for 2017. Now, to give you a figure going forward, I did the same that you are doing with our tax experts. They can tell me clearly that the corporate tax rate goes down by 14 percentage points. But then all the other changes that you have and the assumptions that you need to make, make it extremely difficult. Our guidance with respect to the tax rate for the BASF Group in 2018 would be in the mid-20s.

By the way, as in the past, Oil & Gas plays a bit of a role there because we would expect higher earnings there and, as a result of that, typically a higher government take, so a higher taxation there. As a result of that, mid-20s is probably a good figure that you can use when you run your calculations.

Patrick Lambert (Raymond James): Still including Oil & Gas forecast?

Hans-Ulrich Engel: That still includes Oil & Gas. As mentioned by Kurt earlier, we would not expect that transaction to close earlier than towards the end of Q3.
Laurent Favre (Evercore): On Nanjing and the YPC JV. It looks like now you have got a dividend of about 200 million euros. There as well you have deleveraging. Should we expect Nanjing to become a source of dividend stream or should we expect at some point in time to have significant investments there?

Kurt Bock: Nanjing: Yes, we had good results. It is a 50:50 joint venture, as you know, and the order of magnitude is about 230 to 240 million euros of earnings attributable to BASF. Obviously, it is also a decision whether we want to keep the money in the country or pay a dividend.

That then relates to the second part of your question: Any major investments foreseen? We have invested a bit over the last couple of years in Nanjing. It is certainly an ongoing discussion with Sinopec whether more could be done. We have one startup coming up which is in 2020, neopentylglycol. And we have one startup in 2019, which is propionic acid. So a couple of things are going on in Nanjing. Overall, we are pretty satisfied with the development in our joint venture with Sinopec.

Chetan Udeshi (J. P. Morgan): It’s just a perception at the moment, but maybe you can give more colour on this: Has BASF been unlucky over the last 12 to 18 months in terms of number of production issues that we have seen in different plants? Or do you think, just from a statistical perspective, this is nothing much different than in the past?

Kurt Bock: Production issues: Given the size of BASF, there is always something which works perfectly and there is also always something which doesn’t really work as planned. We look very, very carefully at what we call unplanned outages. Obviously, in Q4 the number has come up quite a bit. I mentioned the reason: external factors, weather-related, going also into Q1, supplier-related. Then we have one issue, citral, which is really an internal issue, during the start-up phase.

Order of magnitude and number of incidents is not out of the normal – other than that we had this, I would say, quite unlucky combination of weather and raw material related issues in Q4, Q1. What we have never had before, frankly, is that in China we are being told: Don’t expect any natural gas supply for the next couple of months. Full stop. – That was a new experience which, obviously, is also beyond our control.

Markus Mayer (Baader Bank): Maybe you can indicate the capex split. Is this now more maintenance capex versus in the past?

Kurt Bock: With regard to capex: Our capex by and large is not maintenance-related. For instance, in Germany, we do not capitalize maintenance cost, but this is an expenditure which goes directly into the P&L and those numbers. Maintenance spending of BASF has not come down year over year. We keep this at the very high level, also reflecting on what we just talked about with regard to asset availability and what we call internally asset effectiveness, how we run our plants.
That is probably what I can say about our capex spending. A good chunk of that is growth-driven. Then there is another chunk which is EHS-related, as always. The major piece of the spending is not maintenance-related, but it’s really growth-driven.

Peter A. Clark (SG Corporate and Investment Banking): On the investment five-year outlook, the 19 billion euros: Obviously Oil & Gas is a little less than you had last year in there. But Other (Infrastructure, R&D) is up. I am just wondering: Is that more of a push in R&D or is it just not allocated yet?

Hans-Ulrich Engel: With respect to your question on capex, the 19 billion euros: there is hardly anything in there for capex in research and development. That is almost exclusively expensed. We have R&D expenses in the order of magnitude of roundabout 2 billion euros per year. Expect that to increase a bit as a result of the acquisition of the Bayer assets because that is a business that requires support through research and development. Please keep in mind that about a quarter of our entire research and development budget in the BASF Group is allocated to our Agricultural Solutions business. That will increase a bit as a result of the transaction with Bayer. But, again, in capex there is hardly anything in there for R&D.

Laurent Favre (Evercore): In the capex guidance for the next five years, the R&D infrastructure line has gone up about 1 billion euros since the 2016 report. I was wondering what that was and whether that was related to the battery investments. 1 billion is quite significant.

Hans-Ulrich Engel: Laurent, as always with these five-year plans: You have almost 100 percent certainty of what’s coming in year 1. You have about 60 percent certainty and commitment for year 2. And from thereon out, the numbers are significantly declining. So we could have also addressed this “Other (infrastructure, R&D)” as simply “Other” or not yet 100 percent specified.
2 Segments

2.1 Chemicals

Alexandra Thrum (Morgan Stanley): Regarding your full-year 2018 forecast statements. What are the assumptions behind the considerable decrease in the Chemicals EBIT for full year 2018?

Kurt Bock: Forecast for the Chemicals segment: Clearly, we had earnings and margin improvements in 2017, which were way above what I would describe as normal cyclicality of those businesses, supply/demand-driven, especially in isocyanates. We simply do not believe that this is going to repeat in 2018. It would be great if it were the case. But from today’s point of view the likelihood that we will stay below last year is higher than the likelihood that we stay above last year – much higher, actually. Then, as you know, considerable decrease means more than 10 percent. That is certainly possible, given the very high level of earnings in that segment.

Laurence Alexander (Jefferies): For the Chemicals segment, do you anticipate over the medium term margins returning to the levels we saw earlier in the decade? Or do you think we are at a new level that wound down from 2017 and is more sustainable?

Kurt Bock: A very good question: Is this the new normal? Very hard to say. There is an underlying improvement in our business. I think we have costs well under control. Supply and demand is healthy. Markets are growing for the time being. Yes, there is new capacity in some markets coming on stream. But will cyclicality and volatility disappear? I doubt it. I think we will still see swings in earnings and margins.

I don’t know yet whether this will go back to the very difficult levels which we had at some point in time, not necessarily. We exited a couple of businesses where we felt uncomfortable, as you know. We maintain businesses like isocyanates where we think we have a good market position and good technology and a good cost position, or acrylic acids – just to give you another example, where we have an excellent cost position, where we e.g. see room for improvement in 2018. So you really have to go product by product and there is not one chemical cycle anymore; it is really product-wise and you have to be very specific.

Some products might go up, margins go up; some might come down. On average, we believe for Chemicals, for the segment, margins most likely will come down a bit, but certainly not to the level which you described.
2.2 Performance Products

Peter A. Clark (SG Corporate and Investment Banking): In Performance Products, you are guiding for this considerable increase in EBIT before special items this year. That has always proved the most challenging of your segments to forecast. If raw materials were to stay pretty much where they are, when do you think you will catch up with that margin squeeze you have had in terms of the oil pricing and also the work you are doing on the cost base? Is it something you are envisaging in the second half of this year or do you really need the raw material pressure to alleviate?

Kurt Bock: First of all, we clearly see a need to improve margins. Very bluntly put, I mean, we are not satisfied with the development in 2017. Obviously, citral then was another curve ball which we did not expect to happen when we had our last call. The currency effect was frankly quite negative in Q4. Most likely, this is going to continue going into 2018.

What we have seen with regard to raw materials, margins and sales prices, is a slight improvement meaning the margin squeeze is diminishing now.

We are almost there passing on raw material price increases to our customers, but we haven’t yet seen the full effect. For the complete year of 2017, the effect was still quite negative.

We have announced a couple of price increases, also on January 1, 2018. Even if we – in some cases – might suffer a bit of a volume setback, we said this is now the point in time where almost across the board we have to increase prices, given the raw material cost position and underlying demand patterns in our markets.

We have a couple of businesses, frankly, where essentially supply/demand-driven price adjustment is not feasible – and Performance Products also has some of these products. But in others we can implement. I would be surprised if this doesn’t pay off now going into Q1 and Q2.

But it is clearly an uphill battle and, frankly, with the benefit of hindsight, I would say, it has taken longer than what we expected about a year ago. But please keep in mind: Also the raw material cost and the oil price increased relatively strongly late last year.

Chetan Udeshi (J. P. Morgan): I have a question on margins in the Performance Products and Functional Materials & Solutions segments. The year-on-year decline in margin in both of those segments was much higher than what we actually saw in each of the past three quarters. I am not sure why we don’t see any impact of the price increases that were initiated right through 2017 in those two segments.

You said in a response to an earlier question that by Q1, Q2 2018 you should see an improvement there. So when you say improvement, are we looking at the margins beginning to go up year on year or is it more like reducing the pace of decline in those two businesses?

Kurt Bock: I think I tried to explain it before: Both in Performance Products and Functional Materials & Solutions margin pressure continued. Yet, we have been able to increase prices increasingly. The negative impact sequentially – quarter on quarter
– has come down quite significantly. If that trajectory continues into Q1 and Q2, we should see a positive rebound happening.

What hit us – I mentioned this as well – in Q4 is really the currency effect which was quite negative, actually for the first time in 2017. And this continues going into 2018. But purely raw material cost price increases: Yes, I could use your word, the pace of decline has come down, but it has come down quite dramatically. As I said, we also announced and implemented a couple of price increases early 2018, which should help in that respect.

Andrew G. Stott (UBS): How are you thinking around insurance proceeds? Indeed, were there any in Q4 2017 in Performance Products for citral?

Kurt Bock: Performance Products and specifically citral: No, no insurance payment received in Q4. It is too early to talk about Q1. Actually, we are extremely busy in reinstalling capacity. The reason why we have this situation is: We had a relatively small incident, a small fire. However, it impacted cables and several electrical components of the citral plant, which basically means the entire plant is down.

By the way, you can follow the rebuild in detail on our website (basf.com/citral-plant). There is a report about the progress which we are making. We are certainly aware that our customers are quite concerned about the situation. We do our utmost to provide as much product as possible, also coming in from Kuantan, Malaysia. But, obviously, there is a shortage for citral-related products. This has an impact also on the bottom line in Q1.

Andreas Heine (MainFirst): Maybe you can give an update on where you are in the ramp-up of the Kuantan citral plant or the whole complex. As far as I know, that plant should be as big as the Ludwigshafen one and should change then the tight market in citral if that plant could be ramped up quickly.

Kurt Bock: Kuantan: Yes, we are in the ramp-up mode. This is working quite nicely. The size of the plants is comparable; that is correct. Obviously, with the incident here in Ludwigshafen, we had to change plans and tracks. We will essentially ship everything as quickly as possible to Europe to fill our pipeline here and to make sure our customers get as much product as possible, meaning that some of the subsequent steps in Kuantan will be delayed slightly. Then we will see the restart of citral in Ludwigshafen end of March, early April. I hope that things will go back to normal as quickly as possible.

Markus Mayer (Baader Bank): The last question is again on citral: I am still struggling. You state you had pre-buying of the related products like vitamins. But at the same time margins were down significantly. Can you indicate what have been the underlying margins, excluding this negative force majeure effect?

Kurt Bock: With regard to underlying margins, I don’t think we would provide them.
2.3 Functional Materials & Solutions

Sebastian Bray (Berenberg): Are you going to start the construction of your cathode materials facility in Europe this year?

Kurt Bock: Cathode materials, this is a joint effort. As you know, we are sitting down with Norilsk Nickel to secure the supply of cobalt which is instrumental for the success of that entity. We are in the midst of what we call the planning and detailed engineering phase. So, stay tuned!
2.4 Agricultural Solutions

Andrew G. Stott (UBS): Regarding the guidance on Agricultural Solutions for the year. Do I take it that you are sort of assuming now rather than booking nine months, you are probably going to book closer to six months? Or is it really that the integration costs are going to be fairly material? I wasn’t quite sure as to the assumption within that.

Hans-Ulrich Engel: Andrew, if I got your question correctly, it was about the guidance that we are giving for the Agricultural Solutions segment. Now, what is happening there? As a result of the point in time at which we expect to acquire the business, most of the season will be already behind us. In other words, what we will experience in the year 2018 is predominantly cost and not so much revenue and income. As a result of that – that is the key driver –, we expect to see a slight decline in the earnings of the Agricultural Solutions business versus a slight increase that we would have seen without the acquisition.
2.5 Oil & Gas

Patrick Lambert (Raymond James): Just a calculation on cash flow from Oil & Gas, just to make sure whether I am doing the right math. I found about 650 million euros; is that the correct number?

Hans-Ulrich Engel: The figure is about right. With respect to free cash flow in Oil & Gas, you are 90 million euros short. To round figures, you are 100 million euros short.

Laurence Alexander (Jefferies): With the shift of the Oil & Gas segment to a JV, is there an opportunity to transfer some leverage to the JV? Or how shall we anticipate the balance sheet evolution for BASF?

Hans-Ulrich Engel: Let’s go back quickly to what Kurt said earlier: Where are we in the transaction with LetterOne DEA? We are currently going through a confirmatory due diligence. We have started discussions with LetterOne on the financing of the joint venture, but it would be premature to answer your question on whether or not there is potential to transfer some leverage to the joint venture company. It will be certainly financed — that you can expect from us and also from LetterOne — in a way that this company will be very competitive from the get-go. It will be positioned for growth and will be financed accordingly.

What does it mean for BASF’s P&L? At the point of signing, it will be shown as a discontinued operation, so a separate line, no more sales, a separate line above the net profit line. Then, from the point in time where we close according to what has been discussed so far, it will be consolidated at equity. The assets and the debt that we show at this point in time will then be replaced by the financial participation that we have as BASF in the joint venture.

Stephanie Bothwell (Bank of America Merrill Lynch): Linked to the earlier question on Oil & Gas, can you just update us with a capex guidance for 2018/2019 whether we should expect any significant deviation, given the Oil & Gas transaction?

Kurt Bock: Stephanie, the 3.5 billion euros capex in Oil & Gas for a five-year period, you can probably divide this by five and then come up with by and large the number for 2018, maybe slightly higher, that needs to be seen. But again, what is important here in this context: As of signing of the transaction agreements, those numbers will not be included anymore in the BASF Group accounts. Obviously, it still has a cash relevance, but as Hans said, the joint venture is supposed to be a stand-alone financed entity and should be able and capable to finance its own growth trajectory.
Sebastian Bray (Berenberg): I appreciate it’s maybe a bit early to say, but do you have any guidance on the potential impact of moving Oil & Gas out of the Group on the tax rate and/or the returns profile in terms of returns on capital employed?

Hans-Ulrich Engel: On the tax rate with Oil & Gas: It’s simply very difficult to predict. A number of assumptions you have to make: Where is the oil price? Where is the gas price? What will earnings be like? I think at this point in time it is the best to stay with the general guidance that we are giving for mid-20s for the tax rate for the BASF Group. Oil & Gas is an asset-heavy business. You can look this up in our Annual Report. You see the asset base of Oil & Gas there, order of magnitude: 12 billion euros. That’s not in the calculation for returns anymore. That should improve the return profile, as an example, on a return on capital employed basis overall.