



We create chemistry

Conference Call Q1 2019
Speech
May 3, 2019

Hans-Ulrich Engel, Chief Financial Officer
Marc Ehrhardt, President Finance

The spoken word applies.

Hans-Ulrich Engel

Ladies and gentlemen,

Good morning and thank you for joining us.

[Chart 3: Q1 2019: BASF Group increases sales, earnings below prior-year quarter due to lower contributions of Materials and Chemicals]

The first quarter of 2019 was as difficult as we had expected.

Global economic growth continued to be negatively impacted by geopolitical developments and the ongoing trade conflicts between the United States and its trading partners. The overall cautious market sentiment persisted. As a result, BASF experienced a slowdown in demand from key customer industries, particularly automotive. To make this a bit more tangible: The global automotive production recorded a 6 percent decline compared to the prior-year quarter.

From a regional perspective, demand in China was especially dampened by the trade conflicts. In Europe, the uncertain situation related to Brexit continued to negatively impact economic development.

Despite these headwinds, we are committed to our strategy and continue to implement the announced measures to support profitable growth. For example, the embedding process to move our organization closer to the customer is well on track and will be finalized by the end of the third quarter 2019.

Turning to BASF Group's financial figures for Q1 2019 compared to the prior-year quarter in more detail:

- Sales in the first quarter of 2019 increased by 3 percent to 16.2 billion euros. Prices were down by 2 percent, mainly driven by the isocyanates and cracker products businesses. Higher prices in

the Surface Technologies, Agricultural Solutions and Industrial Solutions segments, could only partially offset the anticipated price declines in Materials and Chemicals. Due to the overall cautious ordering behavior of our customers, sales volumes of BASF Group declined by 4 percent. Portfolio effects amounted to plus 6 percent and were related to the acquisition of agricultural solutions businesses from Bayer. The transfer of BASF's paper and water chemicals business to Solenis at the end of January 2019, slightly reduced the positive portfolio effect. Currency effects amounted to plus 3 percent and were mainly caused by the appreciation of the U.S. dollar against the euro.

- EBITDA before special items decreased by 12 percent to 2.7 billion euros. EBITDA amounted to 2.8 billion euros compared to 3.0 billion euros in Q1 2018.
- EBIT before special items came in at 1.7 billion euros, 24 percent lower than in Q1 2018. As expected, the decline was driven by considerably lower contributions of the Materials and Chemicals segments due to lower margins in the isocyanates and cracker products businesses. Lower earnings in Other and in the Nutrition & Care segment contributed to the decline. Considerably higher earnings in Agricultural Solutions and in Industrial Solutions limited the decline in earnings.
- Special items in EBIT amounted to plus 26 million euros compared to minus 18 million euros in Q1 2018. Special income from divestitures in the Agricultural Solutions and Industrial Solutions segments exceeded integration costs for the acquired businesses and assets from Bayer and the costs for other restructuring measures.

- EBIT decreased from 2.3 billion euros in Q1 2018 to 1.8 billion euros in Q1 2019.
- The tax rate was 25.4 percent compared to 24.1 percent in the first quarter of 2018.
- Income after taxes from our discontinued oil and gas operations increased by 55 percent to 274 million euros compared to Q1 2018. The main drivers were higher volumes, especially in Russia, and the suspension of depreciation and amortization of Wintershall's assets since Q3 2018. The price of a barrel of Brent crude oil averaged 63 US dollars in Q1 2019 compared with 67 US dollars in the prior-year quarter.
- Net income amounted to 1.4 billion euros compared to 1.7 billion euros in Q1 2018.
- Reported earnings per share decreased from 1.83 euros to 1.53 euros in Q1 2019. Adjusted EPS amounted to 1.65 euros; this compares with 1.93 euros in the prior-year quarter.
- In the first quarter of 2019, cash flows from operating activities amounted to 373 million euros, 858 million euros below the figure for the prior-year quarter. This was primarily due to the higher level of cash tied up in net working capital, especially for trade accounts receivable in the Agricultural Solutions segment. Payments made for property, plant, equipment and intangible assets increased by 114 million euros and amounted to 741 million euros. Free cash flow came in at minus 368 million euros.

[Chart 4: BASF and LetterOne complete merger of Wintershall and DEA]

Following the approval of all relevant authorities, BASF and LetterOne have successfully completed the merger of Wintershall and DEA. In September 2018, BASF and LetterOne had signed a transaction agreement to merge their respective oil and gas businesses in a joint venture. With Wintershall Dea we create the leading independent European exploration and production company with international operations in core regions.

To effect the merger, LetterOne contributed all shares in DEA Deutsche Erdoel AG into Wintershall Holding GmbH against the issuance of new shares. The shareholders have decided to rename the company Wintershall Dea. The joint venture is headquartered in Kassel and Hamburg. Upon formal registration of the corresponding capital increase, BASF will hold 67 percent and LetterOne 33 percent of Wintershall Dea's ordinary shares reflecting the value of the respective exploration and production businesses of Wintershall and DEA. To reflect the value of Wintershall's gas transportation business, BASF will receive additional preference shares. This will result in a total initial shareholding of BASF in Wintershall Dea of 72.7 percent. No later than 36 months after closing but in all cases before an IPO, these preference shares will be converted into ordinary shares of Wintershall Dea.

In 2018, the combined business of Wintershall and DEA had pro-forma sales of 5.7 billion euros, EBITDA of 3.6 billion euros and net income of 1.1 billion euros. As a result of the merger, Wintershall Dea has a regionally balanced footprint with superior growth opportunities.

Based on underlying exploration and production projects, the company is on track to reach a daily production of 750,000 to 800,000

barrels of oil equivalent between 2021 and 2023 from currently 590,000. This equals an annual production growth rate of 6 to 8 percent. Wintershall Dea expects to realize synergies of at least 200 million euros per year as of the third year following the closing of the transaction.

Both shareholders are committed to the profitable growth path of Wintershall Dea and set a solid capital basis for the joint venture. Wintershall Dea targets an investment grade credit rating. Following closing, the joint venture has no shareholder loans outstanding with BASF or LetterOne. BASF and LetterOne envisage to list Wintershall Dea through an Initial Public Offering in the second half of 2020, subject to market conditions.

Let me briefly explain the impact of the closing on the financial reporting of the BASF Group:

BASF's participating interest in Wintershall Dea will be reported in the consolidated financial statement of the BASF Group according to the equity method as of May 1, 2019, with an initial valuation at fair value. The gain from the transition from full consolidation to the equity method will be shown in income after taxes from discontinued operations for the second quarter of 2019. As of May 1, 2019, BASF will report its share of Wintershall Dea's net income in EBIT before special items and EBIT of the BASF Group, reported under Other.

I will now hand things over to Marc to give you some more details regarding the business development of our segments.

Marc Ehrhardt

Good morning ladies and gentlemen,

Let me highlight the financial performance of each segment in the first quarter of 2019 compared with the figures of the first quarter of 2018, restated to reflect our new segment structure.

[Chart 5: Chemicals – Sales and earnings declined, mainly due to lower volumes and prices for cracker products]

In the Chemicals segment, sales were considerably lower than in the first quarter of 2018, especially in the Petrochemicals division. Sales declined slightly in the Intermediates division. In both divisions, sales development was driven by lower volumes and prices. In the Petrochemicals division, lower volumes were primarily due to preparations for scheduled maintenance shutdowns, as well as significantly lower capacity utilization of the condensate splitter in Port Arthur, Texas. Volume development in the Intermediates division was dampened by weak customer demand in the automotive, coatings, textile and wind turbine industries. Prices declined significantly, particularly in the Petrochemicals division. This was due to higher product availability on the market, especially of steam cracker products in North America, as well as lower raw materials prices.

EBIT before special items decreased considerably compared with the prior-year quarter. This was largely due to lower margins in the Petrochemicals division, especially for steam cracker products, as well as lower volumes in both divisions.

[Chart 6: Materials – Sales and earnings declined due to lower isocyanates prices and weaker demand mainly from automotive]

Sales in the Materials segment declined considerably compared with the very strong first quarter of 2018. The sales decrease was primarily due to lower isocyanates prices in the Monomers division. Sales volumes were slightly below the level of the prior-year quarter. Demand declined, especially in the Performance Materials division. In particular, demand was weaker for polyurethane systems and engineering plastics in the Asian and European automotive and consumer goods industries.

In both divisions, EBIT before special items declined considerably compared with the first quarter of 2018. This was mainly a result of lower isocyanates margins in the Monomers division. In the Performance Materials division, higher margins were unable to compensate for the lower volumes. In addition, mainly due to currency effects, fixed costs in both divisions were slightly higher than in the prior-year quarter.

[Chart 7: Industrial Solutions – Sales declined due to portfolio effects; earnings improved, primarily as a result of higher prices and volumes in Performance Chemicals]

In the Industrial Solutions segment, sales were slightly below the figure for the prior-year quarter. Sales in the Dispersions & Pigments division were on a level with the first quarter of 2018, while sales in the Performance Chemicals division declined slightly. The overall decrease was primarily due to the transfer of BASF's paper and water chemicals business to the Solenis group. In addition, volumes declined in the Dispersions & Pigments division. By contrast, we increased our sales volumes in the Performance Chemicals division, especially of oilfield and mining chemicals as well as fuel and lubricant solutions. Sales development was also positively influenced by currency effects as well as higher prices in both divisions.

We considerably increased EBIT before special items compared with the first quarter of 2018. This was primarily due to considerably higher earnings in the Performance Chemicals division as a result of higher prices, volume growth and positive currency effects. The Dispersions & Pigments division also slightly increased EBIT before special items, mainly due to higher prices and positive currency effects.

EBIT included special income in the Performance Chemicals division from the transfer of BASF's paper and water chemicals business to the Solenis group.

[Chart 8: Surface Technologies – Sales mainly up on higher precious metals prices, earnings stable]

We achieved considerable sales growth in the Surface Technologies segment compared with the first quarter of 2018, especially in the Catalysts division. In precious metal trading, sales increased to 1,064 million euros from 685 million euros in the first quarter of 2018. Sales also rose considerably in the Construction Chemicals division; in the Coatings division, sales were on a level with the prior-year quarter. The sales increase was due to higher prices in all divisions as well as positive currency effects and volume growth in the Catalysts and Construction Chemicals divisions. In Coatings, slight volume growth for surface treatments and decorative paints was unable to completely offset the considerable decline for automotive OEM coatings.

The segment's EBIT before special items was on a level with the prior-year quarter. EBIT before special items in the Construction Chemicals division improved considerably, primarily due to higher margins. In the Catalysts division, earnings rose slightly as a result of sales growth. By contrast, the Coatings division recorded considerably lower EBIT before special items, mainly due to a weaker automotive business.

[Chart 9: Nutrition & Care – Sales stable, earnings increase in Care Chemicals could not offset decline in Nutrition & Health]

First-quarter sales in the Nutrition & Care segment matched the level of the prior-year quarter. Considerably higher sales in the Nutrition & Health division were offset by slightly lower sales in the Care Chemicals division. Positive currency effects, especially relating to the U.S. dollar, increased sales slightly in both divisions. By contrast, sales were negatively impacted by lower prices, especially in the animal nutrition business. Sales volumes in the Care Chemicals division decreased significantly, mainly as a result of lower volumes in the home care, I&I cleaning, and industrial formulators business. By contrast, the Nutrition & Health division considerably increased sales volumes, primarily due to higher volumes of aroma ingredients because of significantly improved product availability from our plants in Ludwigshafen and Kuantan.

EBIT before special items was considerably below the figure for the first quarter of 2018. A considerable improvement in earnings in the Care Chemicals division, mainly from higher margins, could not compensate higher fixed costs in the Nutrition & Health division. In the prior-year quarter, an insurance refund for production outages in 2017 was received reducing fixed costs. In addition, margins declined in the animal nutrition business.

EBIT included an impairment in connection with the optimization of production sites within the Nutrition & Health division in Europe.

[Chart 10: Agricultural Solutions – Sales and earnings increased considerably due to the strong development of the acquired businesses]

The Agricultural Solutions segment posted considerable sales growth compared with the first quarter of 2018. This was primarily due to portfolio effects from the acquisition of businesses and assets from Bayer in August 2018. In the first quarter of 2019, the sales contribution from the acquired businesses is reported entirely as a portfolio effect.

We also achieved a higher price level in the legacy business while volumes were considerably lower year on year, mainly due to weather-related factors. Especially in the United States herbicide and fungicide volumes declined due to adverse weather conditions and an extended period of cold.

EBIT before special items was considerably higher than in the first quarter of 2018. This was largely due to the contribution from the acquired businesses. EBIT included special income from divestitures in accordance with the conditions imposed by antitrust authorities within the scope of the acquisition of the Bayer businesses. In the first quarter of 2019, these exceeded the special charges for the integration of the acquired businesses.

[Chart 11: Review of “Other”]

Sales in Other increased considerably compared with the prior-year quarter. This was mainly due to the remaining activities of BASF’s paper and water chemicals business, which were not part of the transfer to Solenis and have since been reported under Other.

EBIT before special items was considerably below the figure for the first quarter of 2018. This was largely due to foreign currency results and valuation effects for our long-term incentive program.

[Chart 12: Cash flow development Q1 2019]

Let's now turn to our cash flow in the first quarter 2019:

- Cash flows from operating activities amounted to 373 million euros, 858 million euros below the figure for the prior-year quarter. This was primarily due to the higher level of cash tied up in net working capital, especially for trade accounts receivable. The seasonal increase in trade accounts receivable in the Agricultural Solutions segment was higher than in the prior-year quarter due to the businesses acquired from Bayer.
- Cash flows from investing activities amounted to minus 837 million euros in the first quarter of 2019, compared with minus 634 million euros in the prior-year quarter. The increase in cash outflow was mainly due to higher payments made for financial assets and securities, as well as for intangible assets and property, plant and equipment.
- Cash flows from financing activities amounted to 620 million euros in the first quarter of 2019, after 201 million euros in the prior-year quarter. The year-on-year increase was primarily due to higher net additions to financial and similar liabilities.
- Free cash flow declined from 604 million euros in the prior-year quarter to minus 368 million euros, mainly as a result of lower cash flows from operating activities.

[Chart 13: Balance sheet remains strong]

Turning to our balance sheet at the end of Q1 2019 compared to the year end 2018:

- Total assets rose by 5.5 billion euros to 92.0 billion euros.
- Non-current assets increased by 2.2 billion euros, the new IFRS 16 standard on leases contributed half of this increase. Since January 1, 2019, the new standard requires that almost all leased assets are reported as fixed assets.
- Current assets amounted to 46.5 billion euros compared to 43.2 billion euros at year end 2018. This increase was mainly driven by higher accounts receivables related to the acquired agricultural solutions businesses from Bayer and its seasonality. In the northern hemisphere, the seed season begins in the first quarter, which leads to a corresponding increase in accounts receivable.
- Net debt increased by 1.2 billion euros to 19.4 billion euros, mainly because of a higher usage of our U.S. dollar commercial paper program.
- Our equity ratio was 41.1 percent at the end of March 2019.

And with that, back to Hans for the outlook.

Hans-Ulrich Engel

[Chart 14: Outlook 2019 for BASF Group confirmed]

We confirm our outlook 2019 for the BASF Group, as provided at the end of February. Our outlook continues to assume that the trade conflict between the U.S. and its trading partners will ease over the course of the year, and that the potential Brexit will not cause wider economic repercussions. Furthermore, we assume that our customer industries will maintain their growth trajectory.

- We anticipate slightly higher sales in 2019, largely as a result of volume growth and portfolio effects.
- EBIT before special items is targeted to be slightly above the 2018 level, however, at the lower end of the range.
- ROCE is expected to be slightly above our cost of capital percentage, but slightly below the 2018 level. It will be negatively impacted by the higher capital base due to the assets acquired from Bayer.

Let me reiterate that the second quarter will be a comparably weak quarter. Firstly, the second quarter of 2018 still benefitted from high margins in isocyanates; that means comparables are tough. Secondly, costs associated with the implementation of our strategy and a higher number of planned turnarounds compared to Q2 2018 will negatively impact earnings. The decisive factors to achieve our targets for 2019 are an improved business performance, solid customer demand and first contributions from our excellence program in the second half.

And now, Marc and I are glad to take your questions.