



We create chemistry

Analyst Conference Call Q1 2022

Speech

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The spoken word applies.

Martin Brudermüller

Good morning, ladies and gentlemen,

Today, I would like to start with a few thoughts and concerns about the war in Ukraine.

We are deeply appalled and shocked by Russia's brutal attack on Ukraine. With each day, the Ukrainian people are subjected to unspeakably barbaric acts that cannot go unpunished. Our thoughts are with all those suffering as a result of this war. We all hope that the war will be ended very soon. As a company, however, we must prepare for a long war with all its consequences. It is exceptionally challenging to take the right decisions for a company in such circumstances. We are seeing considerable regional differences, supply chain disruptions, high raw materials and energy prices as well as serious geopolitical tensions. In such disturbing times, it is difficult to simply move on to the agenda, but this is our task for today's conference call.

On April 11, BASF released preliminary figures for the first quarter of 2022. Today, Hans Engel and I will provide you with further details regarding our business development in Q1 2022.

[Slide 3: Snapshot of the current market environment]

This slide summarizes the current market environment for industry, customers and consumers.

The overall macroeconomic environment is characterized by a high degree of uncertainty and volatility caused by the war in Ukraine, the ongoing pandemic as well as supply shortages. We are facing strong price increases for all input factors. Drastically higher energy, industrial raw materials and logistics costs are the main reasons for the elevated price levels.

Furthermore, production and exports of agricultural products from Ukraine and Russia are already impacted and will be further substantially reduced by the war, which is causing prices for grain and food to rise globally.

Due to the reoccurrence of the coronavirus in China and the country's zero-COVID strategy, economic growth in China is softening. In Q1 2022, China recorded year-on-year GDP growth of 4.8 percent compared with 4.0 percent year-on-year growth in Q4 2021. This was stronger than expected by analysts but does not yet fully reflect the impact of the recent COVID-related lockdowns in many Chinese cities.

Furthermore, automotive production is limited by shortages of semiconductors and now, additionally, by the shortage of wire harnesses. For 2022, IHS Markit has thus cut its outlook for global automotive production to 81 million units, a reduction of around 3 million units.

To sum up: The key challenges and downsides for 2022 are direct and indirect effects originating from the war against Ukraine, pandemic-related lockdowns in China as well as the persistent shortages affecting the automotive industry.

[Slide 4: Q1 2022: BASF achieves strong EBIT before special items despite significantly higher energy and raw materials prices]

Let's now turn to BASF's business development in Q1 2022.

We had a strong start to the year and delivered an EBIT before special items of 2.8 billion euros, an increase of 21 percent compared with Q1 2021. All segments contributed to the strong earnings growth, except for Surface Technologies, where shortages continued to limit demand from the global automotive industry.

In the first quarter of 2022, all segments achieved price and volume growth, again with the exception of Surface Technologies. The downstream segments Nutrition & Care and Agricultural Solutions implemented considerable price increases and improved their earnings compared with the prior-year quarter.

I would like to add that the positive business development in the first quarter of 2022 also continued in April. Our order book looks solid except for the automotive industry and China.

All in all, we are still confident about our performance in 2022 but have to prepare for changes in the economic environment from a possibly long war in Ukraine. We are monitoring the current developments very closely. And we already feel negative impacts on the supply and prices of energy and raw materials as well as on our participation in Wintershall Dea. I will dive deeper into these two topics in a moment.

[Slide 5: Impact of the war in Ukraine on BASF's energy and raw materials supply and its participation in Wintershall Dea]

The war has led to drastic price increases for energy and various raw materials in Europe and a high level of uncertainty regarding future supplies. So far, however, the supply of BASF's key raw materials such as natural gas or naphtha is not limited. To avoid disruptions, we are coordinating closely with our suppliers, network operators and government agencies, as the case may be.

Moving on to our participation in Wintershall Dea: First and foremost, it is important to note that no sanctions apply either to Wintershall Dea, to the minority shareholder LetterOne, to Wintershall Dea's operations in Russia or to its midstream business. At the beginning of March, Wintershall Dea decided not to pursue any additional gas and oil production projects in Russia and stopped all planning for new projects. Furthermore, Wintershall Dea has recognized impairment

charges in the first quarter of 2022 that BASF included in its net income from shareholdings on a proportional basis with around 1.1 billion euros. These impairments were caused by the war in Ukraine and related political consequences and concerned, in addition to the Nord Stream 2 loan, assets in Russia and in the gas transportation business.

We are sticking to our strategic decision to withdraw from the oil and gas business. However, we are aware that an IPO is difficult in the current market environment. It is not yet possible to indicate what impact the war in Ukraine will have on our exit as a whole and on the timeline.

[Slide 6: Natural gas prices in Europe rose drastically in Q1 2022]

I will now provide you with further details regarding the impact of the drastically increased gas prices in Europe.

Compared with the first quarter of 2021, the additional costs for BASF's European sites amounted to 900 million euros. Compared with the first quarter of 2020, the increase was 1.1 billion euros.

To mitigate these higher costs, we implemented several measures:

- On a global scale and particularly in Europe, we have increased and will further increase our sales prices to pass on higher natural gas prices.
- At our European sites, where technically feasible, preparations to substitute natural gas by alternative feedstocks are ongoing. For example, our modern combined heat and power plant in Schwarzheide can be operated with natural gas or other oil-based feedstocks.

- We are also proactively developing scenarios to optimize our production at European sites in the event that Germany is forced to allocate natural gas. In doing so, we are focusing on processes that are very energy-intensive or that use large amounts of natural gas as a raw material. One product in focus is certainly ammonia, a key building block for various value chains such as fertilizers, plastics and fibers, and resins and glues.

We take these developments very seriously and have set up teams to monitor the situation around the clock.

[Slide 7: Global chemical production increased by 3.7% in Q1 2022]

Let's now briefly look at the macroeconomic environment before we turn to the volume development of our segments.

According to the currently available data, global chemical production increased by 3.7 percent in Q1 2022 compared with the prior-year quarter. With 9.4 percent, growth was most pronounced in **North America**. In the prior-year quarter, this region recorded a decline due to the freeze on the U.S. Gulf Coast. In **Europe**, the growth rate was 2.0 percent. In **China**, chemical production increased by 4.7 percent despite a strong comparison base. In **Asia excluding China**, chemical production decreased by 1.9 percent.

[Slide 8: Q1 2022: Volume growth across all segments, except for Surface Technologies due to shortages in automotive industry]

Moving on to the volume development by segment. In the first quarter of 2022, sales volumes of BASF Group declined by 0.8 percent. This was due to the considerable volume decline in Surface Technologies.

Lower precious metal trading volumes accounted for around 70 percent of the volume decline in this segment. Excluding the precious metal trading activities, BASF Group's sales volumes grew by 3 percent in the first quarter of 2022.

On a segment level, the volume growth in absolute terms was most pronounced in the Agricultural Solutions, Industrial Solutions, Materials and Nutrition & Care segments.

Now I would like to hand over to Hans for further details.

Hans-Ulrich Engel

Good morning, ladies and gentlemen.

[Slide 9: Q1 2022: Sales and EBIT before special items increased considerably]

Let me start with our sales and earnings development in Q1 2022.

At BASF Group level, sales increased by 19.0 percent to 23.1 billion euros. Sales prices rose by 15.5 percent. Currency effects of plus 4.2 percent also contributed to the positive sales development.

As already mentioned, BASF Group's EBIT before special items reached 2.8 billion euros – an increase of around 500 million euros compared with Q1 2021.

On a segment level, **Chemicals** contributed most to the increase in earnings. Compared with the first quarter of 2021, EBIT before special items rose considerably, mainly due to higher margins in both divisions. The Intermediates division significantly improved margins in North America and Asia Pacific. Lower margins in Europe as a result of sharply increased gas prices were therefore more than offset. Improved income from shareholdings accounted for using the equity method also contributed to the earnings growth.

Key drivers for the earnings growth in the Petrochemicals division were higher margins in the propylene and butadiene value chains as well as for styrene monomers. Lower margins for cracker products due to higher raw materials and energy prices were more than offset.

EBIT before special items in the **Materials** segment also increased considerably compared with the prior-year quarter. This was mainly driven by significantly higher EBIT before special items in the Monomers division, which, in turn, was primarily due to increased margins in the ammonia and polyamide value chains. The Performance Materials division recorded a slight decline in earnings. Slightly higher margins could not offset the rise in fixed costs.

Also in the **Industrial Solutions** segment, EBIT before special items was considerably higher than in the first quarter of 2021. Both divisions, Dispersions & Resins as well as Performance Chemicals, increased earnings strongly due to positive price and volume developments.

Compared with the prior-year quarter, EBIT before special items in both divisions of the **Surface Technologies** segment declined considerably. The main reason for the decline in earnings in the Catalysts division was a significantly lower contribution from the precious metal trading activities. EBIT before special items in the Coatings division decreased mainly due to higher fixed costs and weaker margins on the back of higher raw materials prices.

EBIT before special items of the **Nutrition & Care** segment was considerably above the first quarter of 2021. In the Care Chemicals division, EBIT before special items increased mainly as a result of the positive volume development. The earnings growth in the Nutrition & Health division was due to increased margins. These more than offset higher fixed costs, which mainly resulted from higher depreciation

following the startup of the vitamin A plant expansion in Ludwigshafen in the second quarter of 2021. Since the end of January 2022, we are again selling regular commercial volumes of Lutavit® A 1000 NXT. We will continue to ramp up our production volumes throughout 2022.

EBIT before special items in the **Agricultural Solutions** segment rose slightly compared with the strong first quarter of 2021. This was predominantly a result of the sales increase. Higher fixed costs dampened the positive earnings development.

[Slide 10: BASF Group Q1 2022: Financial figures]

In the following, I will turn to the financial figures of BASF Group in the first quarter of 2022 compared with the prior-year quarter in more detail:

- I will start with **EBITDA before special items** and **EBITDA**, which both reached 3.7 billion euros, compared with 3.2 billion euros in Q1 2021.
- **EBIT before special items** came in at 2.8 billion euros compared with 2.3 billion euros in the prior-year quarter.
- **Special items** in EBIT amounted to minus 34 million euros compared with minus 10 million euros in the first quarter of 2021.
- **EBIT** increased by 20.5 percent to 2.8 billion euros in Q1 2022.
- **Net income from shareholdings** decreased from plus 68 million euros in Q1 2021 to minus 797 million euros in Q1 2022. The decline was driven by impairment charges relating to assets of Wintershall Dea.
- **Net income** amounted to 1.2 billion euros, compared with 1.7 billion euros in the prior-year quarter. The decrease was mainly driven by the impairment charges I just mentioned.

- The **tax rate** was 29.6 percent compared with 19.4 percent in Q1 2021. The increase in the tax rate was particularly driven by the loss in net income from shareholdings, which is an after-tax position. This led to a lower income before income taxes without affecting the income tax.
- **Reported earnings per share** declined from 1 euro and 87 cents in the prior-year quarter to 1 euro and 34 cents in Q1 2022. Adjusted EPS rose from 2 euros to 2 euros and 70 cents.
- **Cash flows from operating activities** improved compared with the prior-year quarter.

[Slide 11: Cash flow development in Q1 2022]

Let's look at the details of our cash flow development in Q1 2022 compared with the prior-year quarter.

Cash flows from operating activities amounted to minus 290 million euros, an improvement of 235 million euros compared with the prior-year quarter. The improvement was mainly driven by the better operational performance and comes despite the high cash tied up in working capital resulting from increased input costs and strong sales growth. The non-cash-effective impairments at Wintershall Dea are eliminated in miscellaneous items, together with the regular at equity results. If the impairments had instead been eliminated in net income, net income would have been 0.6 billion euros higher than in the prior-year quarter.

Cash flows from investing activities amounted to minus 579 million euros in the first quarter of 2022, after minus 435 million euros in the prior-year quarter. Payments made for property, plant and equipment and intangible assets rose by 32 percent to minus 603 million euros.

Cash flows from financing activities amounted to 2.7 billion euros, an increase of almost 2 billion euros, mainly due to higher financial and similar liabilities.

Free cash flow improved by 88 million euros to minus 893 million euros in Q1 2022.

[Slide 12: Strong balance sheet]

Turning to our balance sheet at the end of March 2022 compared with year-end 2021:

- Total assets increased by 6.6 billion euros to 94.0 billion euros.
- Noncurrent assets amounted to 51.3 billion euros, a decrease of 1.1 billion euros mainly resulting from the impairment charges related to assets of Wintershall Dea.
- Current assets increased by 7.7 billion euros to 42.7 billion euros, primarily due to higher trade accounts receivable. These rose by 3.4 billion euros, mainly due to seasonal effects in the Agricultural Solutions segment. In addition, cash and cash equivalents, other receivables and miscellaneous assets as well as inventories contributed to the increase.
- Net debt increased by 1.9 billion euros to 16.3 billion euros at the end of March 2022.
- The equity ratio was 45.3 percent compared with 48.2 percent at the end of 2021.

And now I will hand back to Martin for the outlook.

Martin Brudermüller

[Slide 13: Outlook 2022 for BASF Group]

The global macroeconomic outlook is currently subject to very high uncertainty. In particular, it is impossible to predict the further development of the war in Ukraine and its impact on the prices and availability of energy and raw materials.

Consequently, we are currently maintaining our macroeconomic assumptions for the 2022 business year. BASF Group's sales and earnings forecast for the 2022 business year, as published in the BASF Report 2021, is being maintained:

- Sales of between 74 billion euros and 77 billion euros
- EBIT before special items of between 6.6 billion euros and 7.2 billion euros
- ROCE of between 11.4 percent and 12.6 percent
- CO₂ emissions of between 19.6 million metric tons and 20.6 million metric tons

We are now glad to take your questions.