

News Release

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BASF Fall Conference Call on 3rd Quarter 2018, Ludwigshafen

BASF Group increases sales – earnings below prior-year quarter

- **Sales grow to €15.6 billion (plus 8%), largely driven by higher sales prices in all segments (plus 6%) as well as higher volumes (plus 2%)**
- **EBIT before special items of €1.5 billion (minus 14%), mainly due to lower contribution from the Chemicals segment**
- **Net income of €1.2 billion (minus 10%)**

2018 outlook adjusted following signing of agreement to merge Wintershall and DEA:

- **Slight sales growth**
- **Slight decrease in EBIT before special items**
- **Considerable decline in EBIT**

Presentations by

Dr. Martin Brudermüller, Chairman of the Board of Executive Directors, and
Dr. Hans-Ulrich Engel, Chief Financial Officer of BASF SE

The spoken word applies.

Ladies and gentlemen,

Hans Engel and I would like to welcome you to our conference call today to discuss the third quarter, which was characterized by some special factors. During the period, we completed the acquisition of significant businesses and assets from Bayer and reached an agreement on the merger of Wintershall and DEA. After the transaction agreement was signed, it was necessary to adjust our financial reporting retroactively as of January 1, 2018. The prior-year figures were also restated accordingly. Throughout the entire third quarter, we had to struggle with low water levels in the Rhine River, which led to production restrictions and higher transportation costs. And the reporting period is being compared to a very strong third quarter of 2017, when the business climate was considerably more favorable in comparison.

Business development of BASF Group in the 3rd quarter of 2018

And now let's turn to BASF's business development: Compared with the third quarter of 2017, BASF Group sales rose by 8% to €15.6 billion. This was primarily attributable to higher sales prices in all segments. Volumes growth and the acquisition of the Bayer businesses in August 2018 also contributed to the sales increase. Negative currency effects had an offsetting impact.

Income from operations (EBIT) before special items declined by €232 million to €1.5 billion, mainly due to the significantly lower contribution from the Chemicals segment. EBIT before special items also decreased considerably in the Functional Materials & Solutions and Agricultural Solutions segments, but fell only slightly in the Performance Products segment. This was partially offset by improved earnings in Other.

Special items in EBIT totaled minus €75 million in the third quarter of 2018, compared with €122 million in the prior-year quarter. In addition to the integration costs incurred in connection with the acquisition of significant businesses and assets from Bayer, expenses for restructuring measures and other charges also contributed here. The prior-year quarter included special income in the Performance Products segment from the transfer of BASF's leather chemicals business to the Stahl group.

Compared to the third quarter of 2017, EBIT therefore declined by €429 million to €1.4 billion. Income from operations before depreciation, amortization and special items (EBITDA before special items) decreased by €254 million to €2.3 billion and EBITDA by €465 million to €2.2 billion.

Activities to further develop BASF's portfolio

Ladies and gentlemen,

I would now like to discuss the important steps we took in the third quarter to further develop our portfolio. For example, in August, we completed the acquisition of significant businesses and assets from Bayer, which generated sales of €2.2 billion in 2017. These include seeds for cotton, canola (oil-seed rape), soybeans and vegetables as well as non-selective herbicides, products for nematocidal seed treatment, biotechnology and digital farming. The all-cash purchase price amounts to a total of €7.6 billion, excluding any outstanding purchase price adjustments. In connection with the acquisition, we renamed the division from Crop Protection to Agricultural Solutions and established a new global business unit for seeds and traits.

The acquisition of the Bayer activities represents an excellent strategic expansion of our strong Agricultural Solutions portfolio and thus increases our innovation potential. Overall, we can offer our customers an even more comprehensive and attractive portfolio. This acquisition transforms BASF in agriculture. It strengthens our market position in agricultural solutions and creates new growth opportunities.

On September 27, 2018, we signed a transaction agreement with LetterOne to merge our respective oil and gas businesses, Wintershall and DEA, in a joint venture. It will operate under the name Wintershall DEA. In 2017, the combined business of Wintershall and DEA had pro forma sales of €4.7 billion, income from operations before depreciation and amortization (EBITDA) of €2.8 billion and net income of €740 million. The merger will create the leading Germany-based independent company in the European oil and gas sector. Combined, the two businesses will be even more competitive and profitable. We expect the closing of the transaction in the first half of 2019, subject to the approvals of several authorities. Until closing, Wintershall and DEA will continue to operate as independent companies.

The merger control proceedings are ongoing for BASF's planned acquisition of Solvay's polyamide business. Authorities in eight countries have already approved the transaction. In the ongoing European Commission proceedings, we have offered to refrain from acquiring certain parts of Solvay's European polyamide business, including innovation capabilities and manufacturing assets in the intermediate and engineering plastics business. The European Commission is examining BASF's offer and currently submitting it for market testing before completing its review procedure in early 2019. By complementing the engineering plastics portfolio, enhancing the access to key growth markets in Asia and South America as well as strengthening the value chain through backward integration into key raw materials such as ADN (adipodinitrile), BASF would still achieve its key strategic objectives.

We have also submitted the necessary merger control applications for the merger of BASF's paper wet-end and water chemicals business with the company Solenis, as agreed in May 2018. Pending approval from the authorities, this transaction is expected to close at the end of 2018 at the earliest.

A few days ago, we announced that Harjavalta, Finland, will be the location of our first site to produce battery materials for the European automotive market. The plant will be constructed adjacent to the nickel and cobalt refinery owned by Norilsk Nickel (Nornickel). With the investment in Harjavalta, BASF will be present in all major regions with local production and increased customer proximity. This will further support the rapidly growing electric vehicle market. This investment is part of BASF's €400 million multi-step investment plan announced last year. Production is planned to start up in late 2020, enabling the supply of approximately 300,000 full electric vehicles per year with BASF battery materials.

As part of our active portfolio management, we continuously examine whether businesses would have better development opportunities in other constellations, for example, in joint ventures or outside of BASF. As such, we have decided to evaluate strategic options for our construction chemicals business. We are doing this to ensure the successful and profitable development of this business area in the long term and to be able to take advantage of the very good opportunities the market offers. The Construction Chemicals division comprises admixture systems and construction systems. It generated sales of €2.4 billion in 2017, has around 7,000 employees and is active in 60 countries. The outcome of the review is open,

meaning that we are considering the possibility of merging with a strong partner as well as the option of a divestiture. We strive to sign an agreement in 2019.

Outlook for the full year 2018

Growth in industrial production fell short of our expectations in the third quarter of 2018, primarily due to developments in the automotive industry in September in particular. The introduction of new emission standards had an impact in Europe. The effects of the trade conflict between the United States and China are also showing. This is leading to a slowdown in economic growth in Asia in particular, mainly in China.

We have therefore adjusted our assessment of the global economic environment in 2018 as follows (forecast from the BASF Half-Year Financial Report 2018 in parentheses):

- Growth in gross domestic product: 3.0% (3.0%)
- Growth in industrial production: 3.1% (3.2%)
- Growth in chemical production: 3.1% (3.4%)
- Average euro/dollar exchange rate of \$1.20 per euro (\$1.20 per euro)
- Average Brent blend oil price for the year of \$70 per barrel (\$70 per barrel)

The signing of the definitive transaction agreement on the merger of Wintershall and DEA reduces the BASF Group's sales and EBIT by the contribution of its oil and gas activities – retroactively as of January 1, 2018, and with the prior-year figures restated – due to their presentation as discontinued operations.

As a result of this, at the end of September we adjusted the BASF Group's forecast for the full year 2018 made in the BASF Report 2017 (previous forecast from the BASF Report 2017 in parentheses):

- Slight sales growth (slight growth)
- Slight decrease in EBIT before special items (slight increase)
- Considerable decline in EBIT (slight decline)

Ladies and gentlemen,

The challenges in the macroeconomic environment are growing. You can see this in our third-quarter results. We are not satisfied with our business performance nor with our share price development. As we have already announced, we will be

hosting a press conference on November 20 to explain how we want to better position BASF and which specific measures we will be taking to do so. We look forward to seeing you here in Ludwigshafen on that date.

And now Hans Engel will tell you more about the segments and financial data.

[Presentation by Hans-Ulrich Engel]

Business development in the segments in the 3rd quarter of 2018

Sales in the **Chemicals** segment rose by 7% compared with the prior-year quarter and reached €4.3 billion. This was a result of higher prices in all divisions, especially in Petrochemicals. At €851 million, EBIT before special items was down by €251 million versus the strong third quarter of 2017. This was primarily due to lower margins for isocyanates in the Monomers division and steam cracker products in the Petrochemicals division. Earnings were also negatively impacted by higher fixed costs due, among other factors, to increased maintenance expenses. Improved earnings in the Intermediates division were unable to compensate for this.

Sales of around €4 billion in the **Performance Products** segment were on a level with the prior-year quarter. We achieved higher prices in all divisions; however, sales volumes decreased in the Nutrition & Health, Dispersions & Pigments and Care Chemicals divisions. Sales were also weighed down by currency and portfolio effects. EBIT before special items declined by 6% compared with the third quarter of 2017 to €360 million as a result of lower volumes, higher fixed costs and negative currency effects. Stronger margins had an offsetting effect. Excluding the negative currency effects, EBIT before special items was flat year on year.

In the **Functional Materials & Solutions** segment, sales rose by 5% compared with the third quarter of 2017 to reach €5.2 billion. This was primarily attributable to higher prices in all divisions, especially in Catalysts and Performance Materials. Volumes also increased, while sales were weighed down by currency effects. Despite volumes growth, EBIT before special items of €347 million was considerably below the level of the prior-year quarter, mainly due to higher fixed costs and lower margins in almost all divisions. However, we increased earnings from quarter to quarter over the course of 2018 and continuously reduced the gap to the prior-year quarter.

Sales of €1.2 billion in the **Agricultural Solutions** segment were up considerably by 26% compared with the third quarter of 2017. This was attributable to portfolio effects from the transaction with Bayer, a higher price level and slightly increased volumes. Negative currency effects continued to weigh on sales development. Despite the seasonally strongly negative results of the businesses acquired from Bayer, EBIT before special items was down only €26 million on the prior-year quarter. Income generated by BASF operations excluding Bayer activities rose considerably compared with the third quarter of 2017. Excluding the negative currency effects, EBIT before special items also increased slightly overall.

Following the signing of the agreement with LetterOne, the sales and EBIT of the oil and gas business are no longer included in the respective figures for the BASF Group – retroactively as of January 1, 2018, and with the prior-year figures restated. These activities are also therefore no longer presented as a segment in our reporting. Nevertheless, I would like to briefly discuss the results. Until closing, the Wintershall Group's income after taxes will be presented in the income before minority interests of the BASF Group as a separate item ("income before minority interests from discontinued operations"). In the third quarter of 2018, income before minority interests from discontinued operations increased by €86 million to €235 million. This was mainly attributable to higher prices and volumes as well as an offshore lifting in Libya in the third quarter of 2018; in the previous year, this took place in the second quarter. The price of a barrel of Brent crude oil averaged \$75 in the third quarter of 2018 (third quarter of 2017: \$52). Gas prices on the European spot markets also saw strong gains compared with the prior-year quarter.

Sales of €827 million in **Other** were considerably above the prior-year quarter (up 51%), mainly as a result of higher sales volumes and prices in raw materials trading. EBIT before special items improved considerably, from minus €203 million to minus €83 million, primarily as a result of valuation effects from our long-term incentive program.

Development of BASF Group's earnings and cash flow

Net income declined by €136 million to €1.2 billion. Earnings per share amounted to €1.31 (third quarter of 2017: €1.45). Earnings per share adjusted for special items

and amortization of intangible assets amounted to €1.51 (third quarter of 2017: €1.40).

In the third quarter of 2018, **cash flows from operating activities** amounted to €2.9 billion, €865 million below the figure for the prior-year quarter. This was mainly due to the change in net working capital, in particular the year-on-year increase in cash tied up in inventories and the decline in cash released from receivables. **Free cash flow** amounted to €2 billion, compared with €2.8 billion in the prior-year quarter.

The BASF Group's total assets rose by €6.8 billion to €85.6 billion. The acquisition of significant businesses and assets from Bayer contributed €8 billion to this increase. As a result of the purchase price payment to Bayer, net debt increased by €6.5 billion as against December 31, 2017, to €18 billion. The equity ratio of the BASF Group was a solid 43% as of September 30, 2018.

Ladies and gentlemen,

Martin Brudermüller and I are now happy to take your questions.