

BASF Media Telephone Conference on second quarter 2022

# Speech

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Presentations by

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

The spoken word applies.

**Martin Bruder Müller**

Good morning ladies and gentlemen,

Hans Engel and I would like to welcome you to our conference call presenting our results for the second quarter of 2022 and providing further details about our business development. BASF already published preliminary second-quarter figures on July 11.

In the second quarter, we again delivered strong earnings – despite continued high raw materials and energy prices. To put the BASF team's performance into perspective, let's begin with a snapshot of the current macroeconomic environment.

**[Slide 2: Snapshot of the current market environment]**

Compared to the first quarter of 2022, the uncertainty and intransparency regarding the short- and mid-term economic development have increased. The main reasons for this are the ongoing war in Ukraine, the risks associated with natural gas supplies in Europe and the resulting high prices for raw materials and energy. In addition, there are the lockdowns in China due to the Chinese government's Zero-Covid strategy.

Despite all these challenges, the demand from our customer industries remained generally solid. However, global automotive production in the second quarter of 2022 declined by 6 percent compared to the preceding quarter. For 2022, IHS Markit has reduced its forecast for global automotive production to 80.8 million vehicles. This represents a reduction of around 2.1 million units compared to its forecast at the beginning of the year.

In the second quarter of 2022, China's economic growth was negatively impacted by the severe lockdowns in several large cities, particularly in Shanghai. We expect China's economic development to improve again in the second half of 2022. We anticipate the Chinese government will react with a more differentiated strategy to tackle the coronavirus and with dedicated financial stimulus measures, particularly for the automotive industry.

To counter high inflation, central banks have started to raise interest rates. This will increasingly impact demand in the coming months and reduce growth in 2023.

**[Slide 3: Global chemical production increased by 1.3% in Q2 2022]**

Before I turn to BASF's financial performance, let's briefly look at chemical production by region in the second quarter of this year.

According to the currently available data, global chemical production increased by just 1.3 percent. Despite a strong comparison base and the pandemic-related lockdowns, chemical production in China increased by 3.1 percent. It also grew by 2.5 percent in North America. By contrast, chemical production declined by 2.6 percent in Europe and by 0.6 percent in Asia excluding China.

**[Slide 4: Q2 2022: BASF again with strong earnings despite continued high prices for raw materials and energy]**

I will now move on to BASF's business development in the second quarter of 2022.

Our upstream and downstream businesses successfully implemented further price increases and largely passed on higher prices for raw materials and energy.

Due to the lockdowns in China, our sales volumes in the country declined by 17.4 percent in the second quarter of 2022 compared with an increase of 10.4 percent in the same quarter of 2021. This change was driven by significantly lower sales volumes in April. However, sales volumes recovered again strongly in May and June.

In the second quarter of 2022, EBIT before special items was at the level of the prior-year quarter and amounted to €2.3 billion. The high earnings were driven by the Agricultural Solutions, Nutrition & Care and Industrial Solutions segments. In addition, Other contributed to the positive performance in the second quarter of 2022.

I would like to add that the positive business development in the second quarter of 2022 continued in July.

**[Slide 5: Emergency Plan for Gas of the German government]**

Ladies and gentlemen,

Since we are often asked about this, I would like to stress once again: Currently, all of BASF's European sites are supplied with natural gas in line with demand. We are

monitoring developments very closely, in particular at our largest site in Ludwigshafen, where we use considerable amounts of natural gas.

In this context, I will therefore briefly address the details of the “alert” level regarding gas supply declared by the German government on June 23. This level, the second stage of the Emergency Plan for Gas comprises four key measures that leave responsibilities and market mechanisms intact.

The first measure obliges all market participants, such as gas suppliers, gas traders or network operators, to take coordinated action to avoid temporary and regional gaps in supply in Germany and to achieve the target fill level of 85 percent for German gas storage facilities on October 1. To this end, the market area manager Trading Hub Europe has received an additional credit line of €15 billion from the federal government to purchase gas.

Second, market participants, including BASF, are obliged to participate in a crisis team that must report to the Federal Ministry of Economic Affairs on a daily basis.

Third, the German government is taking legal measures to restart coal-fired power plants in Germany to contribute to electricity production.

And fourth, Germany’s Federal Network Agency wants to open a market platform where gas that is not required by companies can be auctioned.

Let’s also take a look at the third and final “emergency” stage of the Emergency Plan for Gas. This stage comes into force when there is an exceptionally high demand for natural gas, a significant disruption in natural gas supplies or other significant deterioration in the supply situation. In such cases, according to the regulations, non-market-based measures must be taken to ensure natural gas supplies to protected customers in particular. According to the Ministry for Economic Affairs, the Federal Network Agency will then become the “federal load dispatcher” and will regulate the distribution of natural gas in coordination with the network operators. In this process, certain consumer groups are particularly protected. These groups include households, social institutions such as hospitals, and gas-fired power plants that also supply heat to households. But they also include industrial companies that manufacture products that are crucial for society. In this case, gas is allocated according to the relevance of the company to society.

We are coordinating closely with government agencies, suppliers and network operators. Should the German government declare the third and final “emergency” stage, we currently expect that BASF would still receive sufficient natural gas to maintain operations at the Ludwigshafen site at a reduced load. We are also confident with regard to Schwarzheide, our second-largest site in Germany. Here, for example, we are able to generate 100 percent of our power and steam demand using fuel oil. For BASF production sites outside of Europe, we expect hardly any impact in the event of a European gas shortage.

**[Slide 6: Update on mitigation measures to reduce natural gas demand]**

Now we come to further details about our natural gas demand in Europe. And I will give an update on our mitigation measures in the event of natural gas supply shortages.

In 2021, BASF’s natural gas demand in Europe amounted to 48 terawatt hours. Of this, 37 terawatt hours were consumed in Ludwigshafen. In Europe, we use around 60 percent of our natural gas demand to produce power and steam; the remaining 40 percent is used as feedstock. At our Verbund site in Ludwigshafen the split is around 50 percent for each of the two categories. If the natural gas supply does not fall below around 50 percent of our maximum demand, we will be able to operate the Verbund in Ludwigshafen with reduced load.

Ladies and gentlemen,

We have taken various measures to mitigate risks:

Where technically feasible, the preparations to substitute natural gas – for example, with fuel oil – are progressing well and technical optimizations are in place.

In addition, we have developed scenarios and implemented measures to optimize production at our European sites. We are reducing production at facilities that require large volumes of natural gas, such as ammonia plants. This is standard practice in the chemical industry, for example, when margins are not economically viable.

The slide shows the largest consumers of natural gas at the Ludwigshafen site. Around 25 percent of the natural gas required as feedstock is used to produce ammonia. In contrast to some other natural gas consumers at the site, external sourcing of ammonia is possible. Externally sourced ammonia is therefore an

important element of our risk mitigation considerations in the event of a major curtailment of natural gas volumes.

The second-largest consumer is the acetylene plant, followed by syngas production. Together, both plants account for nearly 25 percent of the total natural gas demand as a feedstock.

Power and steam production in Ludwigshafen can partially be switched to fuel oil, thus substituting around 15 percent of the natural gas otherwise needed for this.

**[Slide 7: Natural gas prices in Europe remained at a very high level]**

Compared with the first quarter of 2022, natural gas prices declined slightly in the second quarter of 2022. However, they remain very high.

In the second quarter of 2022, this resulted in €800 million in additional costs for the European BASF sites compared with the same quarter of 2021. In comparison to the second quarter of 2020, the increase was €1 billion. To mitigate these higher costs, we have implemented and will continue to implement further price increases.

**[Slide 8: Q2 2022: Sales volumes declined by 4.4% but were almost stable excluding precious metals volumes]**

Now we come to volume development by segment. Sales volumes of the BASF Group declined slightly in the second quarter of 2022. This was mainly due to lower precious metals volumes, which accounted for 99 percent of the volume decline in the Surface Technologies segment. Excluding this effect, BASF Group sales volumes were almost stable with minus 0.2 percent compared with the second quarter of 2021. On a segment level, Agricultural Solutions and Nutrition & Care saw a positive volume development.

Now I would like to hand over to Hans Engel, who has further details for you.

**Hans-Ulrich Engel**

Good morning ladies and gentlemen,

**[Slide 9: Q2 2022: Sales increased considerably; EBIT before special items at the high level of the prior-year quarter]**

Let me start with our sales and earnings development in the second quarter of 2022.

Sales increased by 16 percent to €23 billion, primarily due to 13 percent higher sales prices. All operating divisions were able to raise their prices, except for Catalysts, where lower prices for precious metals led to a decline in sales prices. Currency effects of plus 7 percent also contributed to the positive sales development and were mainly related to the U.S. dollar. Lower sales volumes, mainly due to reduced precious metals volumes, had a slightly offsetting effect.

As previously mentioned, BASF Group achieved EBIT before special items of €2.3 billion, matching the level of the very strong prior-year quarter.

At a segment level, Agricultural Solutions and Nutrition & Care considerably increased EBIT before special items compared with the prior-year quarter, and Industrial Solutions slightly increased earnings. The Chemicals, Materials and Surface Technologies segments recorded considerably lower EBIT before special items in the second quarter of 2022. In the two upstream segments, we saw a normalization in margins compared with the prior-year quarter that was more pronounced in Materials than in Chemicals. In the Materials segment, lower demand from the automotive industry contributed to the decline in earnings.

In the following, I will comment on the business development of the downstream segments in more detail and give some additional information.

### **[Slide 10: Surface Technologies]**

I will start with the Surface Technologies segment. Sales in this segment declined by 8 percent and amounted to €5.4 billion. Lower volumes and lower prices in the Catalysts division were the main driver for this development. Positive currency and portfolio effects had an offsetting effect. The Coatings division achieved considerable price increases and slightly higher volumes.

EBIT before special items declined from €289 million in the second quarter of 2021 to €227 million in the second quarter of 2022 on account of lower earnings in the Coatings division.

In the light of the strong – and unfortunately, increasingly dilutive – impact of precious metal sales on BASF Group's key performance indicators, we will start disclosing additional information. As of the second quarter of 2022, sales in the Surface Technologies segment will be broken down to reflect sales excluding precious metal trading and precious metal sales in the mobile emissions catalysts

business.

Using the adjusted second quarter 2022 sales figures for the Surface Technologies segment as a basis, the segment's EBITDA margin before special items increases by 10.1 percentage points to 16.8 percent. For the first half of 2022, it rises by 11.2 percentage points to 18.2 percent.

For the BASF Group, the EBITDA margin before special items based on the adjusted sales in the Surface Technologies segment excluding precious metals rose in the second quarter of 2022 by 2.4 percentage points to 16.7 percent. In the first half-year, the increase was 2.6 percentage points to 17.9 percent.

We believe that this enhanced disclosure helps investors to better understand the earnings profile of the business.

You can find more information in the BASF Half-Year Financial Report on page 49.

### **[Slide 11: Nutrition & Care]**

In the Nutrition & Care segment, sales increased considerably because of significantly higher prices and positive currency effects. Volumes declined slightly in the Care Chemicals division and increased slightly in the Nutrition & Health division. EBIT before special items increased considerably due to significantly higher earnings in the Care Chemicals division.

Let me also address the changes in our Nutrition & Health division that we have recently announced: The division will strengthen its commitment as a leading ingredients partner to the nutrition and flavor and fragrance industries. Going forward, Nutrition & Health will consist of three focused global business units for nutrition ingredients, aroma ingredients and pharma solutions.

I would now like to give you some details about the further development of this division.

### **[Slide 12: Nutrition & Health will have three pillars – nutrition, aroma, pharma – with a focus on key ingredients]**

In Nutrition Ingredients, we will act as a strong ingredients partner to the animal and human nutrition industries. We will strengthen our core product platforms, which are deeply rooted in the BASF Verbund, and invest in vitamins and feed enzymes.



Our food and health performance ingredients portfolio, which is produced at our site in Illertissen, Germany, plays a vital role in addressing growing trends in human nutrition. However, the business has limited portfolio synergies and integration into the BASF Verbund. Therefore, strategic options will be evaluated to identify suitable opportunities for this business.

In Aroma Ingredients, we will further build on our strong ingredients position to address sustainability trends in the flavor and fragrance industries. We will focus on growth investments in the citral value chain and on innovation to support the sustainability needs of our customers.

In Pharma Solutions, we will continue to offer our broad portfolio of excipients based on core value chains and selected active ingredients. For biopharmaceuticals we will focus on growth and innovation. In addition, we will partner with customers in developing effective and reliable formulations, also with increasing use of digital solutions.

### **[Slide 13: Agricultural Solutions]**

The Agricultural Solutions segment recorded a strong second quarter. Significantly higher prices in all regions, paired with favorable currency effects and higher volumes, led to a positive sales development. This reflects overall strong demand in the northern hemisphere in 2022. EBIT before special items increased considerably, mainly driven by higher sales offsetting higher costs.

Global agricultural markets continue to be healthy with robust commodity prices, while challenges from global raw material and transportation capacity shortages and inflationary cost increases remain. We look optimistically into the second half and expect a good start into the season in South America.

### **[Slide 14: BASF Group Q2 2022 and H1 2022: Financial figures]**

Ladies and gentlemen,

Let us take a look at the key financial figures for BASF Group in the second quarter of 2022 as compared to the prior-year quarter:

I will start with EBITDA before special items, which increased by €76 million and amounted to €3.3 billion. EBITDA reached €3.4 billion, an increase of 6 percent.

At €2.3 billion, EBIT before special items reached the high level of the prior-year

quarter. Special items in EBIT amounted to plus €11 million compared with minus €39 million in the second quarter of 2021. EBIT increased by 1.5 percent to €2.4 billion in the second quarter of 2022.

Net income from shareholdings increased by €477 million to €433 million. The considerable increase compared with the prior-year quarter primarily resulted from the higher income from our shareholding in Wintershall Dea, which amounted to €446 million.

Net income amounted to €2.1 billion, compared with €1.7 billion in the prior-year quarter. The increase was mainly driven by higher net income from shareholdings.

**[Slide 15: Cash flow development in Q2 2022 and H1 2022]**

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

Cash flows from operating activities amounted to €1.2 billion, a decrease of €1.3 billion compared with the prior-year quarter. The decline was mainly driven by higher bonus payments, which were almost €1 billion higher than in the prior-year quarter. Overall, changes in net working capital led to a cash outflow of €1.7 billion compared with a cash inflow of €9 million in the second quarter of 2021.

Cash flows from investing activities amounted to minus €639 million in the second quarter of 2022 compared with plus €323 million in the prior-year quarter. In the second quarter of 2021, proceeds from divestitures, particularly from the divestment of BASF's pigments business, had led to the positive development.

Payments made for property, plant and equipment and intangible assets rose by 16 percent to €892 million. Free cash flow thus decreased by €1.4 billion to €336 million in the second quarter of 2022. The decline was mainly caused by the lower cash flows from operating activities.

And now I will hand back to Martin Bruder Müller.

**Martin Bruder Müller****[Slide 16: Main construction phases of the new Verbund site in Zhanjiang, China – stepwise approach]**

Ladies and gentlemen,

I would now like to give you an update on the progress of construction at our new Verbund site in Zhanjiang, China.

As planned, and despite all Covid-19 challenges, the first plant in the Performance Materials segment is currently starting up and will produce engineering plastics. The second plant for thermoplastic polyurethanes will come on stream in mid-2023.

Following the final approval for the construction of the planned Verbund site in Zhanjiang, we are now starting construction of the actual Verbund. This phase includes what we call the heart of the Verbund – the steam cracker – as well as several value chains for petrochemicals, intermediates and chemicals for consumer products and the related infrastructure. The plan is to start up this core complex in a sequence as of the end of 2025.

Further expansion and diversification of the value chains with additional product lines is already in preparation. These are to be implemented in a second phase that is scheduled to go on stream from 2028 onwards.

BASF will implement the most advanced process technologies and will power the entire Zhanjiang Verbund site with 100 percent renewable electricity. By utilizing the latest digital technologies and applying the highest safety standards, the Zhanjiang site is intended to be developed as a role model for smart manufacturing and sustainable production.

The new Verbund site in Zhanjiang will be a key platform for our company's long-term profitable and sustainable growth, not only in Greater China but for the BASF Group as a whole.

**[Slide 17: Outlook 2022 for BASF Group]**

Ladies and gentlemen,

To conclude, I will present you our adjusted outlook for 2022.

We now expect global economic growth and chemical production to grow by 2.5 percent each. Global industrial production is expected to grow by 3.0 percent. We anticipate an average oil price of \$110 per barrel of Brent crude and an exchange rate of \$1.07 per euro.

For the second half of the year, BASF anticipates a gradual cooling of economic development globally, but much more pronounced in Europe. This assumes that there are no severe restrictions resulting from new lockdowns in China and that natural gas shortages do not lead to production shutdowns in Europe.

Due to the very positive business development in the first half of 2022, we are adjusting the forecast for the BASF Group for the 2022 business year. Based on the above-mentioned assumptions, we are now forecasting higher sales of between €86 billion and €89 billion for 2022. The lower end of the range for BASF Group's EBIT before special items was increased to €6.8 billion from €6.6 billion; the upper end remains unchanged at €7.2 billion euros. We are confident that we can achieve the upper end of this range.

Return on capital employed (ROCE) is likely to be lower at 10.5 percent to 11.0 percent because of the higher capital base driven by price and currency effects. We expect lower CO<sub>2</sub> emissions of between 18.4 million metric tons and 19.4 million metric tons in 2022.

As additional information, I would like to note that we expect capex to amount to less than €4.0 billion in 2022 – lower than our original planning of €4.6 billion.

Current developments, mainly driven by the war in Ukraine and its impact on energy and raw materials prices and the availability of raw materials, especially in Europe, may lead to additional headwinds, deviating from the assumptions presented above. In particular, risks could arise from production stoppages at major European sites as a result of further restrictions to European gas supplies from Russia. In this case, the loss of European capacities could be partially compensated for by higher plant capacity utilization at sites outside of Europe. Further risks could arise from the future course of the coronavirus pandemic and new measures to contain the number

of infections. Opportunities could arise from continued high margins, even in the case of an economic slowdown. We are responding to the economic slowdown with cost reduction measures.

Hans Engel and I now look forward to your questions