

BASF Media Telephone Conference on third quarter 2022

# Speech

P383/22e  
October 26, 2022

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.

**Martin Bruder Müller**

Good morning ladies and gentlemen,

Hans Engel and I would like to welcome you to our conference call. Two weeks ago, BASF released preliminary figures for the third quarter of 2022. Today, we want to present the key results and provide further details regarding our business development.

BASF achieved solid EBIT before special items in the third quarter of 2022 despite the continued strong headwinds from high raw materials and energy prices as well as slowing economic activity. Our downstream segments improved earnings considerably. In the upstream segments, however, earnings declined significantly from the very high levels in the prior-year quarter.

Let's start with a snapshot of the currently challenging market environment.

**[Slide 2: Challenging market environment]**

Compared with the second quarter of this year, the global macroeconomic environment has significantly weakened. There are no indications of improvement from the markets in the short term.

High inflation and the sharp increase in energy prices led to a slowdown in consumer demand, particularly in Europe. China recorded growth, but partly because of strong base effects due to power shortages in the prior-year quarter, and its economic development continued to be impacted by restrictions to reduce the spread of COVID infections.

Global automotive production was a positive surprise in the third quarter of 2022: It increased in all regions compared with the prior-year quarter. But this was supported by base effects, as chip shortages had peaked in the third quarter of 2021. After the COVID-related lockdowns in the second quarter of 2022, automotive production in China developed significantly better than anticipated. IHS Markit has adjusted its forecast for global automotive production in 2022 to 81.8 million units. Compared with 2021, this would be an increase of around 6 percent.

Central banks have further raised interest rates in recent months. This will increasingly dampen construction and consumer spending in the coming months and will likely result in lower growth in 2023.

**[Slide 3: Global chemical production grew by 2.0% in Q3 2022]**

Let's now briefly look at chemical production by region in the third quarter of 2022.

Based on the currently available data, global chemical production grew by 2 percent compared with a strong prior-year quarter. While China and North America recorded growth, chemical production in Europe and in Asia excluding China declined.

According to recently released data, growth in mainland China was surprisingly high, partly due to the industrial power cuts in the prior-year quarter. In Europe, chemical production declined on account of lower demand and high energy prices, which in some cases led to reduced or temporarily shut-down production at different stages of the value chains. Lower demand and increased energy prices were also the main reasons for the decline in Asia excluding China.

**[Slide 4: Moderate demand growth in key customer industries in Q3 2022]**

Ladies and gentlemen,

Let's now look at the development of BASF's key customer industries: The transportation industry continues to benefit from pent-up demand globally, particularly in China. As mentioned, global automotive production increased compared with the low level of 2021 but is still restricted by semiconductor availability.

In agriculture, the demand environment looks solid overall. However, prices for some crop commodity products have come down recently but remain on an above-average level.

The construction industry, particularly in North America and Europe, is deteriorating because of increased interest rates. In China, the overheated residential segment continues to decline.

In summary we can say, construction and consumer spending – with the exception of automotive – are weakening.

**[Slide 5: Q3 2022: BASF achieved solid EBIT before special items despite continued high raw materials and energy prices]**

I will now move on to BASF's business development.

In the third quarter of 2022, EBIT before special items declined by €517 million and amounted to €1.3 billion. Additional costs for natural gas in Europe are one major reason for this decline.

The solid EBIT before special items in the third quarter came primarily from BASF's downstream segments. They considerably improved earnings, mainly on account of further price increases. In line with our guidance for the full year, earnings in the upstream segments declined considerably with softening demand – from the very high levels in the prior-year quarter.

**[Slide 6: Natural gas prices in Europe increased further compared with already elevated levels in Q3 2021]**

Ladies and gentlemen,

Natural gas prices increased further compared with the already elevated price levels in the third quarter of 2021. In the first nine months of 2022, the additional costs for BASF's European sites amounted to around €2.2 billion compared with the same period in 2021.

To mitigate these higher costs, we have implemented further price increases. We continue to work on technical optimization of our plants and processes, particularly at our largest Verbund site in Ludwigshafen. Reduced plant utilization in the third quarter of 2022 also helped to limit the burden of high natural gas prices in cases where the market did not absorb the additional costs.

**[Slide 7: Operational earnings in region Europe and in Germany under pressure due to various challenges]**

I will now give you additional information on earnings development in the regions.

If you look at the shares for 2015 on the left side of the bar chart, you can see that Germany, Europe excluding Germany and the other regions each contributed around one-third to BASF Group's EBIT before special items in that year. In the strong year 2021, Europe including Germany contributed only one-third, while the other regions contributed two-thirds. In the course of 2022, earnings have softened further, and we saw a deterioration particularly in our German operations. In the third quarter of 2022, we recorded negative EBIT before special items of €130 million in Germany.

The lower earnings in Europe, and in Germany in particular, are due to a variety of reasons. In our recent announcement, we summarized them under the term “deteriorating framework conditions.” There are essentially three developments: First, the European chemical market has been growing only weakly for about a decade. In the period from January to August 2022, the chemical market shrank by 2.1 percent in the EU-27 states and by 6.8 percent in Germany compared with the same period in 2021.

Second, the significant increase in natural gas and electricity prices over the course of this year is putting pressure on chemical value chains. We expect structurally higher and volatile natural gas prices in Europe also in the mid and long term.

And third, uncertainties due to the enormous number of regulations planned by the E.U. are weighing on the chemical industry.

The current development underlines once again how important a balanced regional footprint is. The challenging framework conditions in Europe endanger the international competitiveness of European producers and force us to adapt our cost structures as quickly as possible and also permanently.

**[Slide 8: BASF takes decisive action with focus on Europe and Germany in particular]**

This is why we initiated a cost savings program focusing on Europe and on Germany in particular.

With this program, we aim to streamline non-production units in operating, service and R&D divisions as well as in the corporate center. The cost reduction measures will be fully implemented until the end of 2024; short-term cost savings will be implemented immediately. When completed, the program is expected to generate annual cost savings of €500 million, which corresponds to around 10 percent of our European costs in these categories. More than half of the cost savings are to be realized at the Ludwigshafen site.

We are currently developing further structural measures to adjust BASF’s production Verbund in Europe in the medium and long term to the changing framework conditions. We will thus ensure our future competitiveness and significantly reduce our consumption of natural gas. We are making great progress on this. We expect to communicate details in the first quarter of 2023.

At this point, I want to stress: We cannot stick our heads in the sand and hope that this difficult situation will resolve itself on its own. We, as a company, must act now. Our cost savings program aims to secure our medium- and long-term competitiveness in Germany and Europe. We must take decisive action to fulfill our responsibilities to our employees, shareholders and society.

Now I would like to hand over to Hans Engel, who will give you further information about our financial performance.

### **Hans-Ulrich Engel**

Good morning ladies and gentlemen,

Let me start with the sales for the BASF Group compared with the prior-year quarter.

#### **[Slide 9: Q3 2022: Sales increase mainly driven by higher prices and positive currency effects]**

In the third quarter of 2022, sales increased by 12 percent to €21.9 billion, mainly on account of higher prices and positive currency effects.

Sales prices increased by 10 percent. All divisions contributed, except for Catalysts. In this division, lower precious metals prices led to overall lower prices in the third quarter of 2022.

Currency effects of plus 8 percent also had a positive impact on sales and were mainly related to the U.S. dollar.

Portfolio effects of plus 0.9 percent were related to BASF Shanshan Battery Materials Co., Ltd., which was formed on August 31, 2021.

Sales volumes declined by 7 percent. Except for Agricultural Solutions, all segments recorded lower volumes. Excluding precious metals volumes, BASF Group sales volumes declined by 5 percent.

#### **[Slide 10: Q3 2022: BASF's downstream segments considerably improved earnings, while earnings in upstream segments declined considerably]**

Let's move on to our earnings development by segment in the third quarter of 2022 compared with the prior-year quarter.

The overall decline in EBIT before special items resulted from considerably lower contributions from the Chemicals and Materials segments. In the third quarter of

2022, these two segments contributed €600 million to BASF Group's EBIT before special items compared with €1.5 billion in the prior-year quarter. All downstream segments, as mentioned before, were able to improve earnings. They reached a combined total of €725 million compared with €395 million in the third quarter of 2021.

**[Slide 11: BASF Group Q3 2022 and Q1–Q3 2022: Financial figures]**

Let us now look at BASF Group's financial figures in the third quarter of 2022 compared with the prior-year quarter:

I will start with EBITDA before special items, which decreased by €446 million and amounted to €2.3 billion. EBITDA amounted to around €2.3 billion as well, a decrease of €474 million. EBIT before special items declined by 28 percent to €1.3 billion. Special items in EBIT amounted to minus €53 million compared with minus €43 million in the third quarter of 2021. EBIT decreased by 29 percent to €1.3 billion in the third quarter of 2022.

Income from non-integral companies accounted for using the equity method included a non-cash-effective impairment on BASF's shareholding in Wintershall Dea in the amount of about €740 million. This impairment results from the partial write-down of Wintershall Dea's 15.5 percent participation in Nord Stream AG, which operates the Nord Stream 1 pipelines. The operational result (after tax) of Wintershall Dea attributable to BASF rose by €533 million compared with the third quarter of 2021 to €630 million.

Net income from shareholdings improved in the third quarter of 2022 from €86 million to €102 million.

Net income amounted to €909 million, a decline of €344 million.

**[Slide 12: Cash flow development in Q3 2022 and Q1–Q3 2022]**

Let's now look at the details of our cash flow development.

Compared with the prior-year quarter, cash flows from operating activities improved by €405 million to €2.3 billion. The increase was mainly driven by cash inflows from changes in net working capital; in the prior-year quarter, there were cash outflows.

Cash flows from investing activities amounted to minus €680 million compared with minus €1.8 billion in the third quarter of 2021. In the prior-year quarter, we had a net

cash outflow of minus €627 million for acquisitions and divestitures, mainly due to the acquisition of 51 percent in BASF Shanshan Battery Materials. In the third quarter of 2022, we recorded a net cash inflow of €222 million for acquisitions and divestitures, mainly related to the proceeds from the sale of the kaolin minerals business.

Payments made for property, plant and equipment and intangible assets rose by 23 percent to €1 billion.

Free cash flow thus increased by €218 million to €1.3 billion.

And now I will hand back to Martin Brudermüller.

### **Martin Brudermüller**

#### **[Slide 13: Outlook 2022 for BASF Group unchanged]**

Ladies and gentlemen, let me conclude with the outlook.

In the third quarter of 2022, global economic activity weakened more significantly than expected. Against this background, BASF has adjusted its assessment of the global economic environment in 2022. We now expect GDP and industrial production each to grow by 2.5 percent. Global chemical production is expected to grow by not more than 2.0 percent, down from our previous assumption of 2.5 percent. We now anticipate an average oil price of \$100 per barrel of Brent crude and an average exchange rate of \$1.05 per euro.

Despite the significant weakening of the economic environment since the third quarter of 2022, we confirm BASF Group's forecast for the 2022 business year as published in July. We are forecasting sales of between €86 billion and €89 billion for 2022. BASF Group's EBIT before special items is expected between €6.8 billion and €7.2 billion. We continue to be confident that we can achieve the upper end of this range even though this has become more challenging in view of the current macroeconomic and geopolitical developments. Return on capital employed (ROCE) is likely to be between 10.5 percent and 11.0 percent. CO<sub>2</sub> emissions are expected between 18.4 million metric tons and 19.4 million metric tons in 2022.

Hans Engel and I are now happy to take your questions.