

News Release

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Good start for BASF in 2018

Fourth quarter 2017:

- Sales of €16.1 billion (plus 8% compared with prior-year quarter)
- EBIT before special items of €1.9 billion (plus 58% compared with prior-year quarter)

Full year 2017:

- Substantial volume growth in all segments
- Earnings per share of €6.62 (plus 50%);
adjusted earnings per share of €6.44 (plus 33%)
- Operating cash flow of €8.8 billion (plus 14%);
free cash flow of €4.8 billion (plus 34%)
- Proposed dividend of €3.10 for 2017 financial year (2016: €3.00)

Outlook 2018:

- Slight sales growth, mainly resulting from higher sales volumes
- EBIT before special items expected to be slightly above 2017 level

Following a successful 2017 business year, BASF has had a good start to the year 2018. “Last year, we achieved significant growth and were able to further increase our profitability. Moreover, we laid important groundwork for the future development of our company – in terms of both people and strategy,” said Dr. Kurt Bock, Chairman of the Board of Executive Directors of BASF SE, at the presentation of the 2017 Annual Report in Ludwigshafen.

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In the fourth quarter of 2017, BASF Group posted sales of €16.1 billion, which represents growth of 8% compared with the same quarter of 2016. Prices rose by 9%. BASF's sales volumes increased by 4%; this was driven by all segments with the exception of Oil & Gas. By contrast, negative currency effects were significantly higher and reduced sales by 5%. Income from operations (EBIT) before special items in the fourth quarter was €1.9 billion, up by 58% from the same period of the prior year. The significantly higher earnings in the Chemicals, Agricultural Solutions and Oil & Gas segments as well as in Other compensated for lower earnings in the Functional Materials & Solutions and Performance Products segments.

Economic activity picked up in many countries worldwide in 2017. "We took advantage of this upturn and markedly increased our full-year 2017 sales and earnings compared with the previous year," said Bock. Thanks to good demand, BASF sold greater volumes in all divisions and considerably increased its profitability. Higher prices, especially in the Chemicals segment, also contributed to this. Overall, BASF's sales grew by 12% to €64.5 billion. One contributing factor was the Chemetall business acquired at the end of 2016, which offers tailor-made solutions for metals surface treatment.

BASF's earnings rose even more sharply, by around one-third. The company achieved EBIT before special items of €8.3 billion, with a significant contribution coming from the Chemicals segment. Higher margins and volumes in the basic chemicals and intermediates businesses more than offset the lower margins in some of BASF's specialties businesses. Earnings in the chemicals business – which comprises the Chemicals, Performance Products and Functional Materials & Solutions segments – were significantly higher than in the previous year. EBIT before special items in this business was €7.3 billion, up by 26% versus the prior-year figure.

Earnings per share increased from €4.42 to €6.62, equivalent to a rise of 50%. Adjusted for special items and amortization of intangible assets, earnings per share amounted to €6.44, compared with €4.83 in the previous year.

Improved operating cash flow

Cash provided by operating activities improved by €1.1 billion year-on-year to €8.8 billion in 2017. This was due to the 50% increase in net income to €6.1 billion. In contrast with the previous year, the change in net working capital reduced cash flow. This was largely attributable to the higher level of cash tied up in inventories and trade accounts receivable for operational reasons.

Cash used in investing activities amounted to €4 billion in 2017 compared with €6.5 billion in 2016. Payments made for property, plant and equipment and intangible assets amounted to €4 billion, below the prior-year figure (€4.1 billion). At €4.8 billion, free cash flow was 34% above the level of the previous year. The equity ratio was 44.1% (2016: 42.6%). Net debt declined by €2.9 billion to €11.5 billion.

Proposed dividend of €3.10

BASF will propose to the Annual Shareholders' Meeting a dividend of €3.10 per share, €0.10 higher than in the previous year. The BASF share would thus once more offer an attractive dividend yield of 3.4% based on the 2017 year-end share price of €91.74. In total, €2.8 billion would be paid out to BASF SE shareholders.

Business development in the regions

With regard to the development in the regions, Bock said: "We were particularly pleased with our strong growth in Asia, where our investments in recent years have paid off. Thanks to higher margins and increased volumes, we were able to double our earnings in Asia to €2.2 billion, making it the most profitable region for BASF."

In Europe, economic growth gathered steam. EBIT here grew by 31% to reach €4.7 billion. This was chiefly attributable to higher earnings in the Chemicals and Oil & Gas segments. Although growth in the United States was initially subdued at the beginning of 2017, it improved over the course of the year. In North America, BASF increased EBIT from €1.1 billion to €1.2 billion. BASF's EBIT in South America, Africa and the Middle East fell from €432 million to €335 million.

Development of BASF's portfolio

In the past year BASF made important decisions to add fast-growing, cyclically resilient businesses to its portfolio. In 2018, the Agricultural Solutions segment will be strengthened with the acquisition of significant parts of Bayer's seed and

herbicide businesses. Bock: “These will be an excellent complement to our well-established and successful crop protection business and our biotechnology activities. And we will be entering into the seed business with proprietary assets in key agricultural markets, which will also allow us to more quickly implement the results of our seed research.”

BASF wants to acquire Solvay’s global polyamide business this year. This will expand BASF’s range of engineering plastics for the transportation, construction and consumer goods industries and will strengthen its access to raw materials. Furthermore, the company expects to improve access to important growth markets in Asia and South America.

“However, we also divest businesses when we believe they could be more successful in a different constellation,” said Bock. For example, BASF transferred its business with leather chemicals to the Stahl group, a leading producer of process chemicals for leather products, at the end of September 2017. In return, BASF now holds a 16% share in the Stahl group.

BASF has announced fundamental changes for its oil and gas activities. It is planned that BASF and the LetterOne group will merge their respective oil and gas activities in a joint venture called Wintershall DEA. The new company would be one of the largest independent exploration and production companies in Europe, with excellent growth prospects. In the medium term, the intent is to list the joint venture on the stock exchange.

Outlook for the year 2018

For 2018, BASF expects the global economy and chemical production to grow at roughly the same pace as in 2017. Further growth is expected in all regions and BASF anticipates a continuation of the recovery already underway in Brazil and Russia. In addition to these generally positive baseline conditions, however, BASF also sees increased market volatility. Furthermore, the U.S. dollar is having a negative impact on sales and earnings.

For its outlook, BASF assumes the following economic conditions for 2018 (prior-year figures in parentheses):

- Global economic growth of +3.0% (+3.1%)
- Growth in global chemical production of +3.4% (+3.5%)

- An average euro/dollar exchange rate of \$1.20 per euro (\$1.13 per euro)
- An average oil price (Brent) of \$65 per barrel (\$54 per barrel)

“In this environment, we want to continue to grow profitably and achieve a slight increase in BASF Group’s sales and EBIT before special items in 2018,” said Bock. The rise in sales should result chiefly from volumes growth. The increase in earnings will mainly be driven by significant contributions from the Performance Products, Functional Materials & Solutions and Oil & Gas segments. After a strong result in 2017, the company expects considerably lower EBIT before special items in the Chemicals segment, primarily as a result of lower margins.

The forecast for 2018 takes into account the agreed acquisition of significant parts of Bayer’s seed and non-selective herbicide businesses, which is expected to close in the first half of 2018. Based on the timing of the acquisition, the seasonality of the businesses to be taken over and the anticipated integration costs, this is likely to have a positive impact on sales and a negative impact on earnings for the Agricultural Solutions segment and the BASF Group in 2018.

The forecast does not take into account the intended merger of the oil and gas activities of BASF and LetterOne. On signature of the transaction agreements, the Oil & Gas segment’s earnings would no longer be included in sales and EBIT for the BASF Group – retroactively as of January 1, 2018 and with the prior-year figures restated. Rather, this would be presented in the income before minority interests of the BASF Group as a separate item, “income from discontinued operations.” From the transaction closing date, BASF’s share of income generated by the joint venture – Wintershall DEA – would presumably be accounted for using the equity method and included in EBIT for the BASF Group.

Development of the segments

In a favorable market environment, sales in the **Chemicals** segment grew in the fourth quarter of 2017 by 21% to €4.2 billion, driven by higher prices and volumes. BASF increased its margins, especially for isocyanates, acids and polyalcohols, cracker products and acrylic monomers. At €1.1 billion, income from operations (EBIT) before special items was 67% higher than in the fourth quarter of 2016. All divisions posted higher earnings.

In the full year, sales in the Chemicals segment rose by €3.4 billion in 2017 to reach €16.3 billion. This was primarily attributable to higher prices, especially in the Monomers division. BASF also increased volumes in all divisions. EBIT before special items rose by €2.2 billion to €4.2 billion, mainly as a result of higher margins for isocyanates in the Monomers division. Stronger margins in the Petrochemicals and Intermediates divisions also contributed to the increase in earnings; slightly higher fixed costs had an offsetting effect. The negative impact on earnings in 2017 caused by the North Harbor accident at the Ludwigshafen site in October 2016 was compensated by insurance payments.

In the **Performance Products** segment, sales in the fourth quarter of 2017 were up by 2% to €3.8 billion. Increased volumes in all divisions and slightly higher prices overall more than offset the negative currency and portfolio effects. Owing to ongoing pressure on margins, the temporary shutdown of the citral plant in Ludwigshafen and higher fixed costs, EBIT before special items declined from €237 million to €111 million.

At €16.2 billion, full-year sales in the Performance Products segment were €659 million above the prior-year figure. This is mainly attributable to volume growth in all divisions. Higher sales prices in the Care Chemicals and Dispersions & Pigments divisions also had a positive impact on sales. Portfolio measures and negative currency effects in all divisions reduced sales slightly. EBIT before special items declined by €361 million year-on-year to €1.4 billion. This was largely due to lower margins, primarily as a result of higher raw materials prices that could not be fully passed on via sales prices.

In the **Functional Materials & Solutions** segment, sales were up considerably by 7% in the fourth quarter. Primarily as a result of higher prices, sales reached €5.3 billion. Higher raw material costs led to lower margins, causing EBIT before special items to fall 42% to €267 million. Furthermore, higher fixed costs negatively impacted earnings.

In the full year 2017, sales increased by €2 billion to €20.7 billion. This was due to higher prices and volumes as well as the Chemetall business, which was acquired from Albemarle in December 2016; sales were slightly reduced by currency effects. The volumes growth was largely attributable to higher demand for BASF products for the automotive and construction industries. At €1.6 billion, EBIT before special items was down €329 million on the 2016 figure, primarily due to lower margins and

higher fixed costs. Special charges in 2017 mainly related to integration costs in connection with the Chemetall acquisition as well as the acquisition of the western European building material business for professional users from the Henkel group.

Sales in the **Agricultural Solutions** segment rose by 4% in the fourth quarter to €1.3 billion. Significantly higher volumes more than compensated for declining prices and negative currency effects. Compared with the same quarter of the previous year, EBIT before special items grew by 162%, rising by €128 million to €207 million.

Full-year sales in the Agricultural Solutions segment rose by €127 million to €5.7 billion as a result of higher sales volumes. In an ongoing difficult market environment for crop protection products, sales growth was negatively impacted by price declines, especially in South America, and negative currency effects. EBIT before special items was €1 billion, down €54 million on the prior-year figure. The slight decline was mainly due to the lower average margins from a different product mix and the difficult market situation in Brazil. Earnings were also negatively impacted by the shutdowns of production facilities in Beaumont, Texas, and Manatí, Puerto Rico, because of the hurricanes. Fixed costs rose slightly.

In the **Oil & Gas** segment, fourth-quarter 2017 sales declined by 7% to €862 million as a result of lower volumes. However, higher prices for oil and gas had a positive effect on earnings. EBIT before special items increased by €97 million to €260 million.

In the full year, sales in the Oil & Gas segment increased by €476 million year-on-year to €3.2 billion as a result of higher prices and volumes. The price of a barrel of Brent crude oil averaged \$54 in 2017 (previous year: \$44). Gas prices on European spot markets rose by 25% compared with the previous year. Volume growth was mainly driven by higher gas sales volumes. Production volumes matched the prior-year level. EBIT before special items grew by €276 million to €793 million in 2017. This is primarily attributable to the increase in oil and gas prices as well as the higher earnings contribution from BASF's share in the Yuzhno Russkoye natural gas field. Comprehensive measures aimed at optimizing exploration and technology projects as well as the successful implementation of operational cost-saving measures also had a positive effect. Net income increased by €357 million to €719 million.

Sales in **Other** grew in the fourth quarter from €518 million to €608 million. EBIT before special items improved from minus €386 million to minus €38 million, mainly because of valuation effects for BASF's long-term incentive program.

Full-year sales in Other rose by €224 million compared with 2016 to €2.2 billion, mainly as a result of higher sales prices in the raw materials trading business. At minus €764 million, EBIT before special items in Other was up €286 million on the prior-year figure. This earnings improvement is also attributable to valuation effects for the long-term incentive program.

About BASF

At BASF, we create chemistry for a sustainable future. We combine economic success with environmental protection and social responsibility. More than 115,000 employees in the BASF Group work on contributing to the success of our customers in nearly all sectors and almost every country in the world. Our portfolio is organized into five segments: Chemicals, Performance Products, Functional Materials & Solutions, Agricultural Solutions and Oil & Gas. BASF generated sales of €64.5 billion in 2017. BASF shares are traded on the stock exchanges in Frankfurt (BAS), London (BFA) and Zurich (BAS). Further information at: www.basf.com.

On February 27, 2018, you can obtain further information online:

BASF Report 2017 (from 7:00 a.m. CET)

basf.com/report (English)
basf.com/bericht (German)

News Release (from 7:00 a.m. CET)

basf.com/pressrelease (English)
basf.com/pressemitteilungen (German)

Live Transmission (from 10:30 a.m. CET)

basf.com/pcon (English)
basf.com/pressekonferenz (German)

Speech (from 10:30 a.m. CET)

basf.com/pcon (English)
basf.com/pressekonferenz (German)

Conference call for analysts and investors (from 2:00 p.m. CET)

basf.com/share (English)
basf.com/aktie (German)

Note to Editors:

You can download press photos and footage at the following links:

Photos

basf.com/pressefotos (German)
basf.com/pressphotos (English)

Current TV footage

tvservice.basf.com (German)
tvservice.basf.com/en (English)

**Current photos of the Annual Press Conference
(on February 27, from 1:00 p.m. CET)**

basf.com/Pressefoto-Datenbank/pk (German)
basf.com/Pressphoto-Database/pc (English)

TV interview with Dr. Kurt Bock

(on February 27, from 2:00 p.m. CET)

basf.com/tv-interviews_de (German)
basf.com/tv-interviews_en (English)

Forward-looking statements and forecasts

This release contains forward-looking statements. These statements are based on current estimates and projections of the Board of Executive Directors and currently available information. Forward-looking statements are not guarantees of the future developments and results outlined therein. These are dependent on a number of factors; they involve various risks and uncertainties; and they are based on assumptions that may not prove to be accurate. BASF does not assume any obligation to update the forward-looking statements contained in this release above and beyond the legal requirements.