Analyst Conference Call Q2 2017
Transcript – Q&A by Topic
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Andrew G. Stott (UBS): My question is around the downstream guidance. You said you expect Chemicals to lose momentum in the second half. I guess that's no surprise. Given the extent of underperformance of the business in Q2 in Performance Products and Functional Materials & Solutions, I am just wondering what your thoughts are as you go through the second half with regard to that raw material price dynamic.

Kurt Bock: Yes, we are aware that the results in Performance Products and Functional Materials & Solutions are not where they are supposed to be. We continue to work on margin management, i.e. price increases and we continue to announce price increases. So far, they have not been sufficient to offset the raw material price increase. On top of that, we have a certain weakness in a couple of markets which are not completely unimportant, like vitamin pricing which has come down considerably; in Q2, we see continued heavy price pressure, e.g. in hygiene products, i.e. SAP. So, there are a couple of pockets where it is not just passing on of raw material cost, but actually special market developments, which some other companies might have or might not have.

Paul R. Walsh (Morgan Stanley): You have given robust guidance for the second half, slight increase in EBIT. Can you just talk about how your business is playing out according to what you are saying right now in the second half? Is that robust second-half guidance: Chemicals coming down a bit, which, as Andrew pointed out, you have insinuated, and the other businesses recovering some of that margin. Just a little bit more insight as to the pathway in the second half and what are you seeing already in the third quarter.

Kurt Bock: Chemicals: I think we said it by and large. We expect – we do not want it, but it might happen – Chemicals to drift down a little bit earnings-wise. At the same time, we continue to work very hard to improve the downstream products further on. This is an ongoing task. That is very much behind our guidance for the second half, keeping in mind – I repeat it – that the dollar isn't necessarily helpful and the oil price also for our Oil & Gas business is also not necessarily helpful.
Overall, raw material prices have been more or less stagnant in Q2, which also means that the price discussions with customers become a little bit more intense because we want to recover margins and they will tell us: What is your problem? We haven't seen raw material prices coming up lately.

Andreas Heine (MainFirst): On the guidance. If I look on what the consensus expects for the second half, if my math is right then it is roughly an increase of 10 percent. Looking to the wording, usually "slight" means up to 10 percent. I would consider that you see the consensus forecast for this year as probably in line with the guidance, but demanding. Is this a fair interpretation?

Kurt Bock: I think what we have issued is pretty much in line with consensus and it reflects obviously our current assessment of the demand path going forward. This is demanding. This is by no means low-balling what we are doing here, especially given the fact that the oil price is relatively weak and that the dollar exchange rate has developed as a headwind and not as a tailwind factor for BASF.

Oliver Schwarz (Warburg Research): Looking at your guidance which you have notched up a bit, you refer to more headwind from FX, you referred to a softer than anticipated oil price and growth in chemical production is basically still expected at 3.4 percent. What exactly drives the increase in the guidance? What exactly performs or is expected to perform better than anticipated at the Q1 2017 level when you last revisited your guidance?

Kurt Bock: With regard to your guidance question a very brief and clear answer: The first half has simply been better than what we had expected at the start of the year. That was the reason why we also said in April: We wait until July. After we have seen the results of the first half, we have obviously outperformed quite a bit also against our own internal expectation and that leads us now to a more positive assessment for the full year 2017.

Paul R. Walsh (Morgan Stanley): The question is around maybe some of the one-offs in the second quarter. Can you quantify the impact of the Libya offshore lifting in Q2, maybe the insurance payment and whatever the ramp costs are for new production facilities? You talk about new ramps, I think, quite a lot in a press release.

Hans-Ulrich Engel: I am starting with your first question; this was with respect to the offshore lifting in Libya. You asked with respect to the impact there. In the past, we provided a range for this type of liftings. They are in the range of 30 to 50 million euros; expect that to be at the lower end of the range with current oil prices. Please also keep in mind; there is one offshore lifting per year or there will be only one lifting. We had this last year in Q4, this year in Q2. Your second question is on the insurance payment. The insurance payment was 100 million euros as in Q1. This compensates more or less for the impact that we had as a result of the accident in Q2. The third point was on ramp-up cost in Q2. You may remember that we said that we will see the peak of ramp-up cost in Q3, Q4 of last year. It has come down compared to that, so ramp-up cost in Q2 are overall lower than what we had in Q3 and Q4 of last year.

Paul R. Walsh (Morgan Stanley): And you don’t expect further insurance payments in Q3?

Hans-Ulrich Engel: We are expecting a further insurance payment in Q3 and then it remains to be seen whether that will compensate fully for the damages or what is going to happen. But we will keep you posted there.

Anthony G. Jones (Redburn): Can I ask you about demand? Could you talk a little bit about the change in the inflection trends of volume excluding Oil & Gas between Q1 and Q2? How much of this was due to Easter or restocking?

Kurt Bock: Volume growth: We had a strong start – something like 8 percent if I remember correctly – in Q1, now trending down a little bit. That is not unexpected. Actually, we said very explicitly, we cannot imagine that the volume growth will continue at that pace. We had – you asked about special patterns – one influence which, I think, is noticeable. In Q2, we had this year essentially two working days less than last year. If you average that out, it brings up the growth rate for volume in Q2 by something like two percentage points which means also Q1 two percentage points lower, which still means that Q1 was slightly higher than Q2. But we don't perceive this as any kind of dramatic downward trend. It is more or less a normalization from our point of view, especially if you keep in mind that most likely in Q4 and early Q1 we had restocking in some markets. That certainly has come to an end from our point of view.

Jeremy Redenius (Bernstein): I have just one question about volumes as well, but a little bit more looking forward. I am curious to see what you are seeing so far this summer in Europe with regard to a summer lull. I think we saw basically no slowdown at all last summer in Europe and I would like to know what the trends look like this year.

Kurt Bock: What we have seen over the last couple of years is essentially a bit of a typical seasonal slowdown, no surprise. At this point in time, there is no indication that we have a more pronounced slowdown than what we have seen last year. But, obviously, the real summer in Europe starts on August 1 and that is still a couple of days ahead.

Jeremy Redenius (Bernstein): More broadly on the auto industry overall: You had some very strong growth rates last year and early this year. I would like to hear your point of view if you are seeing that growth continue into the summer, more broadly speaking.

Kurt Bock: Automotive: Yes, we have seen very good growth in 2016. Our automotive business has outgrown automotive production in 2016. We had a good first half. However, automotive growth already was slightly lower than last year and you are aware of the discussion about peak sales in North America. For the second half, I think we mirror what most people most likely will tell you: that sales will most likely be at last year's level or maybe slightly above last year's level. So, we don't expect a pronounced demand pull from the automotive industry for the second half.

Jeremy Redenius (Bernstein): Just to clarify: Is the second half of this year in line with the second half of last year or slightly above? Did I take you correctly?

Kurt Bock: I cannot tell you whether it will be slightly above or at last year's level. But we don't expect a steep increase of demand above last year's level. It feels like it's last year's level and maybe a little bit higher.

Peter Spengler (DZ Bank): On your H2 guidance again. Maybe you could elaborate a bit on the situation in China. You had very good quarters; the last three or four quarters in a row were excellent. What do you expect for the second half? Are there any important incentive programmes in China running, which may be important for you or for your customer industries?

Hans-Ulrich Engel: On China. Maybe looking back to H1 first and using that as a segway to get to the second half of the year: Overall, what we have experienced in China is a slightly better macro environment than we had expected it going into the year. Overall, 6.9 percent GDP growth, so slightly higher than what we thought we would see. Our business has developed in line with that, so we have seen good volume growth. You also see that reflected if you look at the regional figures which you find on page 17, I think, of our Half-Year Financial Report 2017. You see the significant increase there that we had in the first half of the year in our results in Asia. That is driven by the good and strong development in China. You asked with respect to incentive programmes. There is a small one still in place. That has an immediate impact on our business, which is for cars with engines of up to 1.6 litres. There is still the reduced sales tax; it is at a level of 7.5 percent, whereas the standard sales tax is at 10 percent. So, there is a bit of a benefit there that certainly supports car sales also in the year 2017. If I think about the order book and what I can defer from that: For the second half, it looks okay, so no issues there. Then we are all aware of the fact that in fall there will be the Party's Congress. It remains to be seen what kind of impact that may have. So, overall the short answer is: good performance so far and we have no indication for any type of decline.

Patrick Lambert (Raymond James): My question is on the second half outlook for LatAm. Clearly the margins and the EBIT contribution for LatAm is mostly in H2, but if I look at H1, it was pretty down year-on-year already. So your outlook for LatAm – I know it's ag, it's coatings, it's SAP, acrylic – if you could put your view on how margins can develop in LatAm in the second half and what you are doing to protect them.

Kurt Bock: We don't really provide guidance for regions specifically, but what I'd like to do is to explain what kind of business environment we are facing in South America. Obviously, Brazil is still difficult. We had expected more, a more positive development for this year. This is delayed, also due to political volatility – if you want to use a very polite word here. And we have then also seen in the crop protection, agricultural industry that markets were relatively difficult. As you know, the second half in South America is more important than the first half in terms of crop protection, the ag business. It needs to be seen how quickly these issues will be sorted out in that specific market Brazil. On top – I mentioned this before – is the payment behaviour, liquidity pressure in the markets. We hope this will ease off a bit in the second half, but it is actually too early to say because there are so many variables included here. So we continue to be cautious for South America. What I have not touched upon is that, obviously, we also have an Oil & Gas business in Argentina, which is developing quite nicely.

Laurence Alexander (Jefferies): Given the outages you had this year, should your pace of maintenance outages over the next six quarters be materially lower than over the last six or so? Have you been able to tuck in other maintenance into this downtime?

Kurt Bock: Outages: I am not aware that we have higher outages this year than last year actually. In terms of what we call planned and unplanned turnarounds, the numbers are pretty much comparable to last year. Actually, unplanned outages have come down quite a bit. So from that point of view, we are operationally in better shape than last year.

Martin Evans (JP Morgan): In the "Other" line, this release of provisions for long-term incentives that you have put through, can you just explain why you have done that? Is it because you now are less optimistic about the outlook for the longer term and therefore have released these provisions now? Or is it simply some less sinister accounting process?

Hans-Ulrich Engel: We have a long-term incentive program for management and that is based primarily on BASF stock price performance. As you have seen during Q2, the stock price came down. As a result of that, that's then also reflected in the provision for the long-term incentive – if I may say so: unfortunately.

2 Segments

2.1 Chemicals

Andreas Heine (MainFirst): On Chemicals: This was a very strong first half. Would it be possible to outline a little bit whether you think it was an over-earning in the first half? In general, you benefitted also from ramping up sizeable plants you have invested in in recent years, which should anyhow have increased earnings from 2015, 2016 to 2017. But the margins in this particular half were very strong and probably not sustainable. What would you say is a sustainable profitability we could look at for this segment?

Kurt Bock: The Chemicals segment is by definition supposed to be cyclical. That is actually what we have been seeing over many, many years. We had a huge margin destruction in 2012 and it took us years to recover some of those margins. In 2017 now we have seen a recovery of margins to a level which most people perceive as relatively high. It needs to be seen from our point of view what is the definition of "high" going forward. There had been in some cases, in some products clearly temporary shortages, there had been production outages, technical issues in the competitive environment. That might have helped and we had an underlying good demand which is always a prerequisite for healthy margin development. But overall, we have – you mentioned it – invested heavily in some of these industries and we are now harvesting some of the benefits of what we have planted a couple of years ago. But I really shy away from any interpretation: Is this now completely out of range? Is it kind of average? Is it the new normal? We will find out. We are cautious for the second half and I think that is justified. You know BASF very well and you know that we are always cautious.

Peter Spengler (DZ Bank): Could you update us on the TDI plant in Ludwigshafen, the current status and the shipments you expect for the second half? What was the status in the second quarter?

Kurt Bock: On TDI in Ludwigshafen. The plant is up and running; it is supposed to be up and running, obviously. But you are aware that we had to install a smaller reactor after the first one had a malfunction late last year. So, we cannot run at full capacity, which is no problem in the current market environment because we can compensate by continuing to run our Schwarzheide plant for TDI. So, the combination actually is quite competitive if you look at the results of our monomers or isocyanates business. We are quite pleased with the development. The next step will now be that the relatively small reactor has to be swapped against the newly built larger reactor and that is supposed to happen next year. So, we continue to be very successful in the market and we continue to supply from Ludwigshafen.

2.2 Performance Products

Anthony G. Jones (Redburn): On Performance Products: Could you tell us a little bit about the other positives that you see in the past like mix and cost savings and whether the normal seasonality for margins to be lower in the second half applies this year?

Kurt Bock: The seasonality in Performance Products and Functional Materials & Solutions: Yes, on average, as always at BASF, the first half is stronger than the second half. I think that still holds true. Our earnings improvement programmes, the restructuring in Performance Products, e.g., continue. We want to save 500 million euros by the end of 2017 and we are well on track to achieve that number. So, from our point of view, the restructuring continues. We are taking cost out, but obviously this is overshadowed by the margin development. I think I already talked about the need to improve margins and prices further on.

Markus Mayer (Baader Bank): On Nutrition & Health, on the pricing issue in animal nutrition. Can you give us what you see in the market, how long this pricing pressure should last and also a certain indication on the start-up cost, how long they will last in this unit?

Hans-Ulrich Engel: On vitamins: It happened what we expected to see in Q1 and also in Q2. We saw last year that capacities, particularly in China, were shut in before the G20 Summit. As a result of that, we saw a quick increase – just to give you one example – in vitamin E. Vitamin E prices end of Q4 2015 were in a range of 4.50, 4.60 euros per kilogram, then in the middle of last year, right at the time of the Summit they were as high as almost 9 euros per kilogram. And where we are today is exactly back where we were in Q4 of the year 2015: price range 4.50, 4.60 euros per kilogram. Competition is tough. There is even new capacity coming on stream. So, I guess we will find ourselves for a while in this situation with low prices and we are doing everything to stay competitive in this environment with the leading process from a cost perspective that we have. Yes, you are right: Q2 in Nutrition & Health is burdened with the start-up cost of the aroma chemical complex in Kuantan, Malaysia.

Markus Mayer (Baader Bank): The start-up cost then last for one year? Is that assumption right?

Hans-Ulrich Engel: We will grow into the capacity and during that time, while we are growing in there, we will see start-up cost which hopefully quickly will be more than compensated for by income that we generate.

Laurence Alexander (Jefferies): Could you flash out a little bit the trends you are seeing in human nutrition, particularly the decline in sales in refinish coatings, if that was just a raw material pass-through?

Hans-Ulrich Engel: On human nutrition: What do we have? I have already explained the, what I would call, interesting development, in particular with respect to vitamin prices. This is not only vitamin E, that's also vitamin A – for the well-known reasons: the price spike that we have experienced last year. Now both vitamin E and vitamin A are coming back to price levels that we saw prior to this price spike. As mentioned earlier, the expectation is that this is the environment that we will operate in going forward.

Markus Mayer (Baader Bank): On pigments: You said that sales were slightly below last year's level. Other competitors post slightly higher sales. Is this just a regional issue or are there any kind of market share changes from your side?

Kurt Bock: Pigments have developed as planned. We had presales in the first half of last year because that was the point in time when we had re-arranged the business and formed a new global business unit and also legal entities for this. Some customers then did a little bit of pre-buying because they probably expected that there could be some disruption, which actually was not the case. Yet we compare with a relatively high base in 2016. Apart from that, the business develops quite nicely. I am not aware of any negative market share changes, from our point of view. We have a good portfolio. We continue to take out cost. So far, this re-grouping and re-arranging has delivered the expected results. So, we are quite happy – never satisfied, but it is moving into the right direction.

2.3 Functional Materials & Solutions

Peter A. Clark (Societe Generale): I know you have tried to address it; it is the Functional Materials & Solutions margin and specifically the coatings. If I try and adjust for M&A – I know it is difficult – I would have thought that division looks like it's down 20 percent plus. I know you are making clear that raw materials are a big issue here. I am just wondering if there is anything else. Is the uplift in structural fixed cost or any charges with Chemetall in there? I would have thought something like the Brazil deco paints would have been okay year-on-year. We are talking primarily the auto-related coatings in here. What is happening within that coatings division?

Kurt Bock: First of all, the major deviation in Functional Materials & Solutions is Performance Materials because they take the hit from the higher isocyanates and polyol costs, which they have to translate into higher prices for their systems business. That is difficult and takes some time because prices are already relatively high in that respective business. In coatings, we have had slightly higher fixed cost, which are no special items. That is essentially the IT integration of Chemetall. We book this as an ongoing normal expense. Chemetall itself is delivering like a clockwork; that is quite amazing to see. Also, they have an extremely market-focused organization and month over month they deliver exactly what they promise. That is completely in line with what we had foreseen and put into our business plans when we made the acquisition. So, we are very happy with that acquisition. We are now in the midst of the integration effort, which will also take out some cost, ultimately. Then we also go for some growth synergies because we see a nice overlap with the coatings business. I said earlier on: In coatings, you always have kind of a rub-off effect from sliding down sales prices and we have seen this again now. There is nothing special we would be concerned about. There is certainly our South American decorative paint business involved here; that continues to be weak against the background of a very weak consumer business in general in South America. Last year – final factor maybe – we still had the industrial coatings business as part of that division and that business was sold late last year to Akzo. So, underlying we are quite happy with the business development and we don't see any trend here which would make us concerned.

Martin Rödiger (Kepler Cheuvreux): On coatings: It seems to be that prices declined despite the fact that inflation seems to rise. Can you explain that? Is that because of the rising competitive pressure or is that related with your statement about intense price discussions with automotive customers?

Kurt Bock: We always have intense pricing discussions with our automotive customers. I am still waiting for the day when they are really flexible on pricing. But seriously, it has played a role in Q2, on top of the slightly higher raw material cost which we also have seen in coatings. Prices overall came down a bit, I think by 1 percent, which is not a big number, but it is an indication that there is continuous deflation in that business which we have to overcome or compensate with higher productivity and cost efficiency.

Laurence Alexander (Jefferies): Could you flash out a little bit the trends you are seeing in refinish coatings, particularly the decline in sales in refinish coatings, if that was just a raw material pass-through?

Kurt Bock: Refinish: I am not sure that we guide really at that level of detail. Actually, I am also not aware of any specific development in the refinish business, which is noticeable here. So, this is pretty steady. I wouldn’t say business as usual, but it is pretty steady business for BASF. It’s a very regional business as well. Markets are very different in Europe and in North America and Asia. But, again, I am not aware of anything specifics.

Andrew G. Stott (UBS): If I look at Sika today in construction chems or I look at Clariant in consumer chems, I guess we are marking to market and benchmarking as we go, but it doesn’t look like you are significantly underperforming on margin management. So, what would you say to that maybe lazy observation?

Kurt Bock: On Construction Chemicals: We have a relatively high exposure in the Middle East where we have seen acute payment issues and a considerable decrease of business, which I think is reflecting the situation in the Middle East. Apparently, this hits BASF’s Construction Chemicals business quite a bit. Apart from that, the business has developed quite nicely; we have continued to invest also in mergers & acquisitions and we will continue to improve margins trend-wise, certainly.

2.4 Agricultural Solutions

Sebastian Bray (Berenberg): In your agricultural segment, your margins have come down in this area, basically for a few years consecutive to each other. The 25 percent long-term EBITDA margin, this target, do you view that more as a point estimate or do you think in the mid term there is potential upside to that? Do you think your margins are going to continue trending down from current levels in ag in 2018/2019, mix effects, or would you view there even a stabilizing or changing in future?

Kurt Bock: We certainly have no intention to trend down our margins in ag. They have come down a bit, which reflects first of all the difficult situation in many of our markets and, secondly, a certain product mix change away from higher-margin fungicides to slightly-lower-margin herbicide businesses. Going forward, there is a clear intention to improve again. The 25 percent has been a good yardstick for our company in the past and we are sticking to that one.

Stephanie Bothwell (Bank of America Merrill Lynch): Firstly on the Brazilian ag market. We saw one of your peers take a write-down and you flagged in your commentary that liquidity issues exist. Can you perhaps show us how you see the current inventory situation in crop protection chemicals for both BASF and the wider industry and how you are seeing trends develop over the course of this quarter thus far?

Kurt Bock: Brazil: Yes, the market has been relatively difficult for us. We noticed more in-field inventory in the first half than probably normal. That has also affected our sales. So we had a sales drop in South America. South America is an important market for BASF, also margin-wise, which by and large also explains the shortfall in ag earnings compared to last year, apart from slightly higher fixed cost due to start-ups, one of which you mentioned which is dicamba. The third quarter is difficult to judge for us. We only have information, obviously, on what we have sold and we have exercised a very cautious approach over the course of the second quarter because we do not want to burden Q3. But by and large this all finally depends on product on the ground and that is difficult to foresee at this point in time.

Oliver Schwarz (Warburg Research): On the Brazilian ag chem business: How do you plan to counter these weak market conditions? Are you buying back inventory? Are you offering, let's say, more generous payment terms? What actually are you doing in Brazil to soften the effects of the very difficult market?

Kurt Bock: Brazil, ag chem: There are always buybacks at this point in time during a season or off season because you look at in-field inventories and then you have to assess: What is an adequate level? That is kind of a normal procedure for, I think, every crop protection company. We also had some buybacks. We continue, we probably will have some in July as well. But that is normal course of business from our point of view. You just provide inventory to the distributors and farmers because they have to be ready to spray and then you see what really has been applied and then you do the final booking and accounting and you might have to take product back.

From our point of view, that was slightly, slightly higher than last year, but not completely out of whack with what we have seen in the past, talking about BASF. Payment terms: This is obviously also a kind of competitive information and I have to be a little bit careful here. We have a general approach that we try to be as cautious as possible, given the volatile business environment. You are aware that there is something what is called crop terms out there, so certain standards which have developed in certain markets. You have to pick the right risks, obviously, and you have to have the right type of, let's say, cash management which is called 'cobrança' in Brazil, which means you also have to show up at your customer and remind him or her that they are supposed to pay – which we do.

Stephanie Bothwell (Bank of America Merrill Lynch): A rising number of US states moved to ban the use of dicamba products. Can you give us an insight into the potential impact on sales on your Engenia product, particularly if we see changes in the labelling requirements, and whether or not we should expect this to impact on the ramp-up of your capacity expansion in Texas?

Kurt Bock: Dicamba is a topic which affects North America, obviously, as dicamba is sold together essentially with a resistant crop from Monsanto. We are a relatively big producer of dicamba; actually, it is a BASF product originally. The core issue is here how you apply it. That is really important. When you go i.e. to our webpage and look at the crop protection piece, you will find lots of information specifically about dicamba; this goes even to the exact nozzles, which need to be used for spraying dicamba to make sure that there is no drift. Drift had been the issue in some states, where neighbouring farmers have complained about a damage or perceived damage. This is an ongoing process and from our point of view it is awfully important that we continue to help the farmers to apply the product in the right way because that is at the end of the day the recipe for success. This is not unheard of; this has been the case also in the past for other products. There is always a little bit of, let's say, a learning curve going into new applications. Overall, we had good sales in Q1 and Q2, so it is a promising start and now it needs to be seen how this drift issue develops. We are co-operating here fully with all the institutions.

2.5 Oil & Gas

Martin Rödiger (Kepler Cheuvreux): You have heard that the U.S. obviously is in the process to increase sanctions against Russia. To which extent could that impact your Oil & Gas business with Gazprom, especially your activities for the Nord Stream pipeline?

Kurt Bock: Politics and Nord Stream 2: Yes, it is an interesting development, certainly. If this really becomes reality – and the final wording hasn't been decided yet and we don't know what the U.S. President is going to do – it would be a new quality of a lack of cooperation between the United States and Europe with regard to the sanctions. Actually, it would mean that the U.S. will promote their own industry at the cost of the European industry. That is not exactly what allies are supposed to do. In that respect, the wording and the justification for the current bill is quite revealing: Please buy American shale gas and don't buy Russian pipeline gas. I am not going to talk now about the technical and economic hurdles to supply Europe via U.S. LNG and not by pipelines anymore. The only thing I can say is that I hope that at the end of the day there will be an intelligent solution and that the co-operation between Europe and the United States will not derail with regard to this topic. Impact on BASF: As Hans has said in his little speech, we are helping to finance the pipeline [Nord Stream 2]. We are not a shareholder, but we continue to support the project because we think the project is a good one, it has good economic justification. Europe needs more gas and there is need for a second pipeline, definitely. The supply from Russia always has been secure and competitive. We have no problems at all with shale gas imports to Europe; this will enhance competition and that is always a positive aspect from our point of view. But I don't think that you create a level playing field by basically sanctioning one party off the market and then providing the necessary resources yourself. That is not exactly my definition of competition.

Patrick Lambert (Raymond James): On Oil & Gas, just to understand a bit more the 22 percent volume growth. Libya was part of it, but I understand there was also some Statoil contract. If you could shed some light on the impact in terms of volumes and also in terms of EBIT of that.

Hans-Ulrich Engel: Your question on volume growth in Oil & Gas: I am happy to provide some colour there. Maybe it's best to start with production. Production in Q2 is 2 percent above production of Q2 in the prior year. We have the impact of the shipment from Libya. That is roughly 600,000 barrels that you have there. Then the major impact is really coming from the gas that we buy from Statoil and then sell on. Picture that more or less as a type of trading business that we have there – but one that certainly helps us also to provide the natural gas to our sites in north-western Europe. I hope that helps you to look at the volume. In particular, I think, it's important to keep in mind that there is 2 percent volume growth in production.

Patrick Lambert (Raymond James): This type of contract, was it a Q2 one-off or ongoing developments there?

Hans-Ulrich Engel: Actually, these are contractual deliveries that started in 2016. We have grown into the volumes. In other words: This is not a one-off.

Sebastian Bray (Berenberg): Just to come back to the Oil&Gas business: What is a volume growth for the business as a whole that you would be comfortable with for the full year 2017?

Hans-Ulrich Engel: If I look at the business and volume development, frankly I do not care too much about what’s happening with respect to gas sales or gas that we buy from Statoil and then sell on. I tend to look at what’s happening with production. The 2 percent volume growth that we have there is actually a good figure.