

Analyst Conference Call Q3 2017

Q&A Transcript by Topic

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1 BASF Group

Andrew Benson (Citi Investment Research): The cost pressures you are seeing in your two downstream divisions: What are the businesses telling you they believe that they will fully pass on these cost pressures? Obviously excluding the one-off challenges within the vitamins and the superabsorbents that you talked about.

Kurt Bock: Regarding your questions on downstream and passing on higher feedstock costs: Earlier this year, we said this takes three to six months. Sometimes it is formula-based, sometimes it's contract renegotiation. For Performance Products we expect now Q4 to be above last year's number. For Functional Materials & Solutions that might be a bit difficult, simply because we have to absorb obviously much higher cost in our Performance Materials business, which by and large has been able to increase prices and had been able to pass on part of the higher material cost, but not to the full extent. That cannot be a surprise, given the very steep increase in our – especially isocyanates – prices over the course of 2017. Again, this is an ongoing task. In some businesses, we do have pricing power and we use our negotiations to increase prices. In others, we are price takers, vitamins is probably the most prominent example in that respect.

Tony Jones (Redburn): In Q3, I worked out that the EBIT margin for the three downstream businesses had dropped to only about 8 percent. I was just looking at the R&D to sales ratio. These are supposed to be high-quality, specialty growth businesses, but the R&D to sales ratio is only about 3 percent. I just wondered whether that could be increased. It seems low compared to peers. Is that part of the issue in terms of the degree of specialization? Partly related to that: In the segments where you are struggling to get prices up to offset the costs, how are you thinking about the status of some of those businesses within the BASF Group?

Kurt Bock: Let's start with the second question: We continuously review the performance of our businesses. We do this on a peer-to-peer, pure-play basis, so we compare ourselves to our relevant competitors obviously, which includes, by the way, also the research intensity, so R&D as percentage of sales.

We don't see that we would underspend in any relevant business. I give you one example: Catalysts is obviously very innovation-driven, where we continuously innovate new products. But in the downstream businesses we also have bloody commodities. We never said that Performance Products is only specialties, whatever the definition of "specialty" is. There are commodities which are supply and demand-driven and in those businesses, you have relatively little earnings power.

Which leads to the second question: What are we going to do about it if we cannot raise prices and margins continue to be unsatisfactory? There is certainly an ongoing restructuring. We have continuously adapted our production capacities. This will continue also in the future. We have also decided to divest or merge businesses if we believe that another owner can do a better job or a combination creates additional value. One example is leather chemicals, a relatively small business, which we now merge with Stahl Group. That, I think, will lead to a very, very strong competitor and prepares that business for a brighter future than it would have had if it had remained within BASF. I think we take a very rational approach at all these options one by one and then we make up our mind and take a decision at the right point in time.

Markus Mayer (Baader Bank/Helvea): Can you give us some insight how the demand is going into Q4, October vs. September?

Kurt Bock: October: so far as planned. We slightly increased our outlook for the second half, which you certainly noticed. We don't see any indication in October which would change – based on yesterday's sales number, frankly – our wording or forecast.

Patrick Lambert (Raymond James): A more general question about insurance payments [for damage from the hurricanes] versus underlying EBIT, not just on ag, but also in the Chemicals segment. If you could help us with the timing of the payments of insurances, if any, for the businesses.

Kurt Bock: With regard to the hurricanes Irma and Harvey: I don't think that we have any fair chance to receive any major insurance payment for that because we had actually no structural damage. This was all related to logistics issues and our employees could not come to work for the simple reason that their homes were flooded and they had to take care of their personal belongings and, most importantly, of their families. This was the main reason why we had business interruption.

In Puerto Rico, it was even a little bit more difficult because, obviously, the infrastructure is quite weak in Puerto Rico and the efforts to support and help this island started relatively slowly. I think we have been affected by that one as well.

Stephanie Boswell (Bank of America Merrill Lynch): Can you confirm that the impact of hurricane Harvey was around 50 million euros at the EBIT level? If that is the case, can you split it between the impact on Chemicals and within ag?

Hans-Ulrich Engel: Your question with respect to the impact of the hurricanes: The figure there is 50 million euros to the EBIT line for Q3. From a split perspective, actually, think about it in a way that it is spread over the chemicals business and Agricultural Solutions. We are expecting another 30 to 50 million EBIT impact for Q4.

Laurence Alexander (Jefferies): Could you give some detail on your volume trends in China? What's happening in the upstream businesses compared to the downstream?

Kurt Bock: Overall, we had pretty good volume growth in Asia, almost 10 percent, in Q3. China was a major factor contributing to that, even slightly higher than 10 percent. So, this is moving all in the right direction.

We have seen higher utilization rates, e.g. in our MDI plant in Chongqing, which has certainly helped in the upstream businesses. But given the overall 10 to 12 percent growth, I would say that we have grown across the board in most of our businesses, especially everything which is automotive and construction-related. This is really important for the downstream businesses. So, overall, I think, this was a continuously good development in Asia and in China, in particular, in 2017.

Jeremy Redenius (Sanford C. Bernstein): A topic we have also talked about before has been some of the supply outages in China. I guess, there has been a series of environmental checks occurring throughout the country, I think, in some cases, shutting down some of your competitors temporarily. I would like to hear if that was a factor that played into some of the results in Q3 and if you see this having a meaningful impact on reducing available capacity out of China for competitors in Q4 and the next year. Conversely, would that actually have any impact on any of your customers in any meaningful way?

Kurt Bock: It's kind of difficult to answer your question. We do know – and the recent Party Congress confirmed it – that China becomes more concerned about environmental issues. They favor now quality of growth over growth itself. So, going forward, we might see the regulators become even a bit stricter with enforcing environmental laws and regulations which, from our point of view, by and large is a good and positive effect because we are on the good side of that problem, obviously.

It is very difficult for us to contribute any specific earnings number in Q3 to any supply outage in China. Sometimes it feels a little bit like this is probably more about perception and customers getting nervous about the situation, rather than an actual supply availability. But, again, I cannot put a number behind that. But it drives market sentiment. Sometimes several events coincide and then it becomes even more relevant for the market. That happens from time to time.

Christian Faitz (Kepler Cheuvreux): Looking at the operating result of Latin America in Q3, I would have expected a much worse EBIT performance, given the relative size of Agricultural Solutions and also, I would figure a weak deco coatings business in Brazil. So, what are the good performers in this region?

Kurt Bock: A good performer in South America certainly was Oil & Gas; please keep that in mind. Decorative paints were okay, but ag, obviously, was pretty bad, probably as bad as we ever had it.

Andreas Heine (MainFirst): I would like to address net working capital which has shown a strong improvement in Q3. You have given some reasons for this. Is that only temporary? Do we see then a strong net working capital reversal in Q4 or is that what you have managed here sticky also on a full-year basis?

Hans-Ulrich Engel: Your question on net working capital: Thanks for noting that we have done a fine job there. Expect us not to reverse this in Q4. We will go through the typical seasonality in our business. You will see in our Agricultural Solutions business, obviously, a build-up of inventory to prepare for the season in the northern hemisphere. It will depend on what we will see happening with respect to raw material prices, but my expectation is that from a net working capital perspective, there may be a slight cash utilization in Q4, it may also be flat. But for sure you will not see a reversal of what you have seen happening in our cash flow statement in Q3.

2 Segments

2.1 Chemicals

Chetan Udeshi (JP Morgan): Can I have your view on what you think in terms of sustainability of this trend we have seen in the upstream prices? Do you think all of this can be sustained into next year or do you think some of this is temporary and will reverse? If it does reverse next year or whenever it does, how do you see that playing out in terms of group earnings? You yourself mentioned that the downstream businesses have had a difficult time raising the prices to offset the raw material headwind.

Kurt Bock: Sustainability of prices in Chemicals: very difficult to say, obviously. This is supply/demand-driven. We are aware that in some markets and some products new suppliers are going to come to the market. That could have an effect.

However, as long as you see healthy demand – and it looks like we have momentum going into 2018 – I think this is a positive precondition for keeping up margins. But I don't really want to speculate for how long and to what extent.

If margins or prices should come down in upstream, obviously this means with a very short time lag lower raw material cost for our downstream businesses. That should improve margins, obviously. Then there will be an ongoing discussion with our customers about prices again because they also are aware what our input costs are. But nevertheless, you normally have then at least temporarily a margin expansion.

Andreas Heine (MainFirst): Would you mind giving us an update on what you expect your availability in MDI and TDI will be next year? I am referring to your plant in MDI in China, the expansion of MDI in Caojing, the TDI plant in Ludwigshafen; maybe also major turnarounds you have. What is it what we can expect from this currently extremely profitable business?

Kurt Bock: On isocyanates: We had another good Q3 actually; it was better than Q2. We have grown very nicely; margins are very satisfying, I have to say. We don't see any bottleneck going forward – if that is the background to your question – in supplying the market in 2018. The ramp-up in Ludwigshafen continues obviously, we will exchange the reactor in 2018 with a larger one. The original one was bigger than the current one. So that means: We also have more capacity available and we will certainly time that maintenance work to be aligned with market development.

Then we have new capacity coming on stream in Shanghai, in our joint-venture. We are not yet at full capacity with our MDI plant in Chongqing, which also had a very good third quarter in 2017. What you see is, I think, Verbund at work because we have a very good operating leverage in those businesses and with higher volumes and better prices these investments are paying off very nicely, I have to say.

Markus Mayer (Baader Bank/Helvea): I saw an article that the Association of Mattress Producers claims a middle-digit-million-euro amount from the TDI quality problems in Ludwigshafen. Maybe you can shed some light on what your estimates are here for this kind of claim. Is there any kind of insurance coverage for this issue?

Kurt Bock: TDI: Yes, we saw this as well. What are we doing here? We are returning product from our direct customers' product which has not yet been foamed, or even if it had been foamed but not yet converted into e.g. mattresses, we return it to BASF. We have to absorb the financial cost, obviously.

The mattress producers can rest assured that there is no health risk. This has now been confirmed several times, also by independent institutes, which, I think, is very, very important. We are working with them to find an amicable solution for both sides. But one thing is clear: There has to be a proof that BASF product is involved, obviously, and that claims they are making in the market cannot be substantiated due to the product from BASF. Then we look at this. We feel responsible for what has happened, obviously. But, again, we have to sit down and find a rational solution to that problem.

Your question was then on insurance. By and large, yes, that is also something you can insure against; that is the case. But that is not our foremost concern. The foremost concern is to reduce the concerns of our customers and to help them to continue producing as quickly and as much as possible.

Andrew Benson (Citi Investment Research): You note within your Chemicals business an upturn in acrylics. I just wondered if you could flash that out and how you see the prospects for that part of the business.

Hans-Ulrich Engel: On the acrylic acid prices: In fact, we have seen overall, what I would call, a nice development from our perspective throughout the year 2017, continuous improvement in prices in Europe, continuous improvement in prices in North America, Asia a little bit of a rollercoaster ride, starting very high going into the year, then dropping to mid-2016 year levels by mid-year and then a relatively sharp increase again during the end of Q2 and then in Q3.

So, overall, I'd say that we are rather satisfied with what we have seen happening with respect to acrylic acid prices, also when looking at it from the perspective of margin over propylene. Demand around the globe is strong. We see some impact still from the temporary shut-ins resulting from the storms affecting plants in the Gulf Coast area in the U.S. But, overall, I think, key driver that we see is the strong demand around the globe and that should certainly support pricing for acrylic acid.

Kurt Bock: Maybe one sentence to be added here: Andrew, please keep in mind: Last year, we had the North Harbor incident which also affected our production of acrylics and derivatives. This effect has evaporated in 2017.

2.2 Performance Products

Andrew G. Stott (UBS): On Q3 details in Performance Products. I didn't really fully understand why EBIT was down so much, considering that your D&A was flat. You are saying that Malaysia and taxes impacted the cost-side of the equation. I would have expected that to hit the D&A line and it didn't; the D&A was flat. Can you tell me the moving parts on margin year-on-year in Nutrition?

Hans-Ulrich Engel: Andrew, what you see continuing is what we already experienced in Q2: Performance Products' results compared to prior-year quarter are down. The key impact there continues to be high raw material prices. If I look at the specific situation in Performance Products overall, we are faced with cost increase in the order of magnitude of roughly 20 percent coming from raw material prices. The businesses, at least in part, are not able to pass on this type of price increases.

You are also aware of the special developments that we have in areas such as the vitamins. We are at historically low prices in vitamin E, which compares in Q3 of last year to the situation where in particular the Chinese competitors had to throttle their production in Q2, Q3 of 2016, which led to a nice increase in prices. If I remember that correctly, vitamin E spot prices – just to give you a price point there – were above the 8 euro per kilogram mark last year. They are in the range of 4.20, 4.30 in Q3 of the year 2017.

We have other businesses such as the hygiene business, that goes through some difficult times, resulting from overcapacity. Paper is another area which suffers from overcapacities. But you are well aware of these situations. Overall, that leads then to a decline in EBIT before special items in the order of magnitude of 100 million euros in Performance Products.

Andrew G. Stott (UBS): Hans, can I just follow up on the 20-percent number you gave me? Is that nine months or is it the quarter?

Hans-Ulrich Engel: That is the nine-month figure. On a quarterly basis it is slightly lower than that.

2.3 Functional Materials & Solutions

Peter Clark (Société Générale): In Functional Materials & Solutions, obviously, you have made note of the higher fixed cost effect of the ramp-up. I can see, actually, that the capex is quite significantly up year-on-year. So presumably you are going to have quite a bit of ramp-up cost going forward. I am just wondering if you can put a number on how significant that was for Functional Materials & Solutions.

Hans-Ulrich Engel: The ramp-up effects in Functional Materials & Solutions are about twice the amount compared to the year 2016. But we are talking very low double-digit millions when we talk about ramp-up costs in Functional Materials & Solutions.

Laurence Alexander (Jefferies): Can you flash out a little bit the comments around catalysts? What is happening, excluding the precious metal pass-through?

Hans-Ulrich Engel: Your question with respect to catalysts and the effects that we have there from our precious metal trading business: What we have experienced in Q3 are relatively sharp price increases for precious metals, in particular palladium prices, which for the first time in, I don't know, how many years are now higher than the price for platinum. What this has led to is that our customers, in particular in the automotive industry, have decided to adjust to these steeply increasing prices and apparently are hoping for prices to come down in Q4 and Q1 of next year. I think that is the key explanation there. Net of this, we see overall a nice business development in Catalysts across all businesses, in particular in our automotive catalyst business.

Christian Faltz (Kepler Cheuvreux): Just after Laurence's question on catalysts: Can you please talk about the current order situation with a different aspect? Would it be a correct assumption that the mix is shifting a bit at present, away from more complex diesel exhaust systems to simpler gasoline exhaust systems?

Kurt Bock: Catalysts: This diesel discussion is very much a German discussion actually. We see relatively few consumers changing their behaviour in other European markets; they continue to buy diesel cars because diesel cars are good for CO₂ avoidance and they can be cleaned up completely, e.g. using BASF's technology. In Germany – and you see it in the registration of new cars – the numbers have come down. I think we have to explain even more that diesel is a very, very good technology. If we want to achieve our CO₂ objectives, especially for transportation in the automotive industry, we need a high diesel share. This is an ongoing debate and BASF will actively participate in that debate.

Mutlu Gundogan (ABN AMRO Bank): On precious metal trading: Can you tell me why you had lower volumes here? Was that relating to the higher palladium prices that you alluded to? Do you see hoarding in the vertical channel? Secondly, on the catalysts business excluding metal trading. If my calculations are correct, that was up 4 percent year-on-year despite negative volumes and also despite negative effects, i.e. you had a very strong price mix. Can you explain to me why that was?

Hans-Ulrich Engel: Let me start with your question on the precious metal trading. Yes, that is exactly the reason. Automotive buyers decided, looking at the high prices that we have in Q3 and the price increases, in particular in palladium, to postpone their purchases. We have seen this also in prior periods with similar developments. From my perspective, I look at this and say to myself: This is not lost business, this is business that will come at a different point in time.

If I understood you correctly, if you came to the conclusion that taking out the effects that we have seen in the precious metal trading business that the catalyst business has done reasonably in Q3, I would confirm that.

Mutlu Gundogan (ABN AMRO Bank): The question was whether that was mainly related to price mix. Is that the case? Can you tell me why the price mix was so strong?

Hans-Ulrich Engel: Prices overall in catalysts have seen a nice increase. Well, I have to say I don't have the details here; but overall there is an 8 percent price increase in Q3 which is a good solid number.

Chetan Udeshi (JP Morgan): You mentioned the innovation in your catalyst business. But one of your competitors in auto cat is talking about significant share gains in diesel over the next one or two years. Is that something you subscribe to? Or do you think your share remains intact over the next two years?

Kurt Bock: With regard to catalysts, this is a very good business overall, because it is very much innovation-driven. "Innovation-driven" means you have to qualify at the OEMs. There is a competition about best technology. What you have seen here over the last couple of years is sometimes shifting market shares; sometimes somebody has a new technology introduced and then gains, as has been the case with BASF. Then somebody else does the same. So, this is not unheard of. We are quite confident that we can continue to grow the business, especially in Asia and in China where we do have a leading market position. In China, e.g. the diesel technology doesn't play any role at all for light-duty vehicles, passenger cars.

Peter Clark (Société Générale): On Coatings, again, I asked this with Q2. If I try and adjust for the M&A effects of Chemetall and the industrial coatings business going to Akzo, it does look like the EBIT is probably running 20 percent light or more year-on-year again. I am just wondering if there is anything specific, if you could highlight that. I try and adjust for the deco in Brazil etc. Looking against the peer group, that seems to be worse than the peer group. So, I am just wondering how things stuck up in the coatings business.

Kurt Bock: On Coatings, Peter: Last year, we had still the industrial coatings business included. So, this goes away. This is a negative effect. By and large, we were able to maintain profitability in coatings. But as you alluded to, there is continuous price pressure coming from the automotive industry which is not surprising, obviously.

Stephanie Boswell (Bank of America Merrill Lynch): On Construction Chemicals: Within your commentary you said, volumes were up slightly in South America, Africa and the Middle East. That commentary looks quite different compared to what you put out at the H1 stage where you essentially said that demand in the Middle East had been down considerably. I wondered if you could give us an update in terms of how underlying trends were looking there.

Kurt Bock: Construction Chemicals: Actually, our business in the Middle East decreased, continued to decrease. It's a difficult market environment. We report the Middle East as part of South America, Africa, Middle East.

In Europe, we had significantly higher volumes overall. The mature markets developed quite nicely. I think we alluded to that in our speech when we said: Construction markets in Europe were relatively strong – but not the Middle East.

2.4 Agricultural Solutions

Andrew G. Stott (UBS): On Crop Protection: It's a long time since I have seen minus 8% on pricing in any of the players in this key industry. I think I have to go back to 2010 to see a material negative number for you, which was minus 3%.

Can you tell me what happened in Q3? Sequentially, you went from minus 2% to minus 8% on pricing. Are we just clearing out inventory? Is this a temporary situation or is this a genuine, sort of leg down in Brazil that we should be concerned about for 2018?

Kurt Bock: Crop protection: Essentially, it's only a problem of South America. If we look at our price development: Europe slightly up, North America flat, Asia – that might be a portfolio effect – went slightly down and then steeply down in South America, which is essentially Brazil. So, this is all the follow-up of the clean-up which, I think, the entire industry had to do in Q3, starting already late in Q2. This, by and large, explains the development.

We know that Q3 is a relatively small quarter in crop protection, but volumes were up in Europe, volumes were up in North America, volumes were up in Asia for BASF, very nicely up, I have to say. They are down in, again, South America. So, this is very much a Brazil thing, which means: There is a clean-up. This also means that going forward the conditions should be better because I think at least BASF and other companies have done their homework there to reduce infield inventory. That should now enable us to have a better Q4. As we all know, this is a very important quarter for South America.

Jeremy Redenius (Sanford C. Bernstein): I just wanted to come back to the ag business once more. You mentioned price decreases in Latin America. I think that's really the first time we have heard that in quite some time. I wonder if you could talk a little bit more about the nature of those price decreases. Are you seeing competition from generics producers or are you seeing price competition from R&D-driven competitors as well? So just a little bit more detail where that price competition is coming about.

Kurt Bock: South America: This price decrease is for us essentially a mix effect. We had a higher share of products with weaker margins and lower prices and the price reaction was essentially to relatively stiff innovation competition in some of our products, which is to be expected, I have to say. That is the normal course of the crop protection business that over the life cycle of products new competition arises and then price pressure increases and you try to counteract with new formulations and different price points which normally is quite effective to maintain share and earnings, but you cannot always avoid price declines. I hope this helps.

Jeremy Redenius (Sanford C. Bernstein): To clarify: For example, in insecticides you might have seen basically trading down to more value-priced insecticides versus latest formulations?

Kurt Bock: You are exactly right, yes.

Sebastian Bray (Berenberg): Could you please give some sense of the differential in terms of crop protection pricing development in different geographies? So if I were to guess, for example, that Europe were, I don't know, down 3% to 4%, what exactly, in relative terms, would Brazil and Latin America be down? Which regions have suffered aside from Brazil the most pronounced mix and pricing effects?

Kurt Bock: Pricing per region: Yes, prices in Europe, very small quarter again, slightly up, small single-digit. Pricing in North America: essentially stable. Pricing in Asia: slightly down. Pricing in South America, most importantly: down by two digits, which is painful. I think I already explained that this is also an effect of mix and portfolio.

We have to keep in mind, especially for South America, that we should look at Q3 and Q4 then in combination because that would really cover the entire season in the Southern hemisphere.

Patrick Lambert (Raymond James): On the EBIT of ag: If you could help us understand the impact of the production problems in Puerto Rico and in Beaumont on EBIT.

Kurt Bock: Ag results have been impacted by the production interruption in Beaumont and in Puerto Rico. That is a lower double-digit number. So, we should put this into perspective. It had a negative impact, but it doesn't explain, obviously, the negative deviation from last year which is, again, fully driven by the South American business development.

Markus Mayer (Baader Bank/Helvea): Also, from the agro chem space, it looks like you are becoming a little bit more positive on the outlook for Q4, but also for 2018. Maybe you can quantify this or at least explain why this is the case.

Kurt Bock: Outlook for ag: I think I said that we are now entering into the most important period in South America. Q4 is now make-or-break for Brazil. Essentially, it is far too early to speculate about 2018. But I think a couple of industry observers believe that the industry is prone for an improvement after we have had a pretty rocky time over the last couple of years. Since 2014, 2015 growth, especially profitability growth, in our industry has slowed down a bit. So, it is too early to say, but if there are more market opportunities – this is also based on our innovation pipeline – BASF will go for it.

Sebastian Bray (Berenberg): On the acquisition of the Bayer assets: Are there any plans and if so, when exactly would we start to see the fruits of these? I think it was mentioned in terms of biologics to bundle things like Becker Underwood biologic treatment solutions with the seeds portfolio at Bayer?

Kurt Bock: The Bayer acquisition: First of all, we have to close it. This is still an ongoing process. We have an integration team in place, which is very important because the time lines for all of this are very short and very demanding.

Obviously, part of the story on our side is also to combine this now with our knowledge both in trait research – very, very important – and in crop protection and especially in biologicals where we do see an opportunity to combine our knowledge for the benefit of farmers and then ultimately also for the benefit of BASF. We have quite a few good ideas in that respect. But I would propose that we brief you on more details really in 2018 after we have closed. I think that is an appropriate point in time to give you a little bit more background with regard to why we believe this is a good growth story for BASF.

2.5 Oil & Gas

Patrick Lambert (Raymond James): Could you comment a bit on the free cash flow generation of the Oil & Gas business?

Hans-Ulrich Engel: On free cash flow in Oil & Gas: I'll start with last year. Let's keep in mind: Even in this very difficult environment last year, the Oil & Gas business was free cash flow-positive. Order of magnitude: 150 to 200 million euros in 2016. When you look at the improvement in results that we have and keep in mind that, from a capex perspective, we will spend the same order of magnitude, maybe slightly less than we did last year, you can expect to see that business with what I would consider to be the appropriate improvement in free cash flow in the year 2017.

Laurent Favre (Evercore): On Oil & Gas: On the Argentinian disposal, can you give us more details, i.e. are those assets that are currently in production, are those assets which are going to show growth, i.e. is it part of the Vega field or is it just an exploration licence which you were able to monetize?

Second question: Is there a cash impact from memory? The issue that you historically had in Argentina was that you could not send cash flow out to other countries. Is that still the case?

Third: More generally, are you in cash-harvesting mode in Oil & Gas? Or is it a very specific case?

Hans-Ulrich Engel: Laurent, I start with your last question. Consider this to be the usual portfolio management that you do in Oil & Gas. You have seen us in the years where we could not send cash out of Argentina, building positions in Argentina also to protect us against the significant amount of inflation.

This move here is one where – in the Neuquén Province – we have a big position in the Vaca Muerta. The government decided to split this between an East and a West concession. We are staying in one concession and we are divesting the other part of the concession. The entire thing is in development with first pilots. I think we will focus on the East and have divested the West. As I mentioned already, since the Macri government is in place, we are able to do dividend payments out of Argentina. Argentina actually has become a significantly better place to do business after the change in government that we have experienced.

Kurt Bock: With regard to our plans in the Oil & Gas business, Laurent: The good thing about Oil & Gas is that you can actually design cash flow profiles very nicely by deciding which prospects you want to develop, which fields you want to own, where you want to exit, where you want to grow.

Our overall goal is to have – Hans has said it – a healthy free cash flow and 2017 looks like we are advancing very nicely in that direction and at the same time drive operational excellence, which is much easier in a low oil price environment, and to have continuous production and reserve growth.

So far, we have been able to combine this very nicely. This continues to be a good investment even under the current relatively low oil and gas prices.