

News Release

P369/19e
October 24, 2019

Media Conference Call on the Third Quarter 2019

BASF Group third-quarter EBIT before special items declines 24% from prior-year quarter; outlook for 2019 confirmed

- **Sales of €15.2 billion (minus 2%); sales volumes match level in prior-year quarter**
- **EBIT before special items declines to €1.1 billion, primarily due to significantly lower earnings contributions from Chemicals and Materials**
- **Surface Technologies, Agricultural Solutions, Industrial Solutions and Nutrition & Care segments post considerable increase in earnings**
- **Outlook for 2019 confirmed: EBIT before special items expected to be up to 30% below prior-year level**

Presentations by

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

The spoken word applies.

[Martin Brudermüller]

Ladies and gentlemen,

Hans Engel and I would like to welcome you to our conference call. Today we will present the third-quarter results. The business trend observed in the second quarter has continued over the past few months.

The geopolitical conditions are and will remain challenging. In particular, the trade conflict between the United States and China is weighing on our business. Moreover, there are uncertainties related to Brexit. These events are acting as a drag on the economy – not only in export-oriented countries in Europe. The United States is also experiencing a noticeable slowdown. Growth continues in China, albeit at a slower pace. Production in the global automotive industry again declined compared with the already low level at the end of the first half of the year.

All these factors adversely affect the development of our business. And it is not within our power to change them. However, we know exactly what we have to address within BASF. And we are working on this with speed and determination. About one year ago, we showed you our path forward with our new strategy. Since then, we have been rapidly and systematically reshaping our organization – towards greater customer focus and leaner structures.

2019 is a transition year for BASF. But we are using this time. We are reducing complexity. We are minimizing maintenance times and increasing the availability of our plants. And we are simplifying our processes wherever possible. With a new BASF, we will become more agile and faster. And closer to our customers.

The implementation of our strategy is proceeding rapidly. Our excellence program will already contribute €500 million to EBITDA by the end of this year. From the end of 2021, it will be €2 billion annually.

We are rigorously pursuing our ambitious financial and non-financial targets. This includes our goal of growing faster than global chemical production. And achieving CO₂-neutral growth, which means increasing our economic strength while keeping emissions flat.

Ladies and gentlemen,

Now let us review the development in the third quarter of 2019 compared with the prior-year quarter.

Sales in the third quarter of 2019 declined slightly year on year and amounted to €15.2 billion. We are seeing uncertainties in the market. Our customers are being cautious with their ordering. Demand from key customer sectors did not recover. Nevertheless, we were able to keep our sales volumes at the level of the prior-year quarter.

Prices were down by 4%, primarily in the Materials and Chemicals segments. This decline was partially offset by higher prices in the Surface Technologies segment.

Portfolio effects balanced each other out: The positive effect from the acquisition of the crop protection and seed businesses compensated for the negative effect resulting from the transfer of our paper and water chemicals business to Solenis.

Currency effects amounted to plus 2%. These were mainly related to the appreciation of the U.S. dollar against the euro.

Now let's look at our earnings: Income from operations (EBIT) before special items was €1.1 billion, down by 24% compared with the level of the third quarter of 2018. This was primarily due to significantly lower contributions from the Materials and Chemicals segments. As expected, isocyanate prices declined considerably. In addition, there were scheduled turnarounds at our steam crackers and falling margins for cracker products. These factors had a significantly negative impact on earnings in the two segments.

Despite the difficult market environment, we were successful in our downstream businesses. We recorded a considerable improvement compared with the prior-year quarter. We *can run* downstream businesses.

In the Industrial Solutions segment, EBIT before special items increased considerably. This was primarily the result of lower fixed costs.

In the Surface Technologies segment, EBIT before special items increased considerably in all three divisions. In the Catalysts division, this was primarily attributable to measurement effects in precious metal trading as well as higher sales volumes. The Coatings division recorded higher margins and lower fixed costs.

Earnings increased in the Construction Chemicals division, mainly due to price-related margin growth.

In the Nutrition & Care segment, EBIT before special items increased considerably. This was driven by higher earnings in the Care Chemicals division, supported by a one-off payment. Earnings in the Nutrition & Health division declined slightly because of higher raw materials prices and fixed costs.

In the Agricultural Solutions segment, EBIT before special items increased considerably, mainly due to higher sales. One reason was the good start to the season in South America. Positive one-time effects also contributed to the earnings increase.

In Other, EBIT before special items was considerably lower, largely due to valuation effects for our long-term incentive program.

Hans Engel will take a closer look at the numbers later on.

Investments for organic growth and sustainable solutions

Ladies and gentlemen,

Let's look at investments. We will spend more than €500 million to expand the integrated ethylene oxide and derivatives complex at our Verbund site in Antwerp, Belgium. It is slated to start operations in 2022. With this investment, we are increasing our production capacity by around 400,000 metric tons per year. And we are supporting the continuous growth of our customers in Europe.

Further, we want to drive forward the chemical recycling of mixed plastic waste. We are therefore investing €20 million in the company Quantafuel. The Norwegian firm is a specialist in pyrolysis of mixed plastic waste and the purification of pyrolysis oil. We will further develop this technology to optimize its use as a feedstock in chemical production. The investment underlines BASF's commitment towards a sustainable use of resources and the development of a circular economy model for plastics.

And, last but not least, we are taking an important step in India. BASF and Adani had already announced the investment plans in January 2019. Now, together with the Abu Dhabi National Oil Company, Adani Group and Borealis, we are evaluating a collaboration to build a chemical production complex in India. With ADNOC and Borealis as potential partners, we are evaluating a joint world-scale propane

dehydrogenation plant. This project would optimally leverage the technical, financial and operational strengths of each company. The total investment is estimated to be up to \$4 billion. The aim is to complete the joint feasibility study by the end of the first quarter of 2020. Production is intended to commence in 2024.

Ongoing active portfolio management

Ladies and gentlemen,

Active portfolio management is high on our agenda. We are sharpening our focus and creating greater value.

For example, in engineering plastics. To further expand our position, we signed an agreement with Solvay in September 2017. In January 2019, the European Commission ultimately approved the acquisition under certain conditions. In August 2019, we reached an agreement between BASF, Solvay and Domo Chemicals. Domo will acquire Solvay's European polyamide 6.6 business. And BASF will acquire the global, non-European PA6.6 business from Solvay, including its 50% share in Butachimie's ADN production. Both transactions should close by the end of 2019, subject to approval from the relevant competition authorities. The purchase price to be paid by BASF would amount to €1.3 billion.

Now, I want to talk about the divestiture of our pigments business. BASF and the fine chemical company DIC reached an agreement in August on the acquisition of BASF's global pigments business. The purchase price on a cash and debt-free basis is €1.15 billion. The transaction is expected to close in the fourth quarter of 2020, subject to the approval of the relevant competition authorities.

The structured process to divest our construction chemicals business is also on track. The same is true for the carve-out process. We are now entering the next phase with a small number of bidders. We expect to sign an agreement by the end of this year to sell the construction chemicals business.

Transformation to an agile and customer-focused organization

2019 is a difficult transition year, but we are using this time to implement our corporate strategy with energy, passion and speed – step by step. We are streamlining our administration, focusing the roles of services and regions, and simplifying procedures and processes. We have already made good progress in reshaping our organization.

Significant parts of our functional units have been embedded in our operating divisions. As of October 1, we completed the organizational reassignment of around 20,000 employees.

This is already starting to pay off. One example from our Nutrition & Health division:

As part of our strategy implementation, employees from maintenance who had previously worked in a unit at the Ludwigshafen site were embedded in the division. A turnaround at the Lysmeral plant was scheduled. This is a major project because the plant must be shut down for a few days. And that costs precious time. Thanks to the integration of these employees, we were able to restart the plant ahead of schedule. We thus reduced the production downtime by approximately 15%. This contributed around €1 million to earnings.

That is just one example of many. Our company benefits greatly when dedicated colleagues in maintenance perform their specialized work in a focused and responsible way. This is the culture we want to establish throughout BASF.

There are some changes in governance functions, too. We have already defined an agile corporate headquarters with around 1,000 employees. It will support the Board of Executive Directors in steering the BASF Group. This will take effect as of January 1, 2020. Moreover, as part of the ongoing efficiency measures, the Board of Executive Directors of BASF SE will be reduced at the same time to six members from the current seven. Our Board member Sanjeev Gandhi is leaving the company at his own request.

Across the entire BASF organization, we are fostering an entrepreneurial culture of excellence. Back in the spring, we presented the plans for our changes. All of these measures have one objective: to get BASF back on track to profitable growth through customer proximity.

Now, Hans Engel will update you on the current status of our excellence program and provide further information about our business development.

[Hans-Ulrich Engel]

Acceleration of excellence program

Good morning from me as well.

Ladies and gentlemen,

We have also accelerated our excellence program and are well on our way to reaching the targeted annual EBITDA contribution of €2 billion by the end of 2021. In the current year, we will achieve the first positive EBITDA contributions amounting to around €500 million. However, we expect the accelerated implementation to result in one-off costs of a similar magnitude.

For 2020, we expect an EBITDA contribution in the range of €1 billion to €1.3 billion. This will be offset by one-off costs estimated at €200 million to €300 million.

How do these EBITDA contributions break down?

The largest contribution from operational excellence measures will be achieved in the areas of production, logistics and planning. Moreover, we are streamlining our organization and creating leaner structures. Around 1,800 positions were reduced globally by the end of September 2019.

In addition, our innovation budgets will be more consistently focused. And we are simplifying operations and responsibilities in numerous areas. There are currently more than 100 such measures underway and 40 have already been successfully completed.

Development of BASF Group in the third quarter 2019

Now I will go more into detail on BASF's financial figures in the third quarter of 2019 compared with the same quarter of the previous year:

Sales declined by 2% to €15.2 billion.

EBITDA increased to €2.3 billion, compared with €2.2 billion in the third quarter of 2018. EBITDA before special items was down by 8% to €2.1 billion.

EBIT before special items was €1.1 billion, down by 24% compared with the level of the third quarter of 2018. Martin Brudermüller has already mentioned the key drivers behind the earnings development.

Special items in EBIT totaled €257 million, compared with minus €75 million in the prior-year period. A considerable disposal gain from the sale of property in Basel, Switzerland, more than offset special charges for restructuring measures and integration costs. EBIT amounted to €1.4 billion, nearly matching the prior-year level.

The tax rate was 22.5%, compared with 17.9% in the third quarter of 2018, due in part to lower deferred tax income.

Net income amounted to €911 million, compared with €1.2 billion in the third quarter of 2018.

Earnings per share in the third quarter of 2019 fell to €1.00 from €1.31 in the prior-year quarter. Adjusted earnings per share were €0.86 versus €1.51 in the prior-year period.

Cash flows from operating activities amounted to €2.0 billion, compared with €2.9 billion in the third quarter of 2018. Alongside the decline in net income, this decrease was primarily attributable to the change in miscellaneous items. This related mainly to the reclassification of the gain on the sale of property in Basel, Switzerland, to cash flows from investing activities.

Free cash flow declined to €1.1 billion as a result of lower cash flows from operating activities.

Development of cash flows

Ladies and gentlemen,

Now let us look at cash flows in the first nine months of 2019.

Cash flows from operating activities amounted to €4.3 billion, compared with €6.4 billion in the same period of the previous year. This decline was primarily due to the lower net income resulting from the reclassification of the disposal gain from the deconsolidation of Wintershall into cash flows from investing activities.

In the first nine months of 2019, cash flows from investing activities amounted to plus €47 million. During the same period of 2018, the corresponding figure was minus €10 billion. The main driver of the increase in cash flows from investing activities was net payments received in connection with acquisitions and divestitures. The cash inflow primarily resulted from the merger of the oil and gas businesses of Wintershall and DEA. In the same period of the previous year, by contrast, the acquisition of significant businesses from Bayer led to a cash outflow.

Free cash flow declined from €4 billion in first nine months of 2018 to €1.7 billion in the same period of this year, mainly as a result of lower cash flows from operating activities.

You can find further figures and information in our Quarterly Statement, which was published today.

I will now hand back over to Martin Brudermüller for the outlook.

[Martin Brudermüller]

BASF Group outlook for 2019

Ladies and gentlemen,

We confirm the 2019 outlook for BASF Group that we published on July 8. Accordingly, we still expect a slight decline in sales. For EBIT before special items, we expect a considerable decline of up to 30%. Return on capital employed (ROCE) for the full year 2019 is expected to decline considerably compared with 2018.

We made a slight adjustment to our planning assumptions:

- For 2019 we now expect an average Brent blend oil price for the year of \$65 per barrel. Previously we had assumed \$70 per barrel.

The other assumptions are unchanged:

- Growth in gross domestic product: 2.5%
- Growth in industrial production: 1.5%
- Growth in chemical production: 1.5%
- Average euro/dollar exchange rate of \$1.15 per euro

Ladies and gentlemen, that was the latest news from BASF.

Hans Engel and I are now looking forward to your questions.