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BASF conference call on second quarter 2018, Ludwigshafen

News Release

P266/18e
July 27, 2018

2nd Quarter 2018

BASF Group records slight sales and earnings growth

- **Solid volumes growth in second quarter, prices raised, ongoing negative currency effects**
- **Sales of €16.8 billion (plus 3%)**
- **EBIT before special items of €2.4 billion (plus 5%)**

Outlook for 2018 confirmed:

- **Slight sales growth**
- **Slight increase in EBIT before special items**

Presentations by

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

The spoken word applies.

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Ladies and gentlemen,

I would like to warmly welcome you to our conference call. Our focus today will be on the figures from the second quarter and first half of the year – and I will talk about these in a minute. But first, I would like to discuss a few very exciting topics and current developments that are keeping us busy right now.

New Verbund site planned in the southern Chinese province of Guangdong

For example, our plans in southern China: At the beginning of the month, we announced we were entering into negotiations on building an integrated Verbund site in the province of Guangdong. BASF would be the first foreign company in China with 100% responsibility for building and operating a Verbund site, including a steam cracker. Once again, BASF is a pioneer here, leading the way.

Why do we want to continue making such substantial investments in China? If you look at the numbers, the answer is obvious: With a world market share of around 40%, the country is already the largest chemical market and dominates the growth of global chemical production. A company like BASF, which aims to be the world’s leading chemical company, must participate in this major growth market. Furthermore, with a new Verbund site, BASF can play a role in the opening of the chemical industry in China and uniquely position itself in the country.

We estimate the investment could reach up to $10 billion by the completion of the project around 2030. The first plants could be completed by 2026 at the latest. But we must keep in mind that the signing of the Memorandum of Understanding is only a first step and many more will need to follow. The next step will be completing a pre-feasibility study.

BASF plans to conclude acquisition of Bayer businesses in August

Ladies and gentlemen,

I would also like to use this conference call as an opportunity to share more details about the transactions with Bayer that we agreed to in October 2017 and April 2018. We currently anticipate that the acquisition of these businesses can be concluded in August. And we are looking forward to soon welcoming 4,500 new colleagues with their groundbreaking and innovative fields of work, who will join us at BASF.

By combining our existing crop protection activities, biotechnology research and digital farming with the new businesses we are acquiring from Bayer, BASF will become an even stronger partner for farmers worldwide.

With this acquisition, BASF is entering into the seeds business. In the future, we will have a prominent position in the seed markets for important row crops, such as canola/oil-seed rape, cotton and soybeans, as well as vegetable seeds. We are expanding our herbicide portfolio with the addition of glufosinate-ammonium non-selective herbicides. We will strengthen our seed treatment products in key markets in North and South America with a leading portfolio. And we will utilize our expanded digital capabilities to further improve our offerings for farmers.

It is important to us that we are not only acquiring fully enabled businesses and assets, but also very promising research projects that will further increase our innovative potential in the Agricultural Solutions segment.

Status of other announced transactions

In addition, we are pursuing other BASF projects to develop our portfolio. In the Oil & Gas segment, we signed a letter of intent with LetterOne in December 2017 regarding the merger of our respective oil and gas businesses. We aim to sign these contracts in the coming weeks. If an agreement is reached, this transaction could be expected to close in the first quarter of 2019. This, of course, is subject to regulatory approvals.

The same is true for the May 2018 agreement to merge BASF’s business with paper and water chemicals with the firm Solenis, a global producer of specialty chemicals for water-intensive industries. The necessary merger control filings are currently being prepared and submitted to the relevant authorities. Closing of this transaction is anticipated for the end of 2018 at the earliest.

At the end of June, the European Commission announced it was opening an in-depth investigation of our planned takeover of Solvay’s integrated polyamide business. The European Commission will gather and evaluate additional data and is likely to take a decision in the fourth quarter of 2018.

Sales and earnings of the BASF Group

Ladies and gentlemen,

Now let's take a look at our figures. Compared with the second quarter of 2017, sales rose by €518 million to €16.8 billion. This was driven by higher prices in all segments, particularly in Functional Materials & Solutions and Oil & Gas. In addition, with the exception of Performance Products, all segments achieved volumes growth. This was partially offset by negative currency effects.

We increased income from operations (EBIT) before special items by €105 million year on year to €2.4 billion, largely thanks to the significantly improved contribution from the Oil & Gas segment. EBIT before special items rose slightly in the Agricultural Solutions and Performance Products segments but decreased slightly in the Chemicals segment and declined considerably in the Functional Materials & Solutions segment.

Compared with the first half of 2017, sales rose by €307 million to €33.4 billion. This was due to higher sales prices, especially in the Functional Materials & Solutions, Chemicals and Oil & Gas segments, as well as volumes growth in all segments except Performance Products. Negative currency effects, primarily relating to the U.S. dollar, dampened sales in all segments.

We increased EBIT before special items in the first half of 2018 by €160 million to €4.9 billion, largely thanks to the significantly improved contribution from the Oil & Gas segment. EBIT before special items rose slightly in the Chemicals segment but decreased slightly in the Performance Products segment and declined considerably in the Functional Materials & Solutions and Agricultural Solutions segments.

And now, let's move on to our outlook for the full year.

Outlook for the year 2018

Global economic risks increased significantly over the course of the first half of 2018, driven by geopolitical developments and the trade conflicts between the United States and China, as well as between the United States and Europe. We are monitoring these developments and the potential effects on our business very closely.

At this time, our assessment of the global economic environment in 2018 remains unchanged with the exception of the expected oil price (previous forecasts from the BASF Report 2017 in parentheses):

- Growth in gross domestic product: 3.0% (3.0%)
- Growth in industrial production: 3.2% (3.2%)
- Growth in chemical production: 3.4% (3.4%)
- Average euro/dollar exchange rate of $1.20 per euro ($1.20 per euro)
- Average Brent blend oil price for the year of $70 per barrel ($65 per barrel)

We confirm the sales and earnings forecasts for the BASF Group contained in the BASF Report 2017. We expect slight sales growth, a slight increase in EBIT before special items and a slight decline in EBIT. Furthermore, we expect a significant premium on cost of capital with a considerable decline in EBIT after cost of capital. This forecast does not take into account the intended merger of our oil and gas activities with the business of DEA Deutsche Erdoel AG and its subsidiaries.

And now Hans Engel will say a few words about the segments and financial data.

[Presentation by Hans-Ulrich Engel]

Development of the segments

Sales of €4.1 billion in the **Chemicals** segment slightly exceeded the €4 billion reported in the prior-year quarter. This was the result of higher prices, especially in the Monomers and Intermediates divisions, as well as volumes growth. By contrast, sales were negatively impacted by currency effects, primarily relating to the U.S. dollar. EBIT before special items declined slightly compared with the second quarter of 2017, but remained high at €1.1 billion. The slight decrease was mainly due to higher fixed costs as a result of plant turnarounds. In the first half of the year, sales in the Chemicals segment grew by 3%, from €8.2 billion to €8.4 billion. EBIT before special items rose by 6% to €2.2 billion.

Sales in the **Performance Products** segment declined slightly year on year to €3.9 billion (second quarter 2017: €4.1 billion). The main driver was negative currency effects in all divisions, mostly relating to the U.S. dollar. Lower volumes in the Nutrition & Health and Care Chemicals divisions, as well as portfolio effects in the Performance Chemicals and Dispersions & Pigments divisions also had a dampening effect on sales. By contrast, sales were positively impacted by higher sales prices. An insurance payment related to the unplanned shutdown of our citral plant compensated for the lower earnings contribution and higher costs in the Nutrition & Health division resulting from this shutdown. At €409 million, EBIT before special items increased slightly compared with the prior-year quarter thanks to lower fixed costs and higher margins. Sales in the first half of the year were down by 5%, from €8.4 billion to €7.9 billion. EBIT before special items fell by 4% in the first half of the year to €879 million.

In the **Functional Materials & Solutions** segment, sales of €5.5 billion grew slightly by 5% compared with the prior-year quarter on the back of higher prices and increased sales volumes. Sales were negatively impacted by currency effects, primarily relating to the U.S. dollar. At €338 million, EBIT before special items was considerably below the figure for the second quarter of 2017, primarily as a result of higher fixed costs and lower margins due to the increase in raw materials prices. In the first half of the year, sales of €10.7 billion were 2% above the level of the prior-year period. EBIT before special items amounted to €671 million, compared with €953 million in the prior-year period.

Sales of €1.5 billion in the **Agricultural Solutions** segment declined slightly compared with the prior-year quarter due to negative currency effects in all regions. We increased sales volumes in South America and Asia in particular, and raised prices slightly. EBIT before special items of €278 million was slightly higher than in the second quarter of 2017. Despite the negative currency effects, a more favorable product mix lifted our average margin. This more than compensated for the slight increase in fixed costs. In the first half of 2018, sales in the Agricultural Solutions segment declined by 4% and amounted to €3.2 billion. EBIT before special items declined by €104 million to €701 million.

In the **Oil & Gas** segment, sales rose considerably compared with the prior-year quarter to reach nearly €1 billion. This was mainly due to higher prices. Sales were also lifted by increased volumes from Norway following the start of production at new fields as well as stronger trading volumes. The price of a barrel of Brent crude oil averaged $74 in the second quarter of 2018 (second quarter of 2017: $50). Gas prices on the European spot markets were also significantly higher than in the prior-year quarter. Sales were reduced by currency effects. We considerably improved EBIT before special items to €391 million (second quarter 2017: €183 million). Oil and gas prices rose. In Norway, we recorded both lower depreciation as a result of higher reserves and volumes growth. Net income rose considerably. In the first half of the year, sales rose to €1.9 billion (2017: €1.6 billion) and EBIT before special items increased to €756 million (2017: €353 million).

Sales of €662 million in **Other** were considerably above the €476 million reported in the second quarter of 2017, mainly as a result of higher sales volumes and prices in raw materials trading. EBIT before special items rose considerably due to lower contributions to provisions and an improved foreign currency result. Compared to the first half of 2017, sales rose by 12% to €1.2 billion and EBIT before special items improved by 13%.

You can read about our business development in the **regions** on page 18 of the Half-Year Financial Report published today.

BASF Group earnings development

Special items in EBIT totaled minus €65 million in the second quarter of 2018, compared with minus €70 million in the prior-year quarter. These mainly related to expenses for restructuring measures and integration costs, primarily in connection with the planned acquisition of businesses and assets from Bayer. EBIT rose by €110 million compared with the second quarter of 2017 to reach €2.3 billion. Income from operations before depreciation, amortization and special items (EBITDA before special items) and EBITDA were on a level with the prior-year quarter figures, at €3.3 billion and €3.2 billion, respectively.

Income before taxes and minority interests rose by €82 million to around €2.1 billion. At 27.1%, the tax rate was higher than in the prior-year quarter (22.1%), due among other factors to stronger earnings contributions from companies in countries with a high tax rate, especially Norway. Net income declined by €16 million to €1.5 billion.

Earnings per share were €1.61 in the second quarter of 2018, compared with €1.63 in the prior-year period. Earnings per share adjusted for special items and amortization of intangible assets amounted to €1.77 (second quarter of 2017: €1.78).

Development of cash flow

In the first half of 2018, cash flows from operating activities amounted to €3.5 billion, €347 million below the figure for the prior-year period. This was largely attributable to the higher level of cash tied up in miscellaneous items, mainly due to changes in pension provisions and defined benefit assets; cash was released in the prior-year period.

Cash flows from investing activities amounted to minus €1.7 billion in the first half of 2018, compared with minus €2.4 billion in the prior-year period. The improvement was mainly due to the year-on-year decline in cash outflows from the change in other financing-related receivables. Furthermore, at €1.4 billion, payments made for property, plant and equipment and intangible assets were €193 million below the prior-year figure.

Cash flows from financing activities in the first half of 2018 amounted to minus €518 million, compared with minus €886 million in the prior-year period. This improvement was primarily attributable to higher net cash inflows from financial indebtedness.

Dividends of €2.8 billion were paid to shareholders of BASF SE in the first half of 2018, €92 million more than in the prior-year period. Minority shareholders of Group companies received €197 million in dividends, an increase of €115 million.

Free cash flow amounted to €2 billion, compared with €2.2 billion in the prior-year period. The decline in cash flows from operating activities could not be completely offset by the lower payments made for property, plant and equipment and intangible assets.

Net debt increased by €1.1 billion as against December 31, 2017, to €12.6 billion, with a view to the upcoming purchase price payments for the agreed acquisitions. As of June 30, 2018, BASF had a solid equity ratio of 43.1%.

Ladies and gentlemen,

Martin Brudermüller and I are now looking forward to taking your questions.