



We create chemistry

**Analyst Conference Call Q3 2022**  
**Speech**  
**October 26, 2022**

**Martin Brudermüller**

Chairman of the Board of Executive Directors

**Hans-Ulrich Engel**

Chief Financial Officer

The spoken word applies.

**Martin Brudermüller**

Good morning, ladies and gentlemen,

Two weeks ago, BASF released preliminary figures for the third quarter of 2022. Today, Hans Engel and I will provide you with further details regarding our business development.

Despite the continued strong headwinds from high raw materials and energy prices as well as slowing economic activity, BASF achieved solid EBIT before special items in the third quarter of 2022. Our downstream segments improved earnings considerably. In the upstream segments, however, earnings declined significantly from the very high levels in the prior-year quarter.

Let's start with a snapshot of the currently challenging market environment.

**[Slide 3: Challenging market environment]**

Compared with Q2 2022, the global macroeconomic environment has significantly weakened. There are no indications of improvement from the markets in the short term.

High inflation and the sharp increase in energy prices led to a slowdown in consumer demand, particularly in Europe. China recorded growth, but partly because of strong base effects due to power shortages in the prior-year quarter, and its economic development continued to be impacted by restrictions to reduce the spread of COVID infections.

Global automotive production was a positive surprise in Q3 2022: It increased in all regions compared with the prior-year quarter. Q3 2021 was, however, the quarter in which chip shortages peaked.

After the COVID-related lockdowns in the second quarter of 2022, automotive production in China developed significantly better than anticipated. IHS Markit has adjusted its forecast for global automotive production in 2022 to 81.8 million units. Compared with 2021, this would be an increase of around 6 percent.

Central banks have further raised interest rates in recent months. This will more and more dampen construction and consumer spending in the coming months and will likely result in lower growth in 2023.

**[Slide 4: Global chemical production grew by 2.0% in Q3 2022]**

Let's now briefly look at chemical production by region in Q3 2022 before we turn to the financial performance of BASF.

Based on the currently available data, global chemical production grew by 2 percent compared with a strong prior-year quarter. While China and North America recorded growth, chemical production declined in Europe and in Asia excluding China.

According to recently released data, growth in mainland China was surprisingly high, partly due to the industrial power cuts in the prior-year quarter. In Europe, chemical production declined on account of lower demand and high energy prices, which in some cases led to reduced or temporarily shut-down production at different stages of the value chains. Lower demand and increased energy prices were also the main reasons for the decline in Asia excluding China.

**[Slide 5: Moderate demand growth in key customer industries in Q3 2022]**

Let's turn to BASF's key customer industries. I will selectively comment on the most relevant developments shown on this slide:

- The transportation industry continues to benefit from pent-up demand globally, particularly in China. As mentioned, global automotive production increased compared with the low level of 2021, but is still restricted by semiconductor availability.
- In agriculture, the demand environment looks solid overall. However, prices for some crop commodity products have come down recently but remain on an above-average level.
- The construction industry, particularly in North America and Europe, is deteriorating because of increased interest rates. In China, the overheated residential segment continues to decline.

In summary, construction and consumer spending – with the exception of automotive – are weakening.

**[Slide 6: Q3 2022: BASF achieved solid EBIT before special items despite continued high raw materials and energy prices]**

I will now move on to BASF's business development.

In the third quarter of 2022, EBIT before special items declined by 517 million euros and amounted to 1.3 billion euros. Additional costs for natural gas in Europe are one major reason for this decline.

If we look at the segments, the solid EBIT before special items in Q3 came primarily from BASF's downstream segments. They considerably improved earnings, mainly on account of further price increases. In line with our guidance for the full year, earnings in the upstream segments declined considerably with softening demand – from the very high levels in the prior-year quarter.

**[Slide 7: Natural gas prices in Europe increased further compared with already elevated levels in Q3 2021]**

Natural gas prices increased further compared with the already elevated price levels in Q3 2021. In the first nine months of 2022,

the additional costs for BASF's European sites amounted to around 2.2 billion euros compared with the same period in 2021.

To mitigate these higher costs, we have implemented further price increases, and we continue to work on technical optimization projects, particularly at our largest Verbund site in Ludwigshafen. Reduced plant utilization in Q3 2022 also helped to limit the burden of high natural gas prices in cases where the market did not absorb the additional costs.

**[Slide 8: Operational earnings in region Europe and in Germany under pressure due to various challenges]**

I will now give you additional information on earnings development in the regions.

If you look at the bar for 2015, you can see that Germany, Europe excluding Germany and the other regions each contributed around one-third to BASF Group's EBIT before special items in that year. In the strong year 2021, Europe including Germany contributed only one-third, while the other regions contributed two-thirds. In the course of 2022, earnings have softened further, and we saw a particular deterioration in our German operations. In Q3 2022, we recorded negative EBIT before special items of 130 million euros in Germany.

The lower earnings in Europe, and in Germany in particular, are due to a variety of reasons. In our recent announcement, we summarized them under the term "deteriorating framework conditions." There are essentially three developments:

- First, the European chemical market has been growing only weakly for about a decade. In the period from January to August 2022, the chemical market shrank by 2.1 percent in EU 27 and by 6.8 percent in Germany compared with the same period in 2021.

- Second, the significant increase in natural gas and electricity prices over the course of this year is putting pressure on chemical value chains. We expect structurally higher and volatile natural gas prices in Europe also in the mid and long term.
- And third, uncertainties due to the enormous number of regulations planned by the E.U. are weighing on the chemical industry.

The current development underlines once again the importance of a balanced regional footprint.

The challenging framework conditions in Europe endanger the international competitiveness of European producers and force us to adapt our cost structures as quickly as possible and also permanently.

**[Slide 9: BASF takes decisive action with focus on Europe and Germany in particular]**

This is why we initiated a cost savings program focusing on Europe and on Germany in particular, which we announced on October 12.

With this program, we aim to streamline non-production units in operating, service and R&D divisions as well as in the corporate center. The cost reduction measures will be fully implemented until the end of 2024; short-term cost savings will be implemented immediately. When completed, the program is expected to generate annual cost savings of 500 million euros, which corresponds to around 10 percent of our European costs in these categories. More than half of the cost savings are to be realized at the Ludwigshafen site.

We are currently developing further structural measures to adjust BASF's production Verbund in Europe in the medium and long term to the changing framework conditions. We will thus ensure our future competitiveness and significantly reduce our consumption of gas.

We are making great progress on this. We expect to communicate details in the first quarter of 2023.

At this point, I want to stress: We cannot stick our heads in the sand and hope that this difficult situation will resolve itself on its own. We, as a company, must act now. Our cost savings program aims to secure our medium- and long-term competitiveness in Germany and Europe. We must take decisive action to fulfill our responsibilities to our employees, shareholders and society.

Now I would like to hand over to Hans for further details on our financial performance.

### **Hans-Ulrich Engel**

Good morning, ladies and gentlemen.

Let me start with the sales bridge for the BASF Group compared with the prior-year quarter.

#### **[Slide 10: Q3 2022: Sales increase mainly driven by higher prices and positive currency effects]**

In Q3 2022, sales increased by 12 percent to 21.9 billion euros, mainly on account of higher prices and positive currency effects.

Sales prices increased by 10 percent. All divisions contributed, except for Catalysts. In this division, lower precious metals prices led to overall lower prices in Q3 2022.

Currency effects of plus 8 percent also had a positive impact on sales and were mainly related to the U.S. dollar.

Portfolio effects of plus 0.9 percent were related to BASF Shanshan Battery Materials Co., Ltd., which was formed on August 31, 2021.

Sales volumes declined by 7 percent. Except for Agricultural Solutions, all segments recorded lower volumes. Excluding precious metals volumes, BASF Group sales volumes declined by 5 percent.

**[Slide 11: Q3 2022: BASF's downstream segments considerably improved earnings, while earnings in upstream segments declined considerably]**

Let's move on to our earnings development by segment in Q3 2022 compared with the prior-year quarter.

The overall decline in EBIT before special items resulted from considerably lower contributions from the Chemicals and Materials segments. In Q3 2022, these two segments contributed 600 million euros to BASF Group's EBIT before special items compared with 1.5 billion euros in the prior-year quarter. As mentioned before, all downstream segments were able to improve earnings, reaching a combined total of 725 million euros compared with 395 million euros in Q3 2021.

**[Slide 12: BASF Group Q3 2022 and Q1–Q3 2022: Financial figures]**

In the following, I would like to provide you with further details of the BASF Group's financial figures in the third quarter of 2022 compared with the prior-year quarter:

- I will start with **EBITDA before special items**, which decreased by 446 million euros and amounted to 2.3 billion euros.
- **EBITDA** amounted to around 2.3 billion euros as well, a decrease of 474 million euros.
- At 1.3 billion euros, **EBIT before special items** declined by 28 percent.



- **Special items** in EBIT amounted to minus 53 million euros compared with minus 43 million euros in the third quarter of 2021.
- **EBIT** decreased by 29 percent to 1.3 billion euros in Q3 2022.
- **Income from non-integral companies accounted for using the equity method** included a non-cash-effective impairment on BASF's shareholding in Wintershall Dea in the amount of about 740 million euros. This impairment results from the partial write-down of Wintershall Dea's 15.5 percent participation in Nord Stream AG, which operates the Nord Stream 1 pipelines. Compared with the third quarter of 2021, the after-tax operational result of Wintershall Dea attributable to BASF rose by 533 million euros to 630 million euros.
- **Net income from shareholdings** improved from 86 million euros to 102 million euros in Q3 2022.
- **Net income** amounted to 909 million euros, a decline of 344 million euros.

**[Slide 13: Cash flow development in Q3 2022 and Q1–Q3 2022]**

Let's now look at the details of our cash flow development in Q3 2022.

Compared with the prior-year quarter, **cash flows from operating activities** improved by 405 million euros to 2.3 billion euros. The increase was mainly driven by cash inflows from changes in net working capital; in the prior-year quarter there were cash outflows.

**Cash flows from investing activities** amounted to minus 680 million euros compared with minus 1.8 billion euros in Q3 2021. In the prior-year quarter, we had a net cash outflow of minus 627 million euros for acquisitions and divestitures, mainly due to the acquisition of 51 percent in BASF Shanshan Battery Materials. In the third quarter of 2022, we recorded a net cash inflow of 222 million euros

from acquisitions and divestitures, mainly related to the proceeds from the sale of the kaolin minerals business.

Payments made for property, plant and equipment and intangible assets rose by 23 percent to 1 billion euros.

**Free cash flow** thus increased by 218 million euros to 1.3 billion euros.

#### **[Slide 14: Strong balance sheet]**

Turning to our balance sheet at the end of September 2022 compared with year-end 2021:

- **Total assets** increased by 9.6 billion euros to 97 billion euros.
- **Noncurrent assets** amounted to 54.6 billion euros, an increase of 2.3 billion euros. The increase was mainly driven by translation effects due to the depreciation of the euro.
- **Current assets** increased by 7.4 billion euros to 42.4 billion euros, mainly due to higher inventories as a result of higher raw materials prices and increased trade accounts receivable because of higher sales. In addition, other receivables and miscellaneous assets contributed to the increase.
- **Noncurrent liabilities** decreased by 2 billion euros to 23.2 billion euros, mainly due to lower provisions for pensions and similar obligations. These provisions decreased by 4 billion euros to 2.1 billion euros because of higher interest rates.
- **Net debt** increased by 4.6 billion euros to 18.9 billion euros at the end of September 2022.
- **The equity ratio** was 50.6 percent compared with 48.2 percent at the end of 2021.

And now I will hand back to Martin.

**Martin Brudermüller****[Slide 15: Outlook 2022 for BASF Group unchanged]**

Let me conclude with the outlook.

In the third quarter of 2022, economic activity weakened more significantly than expected. Against this background, BASF has adjusted its assessment of the global economic environment in 2022. We now expect GDP and industrial production each to grow by 2.5 percent. Global chemical production is expected to grow by not more than 2.0 percent, down from our previous assumption of 2.5 percent. We now anticipate an average oil price of 100 U.S. dollars per barrel of Brent crude and an average exchange rate of 1.05 U.S. dollars per euro.

Despite the significant weakening of the economic environment since the third quarter of 2022, we confirm BASF Group's forecast for the 2022 business year as published in the Half-Year Financial Report 2022. We are forecasting sales of between 86 billion euros and 89 billion euros for 2022. BASF Group's EBIT before special items is expected between 6.8 billion euros and 7.2 billion euros. We continue to be confident that we can achieve the upper end of this range even though this has become more challenging in view of the current macroeconomic and geopolitical developments. ROCE is likely to be between 10.5 percent and 11.0 percent. CO<sub>2</sub> emissions are expected between 18.4 million metric tons and 19.4 million metric tons in 2022.

We are now glad to take your questions.