# Investor Release

BASF
The Chemical Company

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## Full Year 2007 Analyst Conference

## February 21, 2008, 03:00 p.m. CET

Ludwigshafen

**Dr. Jürgen Hambrecht, CEO**

**Dr. Kurt Bock, CFO**

(Analyst Conference Script)

The spoken word applies.

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Dr. Jürgen Hambrecht:

Ladies and Gentlemen, good afternoon everyone, and welcome.

***BASF posts new records***

In 2007, we posted new records at nearly all levels. Not only did we post the best financial results in our history, but we also set new levels for shareholder return.

Sales and income from operations were significantly higher than in the previous record year of 2006 thanks to organic growth and the very positive development of our acquired businesses. Earnings per share rose 31% to a record €8.32. At €5.8 billion, our operating cash flow remained at the outstanding level of the previous years. And of course we also earned a significant premium on our cost of capital. At €2.9 billion, we topped our previous year's premium by nearly €800 million.

As far as shareholder return is concerned, we undoubtedly reached new highs in 2007, too. This morning, the Board of Executive Directors of BASF has proposed a dividend of €3.90 per share for 2007. This represents an increase of 30%. Just to remind you: Last year we already increased the dividend by 50%. Second, we spent approximately €1.9 billion on share buybacks in 2007. This is the largest annual amount ever spent by BASF on buying back its own shares in a single year. Lastly, this morning we have announced our proposal of a 1:2 stock split, subject to the approval by the Supervisory Board in early March.

Before I give you some more details on these points, Kurt will take a closer look at our results in the 4th quarter 2007.

Dr. Kurt Bock:

Ladies and Gentlemen,

As you have already heard from Jürgen, 2007 was a very successful year for BASF. I will now present our results in more detail.

***Components of Sales Development***

In 2007, sales rose by 10% to almost €58 billion. Acquisitions added 7%, almost exclusively in the first half of the year. We were able to raise sales prices and volumes simultaneously by 2% and 5%, respectively. On the other hand, currency effects reduced sales by almost 4% or nearly €2 billion.

In the fourth quarter of 2007, price increases of 3% and increases in volumes of 4% more than compensated for the impact of the weaker dollar, which traded at an average of $1.45 per euro compared with $1.29 per euro in the fourth quarter of 2006.

The strongest volume increases in the fourth quarter were achieved by the Plastics and the Oil & Gas segments, the strongest price increases by the Chemicals segment.

***Income Statement Highlights I***

In the fourth quarter of 2007, sales rose by 2% to €14.7 billion. Income from operations declined by 3% to €1.6 billion, mainly due to the impact of the scheduled plant turnarounds in Petrochemicals that lasted longer than expected. Overall, shutdowns negatively impacted the Chemicals segment's earnings by approximately €150 million in the fourth quarter alone. In 2008, there will be fewer turnarounds.

In 2007, EBIT increased to a record high of €7.3 billion. As a percentage of sales, this represents a margin of 12.6%.

We were able to largely offset significantly higher raw material costs by increasing sales prices. Furthermore, the businesses acquired in 2006 contributed substantially to earnings, as did our ongoing programs to optimize and increase efficiency. The increase in expenditures for research and development and higher costs for the BASF Option Program negatively impacted income from operations, however.

Income from operations contained special charges of €298 million in 2007, compared with €507 million in the previous year. Of this amount, €185 million was due to restructuring measures, €150 million of which was incurred in the fourth quarter. These restructuring measures related to European sites and the Coatings division in North America where we incurred an impairment loss on tangible and intangible assets in the industrial coatings business. The integration of the businesses acquired in 2006 resulted in special charges of €63 million in 2007.

In 2007, special gains resulted from the sale of a stake in an ethane cracker in Geismar, Louisiana, to Williams Olefins and from the reversal of provisions established for restructuring measures in the Fine Chemicals division in 2006 that were not fully needed.

***Income Statement Highlights (2)***

In the fourth quarter, the financial result improved to minus €117 million compared with minus €134 million in the same period of 2006.

Income before taxes and minority interests was almost €1.5 billion, a decrease of less than 3%. Net income increased by 8% to almost €800 million. EPS increased by 13% to €1.65.

At 42.8%, the tax rate was almost 3 percentage points lower than in the fourth quarter of 2006. As a result of the reduction of the average overall corporate tax rate to 29% as part of the German Corporate Tax Reform 2008, deferred tax assets and liabilities needed to be revaluated. This resulted in non-recurring, non-cash income of €229 million as of December 31. Of this amount, an additional €43 million was incurred in the fourth quarter due to an adjustment of the amount booked in the third quarter.

Foreign taxes for oil production that are noncompensable with German corporate income tax amounted to €384 million in the quarter.

I will now point out a few key numbers in our full year results. As already mentioned, EBIT increased to a record €7.3 billion. Net income rose by 26% to more than €4 billion. We increased earnings per share by €1.95 to a record high of € 8.32.

Let's now have a closer look at how our segments performed in the fourth quarter.

***Segment Performance Q4***

In **Chemicals**, both sales volumes and earnings were impacted by unusual factors. Volumes were 8% below the level of last year's fourth quarter, mainly due to scheduled plant turnarounds in the Petrochemicals division. The fact that these turnarounds took longer than anticipated increased the impact of shutdowns on earnings in the Chemicals segment to about €150 million in the fourth quarter alone. We were able to raise prices, but this was not sufficient to compensate for sharply increased feedstock costs, especially for naphtha. Insofar, we view Q4 as an exceptional quarter and not as the beginning of a trend.

This was also demonstrated by **Plastics**, where we combined healthy volume growth with improved earnings. Overall, market demand was good despite some looming weaknesses in the U.S. housing and automotive industries. Our Styrenics business that is up for sale further increased its profitability.

For **Performance Products**, the fourth quarter was a rather challenging one, in particular due to high raw material costs. Acrylic monomers continued to lag in profitability, and we see no immediate improvement in that respect. Integration costs, mainly for the standardization of IT systems, in the construction chemicals business and costs of the BASF Option Program (BOP) reduced earnings before special items by about €50 million.

The BOP also had a substantial negative impact of almost €20 million on earnings before special items of the **Agricultural Products & Nutrition** segment.

In Agricultural Products, we achieved the level of earnings of the previous quarter due to higher volumes and prices and despite the impact of the weak U.S. dollar. Business conditions in Europe were relatively weak, while South America continued to perform well. We further reduced working capital.

This is the last time that I report about Fine Chemicals as a separate unit. As you know, we will change our segment reporting and include Fine Chemicals together with the detergents and formulators business in our Performance Products segment under the new name Care Chemicals. In 2007, Fine Chemicals tripled its earnings to €154 million. The Q4 sales decline of 9% was completely attributable to portfolio changes following the exit from the lysine and premix businesses.

Sales in the **Oil & Gas** segment were stable, and earnings increased compared with the same period of 2006. In Exploration and Production, lower oil production was more than offset by higher natural gas production due to the successful start of the Yuzhno Russkoye field. Income from operations before special items was higher than in the same quarter of 2006 thanks to higher oil prices. In Natural Gas Trading, volumes rose compared with the fourth quarter of 2006, while sales declined slightly due to lower prices. Margins were again negatively impacted by the steady increase in the purchase price of natural gas throughout the year. The time-lag effect caused a significant decline in earnings in Natural Gas Trading compared with the same quarter of 2006.

Finally, we posted higher income in “Other”, in particular due to higher foreign currency results that are not allocated to the segments.

Please note that the commodity styrenics business will be reported under “Other” as of January 1, 2008 until divestiture. From 2008 on we will also report the costs of our corporate center in “Other” – a procedure that will make us more comparable to our peers. In 2007, these costs amounted to about €250 million and were still allocated to the operating divisions. We will publish adjusted numbers based on the new segment structure for 2006 and 2007 when we release our company report – on March 12.

***Segment Performance FY2007***

Since you have had the chance to look at the segment performance details for the full year 2007, allow me to immediately jump to the analysis of our cash flow statement and balance sheet.

***Statement of Cash Flows (1)***

Despite an increase in business and a correlated increase in working capital, cash provided by operating activities of €5.8 billion was comparable with the record 2006 level. The slight deviation was caused entirely by lower trade payables – a timing factor which we can hardly influence.

At 40 days, days of inventory invested in the fourth quarter were lower than in the same period in 2006. Days of sales outstanding increased by 1 day to 52 days compared with the same quarter of 2006.

***Statement of Cash Flows (2)***

At €2.6 billion, payments related to tangible and intangible assets were below the corresponding level of depreciation and amortization, as in previous years.

The free cash flow of €3.2 billion was again very strong.

In 2007, expenditures for acquisitions and divestitures totaled €536 million and were primarily attributable to the compensation payments for the asset swap with Gazprom in connection with the Yuzhno Russkoye project. Additionally, we provided bridge financing in about the same order of magnitude.

We bought back a total of 21.5 million shares for €1.9 billion in 2007. This corresponds to an average price of 88 euros and 35 cents per share.

***Balance Sheet***

Our balance sheet continues to be very strong. The increase of total assets is fully attributable to the asset swap with Gazprom. Equity increased despite the large buyback because of excellent earnings. Looking at our Report you will also note that we booked a gain from the swap of €634 million as a contribution to equity and not as a profit.

This concludes my review of BASF's financial performance. Let me now hand back to Jürgen for a closer look at the year ahead.

Dr. Jürgen Hambrecht:

***Outperforming market growth***

Ladies and gentlemen, let's take a quick look at our performance since 2001. It shows our remarkable performance in the last 7 years. We deliberately chose 2001 as the basis, since this year marks the last low point in growth and profitability for the chemical industry.
BASF has shown faster growth than the market in almost every year since then. Between 2001 and 2007, our annual organic volume growth of nearly 7% was approximately double the market growth figure, be it GDP, global industrial production or global chemical market growth.

***Excellent track record***

BASF’s improved profitability is visible in all segments. Over the last 7 years, BASF Group displayed a compounded annual growth rate of 22%. Both higher volumes and higher prices for our products contributed to this growth; major contributors were the Oil & Gas segment and Chemicals and Plastics. In addition, our restructuring measures and the related cost reductions have paid off and will continue to have a positive impact on EBIT in the future.

***High premium on our cost of capital***

When it comes to value creation, we are definitely playing in a new league. Over the last 4 years, we consistently earned a significant premium on our cost of capital in every year. In 2007, we earned a record premium of nearly €3 billion. We have reshaped our company through rigorous cost saving programs as well as through focused portfolio management. We have become more resilient to economic cycles and have reached a new level of earnings performance.
This is why we are very confident that we will be able to earn a premium on our cost of capital in any given year. Let‘s take a closer look at our portfolio management measures.

***Ongoing portfolio management towards higher returns and reduced cyclicality***

As I said: our BASF‘s portfolio is getting more and more robust. I think it is very important to emphasize the growth potential and earnings stability that acquisitions have added in recent years. We have acquired attractive, growing businesses such as Engelhard, Degussa Construction Chemicals, water-based resins, electronic chemicals. They provide higher earnings stability and therefore decrease the cyclicality of the overall BASF portfolio.

In turn, we have divested businesses that had either lower growth, lower profitability or were very cyclical. Hence, mostly businesses that you would classify as typical commodity businesses. The biggest one to date was certainly the Basell polyolefins business.

At this point, let me give you a brief update about our Styrenics business. As you all know, we are in the process of divesting our Styrenics commodity activities, a business with sales of about €3 billion in 2007. Given the scope and complexity of our global commodity businesses, we are making steady progress. Discussions with the current prospective buyer continue to be very constructive. I have great confidence in our team’s ability to close the transaction by mid-2008 that will position the commodity businesses for future success.

With all these changes, BASF is a much stronger, higher quality company now than ever before! You can expect that further acquisitions and divestitures will follow the very same pattern.

### *All integration projects are on target*

Our three large acquisitions in 2006 – Engelhard, Degussa Construction Chemicals and Johnson Polymer – are great success stories. They contributed approximately €3.6 billion to the sales increase in 2007.

The integrations are well on track – we have met all our milestones that we set for 2007. Synergies have resulted mainly from cost savings in administrative functions such as procurement, finance and HR, and through process optimizations. Whilst the cost savings to date are slightly ahead of our internal targets, it still leaves further potential until 2010. As a reminder, we are targeting total synergy savings of €290 million from the three acquisitions by 2010.

***Responsible use of cash continues***

Our priorities with regard to the use of cash remain clear:
First, we continue to put great emphasize on internal growth through innovation. Therefore, we plan to increase our global expenditures for research and development once again by 5% to nearly €1.5 billion in 2008.
Second, our investments in organic growth will continue. We plan capital expenditures in 2008 of €2.3 billion.
Third, our measures to optimize our portfolio are ongoing. Our goal remains to acquire profitable businesses that generate growth above industry average, are innovation driven, offer a special value proposition to customers and reduce earnings cyclicality for the BASF group.
And last, we are committed to paying our shareholders an attractive dividend and continuing with our share buybacks.

***Ambitious dividend policy***

A closer look at our dividend-per-share development since 1998 shows our outstanding commitment toward our shareholders. For 2007, we have suggested to the Supervisory Board to propose a dividend of €3.90 per share to the Annual Meeting. This shows our confidence in the future profitability and increased stability of BASF. The suggested dividend represents an increase of 30% compared with the previous year and results in an extraordinary dividend yield of 3.8%. With this, we will have increased the dividend by an annual growth rate of 15% over the last 10 years.
Our confidence in our future performance and our long-term commitment to shareholder returns is expressed in our dividend policy: “We aim to increase our dividend each year, or at least maintain it at the previous year’s level.”

***Increased share buyback program***

As I said, share buybacks will also remain an important tool for us to return cash to our shareholders, indicating that we believe in the still hidden value of our company. We have now been buying back our own shares for 10 years in a row. Between 1999 and 2007 we bought back 26% of our outstanding shares for €8.3 billion. Of course we have been also active in January and February 2008, leaving the running program of €3 billion with a remaining amount of just €466 million. I want to make it very clear that we plan to continue to buy back additional shares after we have completed the current program.

***Proposal of 1:2 stock split***

This morning, we also announced our proposal for a 1:2 stock split. The split is subject to the approval of the Supervisory Board in early March and the subsequent approval of the Annual Meeting in April. If approved by the AGM, the stock split should be performed within 3 months following the Meeting.
Shareholders would receive one additional share for each BASF SE share without an additional payment. This of course applies also for our share-holders in the United States who own BASF shares in the form of ADRs. The decision for a stock split reflects our confidence that BASF's earnings-oriented growth will continue to be the basis for the positive development of the company's stock. BASF shares will be made available to an even broader investor base.

***What are the near term challenges?***

Ladies and Gentlemen, in the first couple of weeks in 2008 the capital markets have seen many ups and downs, mainly fueled by macroeconomic concerns. The key topics for the chemical industry are familiar to you all:

- subprime crisis and the consequences to consumer behavior,
- the weak U.S. dollar,
- high and volatile raw material prices,
- weakness in some customer industries (in particular the construction and automotive industries in the U.S.),
- the cyclicality in some commodities (especially in petrochemicals) and
- the perceived risk of overpriced acquisitions.

I would briefly like to explain how we are addressing these challenges and why we are nevertheless very confident with regard to 2008.

***BASF answers***

1. Concerning the weak US-dollar:
   Negative currency effects are partly offset by hedging. It is mainly a translational effect. To remind you of the sensitivities for the Group: an increase in the U.S. dollar exchange rate by 10 $-cents means a decrease in EBIT by €250 million, after the non-deductible oil exploration tax.

2. Concerning high oil and raw material prices:
   The natural hedge through our E&P businesses is widely known. An increase of the oil price by $10/bbl represents an increase by €450 million in EBIT for the segment. Up until now we have been able to pass on the high raw material costs in many of our chemical businesses. For

most businesses, we expect the favorable supply/demand situation to continue in the near term. BASF sources globally and is able to take advantage from regional price differences.

3. Concerning the weaknesses in some customer industries:
   Regional diversification is one of BASF's strengths. The U.S. market represents only a fifth of BASF total sales. It is our strategic target to produce in the respective consumer markets (for example at the Verbund site in Nanjing). There is no customer industry that represents more than 15% of BASF's sales. Weaker growth rates in some businesses can be compensated by high growth specialty businesses like the catalyst businesses and others.

4. Concerning the cyclicality in commodities
   Petrochemicals are not sold externally, only a very minor portion of naphtha-based ethylene. We are not an ethylene player! In addition, our planned divestiture of the Styrenics commodity business will reduce our commodity exposure even further.

5. Concerning the perceived risk of overpriced acquisitions:
   We will continue to be very disciplined in our M&A approach. Our strict financial acquisition criteria – earnings accretive by year 3 at the latest and a return above our cost of capital – remain valid. Our excellent track record speaks for itself.

***Positive outlook 2008***

Ladies and Gentlemen, our business has developed successfully since the beginning of 2008. The level of orders remains strong and the capacity utilization rates of our plants are high. We have based our planning for 2008 on the following assumptions:

- A moderate slowdown in global economic growth and global chemical production (excluding pharmaceuticals) to 2.8 percent,

- Declining interests in the United States in the course of 2008 with moderate knock-on effects in Europe,
- An average euro/dollar exchange rate of $1.45 per €
- An average oil price of $78 dollars per barrel for Brent crude in 2008. In euro terms the oil price is expected to be at approximately the same level as in 2007.

Given these assumptions, we expect BASF Group's business to develop positively in the next two years. We will continue to rigorously implement our measures to optimize our portfolio, increase our efficiency and reduce costs.Assuming there are no changes made to our portfolio, we aim to increase sales and improve EBIT before special items slightly in 2008.

***Outlook continued***

I will conclude by sharing with you our longer term goals. In the following years, we expect to continue to grow faster than the chemical market. Second, as I already indicated, we are convinced that BASF will earn at least its cost of capital in any given year. And third, we strive to earn our cost of capital in all our segments in any given year.

If there is one key message I want to leave with you, it is the following: We have all reason to look confidently into the future. Our performance in 2007, the start into the business year 2008 and our concrete actions with regards to returning cash to our shareholders underline this confidence.

Kurt Bock and I would now be pleased to take your questions.

**Forward-looking statements**

This release may contain forward-looking statements. These statements are based on current expectations, estimates and projections of BASF management and currently available information. They are not guarantees of future performance, involve certain risks and uncertainties that are difficult to predict and are based upon assumptions as to future events that may not prove to be accurate.

Many factors could cause the actual results, performance or achievements of BASF to be materially different from those that may be expressed or implied by such statements. Such factors include those discussed in BASF's Financial Report 2006 on pages 72ff. We do not assume any obligation to update the forward-looking statements contained in this release.