Dr. Jürgen Hambrecht
Chairman of the Board

Strategy For Profitable Growth
1 | We grow faster than the Market

2 | We increase our Profitability

3 | We are committed to Shareholder Value
BASF Grows Faster than the Market

**Volume growth in %**

- BASF
- European Chemicals* (excl. BASF)
- US Chemicals**

* European Peers: Akzo Nobel, Bayer, Ciba, Clariant, Degussa, DSM, Rhodia
** US Peers: Dow, PPG, DuPont, Ecolab, Rohm and Haas

Source: Citigroup and company reports
Superior Growth Opportunities
Strategic Focus Ensures Profitable Growth

Constant Portfolio Optimization
• Acquisitions in core, profitable business areas
• Divestments of non-core businesses
• Selective strategic partnerships

Good Position in Growth Markets
• Strong presence in Asia
• Enhance position in high growth businesses

Excellent Innovation Platform
• Market-driven innovation
• Innovative business offerings

Excellent platform to enable faster-than-market growth
### Organic Growth versus M&A

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</thead>
<tbody>
<tr>
<td>BASF (in EUR)</td>
<td>23.6</td>
<td>37.5</td>
<td>5.3 %</td>
<td>- 0.9 %</td>
<td>6.2 %</td>
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</tr>
<tr>
<td>Bayer (in EUR)</td>
<td>22.8</td>
<td>29.8</td>
<td>3.0 %</td>
<td>- 0.8 %</td>
<td>3.8 %</td>
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<tr>
<td>Dow (in USD)</td>
<td>20.2</td>
<td>40.2</td>
<td>8.0 %</td>
<td>3.4 %</td>
<td>4.6 %</td>
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<tr>
<td>DuPont (in USD)</td>
<td>35.6</td>
<td>27.3</td>
<td>- 2.9 %</td>
<td>- 5.6 %</td>
<td>2.7 %</td>
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* without Pharma
**Acquisitions in profitable businesses**
- Crop protection (AHP, Fipronil, seed treatment)
- Fine chemicals
- Polyurethanes
- Superabsorbents
- Oil and gas (Dutch gas activities)
- Engineering plastics

**7 bn EUR**
(sales from acquired businesses)

**BASF core businesses**

**Partnerships**
- AtoFina: NROC
- Shell: Ellba
- Gazprom: WINGAS
- Dow: HPPO
- Solvin

**Divestment of non-core businesses**
- Pharmaceuticals
- Fertilizers
- Kali + Salz
- Refineries
- Polyolefins
- Magnetic tapes
- Fibers
- Dystar
- Printing systems

**10 bn EUR**
(sales from divested businesses)

**Constant Portfolio Optimization**
Selected Transactions 1995 – 2004
Constant Portfolio Optimization
Acquisitions/Divestments in 2005

Acquisitions in profitable businesses
• Electronic Chemicals Merck
• Coatings JV NOF
• Fine Chemicals Orgamol
• Polyurethanes Huntsman TDI

Divestments of non-core businesses
• Polystyrene US Ineos Americas
• Triforine Fungicides Sumitomo
• Basell Access Industries

Focus on acquisitions supporting profitable growth
Strategic Positioning of Business Units

- Divestitures almost completed
- Half of the businesses are in areas with high growth rates and are subject for expansion / moderate expansion
- Acquisitions will contribute to top line growth
- Acquisition criteria:
  - Strategic fit
  - Min. return: 9% discount rate (after tax) + risk adjustment
  - Accretive by third year latest

<table>
<thead>
<tr>
<th>BUs</th>
<th>Expand</th>
<th>Expand Moderately</th>
<th>Hold Market Position</th>
<th>Reposition</th>
<th>Divest</th>
</tr>
</thead>
<tbody>
<tr>
<td>34</td>
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<td>32</td>
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Chemical Market Growth (excl. Pharma)
2004 – 2015

- Asia/Pacific to become largest regional chemical market by 2015
- BASF strongly positioned to participate in Asian growth
- Future capex in chemical activities will meet this growth pattern
Investments in Asia

• Early positioning in high growth markets of Asia

• Major investment projects:
  - Integrated Petrochemical Site, Nanjing, China
  - Polyurethanes Complex, Caojing, China
  - THF/PolyTHF, Caojing, China
  - Integrated Site Kuantan, Malaysia
  - MDI/TDI, Yeosu, Korea

• Total capital spending in Asia of 5.6 billion EUR by 2005

• Ongoing investments in Asia
BASF Innovation Strategy

**Product Innovations**
- Boscalid
- ChiPros®
- Phase Change Materials
- „Magic Eraser“

**Process Innovations**
- THF
- Propylene Oxide
- Ionic Liquids

**New Fields of Technology**
- Materials Science
- Nanotechnology
- Energy Management
- Biotechnology

**Tailor-made business models**

**BASF R&D**
- R&D Expenditure 2004: 1.2 billion EUR (+6%)
- 6,800 employees
- Global #1 in chemical patents
- R&D Verbund extends to 1,200 co-operations (universities, research institutes, start-up companies etc.)

Focus on Market Driven Innovations
1 | We grow faster than the Market

2 | We increase our Profitability

3 | We are committed to Shareholder Value
BASF has outperformed all traditional competitors.

BASF has achieved profitable growth from 1995-2004.

CAGR Sales: + 5.3%
CAGR EBIT: +10.0%
Maintaining highly competitive cost structure

- **Ludwigshafen**
  - June 2005: 480 mn EUR

- **NAFTA I + II**
  - June 2005: 250 mn USD
  - Program will be extended through process/structure improvements
  - Cost saving amount to be worked out in Q3 ‘05

- **Europe**
  - 90 mn EUR expected end of 2006
What’s a good Proxy for our Profitability?
The Major Value Chains in Our Verbund are not Ethylene Based

- Major value chains are benzene and propylene based
- Plastics are mainly benzene based
- Oxo-C4, acrylic acid and polyurethane components are propylene based

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<th>Raw Material</th>
<th>Net Sales (+) / Net Purchase (-) Balance</th>
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<tr>
<td>Ethylene*</td>
<td>(+)</td>
</tr>
<tr>
<td>Propylene</td>
<td>(-)</td>
</tr>
<tr>
<td>Benzene</td>
<td>(--)</td>
</tr>
</tbody>
</table>

Total sales from value chains per raw material (indexed: benzene based sales = 100%)

* Incl. net sales of ethylene to third parties
BASF in the Ethylene Market

**BASF:**
- Very low representation in the ethylene merchant market (<15% of ethylene production)
- Participates only in about 30% of the ethylene derivatives markets*
  - Glycols
  - Styrene
  - Others, e.g. EO derivatives
- Will not be affected directly by polyethylene exports to Europe from future Middle East capacities

* BASF PE sales only in Asia (Sinopec); BASF PVC sales via Solvin (Solvay)

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**Global Ethylene Market 2004:**
103 million tons

![Ethylene Market Segments](chart.png)

- Polyethylene: 57%
- PVC: 16%
- Glycols: 7%
- Styrene: 7%
- Others: 13%

Source: CMAI, BASF
Is Ethylene Margin a Good Proxy for BASF’s Profitability?

- Correlation between ethylene margin and
  - Verbund margin: 13%
  - Group margin: 25%

Ethylene margin not suitable as proxy for BASF Group – and Verbund margin

* Based on CMAI figures: NWE ethylene contract price ./ naphtha-based cash cost

** Verbund margin = EBIT / sales (in Chemicals, Plastics, Performance Products – figures adjusted to today’s portfolio)

*** Group margin = EBIT / sales (all segments; figures adjusted to today’s portfolio)
Is Propylene Margin a Good Proxy for BASF’s Verbund Profitability?

- Only 10% correlation between propylene margin and BASF Verbund margin

* Based on CMAI figures:
  Propylene cash margin = NWE propylene contract price / propane based cash cost (dehydrogenation)

Reservation remark:
- Propane dehydrogenation only 3% of global propylene production
- Propane cost not directly interrelated with naphtha

** Verbund margin = EBIT / sales (in Chemicals, Plastics, Performance Products – figures adjusted to today’s portfolio)

Propylene margin not suitable as proxy for BASF Verbund margin
Is Benzene Margin/Price a Good Proxy for BASF’s Verbund Profitability?

- 11% negative correlation between benzene margin and BASF Verbund margin
- 37% negative correlation between benzene price and BASF Verbund margin

Benzene margin/price not suitable as proxy for BASF Verbund margin

* Benzene margin = NWE benzene contract price / NWE Naphtha contract price
** Verbund margin = EBIT / sales (in Chemicals, Plastics, Performance Products – figures adjusted to today’s portfolio)
Is Oil Price a Good Proxy for BASF’s Profitability?

- Correlation between oil price (in USD/bbl) and
  - Group margin: -13%
  - Group margin (excl. oil taxes): -31%
  - Verbund margin: -50%

* Group margin = EBIT / sales (all segments; figures adjusted to today’s portfolio)
** Verbund margin = EBIT / sales (in Chemicals, Plastics, Performance Products – figures adjusted to today’s portfolio)
Is Industrial Production Growth a Good Proxy for BASF’s Profitability?

• 85% correlation between global industrial production growth and BASF Group margin

Global industrial production growth best suitable as proxy for BASF Group margin

* Source: BASF; Industrial Production = Goods Producing Sector (Agro + Industry)

** Group margin = EBIT / sales (all segments; figures adjusted to today’s portfolio)
Potential Proxies for BASF’s Profitability

-50% Oil Price and Verbund Margin
-31% Oil Price and BASF Margin (excl. oil taxes)
-13% Oil Price and BASF Margin
-11% Benzene Margin and Verbund Margin
Propylene Margin and Verbund Margin 10%
Ethylene Margin and Verbund Margin 13%
Ethylene Margin and BASF Margin 25%
Industrial Production and BASF Margin 85%
1 | We grow faster than the Market

2 | We increase our Profitability

3 | We are committed to Shareholder Value
Use of Cash

Dividend Policy
- Most consequently increased dividends amongst major chemical peers

Share buyback
- Most aggressive share buyback program within chemical industry
1. Investments in Organic Growth
2. Acquisitions
   „Strengthen the Strengths“
3. Dividends
4. Share Buyback
Dividend in EUR per share

- Increased dividend in 8 of the last 10 years
- 21% increase to 1.70 EUR per share in 2004
- Dividend yield of 3.21% in 2004
- Objective: To further increase dividend
Continuous Share Buyback Program

- 16% of shares outstanding (4.3 bn EUR) bought back from 1999–2004
- Further repurchase for 1.5 bn EUR announced for 2005
- 0.87 bn EUR already spent in HY1 2005 (thereof: 0.6 bn EUR of new program)

* incl. planned share buyback program
Conclusions

• We continue to outgrow the market
• We will be the benchmark in the industry on profitability; earning a premium on the cost of capital over the cycle
• Global industrial production growth is a good indicator for our profitability
• We continue to increase the return of cash to our shareholders via dividends and share repurchases
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