# Investor Release

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## 1st Quarter 2008 Analyst Conference Call

April 24, 2008, 8.30 a.m. (CEST)

Mannheim

## Dr. Kurt Bock

Analyst Conference Call Script

The spoken word applies.

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Ladies and Gentlemen,

Welcome to today's conference call on our first quarter results.

## 1st Quarter 2008 Highlights

BASF has made a powerful start to the year with new first-quarter records for sales and earnings.

Sales rose 9% to € 15.9 billion. EBIT before special items amounted to € 2.4 billion, 11% above the level of the previous year's first quarter. We increased earnings per share by 19% to € 2.48. Cash provided by operating activities amounted to almost € 1.1 billion. In the first three months of this year, we spent € 743 million on share repurchases and have thus completed almost 90% of our € 3 billion share buyback program announced for 2007 and 2008.

These are excellent results, especially in the light of the current turmoil in the financial markets. Even more importantly: Our confident outlook for the full year remains unchanged.

Let me now take you through BASF's performance in the first quarter of 2008 in more detail.

## Components of sales development

We were able to raise volumes and prices in all our business segments, overall by 8% and 7%, respectively. While Oil & Gas and Agricultural Solutions demonstrated the highest volume growth, it is important to note that there was no softening in markets for our other

chemical activities – with two exceptions: automotive and construction in the U.S.

BASF's strong organic growth of 15% was partially offset by the weak U.S. dollar and related currencies, which continued to impact sales negatively by more than 6%. Overall, portfolio changes had no effect on first-quarter sales.

**Income statement highlights**

In the first quarter, EBIT before special items rose to € 2.4 billion, an increase of 11% compared with the same period of last year.

Net special charges amounted to € 51 million and were mainly related to restructuring measures, which are temporarily accounted for in "Other" until they are allocated to the relevant business segments in the course of the year.

The financial result declined to minus € 122 million from minus € 94 million in the first quarter of 2007 due to lower market valuations of derivatives. Income before taxes and minority interests amounted to nearly € 2.2 billion, up 14%.

The tax rate was 41% compared with 40% in the first quarter of 2007. As stated before, for the full year we expect our underlying tax rate after deduction of non-compensable taxes on oil production to be slightly above last year's figure of 23%.

Non-compensable foreign income taxes for oil production rose by € 200 million to € 458 million. The major reason was the much higher oil price in 2008. An increase of € 57 million was due to the German

corporate tax reform that now implies a nominal corporate income tax rate of 15%. Therefore, the proportion of the non-compensable foreign taxes rose.

Minority interests amounted to € 113 million and were primarily related to our partners in the Oil & Gas and the Chemicals segments.

Net income rose by 13% to almost € 1.2 billion. Earnings per share climbed 19% to € 2.48, partly supported by our continuing share buyback program.

**Segment performance**

Our Q1 interim report provides in-depth information on our newly structured segments, so I will only focus on the most important highlights and changes compared with the first quarter of 2007.

In **Chemicals,** strong sales growth was supported by all divisions. Earnings decreased slightly due to lower cracker margins as a result of higher raw material costs, which we could not pass on immediately. Inorganics posted significantly higher earnings thanks to higher margins. In the second quarter, planned turnarounds will affect earnings in this segment by a low double digit amount.

Together with our partner SINOPEC, we have completed a feasibility study for a USD 900 million investment in our joint Verbund site in Nanjing. This expansion marks a significant step forward in meeting increased domestic market demand in China. The new activities are expected to come on stream stepwise starting this year.

Earnings in the **Plastics** segment rose significantly due to the strong performance of Polyurethanes. Earnings in this division increased as a result of persistently robust demand and higher production volumes of TDI. Planned turnarounds will affect earnings in the Polyurethanes division in the second quarter of 2008. In Performance Polymers, earnings did not reach last year's level. In the first quarter of 2007, the foams business – which was part of the Styrenics division until the end of 2007 – benefited from strong demand for thermal insulation products from the construction sector thanks to the mild winter.

As part of our approach to focus on the core business of the polyamide value chain in the Performance Polymers division, we have announced plans to sell the Seal Sands site to INEOS. The site produces chemical intermediates used in the production of acrylic and polyamide fibers as well as for ABS and polyamide plastics.

**Performance Products** posted slightly lower sales in the first quarter, mainly due to the divestiture of the lysine and premix businesses. Earnings growth was driven by Care Chemicals, which increased prices for vitamins and reduced fixed costs as a result of our restructuring efforts. Persistently high raw material costs and overcapacities continued to put pressure on margins for acrylic monomers.

In **Functional Solutions**, our new segment that bundles mainly products and systems solutions for the automotive and construction industries, sales rose 5% despite currency effects of minus 8%. Catalysts showed strong sales and earnings growth. Sales and earnings in Construction Chemicals and Coatings were impacted by weaker demand, mainly in North America.

In **Agricultural Solutions**, a good start into the season in the northern hemisphere triggered strong volume growth of 10%. Disregarding currency effects of minus 6%, sales increased by 11%. In a positive market environment with high commodity prices, earnings in the first quarter rose to an even greater extent, despite negative currency effects. In Europe and South America our business developed excellently, especially due to strong demand for fungicides. Growth in the Americas and Asia was offset by negative currency effects.

In the **Oil & Gas** segment, sales increased as a result of higher prices and higher volumes in Exploration & Production, to which the Siberian Yuzhno Russkoye gas field is already contributing significantly. Volumes in Natural Gas Trading were also up. Compared with the first quarter of 2007, the average price of Brent crude increased by 67% to about 97 dollars per barrel. In euro terms this corresponds to an increase of 47% to approximately € 65 per barrel. Income from operations increased due to a higher contribution from E&P, whereas the gas trading business was negatively impacted by time lag effects for the fourth consecutive quarter. Last year, first-quarter earnings in gas trading also profited from additional spot market opportunities.

Starting with the first quarter 2008, we will also provide you with an income statement for the Oil & Gas segment in order to increase transparency on that business, especially following the asset swap with Gazprom.

Despite an improved EBIT, net income remained below last year's first quarter. The reason is our lower gas trading profit combined with a higher income tax on oil production.

Income before special items of **"Other"** improved by € 63 million to minus € 135 million. This was due mainly to higher contributions from

the commodity styrenics and fertilizer businesses. In addition, earnings of “Other” contained positive foreign currency results from corporate hedging not allocated to the segments as well as lower costs for BASF’s option program due to lower values of the options.

**Regional results**

In the first quarter of this year, all regions increased EBIT before special items.

In **Europe** we increased sales by 14% and EBIT before special items by 12%, mainly due to Chemicals and Oil & Gas, which benefited from the production start in the Yuzhno Russkoye gas field. Sales in Europe excluding Oil & Gas increased by 7%. In **North America** sales decreased in euro terms but increased by 9% in dollar terms. The slight increase in EBIT before special items was primarily driven by Plastics. Sales in **Asia Pacific** rose by 7% in euro terms and by 17% in local currency terms. Earnings increased by 8%, mainly as a result of higher earnings contributions from Plastics and Performance Products. In **South America, Africa** and the **Middle East** sales rose by 10% in euro terms and by 18% in local currency terms. Earnings increased by 43%. In this region, Agricultural Solutions especially posted strongly improved earnings. Business also developed positively in the Construction Chemicals and Coatings divisions.

Now I will briefly discuss our cash flow statement.

**Statement of cash flows I**

Cash provided by operating activities increased to almost € 1.1 billion. In particular, this increase resulted from freeing up funds used in net working capital compared with the first quarter of 2007.

Strict working capital management continues to pay off: Days of inventory invested were 37 in the first quarter compared with 39 in the same period of 2007. Days of sales outstanding, the ratio that gives an indication of how long it takes us to collect our accounts receivables, were 53 days compared with 54 in the first quarter of 2007.

**Statement of cash flows II**

Cash used in investing activities amounted to € 415 million compared with € 486 million in the first quarter of last year. BASF spent € 463 million on additions to tangible and intangible assets, which was again significantly below the corresponding depreciation and amortization.

In the first three months of this year we repurchased more than 8.4 million shares for € 743 million. This corresponds to an average price of about 88 euros per share. As of today, we have spent almost € 2.7 billion on share buybacks since we announced our 3 billion euro share buyback program in early 2007, and we plan to continue to repurchase further shares after completing the current program.

Net debt amounted to € 9.5 billion at the end of the first quarter. The equity ratio was 42%.

## Outlook 2008

Our forecast for 2008 is now based on the following adjusted macroeconomic assumptions:

We continue to expect global economic growth and chemical production growth of 2.8% in 2008. We have raised our assumption for the average price of Brent crude to 90 dollars per barrel (up from 78 dollars per barrel) and have also adjusted our forecast for the average dollar/euro exchange rate to 1.50 dollars per euro (from 1.45 dollars per euro).

Based on our good start in the first quarter, we confirm our outlook for the full year: Assuming there are no changes to our portfolio or the basic assumptions I just mentioned, we aim to increase sales and improve EBIT before special items slightly in 2008.

Thank you very much for your attention. We would now be pleased to answer your questions.