

Investor Release



August, 2009

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BASF Roundtable Agricultural Solutions

Frankfurt, 3 August 2009

Q&A Script

The spoken word applies.

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Norberth Barth (WestLB): Perhaps to Mr. Heldt and also to Mr. Marcinowski about Crop Protection: I was surprised a little bit when you mentioned your strategic market. I missed e.g. China. On the other hand, you have a lot of growth there already. Has that just not been mentioned or what is your strategy, especially in the Chinese market? Or do you see problems with the know-how there?

The second question is about your capacity expansion. Can you say how much in percent compared to former capacity that is? Do you see a chance already in 2010 to fully load this capacity?

Markus Heldt: That was more than two questions, by the way. But anyway, I'll try to answer them. China was not an oversight. Historically, we have seen China and India as opportunity markets. One of the main reasons really was that there was concern about IP in China, patent protection and the protection of intellectual property. This is changing, as we know from the pharmaceutical and also from the ag chem industry. The Chinese market – you are absolutely right – is growing rapidly. I would have no problem to say, in a year's or two years' time it's moving from an opportunity to a strategic market because we are growing rapidly in both, in India and in China, and we make money there, whereas in the past a lot of companies have been selling and not making any money. So China is on the verge of being classified to more opportunity, together with India, because of the demand and the opportunity especially with fungicides for fruit, for vegetables which are still patent-protected technologies we offer in the Chinese market.

With regard to the capacity question, your second question, Mr. Barth: That's a difficult one because we have high-volume, low-volume products, but the specific investments we have are for fungicides, so for Boscalid and for F500. To give you an indication there: It's about a 25 percent weighted volume and capacity increase for those two AIs. We have an imidazolone expansion programme, existing herbicides, which would give us another 25 percent volume increase and shorter lead times to service the growing herbicide market, and Kixor, the third example I had mentioned, is for an additional, new production capacity to meet the launch and the future growth opportunities for Kixor on a global scale.

So a bit long-winded answer, but it's also complex, taking into account the different active ingredients that are involved in our capacity expansion plans.

The first expansions will come on stream later this year and the F500 capacity expansion will be available 1st quarter 2010.

Christian Faitz (Oppenheim Research): Actually, a question to both Mr. Heldt and Dr. Eckes: In your best assessment, what is the glyphosate resistance in both North America and South America? I have a figure in the back of my mind of 10 to 15 percent. Can you confirm that or is that even higher in the meantime?

The question related to that is: Don't you think that the more, let's say, intelligent way is to control the weeds which are resistant with another active ingredient? This is apparently one of the approaches your competitor up the river Rhine is following. Don't you think that vigor is basically nice to have, but will not have the sales which you could have with a completely different mode of action?

Markus Heldt: The numbers that are currently circulating in the US is about 15 million acres of corn and soybeans, have at least three different weeds that are resistant. This is an evolution and nobody knows how fast this development will be. But there is clear indication from the universities and from scientific bodies that this resistance will accelerate. Nobody knows the speed, whether it's 35 or 50 million in three years from now, but the problem is increasing.

You are absolutely right: There are different ways of managing this. The upper Rhine guys, of course they are going for mixture opportunities or different modes of action. That's also what Kixor is about. It's a new mode of action which addresses the glyphosate-resistant weeds. That's one way of doing it, but it's also burning down those resistant weeds without glyphosate. We don't need glyphosate to have a successful programme.

Overall, we expect that the renaissance of the herbicide market is a blend of innovative, higher-priced, premium-priced solutions to address the glyphosate resistance and the need for tank mixtures to overcome the rapidly growing glyphosate resistance.

Dr. Peter Eckes: Maybe just to add: What you will see in the future is that also on the herbicide tolerance you will see stacks. From that standpoint, you basically will have a base recipe which is based on glyphosate with eventually additional stacks and you can also see that communicated.

Christian Schlimm (Allianz): A question to Mr. Heldt, please: The first one is on industry pricing in crop protection. Looking at the H1 results, it appears that Syngenta and BASF were more successful in getting higher product prices compared to Bayer CropScience. Could you comment on the pricing outlook and whether it's a fair statement to assume that Bayer is the most price-aggressive competitor in the industry?

The second question is: What is your view of the market growth of each of the segments in the first half of insecticides, fungicides and herbicides?

Markus Heldt: Usually, we don't comment on competition, so I will only talk about the BASF pricing strategy. We've 7 percent price increase for the first six months, Syngenta 8, Bayer 4. I think it's largely driven also by the portfolio. So if you have a lot of innovative solutions and if you offer value with your products, you can ask for a higher price.

And let's not forget: We had a period of very little or no price increases for the last five, six years, although our R&D and marketing expenses have increased. So we really thought it's time to recover some of those investments.

Is the 7 percent the peak? I think it's a very significant chunk in the current environment. We will see a positive contribution also in 2010 from pricing, but I don't think that we will continue raising prices at that speed in light of the current commodity price volatility. If that changes again and if the value we are offering to the grower is attractive enough to increase the price, we will do it again. In that respect, pricing is dependent on what is happening, what is the attractiveness of the crop and what is the return of investment especially the fungicides are offering.

Dr. Stefan Marcinowski: Just one additional remark: Last year we have been blamed of not being so aggressive with our pricing. This is something exactly what Markus is saying about the portfolio. Last year and this year of course had a major impact by the total herbicide price development. This year it was to the negative for those who had this in the portfolio, last year it was a very stimulating impact. So this is indeed always a question of what you are comparing. At the end of the day what counts is that your products are superior in the market and that's finally what your reports will tell you when the season is over.

Magdalena Moll: There was a second part to the question. I think Mr. Schlimm wanted to know the market outlook for insecticides, fungicides and herbicides.

Markus Heldt: That's really too early. Usually, we only get the market research results in the third, fourth quarter. So we don't have any, let's say, reliable market research at this stage to share, but we are happy later in the year to give you the details, not as of today because, as I said, August/September is the earliest time we get reliable information on segment development for the first six months.

But what is clear and, I think, not a secret is that the glyphosate devaluation that has taken place after the record-high pricing in 2008 has an impact on everybody who is involved in total herbicides. So everybody who has some glyphosate, glufosinate – as you could see from the financial reports – showed an impact and that impact will continue because there is still a lot of glyphosate, glufosinate and some of those total herbicides out there and the devaluation, at least from our market intelligence and sources we have, is not over.

So total herbicides will be adversely impacted after a very significant price increase also enjoyed by those companies in 2008.

Andreas Heine (Unicredit): As far as I know, four years ago, when we had the workshop in France, it was said that due to the lower growth perspectives for herbicides, the R&D spending was significantly reduced. Now you come up and say that's a strong growth

market. As R&D has quite some lead time, how do you see this situation?

If you compare your herbicide performance in the last four years with the two main competitors, they have shown already substantial growth, not only in the non-selective herbicides, but also in selective herbicides and your sales were flat. So how do you see this situation?

One leg you have is in insecticides. There you have increased R&D spending and the growth rates seem to be double-digit, but from a very low base. So compared to the competition, which is significantly bigger, I could not see any closing of the gap here. How do you see these two factors?

Markus Heldt: Coming back to herbicides: We had a crucial discussion and decision in 2002 when internally we had a lot of discussions whether it's worthwhile to continue investing in new herbicides, research and development. Kixor was the product that was discussed at that time. You are absolutely right: It takes a lot of time until these new products and new AIs are coming to the market place.

At that time, some brave men, visionary men anticipated glyphosate resistance which in 2002 was basically not existent or was perhaps only a debate in the scientific circles. So we have had a good foresight, I think, to anticipate herbicide resistance. That's triggered the discussion and the decision to invest in developing a new herbicide.

Although we have scaled back our herbicide research and development effort, we are continuing to invest in new herbicides, focused on new modes of action, so that we are not coming with a me-too herbicide, but a new mode of action as a target. Although our competitors have shown some growth in herbicides, a lot of it is coming from total herbicides and not all of them are showing a breakdown of what is total herbicide or the definition of total herbicide and what is a conventional herbicide.

So we are participating in a regrowing herbicide market and we see innovations in the herbicide market as a major opportunity because the herbicide business, the herbicide market is less cyclical and is less weather-dependent than fungicides e.g.

Now insecticides: You are touching a soft spot, I have to say. With the fipronil acquisition in 2003, we have taken one first step to close the gap in insecticides. We've also significantly ramped up our R&D efforts with focus on insecticides. And we are looking actively for acquisitions – there is the small example of Sorex – but also in-licensing opportunities to narrow the gap and close the gap we still have with insecticides compared to Bayer and to Syngenta. So insecticides remains our prime target to improve our portfolio and broaden our offerings.

But again, here it takes more than two years to close the gap. We hope we can share with you the results of those efforts in the next couple of years.

Ronald Köhler (Mainfirst): Good morning! The first question is also for Mr. Heldt: In terms of strobulines' patent expiration, what is actually your defence strategy for your own strobuline after patent expiration? The second question is for Mr. Marcinowski on the w-shaped recovery of the economy. We often hear, from Mr. Hambrecht at least, about a w-shaped recovery. Obviously, we are at least somewhere in the middle, it seems. Where is the risk that things could turn down again? I guess, if you don't see a summer dip, it's not Q3. Could we talk about Q4 or is it something you would more see in 2010 as the next downturn?

Markus Heldt: I take the easy one on pyraclostrobine. We have patent protection until 2015. We are in the process, as part of our post-patent strategy, to look at mixtures, new formulations, novel formulations, e.g. crystalline formulations that are patent-protected beyond the 2015 AI patent expiry. With these strategy mixtures plus innovative new formulations covered under new patents we believe we can manage the eventual impact from generic players also coming to the stroke market.

Ronald Köhler (Mainfirst): Actually, I also want to know: There are obviously other strobulines which are coming off patent before, which means there could be price pressure on this whole area. Is that something you would envisage?

Markus Heldt: That's definitely a risk, but also Azoxystrobine, the other big strobilurine player, loses patent protection in 2014. So in the next couple of years, the main players will still have some patent protection, but eventually, down the road, as we have seen with triazoles and other chemistries, there will be devaluation and an impact from generic players as well here. In that respect, mixtures and new innovative, patent-protected formulations are the best path forward.

Dr. Stefan Marcinowski: W-shaped economy: What we are always saying is that visibility ahead of us is low. This does not mean that we see a particular risk and say: Well, that's it, or that we can say: Well, everything is clear, blue skies and we will have now a home run. So what are the scenarios we have to think of? First of all, with that situation we are in we are pretty sure that unemployment will go up. If unemployment goes up, this means less confidence for consumption. The second point is – we have been discussing about this – if the economy is picking up whether our customers and the famous *Mittelstand* (*comment: small and mid-size companies*) can really find enough financial resources to go for additional financing. At that moment, of course, nobody is in real trouble because prices and volumes and stocks are shrinking and the cash flow and the need for financing of the capital is not that prominent as it might become if it's really picking up.

The third argument is: We have seen a number of stimulus programmes all around the globe, starting with the famous *Abwrackprämie* (comment: scrapping schemes in Germany), to very ambitious infrastructural programmes or tax incentives in China for new cars. They do their job, and I think it's also a wise approach to bridge this trough, but on this other hand, it's nothing but taking consumption which could happen in the future in today's balance sheets.

Another argument is: If you analyze what's really happening out there and just take the automotive industry, we have seen now a minus 28 percent shrink of the global car manufacturing, but this is not all across the regions. North America minus 50 and at the same time we have seen a plus of 5 percent in China and I think a plus of 2.5 percent in India, which means: There are regions growing and there are regions which have a massive problem even with maintaining the average of the globe.

If that continues for a longer period of time, we will see a different automotive industry structure in the future. In terms of cars, we have seen already now a strong shift to smaller models, to less expensive and economical cars. There will be a shift also probably in the regional split where cars are really produced and sold. That of course has an impact on the existing structures, be it on our customer side or be it on the supplier side.

So from that point of view we are really well-advised to think in scenarios. Don't believe that the downturn is already history. It's still with us. We are happy that we have in some areas seen the bottom of the trough, but I think it's much too early to say we are through. There is still some real risk out there. I think those examples which I have given to you have an impact on BASF's business, have an impact on our customer structure.

The question when the economy will be back on the 2008 level in terms of absolute GDP, is also, I think, a heavily disputed and not finally answered topic, but I am sure, if we will revisit the numbers of 2008, the world will look different in terms of players, in terms of regions and in terms of a number of products.

Ronald Köhler (Mainfirst): Just to add on: That means all these arguments I heard are much more geared to 2010 instead of, let's say, Q3, Q4? Is that a right hypothesis?

Dr. Stefan Marcinowski: I wouldn't now talk about a specific quarter. At BASF, we are prepared to run the company really at short notice. I think we have also shown with the numbers we have presented that even this huge tanker is agile enough and we have enough flexibility to act if it's needed. So we will continue this kind of policy. If there are better signs in the economy in China, of course, that would be great, but those products have to be consumed somewhere. If the economy stimulus programme in North America will make its footage in 2010 – I don't believe that it's earlier because infrastructural programmes take

some time until they are really ready to be launched and have an impact on labour and demand. That, I think, definitely will only occur in 2010.

If you look at the stimulus programme for the car manufacturers, I think that makes a lot of sense in Germany where people have money sitting on the bank and they take it from the bank and throw it into the consumption cycle. Whether this is the same intelligent thing in the US, I have a question mark because there maybe the buyer will only operate a second credit card and this is not really to get that stimulus from a general point of view.

So I would not give any idea whether this will be a symmetrical, W-shaped curve or whether it will be flattening out. We are prepared for the worst, but of course we are working for the better.

Christian Faltz (Oppenheim Research): It's a question for Mr. Marcinowski. You tried to bridge your perceived gap in the specialty chemicals arena with the acquisition of Ciba. Hopefully, that works for you. Now we talked a little bit about gaps on the agricultural side, insecticides, GM technology, things like that. If with one go you could fix that gap also with an acquisition and maybe double your market share e.g., would you be prepared to do that if the opportunity arose?

Dr. Stefan Marcinowski: I think Markus gave the answer that we are actively looking, besides the organic growth which means growth from inside through R&D and through investment into new technology, that we are open for co-operation, that we are open for in-licensing, but at the same time the guidance is also very clear that BASF is at that moment not prepared to go for any mega or major acquisition because this goes against our strategy: Keep your powder dry and do the utmost to maintain you in a situation where you can really decide what you'd like to do and that you are in the hands of a bank or of banks. That's a clear answer.

The question on how to really stimulate the growth in areas we are interested in always includes that this is not only organic growth alone, but I think also Peter has clearly elaborated that in the case of our Plant Science we are not on the way that we are investing into seed or germ plasm, but here we clearly say: Our investment is R&D and this R&D translates into IP and this IP makes it so attractive that the majors of this world are ready to co-operate with us. I think the examples given also show that it's not a mono co-operation. Yes, Monsanto is our most important co-operation partner in this respect, but we have others that are also interested in teaming up with us.

Peter Spengler (DZ Bank): Thank you for taking my question. To Dr. Eckes on Amflora: As far as I'm informed – but I'm not really sure – there is a certain antibiotics resistance included in this potatoe. Wasn't it a mistake to introduce such a product as the first product and seek authorization from the EU? Can it be fixed with a different formulation or whatever?

Dr. Peter Eckes: You should not forget that the dossier was submitted 13 years ago. I think that has to be kept in mind. From that standpoint, there is certainly an option to have a product without this marker, but EFSA which is the relevant authority that is really checking the risks of products has reviewed this product now for the third time and came continuously to the clear evaluation that there is no risk. So from that standpoint, the product performance is good. It produces amylopectin and there is no risk to the environment. From that standpoint, there is no reason to really not get it on the market.

Dr. Stefan Marcinowski: But we have to agree: It would be easier for registration because we had one easier argument with those who would like to oppose against the GMO planting here in Europe.

But just one additional remark: This is state of the art and we have also the admission in the EU to import corn which has the same antibiotic resistance marker and this is put into the feeding chain. So this is nothing which is now a unique situation we have with Amflora. These corn products are registered and are open for import. They are used in the feed industry. And there are planted in thousands and thousands of hectares on the globe and there is no evidence at all that this antibiotic resistance marker has a capability to be transposed into humans or animals. That's the only risk people are talking about. This is also what EFSA and the ZKBS, the German authority, have over and over stated.

But from a public debate, you are right: This would be easier, but 13 years, as Peter said, is a long time and what was state of the art at the time is not state of the art today. But you can't now snip your fingers and say, take it out, because you have then to just go through the whole registration procedure and that makes no sense. For future projects, of course, we avoid those markers and have different markers which are not in this kind of public debate.

Christian Schlimm (Allianz): Two questions to Dr. Marcinowski. The first one is: Can you provide some colour how bartering works for you, especially from a cash conversion cycle? When do you get the cash? Does it improve working capital or deteriorate working capital as a result? Are you securitizing any of the cash streams?

And the second question is: With those yield improvements you have shown in the presentation, could you become in a way victim of your own success because we get a huge increase in crop yields and a resulting decrease in crop prices? In other words: What's your mid to long-term view on crop and grain prices?

Dr. Stefan Marcinowski: For sure, markers can get some additional flavour on that, but just as a short remark on becoming victim of your own success: Sure, if we talk about phytoftera-resistant potatoes, that will mean we will have less fungicide to spray. Today, potatoes are sprayed 12, 13, 15 times to get phytoftera under control. This then

would have gone. But this is part of innovation. The better is the enemy of the good. This is the play we are in. Whether we talk about biotechnology processes to substitute petrochemicals or whether we talk about a new generation of catalysts, this is the play we are in and this is the play we actively participate in. Our philosophy is: If there is a change to the better, the change should be introduced by us and we should not be cannibalized by our competitors.

If there is a general change of the game, okay, then we have to accept that. This is undoubtedly an opportunity with GMOs, but we see here that the Round-up Ready also one day needs some additional boost through Kixor or through other resistance stacks. I think, especially in this environment where we talk about biology, we have to accept that biology is not static, but very dynamic and there it is, I think, very wise if you have a larger toolbox.

When you talk about the prices in the soft commodities, we all know that not only crude, but soft commodities have become an asset class. So they are part of speculation as well of course as of sheer supply numbers. GMO technology and our excellence programme are not the only tools by which we can improve the productivity, the efficiency. If you look back, the increase in efficiency over the last 20, 25 years was somewhere in the ballpark of 1.6 to 1.8 percent per year, roughly 0.6 percent by increase of land that was cultivated and the rest is a mixture of better ag products, chemicals, better seeds, better fertilizer or irrigation. If you go for that 20 percent additional yield needed to really bridge the demand in terms of more people, higher quality of food plus bioenergy, it will take you somewhere to 3.6, 3.8 percent growth per year. This cannot be achieved by just taking more land because this land is not available. Just extrapolating the innovation rates we have seen in the past will also not be sufficient. So we need an additional element and this additional element might come from the excellence programme on the one hand side, but also from GMO technology.

This will not take away the other technology. You will continue to need fertilizer, you will need mechanical equipment and you will need irrigation and things like that, but you might need less and grow more. That is the major thing, I think.

Barter: This is something where we have all kinds of models. In some of the contracts we take it directly to the bank and get the cash immediately. So that is a mixture which is primarily executed in eastern Europe as well as in South America. But I think there are good instruments in place and we take those which guarantee us the highest security. We play it here really safely.

Markus Heldt: A couple of additional comments. Let's start first again with the question of yield which is really the Holy Grail of agriculture. Yield enhancement, based on the assumption that the available land is limited. If you talk to Pioneer, to Monsanto, what are they interested in, they are chasing the corn plant that produces continuously 300 bushels. They know that those plants are more susceptible to disease,

so they need a fungicide to keep the plant disease-free. And they also know that the standability of the plant, the stalks are too weak for such a high-yielding plant. So they look for ways of improving the health of the plant. That's where our concept of plant health is kicking in to protect against disease for those high-yielding hybrids and also to improve the harvest stability and the standability of those yield-enhanced plants.

So in addition to the increase of the value of seed they are also looking for chemical protection of seeds or fungicides and insecticides to protect the farmer's investment in a much higher-priced bag of seeds now. Corn seed in the US, ten years ago, was 60 dollars per bushel, now it's 200 plus per bushel. So there is a significant up-front investment of the grower in a higher-priced seed. And he wants to secure his investment with chemical protection, with seed treatment, especially with fungicides and insecticides.

So although there might be a conflict ten years out between higher-yielding plants and chemical protection, we believe down the road those higher-yielding plants will require chemical protection to maximize the productivity of the plant.

Coming back to barter: In many cases, in Argentina, Brazil, we are not directly bartering. We are using ADM, Cargill, we are partnering with these guys to take care of the grain and we are having a triangular relationship with grain-trading companies to take care of the barter model.

In addition – I think that's also a bit different from our competitors – we have a credit insurance in place, covering under the BASF umbrella all countries around the globe, including the higher risk territories these days, like Ukraine, Russia or Argentina. So it's barter, it's credit insurance and it's vendor-based models where we involve banks to manage the risk associated with certain customers.

Andreas Heine (UniCredit): In the half year report, Syngenta mentioned that raw material prices increased significantly in the first half and will go down in the second half. You probably have a completely different approach in producing chemicals as you are a chemical company. So you are maybe more backward-integrated. Could you share with us what your percentage of cost of goods sold is? In the case of Syngenta it was 68 percent. Is that lower with you, being more backward-integrated, and is the change in raw-material prices from the first half to the second half an issue or not?

Markus Heldt: I haven't got the first half numbers in my file, but it's a very moderate increase of our cost of goods. We've been more impacted by foreign exchange. You are absolutely right: Our backward integration is a competitive advantage, but I would say, the increase was in the range of 1.5 to 2 percent for the first six months, our cost of goods compared to last year, which is a mixture of exchange and real cost-of-goods increase, so not the same significant impact as reported by Syngenta e.g.

Of course you have to remember also: Our asset strategy is slightly different from Syngenta. We are focusing on few global strategic manufacturing sites for our ag chem products. We have taken out a lot of complexity during the last five years, shut down plants and focused on those large sites. They are very cost-competitive even to the Chinese or Indian producers.

Martin Rödiger (CA Cheuvreux): Two questions to Mr. Heldt: On Latin America: Obviously, the first half in crop protection was under pressure, driven by Brazil and Argentina, you mentioned that already. Now we have August, so the start of the main season in South America. What is your impression or your feeling concerning the volumes and the prices you see in Brazil, Argentina and other major countries in South America?

A second question is: Can you remind us how many applications for crop protection a farmer has to do in the major crops, e.g. soybeans in that region? Certainly it's less than in other regions or Europe when it comes to vegetables.

Markus Heldt: Let's start with the pricing, the second part of our question which is the easier one. On average we calculate that 5 to 6 percent of the input cost for the broad-acre crops is what agrochemicals are standing for. So it's about half of what fertilizer costs are. This is ball-park figures, averaged around the globe. If you look at specific crops in Latin America, fungicides in soybeans e.g.: 2.8 applications on average, herbicides 1 to 2 applications.

So I would say, with the increased technification in Latin America and their desire to maximize productivity and yield there is a huge potential to further increase the input compared to Europe where in cereals they spray three times a year. So there is still some way to go to further enhance productivity. The same we see by the way also in India where a lot of acres are currently hand-weeded and where now, with the technification and the solutions that are available, farmers move on to chemical solutions instead of hand-weeding.

Coming back to the situation of the first six months in Latin America, Brazil, Argentina: We had a couple of specifics, Argentina worse drought in 100 years. I think everybody has been informed about this. That had an impact on our fungicides business in Argentina.

Our business model is really driven by a prudent approach. We have learned our lesson perhaps the hard way in Latin America, as many other companies as well, by really focusing on the quality of the business and focusing on the receivable and the risk management. In that respect, yes, we have perhaps lost some sales, but we can sleep much better if we know who our customers are and whom we are selling our products to.

The biggest single negative effect in the first six months in Latin America has been the slowdown of the sugar-cane business where we have a strong position with fipronil. But in the meantime, the sugar prices are record-high again. So the outlook for 2010 and beyond is

much better now than it was six months ago. So there were two negatives – drought in Argentina, fipronil business in sugar cane – but the start for the season 2009 which is basically July/August, now, has been very promising and, as mentioned before, our accounts receivable situation is better than 2008. That is really our priority: to make sure we collect our money.

Ronald Köhler (Mainfirst): The first question is for Peter Eckes: You told us you have invested so far 1 billion R&D, if I'm right. If you want to go to the market around 2015, another 500 have to be spent, I guess. How do you calculate your payback on these investments and payback time? Any view on that or is it just too long-term to look at it? The second question is on the price increases you achieved, Mr. Heldt, in the first half year of 7 percent. Can you give a little bit flavour on the regions and indications where you put the price increases into place?

Dr. Peter Eckes: We certainly look at payback times. I can assure you that there are also some measures or things that are tracked basically year-by-year, if we are really going along the right pathway. As mentioned, we want to be a profitable business somewhere in the middle to the end of the next decade. So it's a long-term commitment, but I think BASF is also used to have a long-term commitment. If you look at the potential I would say it's a good investment.

Ronald Köhler (Mainfirst): Just to clarify that a little bit: How specific are your targets actually to earn your cost on capital of 1.5 billion? You must have a kind of business plan, I guess, or is it very speculative to say 2030 or whenever?

Dr. Peter Eckes: There are business plans for each individual project in terms of what are the spendings and then what are the returns expected, looking at the markets that we are really targeting. So yes, there are sound business plans and there are also detailed plans when we expect a cash-positive situation, but I will not share all the details.

Dr. Stefan Marcinowski: Just one additional remark: Those 1 billion spendings is R&D and this is a pre-tax number. I think you should also consider that when you talk about a return.

Ronald Köhler (Mainfirst): Yes, but you spend another 500 million until we get the first launch.

Dr. Stefan Marcinowski: That's right, but that's also pre-tax.

Markus Heldt: Pricing was the second part of your question. This year, in the first six months, the contributions from price increase were Europe and North America, fungicides and herbicides, but we have

not started to raise prices this year. We have started already in 2008. Unfortunately, it takes sometimes a bit longer to make those price increases visible to the market place and also in our P&L. So it's an effort that we have introduced already at the beginning of 2008 to really focus on the value we are offering and get some return for those investments from our customers and we definitely would strive to continue. All depends a little bit also on the framework of the commodity-price situation, if we look at 2010 and beyond. So it's an ongoing effort. It's fungicides, it's herbicides this year; Europe and North America are the main contributors.

Lars Hettche (B. Metzler): I think that one goes to Mr. Heldt. I think you said that you saw a kind of delay in the planting season in North America this year and this was one of the reasons that Q2 was not as good as you expected it to be. My question is here: Could there be a kind of spill-over effect here from Q2 into Q3 that there might be some business contributing now to a good Q3?

Markus Heldt: In the US, we had excessive rainfalls back in April and May which has caused at least, we believe, a four to six-week delay in getting the crop in the ground, which had an impact on corn and soybean planting. We've seen some spill-over in July – not enough to see whether there was a full recovery. We've seen ongoing business in fungicides in the US. There seems to be a fairly high disease pressure in soybeans because of the rainfall that is still ongoing, but it's too early to call it a day because right now, as we speak, there are ongoing applications. We would have liked to have this business already in the second quarter. Now we have to chase it because of the delay of the vegetation and the growth development of the crops.

Peter Spengler (DZ Bank): On biotech again, on Germany: I've seen in your presentation that only 7 of 27 countries accept or cultivate GM maize or corn and that there are only 107,000 hectares that are cultivated in Europe. What is your strategy to introduce biotech in Europe and also in Germany which is probably one of your biggest markets, how to promote it?

I read in a newspaper – maybe it was just in advance of the elections – that the Green Party offered the chemical companies a partnership, which are the opinion leaders and are against biotech in agricultural solutions. So is this biotech included in this? Did you receive this offer? Is it for real? Can you elaborate a bit on this?

Dr. Peter Eckes: Let me maybe start, but I'm sure that Stefan can add quite a bit to the political discussions. First of all, let me start with the portfolio. Our portfolio clearly is addressing major crops and markets. From that standpoint, actually, if you look also at the majority of the value of our pipeline, it's not focused at Europe. Second, we do believe that long-term European agriculture will not be competitive without biotech. So from that standpoint, long-term we do

believe that also there will be an acceptance. Just consider: 125 million hectares are today really already covered by biotech traits, total 1 billion hectares and there are no safety incidents.

It's a very emotional discussion obviously, but the fundamentals are: The globe will need this progress in productivity.

The particular situation in Europe is difficult and BASF wants really to help, assist the industry to get an indent and that's the reason why also we are very strongly fighting including actually going to court to get our Amflora potatoe approved. Stefan Marcinowski is very active on multiple levels to help here. I think there are many people at BASF really, I would say, also fighting for the industry.

Dr. Stefan Marcinowski: Thanks, Peter. That's maybe one of the most frustrating issues I have to deal with. I am really investing quite a lot of my time doing this kind of public debate or having one-on-ones with politicians. This is not a crowd like you who are fact-based, but this is highly emotional and it's all about opinion and not any hard data.

So what are we doing? Amflora is without any doubt a proof of the pudding whether Europe is willing to act now what has been promised to us. We have received a letter from the Commission a year ago which clearly indicates: If and when EFSA confirms the safety of the product, then the Commission will take a decision. The problem is now: Barroso is at that moment for re-election, we have elections in Germany ahead of us. The Commissioners in Europe would also like to be renominated. They will be grilled by the Parliament and will be checked about their view on important issues. So what Dimas might answer in that situation, I don't know exactly. But the facts are there. EFAS clearly has indicated: We don't want to be involved with any further study. The facts are there and there is no reason to oppose it.

You know that we have to be clear until February next year about what's going on with the potatoe because that's the time when we have to take the measures for the plantation.

When you talk about Europe: A couple of weeks ago, I have been in Romania which has become part of the European Community a couple of years ago. If you talk to farmers there, they are ready to immediately go back to where they have been to before they became part of the European Community. In those days, they were allowed to plant soybean Ready. And they have been so much convinced by the quality of this service package that they would like to have it back, but it's not registered in Europe. So they are not allowed to grow that.

We have a real strange, very emotional situation. We are at that moment not investing in any new project – I think we have also announced that publicly – that is designed for commercialization in Europe only. These are the potatoe projects, but this decision has been taken a long time ago.

So just take the CTC co-operation on sugar cane: Sugar cane definitely, even with the climate change, will not be grown in Europe, maybe somewhere in the French colonies. I think this is something

where we have as well as with Embrapa clearly shown that there are other attractive territories apart from Europe. Also business plans which we have made, also together with Monsanto, see this at max as an upside potential.

But Europe will not escape from becoming GMO-dependent. That's the craziness. If you look at the import statistics today, 30 million tons of GMO products going into the feed chain are imported on an annual basis. That's 60 kg per EU citizen. This is coming into Europe and it's used in growing cattle and making pork and chicken. That's a different reality. I really hope that Europe is not waking up too late.

I have not received yet an official invitation – maybe it's at the VCI – from the Greens what is included in this sustainability move. I'm deeply convinced that GMOs are also a way to have a more sustainable agriculture because you can grow more with less and at the end of the day that is what counts. We don't have enough water, we don't have enough land just to go in the direction that we are going today. Arable land is limited, so we have to go for more exotic soils which have a high salt content or are semi-drought exposed. Freshwater today already stands for the agricultural industry or the agricultural value chain; 70 percent of the freshwater on the globe is consumed for the agricultural value chain. This is something where we have clearly to say, we can't escape from that.

Gerd Schubert (Deka Investment): I have a question regarding seed treatment. We had an announcement from Monsanto some weeks ago that they want to enter the seed-treatment market. Just now, the market is very attractive. We have three competitors there; you are in my opinion the number three, I am not sure. How would you expect this market to develop? Do you see enough growth for four participants or do you think this very attractive oligopoly will diminish?

Markus Heldt: These were 2.5 questions, so let's take it in slices. It's definitely a very attractive market, growing above market rate, as you can see in all of the financial results, from Syngenta and from Bayer. We have a partnership with Monsanto in certain crops. For example, we are the exclusive partner with fungicides for soybeans with Monsanto and we talk to other companies as well.

We decided three years ago to really go into the seed-treatment business, to develop specific, dedicated product for seed treatment because this market is about 650, 700 million dollars, growing at a 6 percent rate per year. With the investment in higher-value seed, the protection and the use of seed treatments is becoming more attractive. We would like to have a bit of healthy competition with number one and number two, but as of today, we are far away from Syngenta and Bayer. It's definitely a strategic area for investment to grow in the seed-treatment arena, especially with our fungicide portfolio. We are screening now insecticides and fungicides for seed-treatment application because this market will continue to grow and will be a very attractive specific market in the future.

Gerd Schubert (Deka Investment): And what about Monsanto?

Markus Heldt: Monsanto liked our partnership because they have no chemistry for seed treatment. They have decided to set up their own seed-treatment operation, partnering with companies that have chemistry to service them, to provide and prepare solutions to treat their seed, but they have no own chemistry. They are partnering with BASF, they are partnering also with Bayer and others, but they have announced a branding and a dedicated effort for their own seed-treatment activities, looking at strategic partnerships with selective companies that are focusing their R&D efforts on seed treatment.

Dr. Stefan Marcinowski: I think the demand for treating your seed will rise due to the fact that the seed becomes more and more valuable, due to the fact that there are multi-stacks inside. That means of course you would like to protect the individual seed and make sure that there is 100 percent germination finally in the ground. This is stimulated by the fact that the seed is getting more and more expensive and is creating more value.

Andreas Heine (UniCredit): Another two questions, if I may, at first on fungicides: You have a very successful product with F500. I wonder why a significantly older product, Amistar, is growing significantly faster and has gained market share, especially in Latin America. Why is it that this is such a successful product, despite the fact that you have more innovative ones?

The second thing: I do not understand that at the end of the season there are always discussions about rebates and then some of these price increases are given up again. How confident are you that the price increases we have seen in the first half will really stick until year-end or are only preliminary?

Markus Heldt: That was another 2.5 questions. If we start with the competition again: Amistar is not much older, it's exactly ten months older than F500. I don't know the source that is giving you the information that it is growing much faster than F500. I am sure we have other sources that say the contrary. I think both products, strobilurines, are growing because the grower, the farmer has seen the disease-control and the yield- enhancement benefit. Those are the two aspects that are driving the use of strobilurines around the globe. And let's not forget: Initially, strobilurines were used and developed for cereal fungicide and disease control. Now they are developed in soybeans for rust control and in corn for disease control and for yield enhancement. So there is definitely a significant growth opportunity for any strobilurine around the globe. We believe we have the most promising and the best-performing chemistry. This is also why we have in corn nearly 70 percent market share in the US compared to the other competitors down the river. This shows that we obviously

have something that is very valuable to the grower and we've developed and built this business in addition to the fungicide market. Coming back to your comment on pricing: Yes, there seems to have been a ritual for a long time in many countries around the globe that at the end of the year the distributor is asking for his famous year-end rebate, for his contribution to the successful season. With the financial crisis also our distributors are partly facing we are careful of making a full-year statement on pricing because some of those price increase we have successfully implemented distribution might try to claw back at the end of the year. Obviously, our preference would be to keep it in our own pocket, but this ritual, especially in a situation where our distribution partners are also impacted by the crisis, is getting a much tougher call this year.

Ronald Köhler (Mainfirst): Actually two similar questions, but raised a little bit differently: F500, as far as I'm aware you did not have enough production capacity; in 2008 the product was on allocation. I believe this situation is solved. Just to make that clear: The capex expansion you have announced, is that enough to make the 700 million peak-sales target or would you even get to 1 billion with that? How much headroom do you get with these capacity expansions? And also to make that clear: You said, in Q1 2010 it will be on stream. Does that mean that you will have first products in Q1 2010 or that you will start to produce?

Another very quick question to Mr. Marcinowski: Disposal processes. Obviously, you thought about disposing styrenics. You didn't do that. You announced today a small disposal in Korea. Is the window getting open again for disposal processes or is this something you would not consider for years doing, let's say, bigger disposals?

Dr. Stefan Marcinowski: Markus can think about the products, I will start with the portfolio. The windows are open, the question is whether the conditions are attractive. At that moment, of course, who is not really active in the market is the financial investor which always had been part of the negotiations in the past. We have a clear understanding: We will not walk away from a business which is not creating so many headaches that we couldn't stay with that as long as we don't have the right value extraction that we would like to see from the quality of the business. We continue to have ongoing analysis, ongoing talks, but we will only ring the bell if things are really signed and stamped. But I can tell you that we are in ongoing discussions here to find solutions without setting us under pressure.

I think this is also what we convey clearly to the market: We are not under pressure now to generate here millions or billions of cash because we are really squeezed and in a situation where we are short of that. That's maybe the kind of comfort which we have, which does not mean at all that we are sitting on our hands.

Markus Heldt: Coming back to F500, you are absolutely right: In 2008, the product was on allocation, including the 2009 season, so we had a very tight global supply situation. We decided at the end of 2008 to invest in additional capacity. That capacity will come on stream in the first quarter of 2010. So it will be tight for the season in Europe, but we believe with some good planning and good supply-chain management we can manage the available volumes and include those additional capacities already for the full growing season in 2010. The capacities that will come on stream will take us well beyond the 700 million euro peak sales.

We have also anticipated that down the road, once the patents are gone, there will be some devaluation. That's why we did not reflect the peak-sales potential only because there will be an impact on pricing in five years. But capacity is prepared, will come on stream in the first quarter and will be available to meet the global market demands in 2010 which should then also overcome the still tight and allocation situation we have been facing in the last two years.

Harald Gruber (Silvia Quandt Research): Just a financial question: What's the share of net working capital or working capital relating to the assets which you state in the handout for the first half or also for 2009 in crop protection? Do you think that due to some higher share of innovative products, as you pointed out before, the sales turnover of these innovative products will also improve that number, i.e. sales turnover or sales generated with innovative products relative to the assets employed, so to give you some improvement also in quality drive when it comes to returns on assets and others?

Dr. Stefan Marcinowski: Taking the innovation question: We have this on a business-per-business perspective and we have here our innovation indices and we also have a clear strategy allocation of our individual strategic business units. In ag, undoubtedly, all three, fungicides, insecticides and herbicides, are put on growth which means additional investment in R&D. Ag has the highest percentage of investment because 10 percent of our sales are on an annual basis reinvested into innovation. That is more or less 1 million euros per day with the actual numbers.

The efficiency of the investment, unfortunately, only can be evaluated looking into the back mirror, when you say, I have invested over the last ten years or five years that amount of money in insecticides and I have not seen yet the products. I think this goes exactly into the direction Andreas Heine has asked. That's our weak spot and we have to be very clear about the fact that insecticide research is maybe also the most challenging thing when it comes to new lead structure because you are very close to animals and humans in your mode of action.

In the number world, I think, Markus can provide additional information.

Markus Heldt: The numbers I have found in my briefing note was working capital development first half of 2009 compared to last year. We had 30.3 percent. Inventories are up because of the allocation situation we've been facing and we have by purpose now increased our product supply and availability. The accounts receivables are down 11 percent compared to last year. So 30 percent is the number, compared to 25 percent last year, if you look at the inventories and the accounts receivables. I would be happier with 27/28 percent, so we definitely have to focus especially on the inventory situation to make sure that we bring inventories down again.

Norbert Barth (WestLB): Mr. Marcinowski, if I sum up all your positive statements on crop protection, do you still believe that the 25 percent EBITDA target is ambitious enough? We all know the weather conditions, so excluding that. Don't you think you should have an ambitious goal and bring that a little bit up?

The second question is on plant biotechnology: Can you a little bit describe the competition environment there and how much you believe you are perhaps ahead of the competition to have a little bit of an overview on that?

Dr. Stefan Marcinowski: I think the 25 guidance is fine, especially if we say that we would like to exceed that. And don't forget that this also includes heavy investment into R&D. This year again, if you look up the numbers, we have invested more into R&D than in last year's first half. That's also our approach for the whole year.

We don't want to milk the business. We want to grow the business and we want to have profitable growth. That means that we also will allocate there enough resources to stimulate this growth from inside. The 25 percent EBITDA margin is an ambitious goal, especially if we say, we would like to exceed this.

This year, yes, we will deliver on that. 2010 is a new ball park. We will see what the planning will deliver to us. But be aware: This is a growth business and it's not a milking business. We are highly committed to innovation in this area – highly!

Dr. Peter Eckes: Let me focus on the major opportunity, which is yield and stress. As I pointed out, that's where really the major trait values come in the future. If I look at the chart that our competition is presenting to ours, I would say, we are a few years ahead in all these major traits which makes me feel confident that we get actually a first-mover advantage here.

Magdalena Moll: Ladies and Gentlemen, this brings us to the end of our session. I would like to thank our three speakers here very much for coming to Frankfurt this morning.

I would also like to thank you for joining us and actually for your interesting and lively discussion. I think that we could demonstrate to you that we already run a very innovative and profitable crop-

protection business, but there is even more to come on top. With our plant biotechnology activity, we will deliver a significant and continuous earnings stream, as Peter has said, from the mid of the next decade on. This will make BASF even more independent from the economic cycle, a very important aspect to remember at this point in time.

Ladies and Gentlemen, I finally would like to invite you to join us for a brief buffet lunch which we have set up outside. Certainly I would like to encourage you to continue your discussions with all three speakers here today.

For the participants who have to leave us right away: Thank you again for coming and we wish you a very nice day and hope to see you soon again. Thank you, bye-bye!

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BASF is the world's leading chemical company: The Chemical Company. Its portfolio ranges from chemicals, plastics and performance products to agricultural products, fine chemicals as well as oil and gas. As a reliable partner BASF helps its customers in virtually all industries to be more successful. With its high-value products and intelligent solutions, BASF plays an important role in finding answers to global challenges such as climate protection, energy efficiency, nutrition and mobility. BASF posted sales of more than €62 billion in 2008 and had approximately 97,000 employees as of the end of the year. BASF shares are traded on the stock exchanges in Frankfurt (BAS), London (BFA) and Zurich (AN). Further information on BASF is available on the Internet at www.basf.com.

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