

BASF reaches agreement with Cognis Holding Luxembourg S.à.r.l. to purchase Cognis

Conference Call Script : Q&A session

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Ludwigshafen

Dr. Jürgen Hambrecht

Dr. John Feldmann

The spoken word applies.

Thomas Gilbert (UBS): Thank you very much for setting up the call and for taking my one question. You gave the growth rates for the business units of Cognis for the first quarter and for 2009. Could you give the regional growth rates a bit of flavour on underlying growth in Asia, Europe etc.? The business seems to be very euro-centric, Asia 17% of sales. I was wondering where the regional split could go. If you could elaborate a bit on regional trends 2009 and start 2010 of the business.

Dr. Jürgen Hambrecht: Thomas, I am sorry that we cannot really dig into this so deeply. We have not had this detailed information so far, but overall, I would say, you are right. The business is more heading towards Europe for the time being. This represents a huge potential for us with our global reach. So we are looking into, let me say, real additional business opportunities from a BASF point of view.

Norbert Barth (WestLB): Good morning! Cognis is a spin-off of Henkel. Can you give us a figure how much business of Cognis is still going to Henkel? Do you expect some change there? Have you spoken with the CEO of Henkel? I believe there are some fears about now taking over Cognis by you.

Perhaps also: Do you believe that are there some anti-trust issues to be expected or not?

Dr. Jürgen Hambrecht: Norbert, again, I have to ask for your understanding. We are not allowed to talk about customers yet. You have to understand it. From this perspective, I cannot answer your first question.

But concerning, let me say, the approval by the authorities, looking into cartel issues, we do not expect any significant topic bumping up. I think this will be more an easy task. But still, we have to do it in the most important respective countries. And it will take time.

Markus Mayer (UniCredit): Good morning! On behalf of Andreas only one question: In the past, the rise and the collapse of the glycerine price had a big impact on Cognis' margins. Do you expect that this correlation can be flattened out within the BASF Group? Does BASF Group and their sourcing have any impact on this problem?

Dr. John Feldmann: Cognis is no longer actively participating in creating natural based oils. Cognis is buying fatty acids in the market. So basically, they are depending on the market prices of fatty acids which may be impacted by glycerol, but this volatility due to glycerol was much stronger in Cognis when they were still producing glycerol and fatty acids which they are no longer doing. They have divested these joint ventures.

Dr. Jürgen Hambrecht: To add on top of this: They really did an excellent work in restructuring the company, cleaning up the portfolio, if you look into Pulcra, their textile and leather business, and the oleochemicals part. So this is a big change and this is what we also have looked into for quite some time.

Paul Walsh (Morgan Stanley): Good morning, Dr. Hambrecht. I have one point of clarification and one question, please. The question relates to the synergies. Can you dig a bit deeper as to where you expect those synergies to come from?

The point of clarification: When talking about earnings accretion from 2012 in the way that you normally do, I think this is post your exceptional charges because if I calculate pre exceptionals, the deal should be accretive from year one. If you could just clarify that, that would be fantastic.

Magdalena Moll: Paul, can you repeat the second question? That was a little bit confusing to us.

Paul Walsh (Morgan Stanley): No problem. You've talked about earnings accretion on the deal from 2012. Presumably, that is post special charges relating to the integration of the acquisition, rather than pre exceptionals, because on a pre-exceptional basis I calculate the deal to be earnings-accretive in its first full year.

Dr. John Feldmann: When we talk about accretion, it means on the level of earnings per share. So this is post all extra items.

Paul Walsh (Morgan Stanley): That's very clear, thank you.

Dr. John Feldmann: On the first question: We are going to develop the integration plan and looking for the synergies together with the colleagues after closing of the deal. We have certain indications because we have some experience. We have some successful experience with integrating other companies in the recent years, so we have some indications, but we are not going to talk about this in public before we have discussed it with the future BASF colleagues.

Paul Walsh (Morgan Stanley): Can I just get clarification then on the refinancing? Can you give us an idea as to the financing costs on the Cognis debt versus what you think you can achieve on refinancing that debt? I guess that's a form of synergy frankly.

Dr. Jürgen Hambrecht: It's clear that our spreads in the market are much more favourable compared to what Cognis got. So this certainly is helping us. But still there is debt interrelated with this, we have to admit, and we have to finance it.

Dr. John Feldmann: To be very, very precise: The indication of synergies that I gave is related to the operational business, it does not include synergies from financing.

Lutz Grueten (Kepler Capital Markets): My question is referring to page 6 and page 32 of your presentation. On page 6 you are stating that the EBITDA is up 31% and the rolling EBITIDA last twelve months versus the full year 2009. I am just a bit puzzled because on page 32 it seems to be that Cognis was not really hit hard by the last and ongoing recession here. I am wondering where that growth rate of 31% is coming from. Is it also related to the cost savings and restructuring done within Cognis, or is there something else we should know?

Dr. Jürgen Hambrecht: I think, on page 6, as you see, this is LTM EBITDA which means twelve months representing backward whereas in Q1 this is just the Q1 figures. We just took it as Cognis has published it. This basically reflects the difference.

Lutz Grueten (Kepler Capital Markets): But where is the growth rate now coming from? They have not been hit by the crisis so hard. It was quite stable 2007 to 2009. And now there is a strong recovery in the first quarter. I am just wondering where that is coming from.

Dr. Jürgen Hambrecht: I think basically it's coming from the market. At the end of the day – and you may have seen this in the last year – higher added value products, e.g. in cosmetics, personal care, have not been in high demand and now this is rebounding and is coming back rather strongly.

Dr. John Feldmann: Just to add a little bit on this: Page 32 exhibits the EBITDA of the three business segments whereas the figures in slide number 6 represent the whole company. There are included huge efforts in the recent years in restructuring within Cognis which had an impact on the profitability of the company.

But the assumption is correct that Cognis was not hit that hard by the recent crisis. But the recovery is really that most of the restructuring efforts in Cognis are now done.

Tony Jones (Redburn): Two very quick questions: Firstly, could you let us know if there is any seasonality to this business, just so we know whether the Q1 numbers we can just roll forward for the year?

Secondly, Cognis typically in the past has targeted the really big guys, so has looked to get sales at companies like P&G. With BASF's distribution model, will you try and leverage that and try to get into smaller, more regional companies where the margins can be extremely high?

Dr. John Feldmann: First of all, yes, particularly in personal care, there is some seasonality, but there is a season for all kinds of personal care products; in summer you have different products than

in winter. Therefore, there is not that extreme type of seasonality effect.

Cognis certainly has established excellent relationships to some of the major players in the fast-moving consumer goods markets, as have we. You may recall, in our Segment Day recently we explained a little bit how we are cooperating with major players in these areas, but how we are also striving to address regional players, particularly in the emerging countries in Asia and China and other parts of the world. Certainly we see a certain synergy here. We will continue the close cooperation with customers that both BASF and Cognis have already established and we will see additional strength and growth because we have now the fuller portfolio to offer to our partners.

Jenny Barker (Nomura): My question is: Of the 2.4 billion debt and pension that you are taking over from Cognis, how does that split between net financial debt and a pension obligation? In other words: What is the size of the net pension obligation that you are taking on? And then: Do you know what the associated pension financing charge that will be booked into your P&L will be and what the cash flow associated with the Cognis pension will be, please?

Dr. Jürgen Hambrecht: Jenny, very quick: Maybe we can find out a little bit more about it. But what can I tell you is: If you look into the enterprise value calculation – I think you may have this additional chart too – pension liability out of all that is about 500 million euros, precisely 503.

All your additional questions I cannot answer at this very moment. I need to find out whether we have answers, but most probably not yet.

Jenny Barker (Nomura): Okay, very clear. Thank you.

Annett Weber (BHF-Bank): Just a matter of clarification on the tax-loss situation of Cognis: They seem to have a relatively high tax-loss carryforward still in the balance sheet, either capitalized or even not capitalized. What's your view on this matter? Are you likely to utilize them in the future or is that going to be difficult?

Dr. Jürgen Hambrecht: Annett, we cannot answer this question at this very moment. We are aware of it and we will try very hard to save, but at the end of the day it's the final conclusion of the deal and we need to talk with the tax authorities about that. So we will have to see. Nothing is figured in into our synergies etc., as John already mentioned.

Pandya Jaideep (Berenberg Bank): My question is more regarding the rationale of the acquisition. You already talked about the criteria, but would you say it is more or less in line with what happened two years ago at Ciba where you saw an opportunity and it was a very opportunistic move? Or would you say that the personal and home care market was on the radar screen of BASF for some time now and you were looking for good assets in this area?

Dr. Jürgen Hambrecht: I think this acquisition is really different to Ciba. It is a strong and complementary addition. As you have pointed out, personal and home care – by the way also nutrition – have been the focus of our looking out into the market what could fit very well with our overall portfolio and where is the highest growth possible.

I think, if you look into what we are really doing is: We are diversifying BASF's industrial exposure by going more downstream to consumer-focused businesses. This is really represented in Cognis. I personally think – and I am happy to say this – that this is almost an ideal acquisition for BASF.

Paul Walsh (Morgan Stanley): I just wanted to ask about the Cognis business and whether or not there are any parts of that that you would look to exit. You did talk about the fact that the private equity owners have done a lot of restructuring already and exited some of the commodity parts. Is there anything more still on that front?

Your closest competitor Croda on that front has been perpetually trying to exit the more commoditized end of the market. That's been very favourable for margins. I am jus wondering if that would be part of the strategy as well longer term?

Dr. Jürgen Hambrecht: Paul, I think I have to answer this a little bit more generally because it is a topic we are addressing generally within BASF. Of course, we are looking going much more closely to the consumer, more innovation-driven, above average growth and where we really can play out BASF's strengths. This applies certainly also to this acquisition. However, this is much more complementary compared to Ciba which was a restructuring case. I said this at the very moment all the time.

This is really very different. There are complementary pieces also from development and innovation. Cognis has been much closer to the customer than we have been. So it's much more market-driven compared to BASF. I think this is really complementary and offers us additional strength.

Paul Walsh (Morgan Stanley): Is it fair to assume that the performance in the first quarter has continued into the second quarter?

Dr. Jürgen Hambrecht: I cannot comment a lot about Cognis, but I take this opportunity deliberately by saying: Second quarter for BASF business has been slightly better than we expected – so far.

Stephanie Venegar (J. P. Morgan): I just wanted to go through your timeline to the close that's expected at the latest in November 2010. If you could just say what you are going to go through in terms of regulatory and your talks with Cognis.

I am also wondering what you think the probability is that you are closing that acquisition any sooner.

Dr. John Feldmann: We are now going to file with the relevant merger control authorities in 18 different countries. Because the businesses are complementary, they are based on different raw materials. So they are addressing different types of markets. We don't expect major issues there. Therefore, we believe that by November this year we will be able to close the deal.

Stephanie Venegar (J. P. Morgan): Okay. This is the only amount of clarity that you can give?

Dr. John Feldmann: Yes.

Oliver Schwarz (M. M. Warburg): Just a general observation: Given that Cognis will become a part of the BASF family, the Performance Products segment now stands for close to 25% of your company's sales excluding the Others segment. Given that that segment is much bigger than most of its stand-alone peers, would you be willing to provide additional data in the future, given that in the past you just reported sales on a business-unit stage? Given that you were prepared to give more details on the Oil & Gas segment which in the past was the largest segment of BASF, would you be willing to do that in the future for the Performance Products segment as well?

Dr. Jürgen Hambrecht: Very clear answer: No.

Oliver Schwarz (M. M. Warburg): Okay, fair enough.

Norbert Barth (WestLB): Can you already say if you take over the top management of Cognis? Secondly, you mentioned that an A-rating is a must for you. As usual, there are already in advance some discussions with the rating agencies. Can you tell us what the outcome could be?

Dr. Jürgen Hambrecht: With regard to the first question: We are now starting to talk with the top management. You know, they have done an excellent job. This is an excellent team and it's very clear that BASF would like to keep as many of these big talents as we can.

On the second question: We cannot answer this because the rating agencies are rather independent, as you know.