Transcript

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BASF
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Transcript Q&A session keynote speech

"Grow smartly"
by Martin Brudermüller, Albert Heuser and Gops Pillay

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Topics: Asia Pacific market, business segments, targets

Timothy W. Jones (Deutsche Bank): Dr. Brudermüller, you referred to EBITDA trends in the region in line with the group targets. Do you mean that margins in the region would be in line with the group by 2020? Or do you mean the EBITDA relative to sales will outgrow by 2020? That's the first question.

Martin Brudermüller: Let me elaborate a little bit on this EBITDA. I was sure that this would be the first question because we did not point out specifically on the EBITDA which we want to achieve in the region.

Why is this the case? I think you cannot expect from an Asian operation as we have it today, which after the IFRS correction fell back to 54% of OMP, that this region contributes the same EBITDA margin as a region like Europe that produces OMP 100% and exports. Because we get a sales margin for all the products we sell here from import. And all the pre-earnings are in the European operations. If you think about an export, which is significant from Ludwigshafen e.g., to the region which is almost 2 billion euros, then all the pre-earnings for the market from Asia Pacific are shown to you in the European operations and then you say: This is the very profitable Europe and these are the not profitable Asian Pacific operations.

So we have only a chance to bring up the EBITDA contribution in Asia if we increase OMP. Theoretically, we have 100% OMP here. I would say, it is very clear that this operation on average has to bring the same profitability as the other regions. We will not come to 100%, we will most probably never come to 100% because we will always have some plants where you have one global specialized plant which serves the world and that most of the time most probably will not be in Asia. So with this we stay at a lower point.

If you take the overall portfolio, Tim, I would say, if we go the way, as we described it in the strategy, that we go more to innovation, that we basically serve 25 billion euros out of a market of 1.1 trillion euros, we select very much the market segments and pockets where we can differentiate, then I would say: On average we should have about similar margins or, if we have lower margins, we have to do everything with lower cost.

So at the very end this is what it is about and that is why we had the excellence lever really to reduce also the operating cost on one hand to respond to the fact that in some of the sectors where we are in, particularly in the base chemicals, we partly have lower margins in the region than in other comparable regions.

This is why we have not given you a clear EBITDA target. We also have not given an EBITDA margin on the group level, as you know. But I think with this and the under-

standing working on the cost basis on one hand and the portfolio on the other hand, we come in this direction that Asia Pacific is delivering its fair and necessary share of the overall global EBITDA number. I think this is reasonable and understandable.

Timothy W. Jones (Deutsche Bank): I haven't heard the phrase "earn a premium on cost of capital" in the presentations. So can you talk a little bit about the trend for earning a premium on cost of capital both in China and Asia? And specifically, can you comment on whether you earned a premium in Asia and China in 2012 and, if not, when you think you will earn a premium on the cost of capital in those regions?

Martin Brudermüller: In terms of cost of capital, we have never released the cost of capital or the premium we achieve per region. I am looking a little bit what I am allowed to say and what I can say. I assume it is fair to say that in the past most of the time we have generated also something positive here in the region. I would not go further and even break that down in China, but you will see also from the presentation of Albert tomorrow – he shows you the sales development and the EBITDA development – how profitable the China operations have been. That also shows a lot of assets which we have in Asia or in China. That is why China is good, because it has high OMP. In Japan, where it is mostly merchant business, you also have low margins.

Christian Faitz (Macquaire Capital): Can you update us on recent demand trends in China after the relatively slow demand trends even post the Chinese New Year? What is happening at the moment? What are you seeing here on the ground? What are your sales people saying on the ground? Thank you.

Albert Heuser: When we look into the different industries, there is a different picture. When we look into e.g. the olefines, then we see that the demand is not that terrific as it used to be. This is associated to less demand for polyolefines, where you know that this is not our core business. But for sure, when we talk about olefines, they are the trend setter.

When we look into the automotive industry, which is very important for us, then we see a very stable, high growth for material we are supplying to the automotive industry. So you see already with these two examples, there is a mixed picture. From that there is not one clear answer to this.

Christian Faitz (Macquaire Capital): Maybe I should specify the last question. March was kind of slow post the Chinese New Year. I take it from other companies' comments that April was slow as well, but May sequentially has improved. Is that what you see as well?

Albert Heuser: I would not say that we see the same. What perhaps we see after Chinese New Year is that it was not a terrific start as we had seen in the past in several years after Chinese New Year. But it was a good, I would say: a healthy growth, not a huge dynamic and differentiated to the different industry segments, as I elaborated.

Martin Brudermüller: But if you compare last year with this year we have also the first quarter which is hardly to compare, because of a various Chinese New Year effect. The impact was in January and February, it changed over the year. So to compare January and February doesn't make sense.

If you take this together, we have to clearly say, March where everyone expected, now it is picking up, it did not happen. April was better than March. But it is, I think, very much also about expectation management. I think, first of all, everyone expected and that was also what mainly the Western world did: If the new government comes in place we see a huge stimulus and when they are in place they need to show that the economy goes up.

Obviously, that was also my impression when Li Keqiang was in Germany just one and a half weeks ago: The Chinese government is not unhappy with the current situation and the current growth. For that reason it did not have many stimuli. For that reason I think we all talked us in the mode that this has to take up now after Chinese New Year – which did not happen. So in that respect we see an improvement, but not in the way that it is a hockey stick or it goes back to old times.

Norbert Barth (Baader Bank): Coming back first to the sales target of these 25 billion compared to the former 29, it looks to me that it is mainly the correction of the new accounting rules. But nevertheless, what I think you included differently to former targets are these 2 billion for new businesses and acquisitions. So it looks to be a little bit to fill a gap. Was that the case? Or why do you mention especially also acquisition? Is there something more close to that, that we can expect something in the near term? Or why do you mention that?

Martin Brudermüller: With respect to the corrections: Yes, when we in November 2010 released the global "We create Chemistry" strategy, we had 29 as a target for Asia Pacific. We reduced it to 25, which is basically the IFRS correction.

You saw that also on the global level, what Hans communicated in March, we have come down five on the target, from 85 to 80 and from 115 to 110. Thereof, four are in Asia Pacific. The reason is that we have the big 50:50 joint ventures here. So it is basically only the correction of IFRS and the expectation how these businesses would have developed until 2025 in our plan.

Norbert, the reason why we have put out these 2 billion: the major part is organic growth. Our businesses have done for this strategy a very diligent, detailed bottom-up plan. Each and every SBU has clearly a plan what they need to do, how much they invest, how much R&D they have and all this. This adds up in the current portfolio to a growth of about 10 billion.

What we wanted to make clear out of these growth fields which we he have indicated: One always thinks that these sophisticated markets are mainly in the US and in Europe. In fact, that is not true. A major part of these new markets will be in Asia Pacific. I think in the battery case it was very impressive to show you that 350 out of the 500 million are here. These are no businesses that are planned today, because we don't have them. So in the bottom-up plan they miss. For that reason we said, we have to show this base that there is a 2 billion coming from new businesses which we

do not have today. We really wanted to indicate this. It is a portfolio development which is happening over there.

The acquisition part – most probably we talk about that later in a bit more detail because you will you have more questions on it. We go a bit away from the strategy to do the big acquisitions more to the technology-driven acquisitions.

Some acquisitions are factored in in the base plans of the operational divisions; they are part of this 25 billion part. But there will be also acquisitions in new businesses which are not part of the plan. For example, this Novolyte thing is very much a technology-driven business to supplement our own skills in the battery field. So we wanted just to indicate that both developing the new businesses and also acquiring technology-driven businesses in Asia Pacific adds up to something significant in this 25 billion because it is almost 10% of our business in 2020.

That is why it is not a residual thing; it is really to highlight that there is in Asia not only more of the same, but there is something new coming up. Maybe later on we can talk more about what you at all can do in M&A because we all know it is not so easy. It is easier in the small ones than in the big ones.

Paul Walsh (Morgan Stanley): Can you talk a little bit about the agricultural segment? It is still a small portion of what BASF is doing in Asia Pacific. If you could talk around the growth opportunities here and how that fits into the strategy as well.

Martin Brudermüller: I think in the last meeting we had with agriculture we said a little bit about this. If we go into the past, we have to admit: We slept a little bit too long before we discovered the Asian markets. Some of the competitors have been much faster and earlier in position there.

One reason for that indeed was the IPR issue. In the past, there where some people in BASF who said: You rather don't go into this market because of IPR, which, I think, was a wrong assessment. Today we clearly see that these markets have a huge potential and we have to assess them. That is why we have to speed up. That is why we try to catch up. I think this is also working quite well. We are growing nicely and we have a huge capacity built up. You also saw that in Rudong. In the Zhangzhou province we built a new formulation and packaging plant for agriculture, which will help us to package in the right way to penetrate those markets in China.

You know a bit about India with the Samruddhi project where we have this project to penetrate hundreds of thousands of farmers and basically teach them how to use agrochemicals and increase basically their yield and their income.

So there is a lot going on. A very clear yes, it is part of the global strategy that we have to catch up and want to take advantage out of these markets. I think we are doing well on this. But we are certainly for these reasons smaller than many of our competitors.

Paul Walsh (Morgan Stanley): On the agricultural landscape: Do you face a sort of different set of competitors here in China with the domestics producing on the crop protection side from a generic perspective or not really?

Martin Brudermüller: It is a very differentiated market and it is a huge country. For that reason, to get really access everywhere, you have to think about how you do that by the sales channel.

There is one development which is in favour of us. If you look at the five key industries in the last Five Years' Plan, one of those industries mentioned is agriculture where they clearly want to step up the productivity in the sector. They also heavily work on the hundreds of generic companies. It is too much. So they try to consolidate. They partly do that in a way that those 300 companies do not get approvals anymore for their products to really force them into consolidation, partly force them even to give up business.

That is a positive environment for us to position us with our products. We are still on the innovative end. We bring in new entities and not generics. For that reason it is also important that you focus on the right markets.

The ag people told you a bit about the areas we want to focus on. We have less rice products, but we are stronger in wheat, we are stronger in fruit and produce. I think you have see also that you cannot do everything. But I think it is working well and is a favourable environment to do that.

Albert Heuser: For sure there is a change in the agro industry as such. There are so-called mega-farm projects under development in parts of China. This will lead to a different kind of how to do agriculture and then not only talking about our key agricultural products like fungicides, herbicides and insecticides. It is talking about some other solutions like packaging, which becomes important. So we try to tackle those developments at the right spots as well.

Gops Pillay: But you could also turn it around. The mature markets are basically Australia and Japan. If you look at the upside potential we have in the ag business, it is really because we have really concentrated on these two mature markets. As Martin and Albert alluded to, there is a lot more potential in this market here.

Paul Walsh (Morgan Stanley): On polyurethanes: You guys are expanding capacity, others are also expanding capacity, specifically in Asia. There are mixed views on the capacity increases and the landscape for utilization rates. Can you share your view on that front as well, please?

Martin Brudermüller: Polyurethanes here in China: We have a very well respected competitor, Yantai Wanhua. When we talked about competitors I talked about small and medium-sized. There are also some bigger ones who do very well.

There is no room for arrogance to compete with them. The short time period they needed to catch up with Western producers is absolutely impressive. If you look at the capacities, it depends on how you count it. But it takes a few years, then Wanhua is market leader in MDI globally with their capacities, so number one; this is no question. They are coming out of the shadow and being number one globally in MDI.

They build huge capacities here in basically two sites, Ningbo and Yantai. They get certainly all the tailwind from the government. It is one of the beloved companies of the government, I have to say. It is one of the global champions. It is about 45% owned by the Yantai government, the shares. In this region you can imagine this is a beloved entrepreneur. Mr. Ding who built this company is a great guy. They have good technology, they copy BASF's Verbund: big and integrated. With this, I think, they are a good competitor. But on the other hand I told you, there is no reason to complain about anything. This is the market. If someone is good, this is then the one where we have to measure ourselves and we have to find our own setups to compete.

I think that the Chongqing move is a very smart one, because it is thousand kilometres away from other MDI plants. There are 300 million people living in this region. Our plan is that over time all the volume of the 400,000 tons in MDI will be consumed in that region. Transporting 100,000 tons of MDI across China is maybe also not the most sustainable pattern for the future. For that reason we have a regional differentiation there. We have a good setup, we have economies of scale, we have a market over there. That is our answer in this more competitive market in the future. Yes, it became more competitive, in MDI definitely and most probably also in the future for TDI.

Albert Heuser: I guess part of your question was to ask about the capacity in the polyurethanes. Coming to that in a little bit more detail, why is polyurethane such a kind of interesting product? Because it helps to give a lot of solutions, e.g. to tackle energy saving, bring it on a higher headline, help to have better sustainability.

As such, when you look into the Twelve Years' Plan it is clearly one of the products mentioned indirectly, that those products should be fostered under the Twelve Years' Plan that help to create a better, sustainable industry and better, sustainable solutions to be introduced.

Therefore, it is not a surprise that a lot of capacities come on stream and are under construction like ours because it is a market segment in the chemical industry which has high growth rates.

Martin Brudermüller: At the very end it depends a little bit on how the projects are staggered. Sometimes they are a little bit delayed or not all come at the same moment etc. But the supply demand balance will be a little bit more stressed than it was in the past – that's for sure.

Andreas Heine (Barclays Capital): A more general question on 2020: Will the Asian market in chemicals be different to the US and the European market in those days? What does that mean for the product range BASF is offering here and for the margin? Taking out agro and taking out Oil & Gas, how will be the business in Asia in 2020 for BASF compared to Europe and the US?

Martin Brudermüller: I mentioned already that today it is still more on the base chemical side. I would say it is getting closer to European markets in 2020 and still will be different, because I think there are still too many people who come to the

stage that can afford to buy some goods which they could not today. So there is still very much a basic need to get all the materials to just feed the basic needs, whether this is polyolefines or polyurethane or other material.

So the more sophisticated, innovation-driven part will grow fast and will basically become more like Europe and NAFTA, but still the share in the big basic chemicals will be higher in 2020 in the overall market than in the other regions.

Gops Pillay: Right now, there is no homogeneous Asian market. This is the other point. It is hard to compare Asia Pacific to Europe or NAFTA. If you look at Japan compared to maybe ASEAN, there are some similarities, but more downstream innovation will become important. So you have to be close to the customers.

Andrew Benson (Citi Investment Research): The sales growth you've got still seems high relative to the sort of environment that our economists at Citi expect in terms of: a great proportion of service, a lower level of GDP growth, a lower level of volume.

You achieved, about 9% growth in the historic data you provided. But of that, probably a third to 50% is raw material cost because the oil price was going very high over that period. So you actually need volume growth. You've said you lost a bit of market share. So there does seem to be a gap between what you are targeting and the market environment.

Thomas Gilbert talked about the amount of money you are planning on investing to achieve that sales growth. Either I am missing something or there are other factors. Perhaps there is a greater focus on M&A that you are not telling us about or there is a greater level of inflation or perhaps you are expecting a collapse in the value of the euro or something in order to achieve that sort of growth.

I want to be a bit critical and ask you on the delivery of that growth relative to the metrics you've talked about.

The second point is the profitability. You've talked about the development of your technologies and generally your technologies have high start-up costs. You've talked about a four-fold increase in R&D. We are not talking about cheap people here. You talked about a 10% general wage inflation, and yet you talked about margin expansion as well.

Again, there seems to be a mismatch between what you are hoping to achieve and what you are putting in place at this point in time. So if you could elaborate on that sales and margin expectation.

Martin Brudermüller: We mentioned that more than once: It's an ambitious growth, the 9%. This is very clear. And it only works on the assumption that the macroeconomic picture is right. That is why we showed this in very much detail.

We are coming from the 4.8% of GDP growth in the range until 2020 on one hand and then the 6.2% on the chemical market. If that would go down, then certainly also our 9% have to go down. 9% is the value on the basis that these are the macroeconomic assumptions. If they change, we have to correct it.

It is still more than 2% that we normally ask in average in BASF. The 2% which we sell for the company, you can imagine that 2% does not make sense for each and every business. There are businesses where you defend and there are businesses where you are very innovative, where you can grow even more than 2%. I think in a dynamic market where you have a market growth of 6.2% it is easier to outgrow the market because you can leave to every one of your competitor still a scenario where they also can grow. If you grow 2% above market in a European market which grows only by 1.5% and you want to go to 3.5%, I think this is more difficult than in Asia where the total market growth maybe is 6 or 7% and you manage with 9% and some of your competitors might come down to 3 or 4%. That is happening now where we say we have 4 and we are growing slower, but we still have a growth line.

A very clear answer: It is challenging, yes. And it will only fly if all those levers will go in: if in areas like batteries we really get it and we catch it, if the innovation kicks in fast enough that we can renew our current product portfolio, that we can lead more in one-to-one strategic developments with our customers.

You know that Procter & Gamble is a big customer of us on a global level. And we have a global target what we want to achieve with them. We just met the management team of them and said: A major part of that has to happen now in Asia.

So it is also that you partly within your global cooperations you have the same problem with your customers. Some of your customers say: I have to accelerate my growth in Asia. I can only do that if you work with me in Asia and you give me the same stuff I get from you in the US and in Europe. Then they tell you automatically: In terms of innovation I don't get it here. I have to step it up. The question is also: How fast can you step up?

On the other hand, you have to say: This increase in innovation and getting additional people we would have to do anyway as BASF on a global scale. For that reason we say: Rather than doing it in Europe, we really do it here. It's no cost savings that we do it in Asia Pacific. We don't hire the people here because we think the average researcher in Shanghai costs less than in Germany. This is not the point. The point is to have a different thinking and to be close to the customer.

I can only say: Yes, it's damn challenging. But we still think the fundamentals are such that we can do it and I ask myself: Why should we give our team a low challenge and say, 6% is fine enough?

I ensure you, there will be years until 2020 where will not get the 9%. I hope we will also have years where we are above of it. I think this showed also in the past: 2009, 2010 was much better than assumed, 2011 and 2012 were worse. If we talk about a period in the strategy, we have to assume that not every year is the same quality and we can live up to that.

With respect to your investment piece: I cannot say much more than I said here. There is significant part also in the back integration, that you really get a good raw material source and then build up the value chain. It is very difficult if you see the aggregated number to make this understand. But I think 1 euro investment, roughly, for a little bit more than 1 euro sales is not a bad number.

If you think about that you have to build up new positions in some areas – I cannot elaborate on this, but if you watched carefully enough you saw a big bubble in India. If I want to position BASF in India, I have to start from scratch. We don't have a Nanjing over there. I don't know whether we would build one, but we have certain plans over there where we really have to build up this value chain. That needs money. It is

not one-to-one as I said in the sales. I can only say: We spent days, hours with each and every business and we grilled them and challenged them in their plans. So we have looked into the investment plans business by business throughout all the SBUs. It makes sense what they proposed. And the aggregated number is 10 billion. I really cannot say much more, but it is well thought through.

Thomas Gilbert (UBS): Is your customer base in Asia rather the international companies going to China or do you have a large Chinese customer base? If that continues, does BASF follow with capital into Africa on their Asia Pacific strategy?

Martin Brudermüller: The way how we came to Asia was to follow our European traditional customers on their way to Asia. That was the first step and that was how we grew with them. Now more and more thanks to that development, we have Asian and Chinese customers and with this are less dependent on the MNCs and spreading.

But I think there is an opportunity, if you have good customer relationships, to do exactly the same with them again, to move. If that is coming to a point that there is a significant demand in chemicals in Africa, which is basically the last white spot somehow in the world, yes, that could be the next wave where you do exactly the same: to grow with your customers over there. Why not? I think it is a very smart move. Let's see how that works.

Gops Pillay: But also if you look at the shoes they are producing, clogs/Clarks e.g. and these articles: A lot of raw materials come from us. So we also have the African strategy that is also dialling into this.

Christian Faitz (Macquaire Capital): Can you talk about the paper market and the paper chemicals market in China? My understanding is that the largest part of the paper market is run out of China. Would it make sense for you to consolidate all your global paper chemical activities in China? What is your strategy there?

Martin Brudermüller: It is no secret that paper chemicals as part of our Performance Products segment is one of the low performers and a tough market. It is also an industry, I have to say - I worked for this when I was earlier a president - that is hard to understand. It is not very dedicated to innovation. They somehow have the tendency: Whatever they find they share among each other and leverage their advantage. I don't know why they do this.

It is a tough market. If there is market growth at all in paper, it is in Asia and it is in China. If you look at the per capita consumption, it is still ridiculously low here in China compared to the Western part. For that reason, even if you assume the most positive scenarios for electronic media and everything, there should still be significant paper growth. Particularly board, because of packaging, will also increase here still.

For that reason, a major focus has to be and is also on BASF's business here. Most or a significant part of the growth of paper chemicals is coming from Asia and particularly from China. It will also depend on how we develop this business. How successful we will be, how we manage to organize our growth here.

What that would mean then in terms of how to organize this business, I don't want to say something. You can imagine that this is all part of what we do in Performance Products to step up our performance there compared to what we have once promised and what we would like to see there.

But also here I have to say, this is a very tough market and it is a very competitive market. I mentioned earlier that the binders also are in a move here and are trying to bring the cost of binders down which will mean XSB partly then starch-based and a lot of development in this.

Topic: Efficiency

Norbert Barth (Baader Bank): My question is about the excellence programme, this one billion target. Can you give a little bit more of a time schedule to ramp up to this one billion in the next years? Are there also some additional expenses you have to do to come to that level?

Gops Pillay: As I hinted to earlier on, by 2020, we will have a lower fixed cost base of 1 billion. I gave you one example of the project execution. This is just one example.

The other side we have is also the structural excellence programme. Simply put, it is: How can we as BASF be a little bit smarter, e.g. reducing interfaces within the organization, to become much more market-focused. This is another example: I don't know whether I like it or not, but e.g. to change the tradition of how we work together, myself and Martin in Hong Kong in the future will share an office. I don't think this is heard of in the chemical industry. This is really where the genetic make-up of the company has to change.

The other part is really to be very clinical. I remember my time in the M&A department; you have a lot of spread sheets. So it is really about being clinical how we approach our cost base. For example, certain processes can go more to back-office, so we have the shared services center. So we basically decentralize and bundle. Moving forward we have to do this. I would imagine if we are sitting here in 2020, probably we need another structural excellence programme for another 1 billion. So I think we need to do both. It is not only about the top line.

This is very much becoming more and more part of our DNA. There are a lot of initiatives. We can also chat later on about more details.

Martin Brudermüller: Just one addition: Let's talk really about people and cost of people. We have seen in the last years these dramatic salary increases that were partly up to 10% in China per year. I have made this very, very rude to our people here when we had the last employee meeting. I said: You don't deserve your salary. They were very angry with me. But I think I am right. We had a 10% salary increase, but productivity did not rise 10%.

So if we just go on like this to raise the cost, and we don't on the other side react to bring home productivity so that they can earn their salary increase, we slowly go down. So this is not possible. That is why the mentality has to change which we had in the past when labour was so cheap. You just get a few hands from the market to grap all the nuggets that are on the floor. First of all, there are fewer nuggets on the floor. Second, the hands are more expensive.

So I had to teach the people to come to working together where we say, we have to do more with less. That is why we said: You cannot recruit so many people as you have in your minds. You have to learn to organize yourself in a way that you can do things with fewer people.

The good news which I also told the people: I think if you look at salary levels and efficiency in Europe and the one we have here, then there is big room for improvement. In every process you have, you really want to afford to hand over with five people in a row or you just say: Three people in one process are enough. So you reengineer.

These are all pieces in this process; it is a very diligent one. There is also, e.g., another one: purchasing. We tell you: For the investments we purchase more locally and spend less. Yes, then I have to build up a purchasing organization here in Asia Pacific that is capable to do that. That is the pre-investment. At the same moment I later on increase the efficiency of my purchasing and I buy the stuff more cheaply.

So all these things add up to the 1 billion. As you have the STEP programme on a global level, we have it in a similar way here: We have collected a lot of single things that come up to this 1 billion. Basically the whole organization in Asia Pacific is somehow involved and contributing.

Norbert Barth (Baader Bank): Is there something in-between from year to year? Is it more a late-stage ramp-up? Or what can we expect in the next years to come?

Martin Brudermüller: We have a plan here. I wouldn't dare to say now that it is this contribution per year. I might give a little bit more on that next time. We have a plan here, but we are in the middle now in this structural excellence programme where we define roles and responsibility and all this. So I would not want to tell you now: Next year is that and that.

But you can assume that the investment part, which is below depreciation, which is also part of that, kicks in later because it can only come as the investments come. But some structural piece, which we are going to start to establish at the end of this year, should be visible in 2014 already.

I think if you take your best assumptions today, the different ingredients, longer term, shorter term, take a little bit a linear ramp. We certainly try to speed that up in the next years more. But I cannot give you detailed numbers now, because this was strategy, now it's implementation. We have an idea, but give us a bit more time to be a bit more precise.

Topics: Manufacturing setup, investments, M&A

Christian Faitz (Macquaire Capital): Many years ago, when we had a similar event here with BASF, apart from Nanjing, obviously Caojing was very much in focus. What is happening there at the moment? I don't see a lot of mentioning of Caojing here in the presentation. How happy are you there with the joint venture structure? Can you update us, please, on the Caojing operations?

Albert Heuser: You mentioned that nine years ago there was a lot of talk about Caojing. I have to say, meanwhile there was a lot of action. Perhaps you have seen it on one slide: ongoing investments in the region. Yes, in Caojing we do investments as well, just right now under execution is e.g. a new coatings plant, which is very much important for the waterborne coatings for the automotive industry. This is just under construction. Yesterday we had the piling of our polyamide 6 plant, which is 100,000 tons capacity in the SCIP Park.

And we have other ideas what to do at the SCIP Park as well. You might have seen that we are going to look into the expansion together with our partners for our polyurethane capacities we have at Caojing.

So a conclusion to your first question: Caojing is a very important pillar in our asset structure here in China. For sure we look into opportunities, which will come up when Gaoqiao, the refinery next door of Sinopec, will relocate to the SCIP Park.

We have two joint ventures together with Gaoqiao. We will look into the opportunities to use this relocation of the refinery as well. So a clear answer: Caojing is important for us.

Jean de Watteville (Nomura): My question is about the manufacturing setup. Forgive me if I am wrong. But looking from the outside, when you look at the BASF setup in Asia, it probably looks less optimized than what you have in other regions. We have a partnership in Nanjing, a partnership in Caojing, the Pudong site, now the investment in Chongqing and the sites in Kuantan. You have not realized a centralized hub the way you have it in Europe with Ludwigshafen.

So from an external perspective, it seems that probably your setup is not as optimized as you could reach. I would be very interested to have your view on that and what you can do to improve the development of the centralized hub to improve competitiveness.

Albert Heuser: For sure, the region is different from other regions. It is a very complex region with a lot of countries, different markets. So there is a need to be close to our customers in these different markets.

For instance, if you take our investment just right now under execution in India, in Dahej, this a clear manufacturing cluster for India. We are happy that we are able to cluster in the North West of India a lot of our downstream chemistry. Talking about North West, this indicates that we have somehow, in specific for the automotive in-

dustry, then in the South East e.g. a second kind of cluster for India where we then consequently will build on.

You mentioned yourself our BPC joint venture in Malaysia with Petronas. We just announced that we look into further expand activities there. So we have certain clusters.

If you go to China, then we have Caojing mentioned very early on in one of the first questions where we look to have there much more of our activities. We look into e.g. a hub for serving the automotive industry in the South of China by establishing an automotive kind of hub where we bring activities together to have more than a clear place to serve the automotive industry.

So we have a lot of efforts under the excellence topic at the end to look into our structure which sometimes is a structure we have to live with for a certain period of time because we acquired some companies and we earned a lot of additional sites.

So from that point of view, an answer to you is: be aware of the fact that we look under the umbrella of excellence very much into the site setup, so that we have clear ideas how to structure for the future and, secondly, that we look to decrease clearly complexity of this setup.

One measure I could give you is that we underwent a programme of consolidation of our legal entities all over the region. A lot of efforts we do here. By this, excellence is clearly increasing.

Martin Brudermüller: Just one thing to add here: First of all, if the asset base is young, you have more potential in the learning curve to reduce your cost and catch potential with opex which we will do increasingly because when we start the big sites, you first of all look if they are stable, if they are reliable, if the teams are fine. And then you basically work on them to get more and squeeze more out of it. This is where we still have potential which we lift.

The other part is still to what I said and Albert elaborated. It is the challenge of us on the one hand to be flexible, but on the other hand to keep as much as we can in the Verbund. This is somehow a bit diverging. That's why I said: A dogmatic position doesn't help.

Albert Heuser: Tomorrow you will see a good example. Next to our joint venture BYC site we have 100% BASF operations; you will see it tomorrow. It is remarkable how we make use of streams coming out of the joint venture operations BYC. Tomorrow we elaborate this in more detail.

Thomas Gilbert (UBS): My question is: You have announced 10 billion of capex in the region and if I look at the waterfall chart, 10 billion of organic growth contribution to sales. The capex probably includes the share in joint ventures, but not the sales. So the incremental capex to sales ratio looks incredibly stunning. It looks like the incremental return. You spend less capex than sales. What is your IRR for a downstream investment in Asia? Does the organic sales contribution include some cyclical recovery in the base business where the capex is already done? Can you break down the organic growth between payback on investments and component of base business cyclical recovery in the region?

Martin Brudermüller: I certainly cannot because we talk about a three-digit number of projects that come up to the 10 billion. You can imagine: There are some bigger chunks and there are some smaller.

Remember maybe the picture out of the global “We create chemistry” strategy. We said: We go away from the classical chemicals more to the functional materials, which is end of value chain. This is true for BASF group-wide, it is not totally true for Asia Pacific. We still will have under these 10 billion investments a significant part of the more capital-intensive basic chemicals – MDI plants, acrylic acid plants etc. that are heavily capital intensive, but which are the basis to start and to load these value chains.

That is much more capital investment than you have in a vessel for making a dispersion. So it is a very mixed bag. For that reason I think, first of all, we have not calculated them all because it is a plan until 2020, you can imagine. It is then also a mixed aggregated number. I can only say: If you look at the single SBUs, how they have planned their sales and what they want to invest, it makes a lot of sense.

The aggregated number maybe looks strange to you. You also should not forget that some of the investments are back-integration. You don’t see the sales. If you start in acrylic acid and you consume 80% in SAP, you don’t see the sales doubling. But it still improves your margin and your cost situation. Please understand: For that reason, I think, the aggregated number doesn’t give you too much.

As you start new markets to build up these value chains with all this back-integration and capital intensity, it is still the best competitive position which allows you to survive and to make good money. But it is not that you just build something which is always one to one giving also sales to the market.

For that reason, I cannot basically say more in terms of IRR. At the very end, it is a plan until 2020. Not everything will come one to one. You know that. One comes later, the other one might change over the way over there. But each and every project has to fulfil the hurdle rates for all the projects.

We also have ideas for more projects than money, which is good. This is competition internally. So every project has made its way through this bottleneck to be approved against other projects.

Andreas Heine (Barclays Capital): I have a question on Chongqing where you have already started to give some information. Is that MDI plant still on schedule for 2014? There were some statements that it might be a little bit later.

Is that site only for this MDI plant or will you build this site to have more products in that area?

Martin Brudermüller: Yes, it is still in schedule: 2014. We are very much to the plan, our Chinese partners are a bit behind their plan. It is a huge project for the partner who builds the other 15 plants alone to serve us with the intermediates and the materials. We help them very much to take this challenge because it is the largest investment they ever had. We have to help them a bit and the question is: How do we manage this now in the months going forward? It is certainly a challenge, but we still stick with the 2014 target.

Christopher Willis (Impala Asset Management): I realized that forecasting can be paralysis and that you prefer not to put out a 2020 EBITDA margin forecast. But if we shift to the present, let's say we take your OMP ratio up to 75% that you are hoping to hit, could you give us an idea of how much of a margin lift you might have today if you were producing a lot more in the region versus shipping in? Could just give us an idea of that differential in sort of current terms?

Martin Brudermüller: It's difficult to say more than I already said. Maybe you are referring also to something that was said earlier; Andreas asked how the business is. If you look at the business composition here in Asia Pacific today, it does not reflect among the segments what we have globally. Agro is much smaller, the C sector, the chemicals, is much bigger. In that respect, you will see also adjustment.

If agrochemicals run well, it increases the share, we will have more of very profitable agricultural business also generated here; that is certainly clear. On the other hand, we have to say: The active ingredients are still mostly produced in the US and Europe and we do formulation here which expands the margin a bit, but it's still not the margin which we have in the other regions.

So there will be also in 2020 still a different portfolio composition than we have in the group, but we get closer to it.

I mentioned earlier that there will be more C investments. For that reason this will be more exposed because this is where these markets are.

In that respect, you have then to add up all these efforts. And if you have MDI plants and you build them here you have polyurethanes margins contributing here more strongly than they would have in Europe. If you take the polyurethanes business and you look at this growth, then most probably the Asian business in 2020 or 2025 is bigger than what we have globally today.

There are major shifts in all these compositions. By taking 1 billion out of the costs, today you would be with 2.2 billion euros EBITDA. That has to come in. On the other hand, you create this shift in the portfolio. You create more innovation which allows you also higher margins. I think looking into this bottom up, we came up to the conclusion to say, yes, we get closer to what the group on average does.

Alfred Heuser: Perhaps to add on that, because you mentioned the shipping cost alone. I elaborate on that one, perhaps. Typical shipping cost – my answer would be: 50 to 150 euros per ton, depending on the chemical you really ship. If it is e.g. a liquefied gas, then it is more the 150; if it is some polymers, which is in a parcel, then it is more the 50. This gives you already an indication, but it is not only the shipping cost as such. It is a whole logistic chain which you for sure have to take into consideration and the lead time.

Out of these indications you can get an idea that we carefully look in all of our products when and where it makes sense to do the investment closer within the markets.

Martin Brudermüller: Let me put one other piece in here. If you look at the OMP today, we basically import almost 6 billion value. If we stay with the OMP, we would

import 12 billion value in 2020. First of all, can you tell me how we should handle 12 billion imports into this region?

Secondly I ask you: Where should the material come from? Then you have to do all the investments I have on the list here for Asia in Europe or in NAFTA. But we don't have the capacities there to organize and to manage the growth. We will have to build the capacities.

For that reason it is: How many opportunities in terms of raw materials, location, costs we get for those capacities? We need to sell the stuff. How much of that can we really build in Asia? How much can we handle to really execute with engineers and everything and how many good raw material access do we get to really do that? So at the very end, we need these capacities anyway to grow with 10 to 12.5 billion.

If you look into average standings of BASF group and how much we get out of it and we factor in the effects that we have to build some of the value chains still continuously or totally newly here from scratch, then we are with the investment roughly in line with what we need to fuel the growth at all.

Ronald Köhler (MainFirst): A question on M&A. You already started to elaborate a bit on that. The first part is, if I understood you correctly, a 10 billion bottom-up target. You said that your segments or your operations are also planning with M&A in there – just to clarify that. So there is an M&A part into that and it is not only organic growth, if I rightly understand.

The second question is a bit more general on your M&A. You said that large targets are rarely available. You think more about bolt-on acquisitions. Can you a little bit elaborate on that? Is there anything more realistic short-term or is it a very broad-based strategic thinking?

Martin Brudermüller: There are some smaller things in the plans of the ODs, not so much, that is why we say that it is organic growth, it's some aroundings, let's say, smaller things in certain markets.

Albert showed a chart with the 3 billion which we gain. This was the major part from the global acquisitions. I think we have maybe one of the best data bases about the companies here. We have screened thousands of companies, thousands in China, thousands in India, several hundred in ASEAN, several hundred in Japan. I don't know how many we have looked into.

If you do that, you very easily come from a long list to a very short list. Why? Because, first of all, very often their portfolio only fits to a small extent. Then you have huge governance problems. There is a huge bunch of companies where I say: I don't even touch them. The governance how they do business is not fitting into how BASF does business.

A third element is that there are a lot of EHS issues, horrible plants with environmental problems where we also say: We would have to invest so much to upgrade them, you can basically build it newly. That also does not make sense.

The fourth element is that some of the more interesting pieces, which are the smaller ones, are family owned. If you go to the owner and say, well, I want to buy your business, he shows you, particularly in India, a picture with the five children and says:

This company is the future of my children. Why should I sell it to you? Unless you pay me 30 times EBITDA. So you say: Bye-bye. This doesn't match.

At the very end, if you select by these criteria – accessibility, strategic match, EHS, governance – the list becomes very, very short. We have looked into some of those, we also have some in the pipeline. These are not bigger things but, let's say, projects that are more business focused, where you have in one business in one country something which would bring you forward. But this is sometimes very cumbersome because very often this is private-owned – so long discussions. They go forward and then decide not to sell it at all.

I think the experience is – and we did not make this alone – acquiring in the biggest dime in Asia is not so easy. This is one thing.

I think Kurt in the one or the other meeting with you also alluded to the fact that we have maybe not on the agenda now to continue with one big acquisition after the other. You also saw what we have done in the last 18 months, that it is more these focused acquisitions like Pronova, like Becker Underwood, but also like Novolyte and the other smaller acquisitions which we have done in the batteries field. So we try more to find a business with distinct positions and also a technology part into it.

Actually looking into this, there is some chance in Asia because you have some start-ups, you have some of these very specialized businesses, family-owned, which I just talked about. There we have a list which we would like to access and they are part of these 2 billion. But I have to say, I have given up the hope a bit that you can do now the one or the other bigger acquisition here because it is not so easy and the businesses are not so accessible.

I forgot to mention that also here in China a lot of targets are state-owned. Or you have at least a provincial government owning 30% which they will never give up. So you cannot integrate this in BASF. You have to run this as a separate business.

So there are a lot of things where we say: It is not ideal. But we do not give up on that and we will look into this, but I just would say: We have a realistic view and will do these smaller pearl-string things that make a lot of sense and are business-related and that's it.

<u>Topics: Competitiveness, feedstock</u>

Lutz Grueten (Commerzbank): The question is regarding an earlier slide you showed us on the EBITDA, which is shrinking since 2010. I am not talking about the accounting effect here. The explanation you gave in your presentation was talking about an increased competition. BASF now for centuries is used to work in a competitive environment. I want to get a better understanding for the situation here in China or in Asia Pacific, what is different, how you describe the competitive situation here and how you want to overcome that situation, because one other slide showed that local competitors are gaining market share. So I guess you are losing market share or have lost market share in the past.

Martin Brudermüller: You saw that we had in 2010 a record EBITDA of 1.7 billion. In the next two years it was going downwards. First of all, you cannot change your portfolio so quickly. That is actually what we will do with the investments: that we will

go further into areas that differentiate us down the value chain, that you also are in areas where innovation plays in. We also have to build up these capabilities.

You saw a lot of these thousands of companies which were in this pie chart which are actually our competitors. We are always asked how we do against Dow. We don't care about Dow. I care about the hundreds of local competitors which are competing you in distinct products. There was more the attitude in the past: They produce something this month. They have ten containers, they go to the customer, they sell it at some price. The next three months they are out of business until they have the next product.

I have to say in that respect, these fellows have become better. They have sales forces now, they start to invest in customer relationship, that you also nurture your relationship if you don't sell for two months. You invest more in market intelligence that you know better where the customers are who pay a higher price and offer a higher margin.

In that respect I really have to say: They stepped up in their capabilities. That is also what you see very differently in the different areas, in some areas very fast, in others less. That is something which we just have to realize; we knew that this would come. That is why we have this strategy. But I have to admit, it came much faster than we saw it.

In that respect, yes, we grew. On the other hand, let's talk about it very frankly: 9% growth rate for the business in average 2020 – at the moment we don't live to this. The current development – we talked about this and you know the numbers – was 45% in 2012 and the first quarter was not better. We elaborated on this. At the moment we are far away from the 9%. We have half of it.

We talk about a strategy for the next few years. We also know that there are good and bad years. 2010 was so exorbitantly better than any strategic assumption as 2012 was worse.

Some of this competitive strengthening will not go away any more. So the consequence is that we have to invest smartly in those products where we can differentiate. On the other hand, we have to really step up with the innovation and also change a bit the customer portfolio. That is good. We have more and more Chinese customers that are more demanding. They don't buy just the commodity products, but they engage with you into developments, in appliances where you do joint projects or where you have local OEMs in automotive who want to learn to replace metal by plastic. Then you have these profits where you still run ahead of your competitors.

This is why we simply have to accelerate. This is why we say: 3,500 R&D staff until 2020 you cannot do overnight, but you will see from Piyada and her team later how fast we have been here. It is really impressive and you will see next to it the house we have torn down which will be phase 2 of the R&D center. So the next block is coming.

That is why we have to acknowledge: Growing has become more difficult. And that will not go away anymore. It is on us; I don't complain about this. I say we have to do our homework.

For that reason the fundamentals which we have shown you are still valid. If you take the growth rate and the GDP and the chemical market growth of our projection going forward, it is pretty much in line with what you had in the last 10, 15 years. I think the-

se fundamentals are still true. They shift a bit. There is maybe less in China, but ASEAN is very strong. That is what we have corrected.

We have to catch up now that we turn this current situation, which is not what we want in terms of growth, and return this to come up with the 9% again.

Lutz Grueten (Commerzbank): But regaining market share – That is the aim: growing 2% faster than the market means regaining market share. I guess you are among the cost leaders here in the region. Is price a function to regain market share?

Martin Brudermüller: I think also here you cannot generally say: This is the portfolio. I would say, pricewise we are very well positioned with many products, but we are not positioned perfectly in each project. As Albert said, in automotive we strongly grow double-digit at the moment, it is really great. Then you have other sectors where we stagnate because you have not so much space anymore to compete.

We are a more value before volume driven company and where it is really going for fight we rather say, we safeguard the margins and do not buy every ton in the market for every price.

Within all these things you have to decide business by business what is the right thing. On the overall of BASF we have to come up with the 9%.

Jean de Watteville (Nomura): As you said in your presentation, of course, access to cheap feedstock is very important. Can you share with us what you are doing and what you will do to optimize access to cheap feedstock? Will you invest in some of the alternative gas opportunities?

Some investments are under way currently in China. I am interested in the role you intend to play for these investments.

Martin Brudermüller: Let me elaborate a little bit more in detail on this feedstock, please, because I think this is important to define the future competitiveness.

If we step back a little bit, first maybe in China, the legal situation is that as a foreigner you are still only allowed to have 50% in a cracker. The government is basically approving this, centrally at NDRC. That means that Sinok, Petrochina and Sinopec are the three fellows who have the crackers. If they are generous, they share it with you in a 50/50 joint venture, if not, they do it alone. That was the landscape in the past to get access to key building blocks in the chemical industry.

What happened in the meantime is that there are many other opportunities in doing chemistry, first of all gas. So you have then the methanol to propylene and now coming up coal. With this you have first of all on-purpose technologies, which are not falling under any rule about access things. So it increases the field of people who can get access to building blocks and also new technology owners, because the cracker is one thing, but the coal chemistry and the MMTP things are other people who hold these technologies.

In that respect it’s good because it is opening up the opportunities how you can get access. But on the other hand we also have to say: There is no one in the world who ever made a gift to BASF; there is no one who ever will make a gift to us.

So the old deal for us was: Partnering up you give us access to cheap feedstock, we provide good technology and do the integration and have your whole portfolio to run something integrated. That was the model of the past, how it worked.

That still works to a certain extent. But it only works to a certain extent because there is more technology proliferation. Also the partners here have more choices. BASF is not the only guy who could do this. You can do it with others. That is why they spread their portfolio also to others.

When you are pretty rude on that and pretty sharp you can see it from the fact that we dropped out of the summer project with Petronas where everyone expected: If you announce such a huge project, that is a done thing and you do it anyway.

I think this is a very good example where we invested two years of heavy resources to study this, to negotiate this and walked away at the end because we say, the conditions are not fine. One of the reasons for that was: Malaysia wants to have a natural gas price of LNG pricing. It is not competitive in this world. So we said: If that is your last word, we don't do it. That's why we walked away.

On the other hand, the Markor announcement, the joint venture on BDO and PTHF in the Xinjiang province, which is far away, but which is the province where most of the Chinese gas reserves are, this is the Tarim Basin where most of the conventional gas comes from today. We have a partner who has access to very cheap, profitable gas, who was willing to go for the deal: cheap raw material against technology. So we bring in our PTHF technology, share it with them and get cheap feedstock.

So you have to be much more selective in the opportunities where you go to. This also means you have to be ready to open up your partnership portfolio. That means you have most probably new players in, where you go for a certain location, for a certain product, it fits in and you do it because it is good. That requests more flexibility from our side.

Maybe let me point out one last point in this elaboration: coal chemistry. If you look into this, there was quite a hesitant reaction first by the Chinese government. They were not so sure whether they should do it. You also saw that some of the projects have been on hold. On the other hand we saw: For about six months everything gets the go and green light to go for coal projects. There is now a huge wave of coal projects coming on, it's investments of billions for this stuff because it is very, very capital-intensive. It goes from coal to olefines and then mostly to ordinary commodities, which means you are in a commodity business later which doesn't have differentiation, but huge capital binding.

At the same moment, yes, if you look on cash cost of coal in China, this is also easy to mine because you don't have to go down, it's basically daylight mining. So you have very low cash cost for coal. They are competitive with shale gas in the US, but you have this huge amount of capital in there first and second millions of tons of CO_2. So you have to think about whether you really want that.

As long as there is no CO_2 cost, okay, that is competitive. I leave it to your judgement whether with regulation in 10, 20 years in China CO_2 still has no cost. If it would become a cost, all these projects struggle. If you invest 3, 4, 5 billion US dollars for such a coal project, you need a long time in commodities to get the money back.

So I think you have to think about that one also very wisely and under which circumstances and what the product portfolio could be if you participate.

What I wanted to say is: The situation has been much more complex; there is no gift out there, it is hard work to assess and access those resources. You have to be flexible, not dogmatic, not arrogant in order to really catch up the opportunities.

For that reason not everything will be with Sinopec; there will be new partners and we will do it in a very smart way. That is how I would elaborate on this feedstock part.

Thomas Gilbert (UBS): I have a question following on from Jean on feedstock, on the whole coal vs. gas vs. oil feedstock: Would you consider an on-purpose butadiene investment in Asia? What is your view on butadiene globally and in the region – long, short or balanced out to 2020?

Martin Brudermüller: I try to answer that from a more general point of view. First of all, with the on-purpose technologies which I mentioned, that you do propane dehydrogenation, that you do coal to olefines, that always means that C_4 is short, because they basically all have very low if no any C_4 at all.

At the same moment, you see a shale gas impact in the US which goes from heavy to light feedstock, which has the same effect: C_4 is short. That is why I generally would say, structurally C_4 is getting shorter in the world because it is not the standard cracker which has a certain share in C_4. More of the C_2 and C_3 is coming from other sources and with this, there is no share in C_4.

For that reason, having access to C_4, if you build C_4 value chains like we do it, is critical and challenging how you have to do it. For that reason I can also say, in R&D we work on on-purpose butadiene. That's a project which we have.

So you make on-purpose butenes and you also make on-purpose butadiene. Then you have the same opportunity; when you need butadiene you cannot only look for cracker output, but you can do it on your own if you have butane feedstock e.g.

Butadiene is not a top critical raw material for us here in Asia Pacific. We have it in the XSB dispersions, which is Paper Chemicals, which is challenging anyway. The whole industry is challenging and you also here have some new developments, I have to say, that you go to different raw materials which we also do. You dilute the XSB with starch, natural materials. So with this I don't see a dramatic need for this year.

ABS is no longer part of BASF's portfolio because it is in Styrolution. For that reason we need some butadiene, but it is not a critical feedstock for us. The volumes we need we would always get here.

For BASF in total, I would say, the same is true. If we have the on-purpose technology we get access on our own. But globally, I would say, butadiene is more difficult to get than butenes.

Jaideep Pandya (Berenberg Bank): What are your expectations for capacity increase over the next sort of eight years? You are talking about a demand increase of 6.2%. In relation to that, what do you expect with regard to imports? My specific target here is Dow's Sadara project in Saudi Arabia. When that project comes on, will that change the rules of the game in terms of pricing because it is a low-coster or a low feedstock project?

Martin Brudermüller: First of all, when we did the market assessment, we certainly have done it by the single businesses. I think this doesn't make sense from top down, you have to do it really in each and every business. They have certainly tried to factor in the global picture of the capacity development.

Sadara is one example, also other Middle East projects. But I have to say also, the US plans for shale gas, if you add up all that – – If 30% of today's US capacity would come in addition from the announced shale gas projects – I think we all agree: no one in the US needs it, they all dream to sell it in China and India as well as the Saudis simply can sell it over there and the Chinese build the capacities on their own and also simply sell it – then to a certain extent it comes to a show-down.

We have done this very often and we get always the question: Why are you not in the Middle East? We have certainly always looked into this as BASF. But if you do the calculation backwards and you see what you need over there and that investment is usually more expensive, utilities are partly requiring different solutions, to cool something at 50 degrees is also challenging etc. If you take all this, investments are more expensive. Then you have a green field etc.

So for that reason, sometimes the 20% or 25% rebate in raw materials just translates to be at par with cost of customer. If you calculate all the logistics and everything to land at the customer in India and China, you need this kind of rebates.

With that I don't want to say that they are not competitive, but it is also not the case that they change the world totally. They also have to come to these countries, to land and you have the risk of anti-dumping and whatever. There are a lot of factors also in that respect.

You have to look at this line by line. Certainly, we will need those materials in the market, very clearly. We have done benchmarks. With some they are certainly competitive, with some others we don't understand why people do certain things.

I think e.g. the US fellows will fail to sell all this competitive in China. I don't think that this works. But we have to find the answer business by business. Some of the chains might get long for some time if all that stuff is coming that is announced.

Alfred Heuser: And it will work to export out of Middle East, like you made your example, the more you are upstream. The more it is polyethylene, polypropylene, MEG, all that works. Go more downstream, it will not work. So we can elaborate a little bit more on that. But for sure we expect that such a commodity kind of products will still be imported in Asia in 2020.

Today we have e.g. in polyethylene, polypropylene millions of tons being imported. With polyethylene, it is about 6 to 7 million tons – so these are huge volumes. The expectation is: In 2020, there will still be an import in Asian markets from Middle East in such commodities. MEG is another example, very clearly.

Martin Brudermüller: That is why you have to counteract with good, favourable raw material access. If that is not the case, then we would have a problem at BASF.

Jeremy Redenius (Sanford C. Bernstein & Co.): I almost hate to ask this question about shale gas, since I spent so much of my time talking to investors about why it is not the major problem for BASF. But what is BASF doing, if anything, in China to encourage the development of shale gas, so that you could take advantage of it over the next decade or more?

Martin Brudermüller: We have to be also very realistic here, both with coal and also with gas. These are natural resources and you don't get access to them. You can share it with a partner, if you can do the deal, as I said, they provide the raw material and you have the technology and that makes sense. It would be another joint venture.

There are several provinces that came to us, especially the coal-rich, but also some of the gas-rich, to offer such a partnership where you say: You get a good feedstock price and you do that investment. We have to study these very selectively and very critically. But that we could do something alone here or would get access to those national resources, I don't think.

I already talked about coal, but it's still uncertain how much shale gas is here. There are some people who say it is more than in the US. There are some geological formations where it is very well-known how much there is. There are huge areas in China where there was not done enough seismic to really see how much it is. So it is a very rough assumption.

We have also to be very clear for the assessment of the shale gas reserves in the US: We have a very particular situation also by technology and landscape and infrastructure to do that. China is far away from copying the US. They don't have it.

In the US, they drilled 10,000 holes for shale gas last year. That is the industry number I heard. China could not do it. They don't have the facilities, they don't have the people, they are in remote area. So the shale gas will take much longer here, that's for sure. Then it will always be a small portion compared to the needs of the country.

So you will have a mixed pack between LNG imports, synthetic gas from coal, coal-bed conventional and shale gas.

For that reason I don't think that you get too much of that access and there is also a pricing scheme coming from NDRC. With this, you are a little bit more in a rigid frame. So I think you cannot copy an access which you do have in the US here in China. But what we have is Markor, which is a good one, which is such an arrangement: partnership against technology.

Topic: Securing intellectual property

Lutz Grueten (Commerzbank): My question is regarding R&D. You have got the plan to dedicate 25% of your R&D budget to Asia. How do you describe the current situation of intellectual property and the protection of that here in China and in Asia Pacific?

Albert Heuser: As innovation is so important looking forward for us, for sure we have an idea about IP protection. When we talk about the innovation campus here in Shanghai, then we talk about IP protection in China which for a long period of time was always under discussion and somehow was seen very critical. I have to say: We prepared ourselves very much before establishing all these assets for the innovation campus. I can assure you that we take measures.

Secondly, there is a clear development of China's authorities to protect much more IP because they want to have and create much more intellectual property in this country. Meanwhile, they have more patents than all other countries. They know for their industry in the shift from the old economy being very much export-driven to a new economy which should be much more scientific-driven, that intellectual property has to be protected. So this plays into our cards.

Thirdly, we for sure look that we keep our people, because this is key. We talked about the attrition rate. This is another important part talking about how to protect IP.

So I think all these measures together, we feel comfortable to have placed our Innovation Campus here in Shanghai, being close to our customers. By the way, as Martin elaborated, we do a lot of research development together with customers, even having a few of our researchers embedded at the customer site in their laboratories and they have the same interest like us to keep what comes out at the end protected.

From that I think it is a question more or less perhaps of history. We see it much more differentiated today.

Martin Brudermüller: Let me add one thing here because this IP stuff always comes from a general industry point of view. As I am the China speaker for the German industry as part of the Asia Pacific affairs, I address this on the political level all the time in the interest of the German and the European industry.

It is indeed right: 500,000 applications last year from China. So it is the world record leader in applications. It is very clear: It is part of the Five Years' Plan. The government says: The Western world told us all the time you have to be innovative. So we are innovative. Now you complain again because there are too many patents.

But there is a KPI – 1.3 patents per 100,000 people. So the government, the provincial governments, the companies go forward. The governments ask for writing patents.

What I complained about at the highest level, I did it even in front of Wen Jiabao, was: We appreciate what you do; it is great that this starts to count being the driver of your industry, to be innovative. But please take good care about the quality of the patent. Many of those patents are just written with a very low invention. If you contin-

ue to do this, you bring the whole global system to a collapse because if you have to handle 10 million patents, no one can move anymore because just one starts a case against the other one. It is not really helping innovation. That is why we said: You have to look on that one.

There is another important part which is not so much on our side, which is in German “Gebrauchsmuster”. I think it is “utility application”. It basically says: If someone invents a bottle, you can say in China, I have one for the red bottle, for the blue bottle, for the yellow bottle and for the green bottle. Then each of these utility patterns basically safeguards anyone to go with the green bottle. This is not helping innovation.

That is something which on the other hand is always connected with a physical piece, not with the chemical. So “Gebrauchsmuster”, this utility stuff is nothing important for us, but more for our downstream customers.

One third of all patent applications in China is chemical industry. That shows you that this industry is really an innovative industry. For that reason we will see many technology applications over there.

One pressure I made – this is my major threat for European and Western industries – These patents are written in Chinese and you cannot read them. Then you do your own patents, you study what the landscape is, you forget to write in your state of the art what the Chinese invention is, then you launch your patent, you try to get your protection and then they attack you by saying: This is no longer an innovation because it was no known already.

For that reason we have squeezed them a lot to make all Chinese patents accessible in English, which was planned for 2014. And – this is a political success, I would say – there is now from the EPA, the European Patent Authorities, a Google translator where you get an English version of the abstract and everything so that you can at least assess what is out there.

It tells you something, it is coming heavily. They will have innovation, they will have their own technology. That is also why you have to step up here locally – to compete.

But I have to say: We draw this always as something exceptionable with China. We have it with the US, with the Japanese, with the French, with everyone. China is now doing just the same. But we as a company have to prepare ourselves there and not only complain.

Tony Jones (Redburn): I just wanted to ask a question about the strategy to get closer to the customer. It sounds like a very good thing to do. It helps you to capture more of the future growth, helps you to sort of leverage that position.

But as you are collaborating and spending more time with your customers, as that customer knows more about your process and the products and the costs, what is actually the danger that you lose part of the value opportunity in the future, rather than transacting at more sort of an arm’s length? What will cause that?

Gops Pillay: It depends on the portfolio. Let us look at a concrete example, our investment in Dahej, India. We are investing roughly 150 million euros in three product lines. Let’s look at dispersions. If you buy coatings e.g., the quality of paints is very low. So we can produce e.g. dispersions with no odour. Then we have to collaborate with people who know the market and then it is a joint win.

In terms of the margins we have for these products, I think this is protected, because what we are bringing is not only the products, but actually the formulation know-how. So it is a full package. Even in some of these businesses we actually are going and extending our resources in formulation know-how.

With this sort of joint development agreement we have with key accounts, we are secure in this. I think also in terms of the customer side, it is in their long-term interest to collaborate with us because they also want to be ahead of the innovation curve. So this is a key enabler for us moving forward for our downstream businesses.

Martin Brudermüller: I think the biggest risk is attrition. If you educate your people, they learn from BASF, they work in all this and then they move to the competition because they get a salary offer which is 50% higher.

I think most of the knowledge still travels in the brain of people. For that reason one thing is clear: We have to invest in them. We upgrade them. That is why we have also the learning institution.

I always say to my people when they join BASF: We have three years to do a brain-wash that they stay. Because many come to have “BASF” in their CV and they can sell themselves. Many even come with the intention: I stay some time with BASF and then I move on. If we manage to tell them that there is a career opportunity, there is good pay, there is culture and less go away, then first of all the investment in the person comes back much better. And you have less risk that you leverage know-how in the industry, which certainly happens, because some of our competitors try to hire our guys to get access fast on the learning curve and to not do it from scratch, but jump in in the middle and to shorten the way.

This is part of what I have said earlier about the competitive win. They partly hired the guys and with this shortened the time.

It is as Gops has said: Why should the customers in Asia be less reliable than in Europe? They are more and more. If you generate this win-win, they work with you and keep it confidential. Reducing the attrition rate and keeping the minds who generated that, these are the two measures.