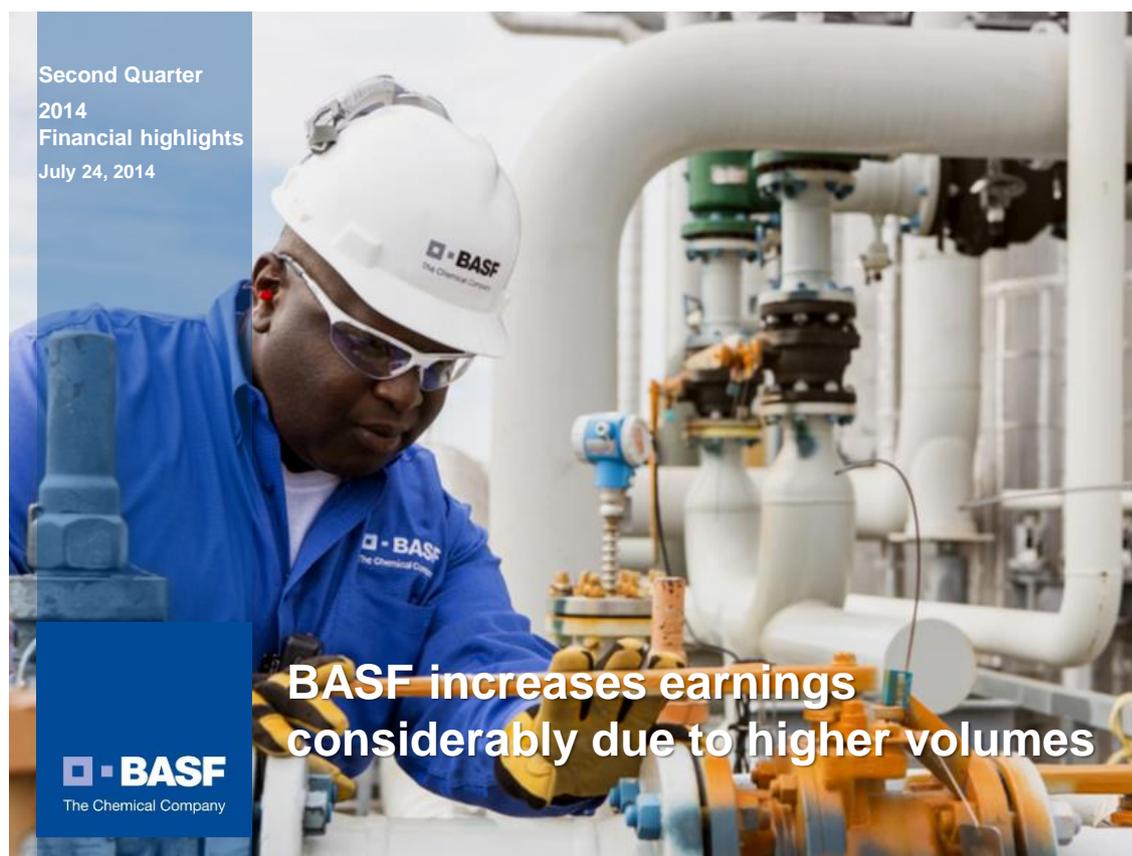


BASF Analyst Conference Q2 2014



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1. Group and Regions

James Knight (Exane BNP): My question is on the cash flow. Could you quantify the one-off type effects both in working capital and miscellaneous items or maybe give a full-year forecast for either of those line items?

Hans-Ulrich Engel: Your cash flow question: You have seen that we have used significantly more cash for our working capital requirements. What is this driven by? One, the usual seasonal effects that we have there with respect to our inventories, but also with respects to our accounts receivables. That is predominantly driven by our Agricultural Solutions business.

But then we had special situations: For example we decided to increase our precious metals position significantly. That was the result of the ongoing strikes in South Africa. You know that our catalyst business is depending on South African deliveries of platinum and palladium. Seeing that these strikes were going on for more than six months, we came to the conclusion to increase our inventories there significantly. We will work this off in the coming months. But that was a decision which we took in order to ensure safe supplies for our catalyst business.

We then also had an impact that is coming from the accounts payables side to the tune of roughly 500 million euros. You see our accounts payables coming down significantly towards the end of Q2. To a certain extent I would also qualify that, using your words, as a special and one-time effect that we are seeing there.

The other major development with respect to cash flow is in miscellaneous items. There I have to take you back to the first half of the year 2013. There you see that we had a positive cash flow to the tune of 650 million. That is the positive cash flow that we experienced from working capital in our natural gas trading business. Just to remind you: We had a very harsh winter in 2013. We sold all the gas that we had in inventory in the first half.

The situation is different – we don't have that effect; we just have the contrary effect – in 2014: a very mild winter, and we have a situation where we didn't sell everything that we had in storage. You see a negative, minus 153 million euros, if my memory serves me well, in miscellaneous items. That is mainly the reallocation of the gains that we made from two divestitures, one in Oil & Gas and the PolyAd Services business in Performance Products. That explains the operating cash flow situation that we have in the first half of 2014. But rest assured that our cash flow in the year 2014 will live up to your expectation by the end of the year.

James Knight (Exane BNP): I have a very quick follow-up, if I may: Sorry if I missed it, but did you quantify the impact on inventories from the precious metals stocking?

Hans-Ulrich Engel: You didn't miss it; I did not quantify it. It is in the triple million digits.

Christian Faltz (Macquarie Capital): Just quickly on the pension provisions, which were at, I believe, 5.6 billion euros in the quarter, which is almost one billion higher versus Q2 2013 and also sequentially. Why is that? Can you explain that?

Hans-Ulrich Engel: The situation that we had in Q2 is that interest rate without the discount rate decreased by – depending on geography – somewhere between 70 and 90 basis points. A lower discount rate leads to a higher pension obligation when you calculate your pension obligation. This is what you see reflected.

As a rule of thumb, a change of 50 basis points means a change in the pension obligation of roughly 1.5 billion. So you see that this ties exactly with the roughly 80 basis-point change that we have experienced in Q2.

By the way, if you have looked through the quarters in last year, you have seen similar swings. Towards the end of the year you saw an increase in interest rates which then led to a reduction of the pension benefit obligations that we have. Towards the end of the second quarter or in the second quarter there was a significant decrease in interest rates which leads to an almost 2 billion euros addition to our pension benefit obligation.

Paul Walsh (Morgan Stanley): On the balance sheet: You have talked about cash flow improving through the second half of the year. Net debt is coming down. I know what your priorities are for capital allocation, but I was wondering, given the relatively lacklustre global environment we are seeing right now, if the temptation was to think about different uses of your balance sheet, particularly into next year when net debt/EBITDA really comes down quite significantly, certainly on my numbers, with the cash coming in from the Styrolution disposal etc.

I am just curious as to what your medium-term thoughts are on the balance sheet above and beyond the normal priorities that you give to the market.

Hans-Ulrich Engel: Paul, priorities haven't changed. As discussed many times, full support for profitable organic growth both with respect to capex, but also with respect to R&D. Returns for our shareholders in the form of dividend.

I think, if I read between the lines of your question, there might be another element of shareholder return that you are hinting at. The answer with respect to that is that we don't have current plans to start a share buy-back programme.

Paul Walsh (Morgan Stanley): Actually, my question was a bit broader than that. I know you are not particularly keen on buy-backs, but there are other ways. To put it in a slightly different way: At what point would you look at your balance sheet and think it's being underutilized?

Hans-Ulrich Engel: Let me turn that around with my answer that with the current balance sheet and an equity ratio in there just shy of 40 percent we are quite satisfied.

Markus Mayer (Baader Bank): It's basically an add-on question to Paul's question on the balance sheet. You are running this huge investment programme of 20 billion until 2018. With the still lacklustre demand and the worsening economic environment, does this have any impact on this programme, that you run this faster or that you are delaying some projects?

Kurt Bock: Markus, no, it doesn't have any impact on that one. Actually, when we look at our investments it's all about growth and earnings expectations. Those haven't really changed. When you look at the pattern of our investments: essentially emerging markets, mostly technologies where BASF has proprietary knowledge, like acrylics, or/and shale gas opportunities in North America which also will take a big chunk of that investment budget.

So these investment budgets are not driven by financing considerations. We will certainly take into consideration: What does our balance sheet look like? What are our opportunities here? But the essential factors are the NPVs of these projects and whether it makes sense from a market point of view. It's certainly also very important to keep in mind at this point in time whether we have the engineering resources and the construction resources we need to complete these projects on time and on budget because that is certainly a concern in some parts of the world where you have seen increased investment activity, not just in our industry – that's important to keep in mind. Sometimes, that means that resources are constrained.

So these constraints are probably more important than financing. We do what we need to do to grow the company in a profitable way. At the same time, we try to maintain a sound balance sheet. As Hans said, I think we are here in a very balanced position at this point in time.

Paul Walsh (Morgan Stanley): Volumes are clearly improving across the business and you haven't seen pricing coming through yet. Can you talk a little bit about that dynamic and utilization rates?

I guess this is question 1b: How would you see that within the context of your 2015 targets, to which there is no reference at the moment? That would be helpful.

Kurt Bock: Yes, the volumes are okay. Prices are not coming through yet. We don't see it really developing at this point in time. So we are still very, very cautious. We would probably need a higher economic growth, which we don't see. We just reduced our global economic forecast, whatever that is worth from your point of view. So we don't really see the tailwinds arriving here on the pricing side.

Margins are kind of okay because we have also seen a little bit of softness on the raw material side. But we certainly don't see a margin improvement at this point in time kicking in.

The utilization rates have been, I would say, okay. We have had a couple of turnaround situations, also unplanned turnaround situations. You have seen the Moerdijk event in the Netherlands, which affected us. We have something similar in Asia as well, in Singapore, SMPO, which is not producing as we speak. So there has been a couple of things happening which have an impact on our volume development.

Coming to 2015 targets, I think it is too early to talk about these specifically. The question has been raised now at every single quarter and our standard answer has

been: We are in the middle of working our butts off, so-to-say, to achieve our 2014 targets. As the year draws to an end, to a close, we will get a better feeling of what is going to happen in 2015. I think that is the right point in time then to talk about how we see 2015 developing.

Peter Clark (Société Générale): It's a question on Asia. I heard the comment about China and the growth below expectations. Looking at the figures, it looks like the volume growth may be low single digit in Asia in the second quarter against the double digit growth, I think, you were seeing in Q1. I just wonder how you feel things are on the ground and how it looks going from there for the rest of the year. So it is about the volume growth, particularly in Asia and in China.

Kurt Bock: In China actually we had a pretty good development. We had volume growth of about 10 percent, which is pretty much in line with the overall market. We have seen a little bit of weakness in other parts of Asia, particularly ASEAN, which was very strong last year; so there is a little bit of fluctuation going on as well.

I don't think our concern in Asia is really about volume growth. Our concern at this point in time is certainly more about prices and margin, in particular in China, which are unsatisfactory due to the build-up of new capacities in some of our businesses. So volume-wise, we are on track, but prices are the real issue. Apart from the currency topic which Hans also mentioned.

Neil C. Tyler (Redburn): A question about your guidance: You mentioned that you have changed your macro or GDP assumptions, and also your currency assumption has become less favourable. I wonder if you could talk through the components that have been able to offset those two negatives. Obviously, there is a slightly larger contribution this year, at least from leaving the gas trading business in for a few more months. But what about anything else that is compensating for those two negatives?

Kurt Bock: I cannot give you the precise numbers of the different factors contributing to our earnings improvement. We have seen, however, one development which is very positive from our point of view: Fixed costs are very well under control. And this is not just currency-related. In our internal reporting we make sure that we look at the true underlying performance. If we then take out the currency effect, fixed costs have developed very favourably, staying almost flat which, I think, is a good performance, in an environment where you see essentially volume growth and where you also see additional investments going on stream.

So that has been a positive and this also goes back to the restructuring which we undertake and which we have discussed just a minute ago.

On the margin side, margins are kind of flattish, which also goes back to some softness in some raw material markets. This also has helped to a certain degree to compensate for the unfavourable currency development. Still, the currency development going into the second half is probably our biggest concern because, in some markets, it makes price increases awfully difficult.

You know that some markets are dollarized which, by definition, should make it easy. But in reality that sometimes doesn't work automatically. So this is certainly a concern which we continue to have. Those factors I have on my mind right now.

Thomas Gilbert (UBS): I want to come back to the Other line. Just to give us a bit better prognosis how to look at the components: Between the first and the second quarter, the Other line deteriorated by a good 130 million euros. The currency impact was big in the first quarter. The share price movement was pronounced. Can you break down the delta of 130 million euros versus the first quarter into the qualitative components roughly, what really drove that significant deterioration?

Hans-Ulrich Engel: I'd say you have three components there. The first one is indeed currency. This is the currency hedges that we have in place. This is simply resulting from the fact that, compared to the end of Q1, we do the mark-to-market. And you have seen a slight increase of major currencies which then drives the negative result there for our currency hedges.

The second component that you have relates to the share price increase that we had and that then has an impact on our long-term incentive program for which we build a provision. I can't actually give you more guidance on that because the amount of the provision in the end depends on the share price development.

In addition to that – we alluded to that already – we had the force majeure situation in the Ellba 50/50 joint venture with Shell, a plant operated by Shell. That has an impact on our earnings in Other also. These are the three components. Sorry for not being able to provide you with more guidance there.

Thomas Gilbert (UBS): Can I just try to follow up on the currency hedges as the currencies stand today and as the hedges stand today? Will there be more sequential swings? Obviously, some of the currencies went against your hedges towards the end of the second quarter. On spot rates, are we done?

Hans-Ulrich Engel: Since we keep hedging going forward, you and I need to look together in our glass bowl and come to the conclusion what's going to happen with the currencies and then I can provide you with a good answer.

2. Russia and Ukraine

Ronald Köhler (MainFirst): I read, actually, that the South Stream financing has to be refinanced now. Obviously, you are involved in that. Can you elaborate a bit in general on Russia, on the economic development, on the situation in South Stream, if something has changed on the project specifically and on Gazprom?

You said that your gas trading business will be sold in autumn. But nevertheless, if there came anything in-between in terms of sanctions or whatever, you still feel absolutely confident that you will do it? A bit around Russia and this subject would be helpful.

Kurt Bock: I will try to do my best, which is difficult, given the current uncertainty and volatility.

We are completely convinced that we will close the deal during the fall of this year because we are talking about technical issues which have to be resolved. These issues can all be resolved within BASF and essentially Gazprom. Our teams are working on that. So it's really a technical delay we are experiencing here.

The swap of our gas trading business has been approved both by the European Union and the German government. At this point in time I cannot detect any intervention or political intention to change that. Frankly, I think it still would be good to integrate Gazprom further into the Western European gas market and to make them part of the competitive environment here even more. They are already a 50-percent partner and, from our point of view, they are a very solid and trustworthy partner going forward.

The economic development in Russia certainly is a concern for us. We have seen a very lacklustre growth or actually decline in Russia which also affected our business to a certain degree in Chemicals. We have seen a pretty steep decline in our business in Ukraine, which is essentially crop protection, a very profitable one. We have no visibility how this is going to develop going forward, but I am not a big optimist that we will see any kind of turnaround very soon with regard to the economic development in these countries.

South Stream: The intention is to break ground later this year. There are a couple of preconditions to be fulfilled. The teams are working very hard under the leadership of Gazprom – we are a minority investor here, as you know – to provide all the necessary preconditions, including the financing. I think at this point in time it would be speculation whether this will be according to the timetable or whether there might be some delays. We do whatever we can within our area to make sure that this is moving into the right direction.

Ronald Köhler (MainFirst): Regarding exploration and production in Russia, everything is going as planned or are there any problems as well?

Kurt Bock: We haven't seen any problems at all. Our volumes have been okay. There have been no changes in allocation of volumes. This is quite normal, I have to say.

Lutz Grueten (Commerzbank): Thanks for taking my question regarding the latest sanctions from the U.S. against Gazprom bank. Are there any impacts on your operation, assets, financing, capex from your side or your partner over there?

Kurt Bock: No.

3. Segments

3.1 Chemicals

Thomas Gilbert (UBS): I just have one question on the Chemicals segment and the comments regarding acrylics. You are citing price pressure in Asia. Can you comment on whether this is the only region where you see price pressure in the acrylics chain? Can you also refer to both upstream acrylics and downstream superabsorbent polymers? Where in the C3 acrylics chain do you see price pressure regionally?

Kurt Bock: Thomas, yes, that's the case. It's only in Asia where we see price pressure for acrylics. Acrylics is rather more of a regional market. Actually, the situation in Europe is kind of okay. In South America, we will bring new capacity on stream, as you know, because we are building the first acrylic acid plant in Camacari in the Northern part of Brazil. But overall, the situation is balanced in the Western Hemisphere; it's really about Asia.

Tony Jones (Redburn): I just have a question on the Chemicals segment. There was good growth and some margin offsets from the cracker in Port Arthur. So I was going to ask: Is there an existing, planned additional capex project for another furnace to start up after this tenth one, sometime over this year or in 2015?

Hans-Ulrich Engel: No, there is not. We just started up the tenth furnace. As you know, we run our crackers to satisfy or to cover our downstream needs. That's the predominant reason. With the addition of the tenth furnace at the Port Arthur cracker we are fine. We cover the needs that we have in ethylene in our activities in North America.

3.2 Performance Products

Jaideep Pandya (Berenberg Bank): Can you give us a little bit more colour on the restructuring you are doing in Performance Products, just in context of the headcount and the savings numbers? This is a segment where you have been in constant cost-cutting mode. I just want to understand: What is really the driving factor? Does the competition continue to intensify? Is that the reason or what is the reason why you haven't been able to sort of leave behind cost-cutting and move on to the growth area? There are quite a lot of businesses in this segment which supposedly should be nicely growing.

Kurt Bock: I think you hit a point here. You make a very good point: Do we find the right balance between growth and restructuring? It feels like we have been in a restructuring mode in that segment for quite some time, which, actually, from our point of view, is also true. We have been in a restructuring mode. We have taken out about 2,000 positions. We will improve our earnings by about 500 million by 2017. We are well on track to achieve that. We do have one-time costs of about 250 to 300 million euros.

At the same time – you mentioned this as well – this is a very diverse segment. We have lots of businesses which have excellent growth patterns and growth perfor-

mance and earnings performance. We have other businesses where we will continue to restructure with a relatively heavy hand to make sure that we achieve a return on capital which is acceptable from our point of view.

This is, frankly, nothing new to all of these businesses. It has been the case for many, many years that within this field of sometimes perceived specialties you always have to identify those businesses where, obviously, product and market have become commoditized. First of all, we have to anticipate that and to avoid it. That's the best solution. If that is not always possible, we have to sometimes restructure to make sure that our processes, structure and costs are in line with our competitive needs. And that's exactly what's happening within this segment.

What is important from our point of view is that over the last couple of quarters we have demonstrated that we drive this also to the bottom line. We certainly need to see a little bit higher growth overall and that is certainly something which is also on our mind: How to make sure that we can have a growth-oriented strategy and at the same time protect our margins.

Andreas Heine (Barclays Capital): I would like to know more about Performance Products. The volume was stronger in recent quarters than it was in this one. Is anything changing here in the trends? In the quarters before you had more than 5% growth and now it is just 1%. Is that one specific area or is it broadly based in specialty chemicals?

Hans-Ulrich Engel: Andreas, it is pretty much the same development there across the portfolio, a slight volume increase and then, as you have seen on the top line, significant impact from currencies, but no major deviations on the volume side.

There is one exception and that is, as you know, our Paper Chemicals business where volumes are declining what I would call in line with market developments. We have a second impact in Q2, which I would consider to be a one-off, and that is in our Nutrition & Health business as a result of the force majeure situation that we had in the aroma chemicals plant in Ludwigshafen. That had an impact on volumes in that business in Q2. But that is it.

Martin Rödiger (Kepler Cheuvreux): On Nutrition & Health, I understood you experienced competitive pressure on vitamin E prices. You mentioned lower prices. I guess it's year-over-year. Can you talk about price evolution for vitamin E and also vitamin A year-to-date and what you are going to see forward, as far as you can look?

Hans-Ulrich Engel: What we have seen on the vitamin pricing and similar developments in E and A is: It looks like we have experienced the low in prices end of Q4, early Q1. I think then we were with respect to vitamin E prices in the range of 7.60, 7.70 euros per kg if I recall that correctly. We pushed for price increases. It looks like they stick. We have seen an uptick in prices in Q2 and it looks like that continues into Q3.

A similar development also when I think about what we have experienced with respect to vitamin A. Also there low prices going into the first quarter of the year. Since

then, an increase of prices. Again, it looks also with respect to A like this is the trend going into Q3.

3.3 Functional Materials & Solutions

Ronald Köhler (MainFirst): A quick question on Functional Materials & Solutions: Obviously, you had this strong volume growth, but a considerable part came from precious metal trading volumes if I understand it right. Can you quantify the volume growth excluding the precious metal volumes?

Hans-Ulrich Engel: Ronald, actually, we see volume growth in Functional Materials & Solutions in all areas but for construction chemicals. In catalysts it is not only driven by precious metals. The real driver for the volume growth that we see in catalysts is the automotive business. There it is in particular heavy-duty diesel that is driving the volume growth in catalysts.

On the precious metal trading there is an increase in sales on the volume side that is not as strong as you see it on the sales side because some precious metal prices compared to prior-year quarter have increased significantly.

Michael H. Rae (Goldman Sachs): Can you provide some colour on your second-half expectations in Functional Materials and Solution? You are guiding for a considerable increase in EBIT. I am just wondering if the first half rate of EBIT growth is sustainable when you look at the self-help measures you are undertaking and also the volume progression that you have just discussed.

Hans-Ulrich Engel: First of all, we were quite satisfied with our business in Functional Materials & Solutions in the first half of the year. There is a nice increase in profitability. You know that we don't guide on a quarterly basis. On a full-year basis we have said that we expect a significant increase in profitability. We stick exactly to that guidance.

Martin Rödiger (Kepler Cheuvreux): It is on the decorative paints business in South America. Of course, it is a small business for you. You mentioned that the business developed well when we exclude FX effects.

I understood a competitor of you yesterday complained about the difficult market environment in decorative paints in South America, calling e.g. a declining market in Brazil. What is going on here in this market? Did you gain market share? Maybe you can elaborate on that.

Kurt Bock: Now we get very, very specific here. We can only say that our business developed quite nicely. We cannot comment on what happened to one of our competitors. The market is not a high-growth market, that is certainly true. We have a topic in Brazil, which is in particular rising inflation, which means you also have to work quite a bit on your sales prices. But overall, the development has been a positive one. We had good volume growth, actually very good volume growth in Brazil.

But, again, it is an important business in Brazil, but from a Group point of view, it is probably not the most dominant operation we run.

3.4 Agricultural Solutions

Laurence Alexander (Jefferies LLC): Could you give some detail on the agricultural chemicals? Volumes were flat. Can you give a little bit of context for that? Could you give your view on what's going on in the end markets, given the volatility reported by your peers?

Kurt Bock: Actually, we had a satisfying volume growth everywhere except South America. In South America, we most probably lost a little bit of market share. That is essentially in insecticides, which is not supposed to happen, but it can happen. Apart from that, the volume in other parts of the world was okay.

Across the business, across the geographies, we got hammered by currency effects. That had a very negative impact on earnings. That's the main reason for the decline in earnings in this business.

We were able to raise prices in all geographies except Latin America due to this intense competitive pressure. So, overall, we see our business on track. We certainly would have preferred to see also an earnings improvement in Q2. But you have to keep in mind that we have had now many, many quarters of sustainable and very strong growth and earnings improvements. So we perceive this as a quarterly setback, essentially in one region, and we are working hard to make sure that we achieve our overall targets for 2014.

Mutlu Gundogan (ABN AMRO): A question on the Ag business in South America: You already talked about it, but if I look at the first-half results, it looks like your revenues declined 22 percent year-on-year. Can you tell us what part of that 22 percent is driven by the competitive pressure you are seeing in insecticides in Brazil? Can you provide a little bit more detail about this pressure? Is it new entrants, is it generics? Some colour would be helpful – thank you.

Kurt Bock: I try to provide a little bit of colour: It's both. It's generics which hit us in the field of insecticides. There is also a little bit of new actives coming to the market which is, again, from our point of view, the normal competitive pattern. You have seen this in the past: Sometimes BASF is first, sometimes other companies are first. So now there was a new entrant which took some share from us. But, the majority of the decline is due to currency effect.

Mutlu Gundogan (ABN AMRO): Maybe a quick follow-up: The minus 22 percent in the first half – if I am not mistaken, the second half is more important in Brazil – should we take this as a run rate into the second half?

Kurt Bock: I think that's a very important point. It's good that you mention this. Actually, the second half is much more important. The first two quarters are always the soft ones seasonally. The third and fourth quarters will really demonstrate how we will

perform. I can assure you that the team is fully powered up in Brazil, in South America to make sure that we have a good second half.

So from today's point of view, I would caution to extrapolate what you have seen in the first half into the second half.

3.5 Oil & Gas

Geoffrey R. Haire (HSBC Bank): I am just wondering if you could update us on the situation in Libya. There is obviously speculation that exporting of oil may start happening soon. I am just wondering what you are seeing on the ground there.

Kurt Bock: I would be happy if I could convey a more positive message. But at this point in time we have no visibility, actually, when and how to start up our onshore production again. We had the offshore lifting, as we commented in our quarterly report. We could produce onshore; installations are ready to go. But so far, we have no real access to export facilities. That is the biggest issue right now. Again: no visibility. We can only hope that this is going to change quite quickly.

Laurent Favre (Bank of America Merrill Lynch): Thank you for taking a question on Oil & Gas. I am just trying to quantify the impact from lower spot gas on E&P. I am not talking about gas trading. The offshore lifting: I think the guidance was that, sequentially, the impact would be around 100 million euros on EBIT.

Brent has gone slightly up in euros, production growth has been minor. So the fact that EBIT went up sequentially by only 50 million euros, is that giving us a good feeling for the sequential impact of lower spot gas on the E&P business, minus 50 million euros?

Hans-Ulrich Engel: Laurent, if you look at spot gas price development in Western Europe, I think we are currently in a range of 6.50 US dollar per mmBtu. We started the year at 11. Our expectation is that we will see the natural gas price moving up again once the gas season starts, so towards the fourth quarter. It's extremely difficult to give you any type of guidance based on current natural gas prices.

In particular, the fluctuations that we have seen in natural gas prices during the course of this year were all driven by the fact that there was extremely low demand due to a very mild winter.

Laurent Favre (Bank of America Merrill Lynch): Okay. But my bridge from Q1 to Q2 is not completely crazy?

Hans-Ulrich Engel: What makes it a little bit more difficult to project is that we do not just have spot pricing, we also have forward pricing. So we also conclude sometimes contracts well in advance of the actual delivery, which means: Sometimes you also get lucky because you had a forward price which is much higher than current pricing and you can then buy relatively low at spot prices, yes.