BASF 2nd Quarter 2014 Analyst Conference Call

July 24, 2014, 11:00 a.m. (CEST)

Ludwigshafen

Analyst Conference Call Script – long version

Kurt Bock

Hans-Ulrich Engel

The spoken word applies.

Cautionary note regarding forward-looking statements

This presentation may contain forward-looking statements that are subject to risks and uncertainties, including those pertaining to the anticipated benefits to be realized from the proposals described herein. Forward-looking statements may include, in particular, statements about future events, future financial performance, plans, strategies, expectations, prospects, competitive environment, regulation and supply and demand. BASF has based these forward-looking statements on its views and assumptions with respect to future events and financial performance. Actual financial performance could differ materially from that projected in the forward-looking statements due to the inherent uncertainty of estimates, forecasts and projections, and financial performance may be better or worse than anticipated. Given these uncertainties, readers should not put undue reliance on any forward-looking statements. The information contained in this presentation is subject to change without notice and BASF does not undertake any duty to update the forward-looking statements, and the estimates and assumptions associated with them, except to the extent required by applicable laws and regulations.

BASF increases earnings considerably due to higher volumes

Business performance	Q2'14	Q2'13	vs. Q2'13
▪ Sales	€18.5 billion	€18.4 billion	+1%
▪ EBITDA	€2.7 billion	€2.5 billion	+9%
▪ EBIT before special items	€2.1 billion	€1.8 billion	+12%
▪ EBIT	€2.0 billion	€1.8 billion	+14%
▪ Net income	€1.3 billion	€1.2 billion	+12%
▪ Reported EPS	€1.41	€1.26	+12%
▪ Adjusted EPS	€1.54	€1.40	+10%
▪ Operating cash flow	€0.9 billion	€2.0 billion	(53%)

Sales development

Period	Volumes	Prices	Portfolio	Currencies
Q2'14 vs. Q2'13	↑ 6%	↓ (2%)	↑ 1%	↓ (4%)

Kurt Bock

Ladies and Gentlemen, good morning and thank you for joining us.

[Chart 3: BASF increases earnings considerably due to higher volumes]

- The global economic environment is developing slightly better than last year. The economies in the Eurozone are partially improving, however, structural risks remain. German demand was disappointing in Q2. The economies in North America expand on a moderate level after a very weak first quarter. In China, growth in the second quarter has been in line with expectations, but structural imbalances persist. The major Latin American economies continue to face sluggish demand growth and economic challenges, especially related to currencies and inflation. These trends and the continued increased political risks might result in higher economic volatility in the second half of this year.
- Despite the challenging environment the positive volume trend in our businesses continued.
- The devaluation of major currencies remained an important issue and adversely impacted BASF's top and bottom line.
- We increased sales slightly by 1 percent to 18.5 billion euros. Higher volumes, especially in the chemicals business and Oil & Gas, were offset by adverse currency effects in all segments and lower prices in some businesses. Sales of the Agricultural Solutions segment declined slightly, as strong currency devaluations outweighed price increases.

- EBITDA went up by 9 percent to 2.7 billion euros.
- EBIT before special items increased by 12 percent to almost 2.1 billion euros. All business segments except Agricultural Solutions contributed to this profit increase.
- The considerable decline of EBIT before special items in Other is related to a negative income from foreign currency transactions as well as an increase of provisions for our long-term incentive program.
- The devaluation of almost all major currencies against the euro negatively impacted earnings by roughly 200 million euros compared to prior year.
- Special items amounted to minus 34 million euros, mainly in the segments Chemicals and Performance Products.
- EBIT grew by 14 percent to 2.0 billion euros.
- Income taxes went up by 32 percent to 507 million euros, due to higher pre-tax earnings as well as increased oil and gas production in Norway, which led to a tax rate of 26.9 percent.
- At 1.3 billion euros, net income came in 12 percent higher than in the second quarter of last year.
- Adjusted earnings per share increased to 1.54 euros in Q2 2014 after 1.40 euros in Q2 2013.
- At 0.9 billion euros, operating cash flow in Q2 2014 was significantly lower than last year, due to an increase in net working capital and a swing in miscellaneous items.

Portfolio optimization

BASF
The Chemical Company

Sale of 50% share in Styrolution to Ineos

Strengthen competitiveness of Performance Products

Enlarged production footprint in Asia Pacific to support growing demand

Capacity expansions in Functional Materials and Solutions

[Chart 4: Portfolio optimization]

Before we discuss our individual business segments in more detail, please allow me to highlight a couple of milestones:

- On June 30, 2014 we announced that Ineos will acquire BASF's 50% share in Styrolution for a purchase price of 1.1 billion euros. We expect to realize a mid three-digit-million euro disposal gain. Closing of the transaction is planned for the end of 2014.
- We progressed further with the restructuring of our Performance Products segment, particularly with respect to our Care Chemicals and Nutrition & Health businesses. We anticipate an annual earnings improvement of about 500 million euros from 2017 onwards from the restructuring measures announced so far, in combination with one-time costs of 250 to 300 million euros and a reduction of 2,000 positions.
- In the growth region Asia Pacific we strengthened our market position through further investments. Together with our partner Sinopec, we started the new acrylic acid and superabsorbent polymers plants at our joint venture in Nanjing and we agreed to add a plant for neopentylglycol. We also announced that we will double the MDI capacity of our joint venture Shanghai Lianheng Isocyanate Co. Ltd. in Caojing to 480kt p.a.
- In the Functional Materials and Solutions segment we expanded the Technical Center and production capacities for performance materials at the Pudong site in China. Moreover, we inaugurated our largest European production plant for mobile emissions catalysts in Poland, and today we start our new coatings resins plant in Caojing, China.

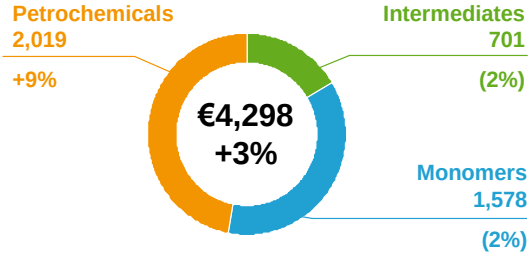
Now I would like to turn over to Hans, who will comment on the performance of the individual business segments.

Chemicals

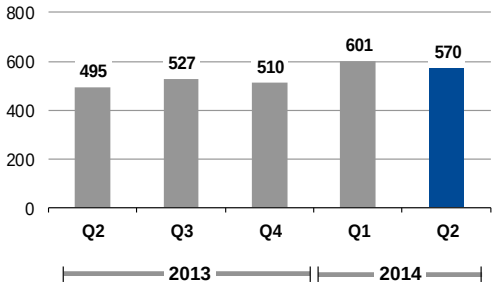
North America drives volume and profit growth

BASF
The Chemical Company

Q2'14 segment sales (million €) **vs. Q2'13**



EBIT before special items (million €)



Sales development

Period	Volumes	Prices	Portfolio	Currencies
Q2'14 vs. Q2'13	↑ 9%	↓ (3%)	0%	↓ (3%)

Hans-Ulrich Engel

Good morning ladies and gentlemen.
Let me highlight the financial performance of each segment in comparison to the second quarter of 2013.

[Chart 5: Chemicals – North America drives volume and profit growth]

Sales in the **Chemicals** segment increased slightly, driven by strong volume growth in all three divisions. Increased competition, especially in Asia, resulted in lower prices. Adverse currency effects had a negative impact on sales.

EBIT before special items was up significantly, as a result of better earnings in Petrochemicals.

- In **Petrochemicals** sales increased considerably. Significantly higher volumes, especially in North America, compensated for slightly lower prices and negative currency effects. Cracker margins remained high in North America and were on a satisfactory level in Europe. Global demand for acrylics was high, but the start-up of new capacities in Asia resulted in pressure on prices. EBIT before special items rose considerably. The prior year quarter had been impacted by the cracker turnaround in Antwerp.

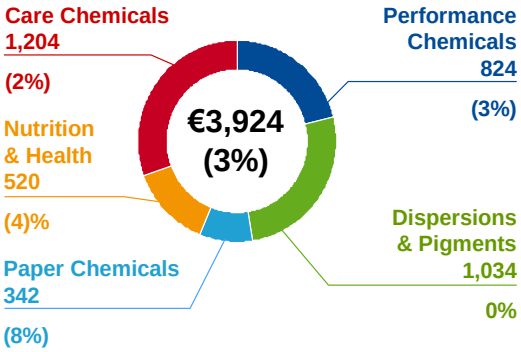
- Sales in **Monomers** decreased slightly. Considerably higher volumes, especially in MDI and polyamides, were offset by adverse currency effects and the impact of lower prices. Lower margins, especially in the Asian business, were partially offset by lower fixed costs. EBIT before special items declined slightly.
- In **Intermediates**, sales were slightly lower. Volumes were up, especially in amines, but could not fully compensate for negative currency effects and reduced prices. Despite weaker margins, EBIT before special items came in slightly higher, driven by lower fixed costs.

Performance Products

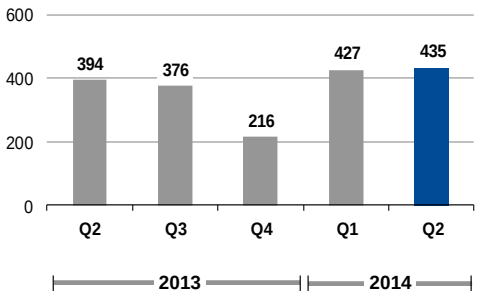
Restructuring measures increase earnings

BASF
The Chemical Company

Q2'14 segment sales (million €) **vs. Q2'13**



EBIT before special items (million €)



Sales development

Period	Volumes	Prices	Portfolio	Currencies
Q2'14 vs. Q2'13	↑ 1%	0%	0%	↓ (4%)

[Chart 6: Performance Products – Restructuring measures increase earnings]

Sales in **Performance Products** came in slightly below prior-year level, as higher volumes could not compensate for strong adverse currency effects. Prices were stable. EBIT before special items increased considerably, due to lower fixed costs supported by ongoing restructuring measures. Positive special items from the divestiture of the PolyAd business more than offset negative special items related to the restructuring in the segment.

- In **Dispersions & Pigments**, sales were stable. Volume growth was offset by negative currency effects and slightly lower prices. Sales of dispersions and pigments increased especially in Asia. Resin volumes were up due to higher demand from the paints and coatings industries in Europe. Fixed costs were reduced as a result of restructuring measures and strict cost discipline. EBIT before special items increased considerably.
- In **Care Chemicals,** sales came in slightly lower. Volumes stayed stable, while higher prices could not compensate for adverse currency effects. We were able to increase prices and volumes in all our businesses except hygiene. In hygiene, volumes went down compared with the strong prior-year quarter, which had benefitted from temporarily lower capacities in the market. EBIT before special items slightly increased mainly as a result of lower fixed costs.

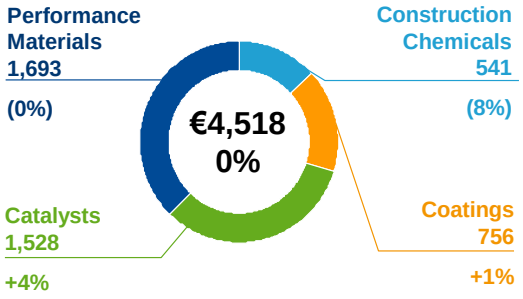
- In **Nutrition & Health**, sales decreased slightly. Higher prices could not compensate for lower volumes and currency headwinds. In aroma chemicals we faced strongly declining volumes as a result of the force majeure affecting citral-based products. In animal and human nutrition we experienced ongoing competitive pressure on vitamin E prices. EBIT before special items declined substantially.
- Sales in **Paper Chemicals** decreased considerably, especially due to lower demand and intense competition in Asia. Additionally, lower raw material prices, which were passed through, and negative currency effects adversely affected sales. Significantly lower fixed costs resulted in a considerable increase in EBIT before special items.
- Sales in **Performance Chemicals** decreased slightly. Volume growth in most businesses was more than offset by adverse currency effects and slightly lower prices. The positive volume trend in oilfield and mining continued. Water solutions faced ongoing price pressure. Demand for plastic additives and fuel & lubricant solutions was strong. Fixed cost reduction measures contributed to a considerable increase in EBIT before special items.

Functional Materials & Solutions

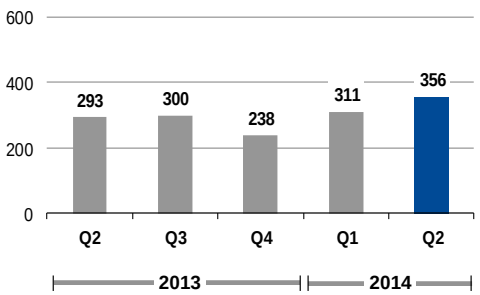
Continued good demand from automotive industry

BASF
The Chemical Company

Q2'14 segment sales (million €) **vs. Q2'13**



EBIT before special items (million €)



Sales development

Period	Volumes	Prices	Portfolio	Currencies
Q2'14 vs. Q2'13	↑ 6%	0%	↓ (1%)	↓ (5%)

[Chart 7: Functional Materials & Solutions – Continued good demand from automotive industry]

Sales in **Functional Materials & Solutions** were stable. While prices remained flat, significantly higher volumes, especially from the automotive industry, compensated for adverse currency effects and the impact of divestitures. EBIT before special items increased substantially.

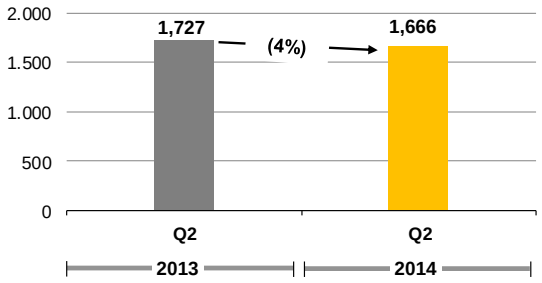
- Sales in **Catalysts** came in slightly above the prior year level. Demand for mobile emissions catalysts grew especially in Europe and Asia. In chemical catalysts, demand was slightly lower. We increased our precious metal inventories to ensure sufficient supply of precious metals due to an uncertain supply situation from South Africa. Precious metal sales reached 659 million euros, up by 71 million euros versus a year ago. R&D expenditures incurred by the battery materials business reduced earnings. EBIT before special items came in significantly higher.
- Sales in **Construction Chemicals** decreased considerably. Higher prices could not compensate for lower volumes, strong currency headwinds, and the impact of divestitures. We continue to face weak construction activities in Southern Europe. In North America, building activities restarted after the cold weather period in the first quarter 2014, but sales were affected by the weakening of the US dollar. EBIT before special items came in substantially lower.

- In **Coatings**, sales came in slightly above prior year level. Higher volumes and prices were largely offset by strong currency headwinds. Demand for automotive OEM coatings grew in North America, Europe and Asia. Automotive refinish coatings experienced stagnating demand in all regional markets except in China, which showed favorable growth. The decorative paints business in South America developed well, but was affected by strong adverse currency effects. Earnings rose significantly, also benefitting from lower fixed costs.
- Sales in the **Performance Materials** division remained stable. We saw higher volumes in engineering plastics, thermoplastic polyurethanes and Cellasto®, which were offset by adverse currency effects. Demand growth was driven by the automotive, building and construction, and consumer industries in North America. Prices remained stable. The start-up of new plants resulted in higher fixed costs. EBIT before special items increased slightly.

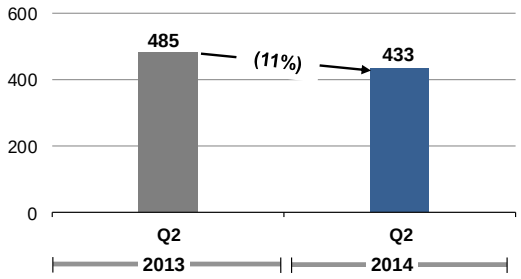
Agricultural Solutions

Exchange rate driven sales and earnings decrease

Q2'14 segment sales (million €) **vs. Q2'13**



EBIT before special items (million €)



Sales development

Period	Volumes	Prices	Portfolio	Currencies
Q2'14 vs. Q2'13	0%	↑ 2%	0%	↓ (6%)

[Chart 8: Agricultural Solutions – Exchange-rate driven sales and earnings decrease versus strong prior-year]

In **Agricultural Solutions** volumes were stable versus a very strong prior year's second quarter. We were able to increase prices in all regions, but faced strong currency headwinds. Consequently, sales decreased slightly.

Business in **Europe** remained strong, with a very good development in Western Europe offsetting a slight decline in parts of Eastern Europe. In **North America**, sales came in only slightly lower despite the late start of the season and the weaker US dollar. **South America** saw a challenging quarter especially due to the strong devaluation of the Brazilian Real and difficult market conditions for our sugarcane insecticides. In **Asia**, the underlying business developed well, especially in fungicides and in China.

EBIT before special items came in considerably lower than in the strong second quarter of 2013. This was mainly caused by negative currency effects, and higher R&D expenses.

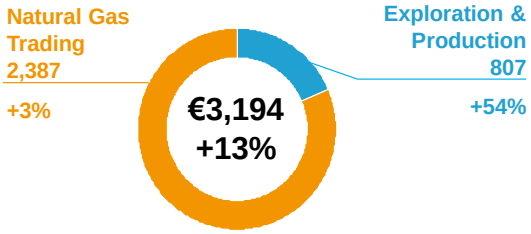
For the first half of 2014 earnings did not reach the level of last year. However, due to our entry into new markets and the positive momentum with respect to many of our product innovations, we uphold our target. We strive to slightly increase EBIT before special items in Agricultural Solutions, with an EBITDA margin of around 25%.

Oil & Gas

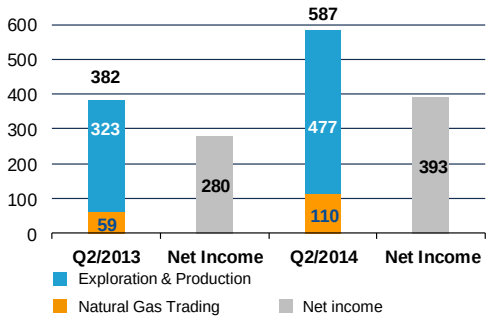
Higher production volumes drive earnings

BASF
The Chemical Company

Q2'14 segment sales (million €) **vs. Q2'13**



EBIT bSI/Net income (million €)



Sales development

Period	Volumes	Prices/Currencies	Portfolio
Q2'14 vs. Q2'13	↑ 24%	↓ 16%	↑ 5%

[Chart 9: Oil & Gas – Higher production volumes drive earnings]

In the **Oil & Gas** segment, sales grew significantly. This was mainly driven by higher volumes and portfolio effects in **Exploration & Production**. EBIT before special items improved considerably. Net income increased by 40 percent to 393 million euros.

- Sales in **Exploration & Production** rose by 54 percent. We increased production volumes in Norway. We also had one lifting from our offshore production in Libya, while in the previous year's second quarter there was no lifting. The average Brent oil price slightly increased, from 78 euros per barrel a year ago to 80 euros per barrel, and impacted sales positively.

  EBIT before special items in **Exploration & Production** increased by 154 million euros to 477 million euros caused by the higher production volumes in Norway and the lifting from our offshore production in Libya.

- Sales in the **Natural Gas Trading** business grew by 3 percent due to higher trading volumes, especially on the European spot markets. Despite continued margin pressure, EBIT before special items came in substantially above the level of the prior year's second quarter due to improved sourcing opportunities at the European spot markets.

We also would like to update you on the status of the asset swap between Gazprom and BASF. The work on restructuring and preparing the assets of the parties involved is proceeding according to plan. However, the complex legal unbundling process involving the establishment of new companies in Russia, the Netherlands and Germany is taking longer. Therefore, we expect the closing in autumn 2014 – still with retroactive financial effect from April 1, 2013.

Review of "Other"

Million €	Q2'14	Q2'13
Sales	**855**	**1,072**
EBIT before special items	**(328)**	**(217)**
thereof Corporate research	*(97)*	*(97)*
Group corporate costs	*(57)*	*(58)*
Foreign currency results, hedges and other measurement effects	*(117)*	*(63)*
Other businesses	*37*	*37*
Special items	(12)	3
EBIT	**(340)**	**(214)**

[Chart 10: Review of “Other”]

Sales in 'Other' decreased by 20 percent to 0.9 billion euros. Main reasons were the force majeure at the ELLBA joint venture in Moerdijk, the Netherlands, and lower raw materials trading activities.

EBIT before special items came in at minus 328 million euros. The decline of 111 million euros compared to the second quarter of 2013 was mainly due to negative income from foreign currency transactions as well as provisions for the long-term incentive program.

Operating cash flow in H1 2014

BASF
The Chemical Company

Million €	H1'14	H1'13
Cash provided by operating activities	**2,644**	**4,030**
thereof Changes in net working capital	*(1,375)*	*(633)*
Miscellaneous items	*(153)*	*646*
Cash used in investing activities	**(2,301)**	**(2,582)**
thereof Payments related to tangible / intangible assets	*(2,125)*	*(1,884)*
Acquisitions / divestitures	*355*	*(516)*
Cash provided by financing activities	**189**	**(823)**
thereof Changes in financial liabilities	*2,781*	*1,762*
Dividends	*(2,592)*	*(2,585)*

[Chart 11: Operating cash flow in H1 2014]

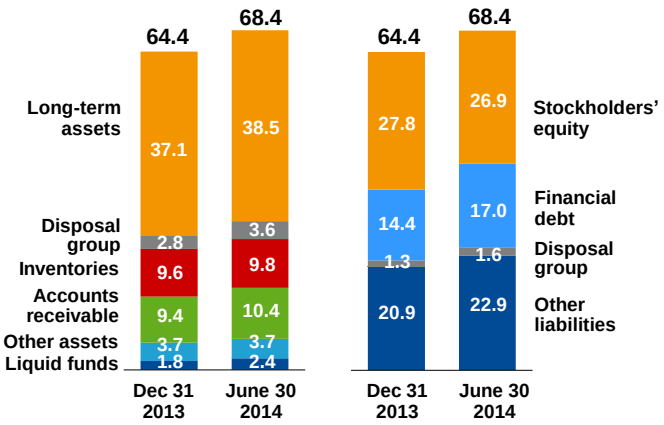
Let me now turn to our cash flow. Please be reminded that we summarize the first half of 2014.

- At 2.6 billion euros, cash provided by operating activities was 34 percent lower than last year. This was mainly attributable to an increase in net working capital and a swing in miscellaneous items.
- Net working capital went up due to a build-up in inventories and trade accounts receivable as well as lower trade accounts payable.
- Miscellaneous items in H1 2014 amounted to minus 153 million euros. This was mainly caused by the reclassification of the gain on the disposal of non-operated oil and gas producing fields in the North Sea to the Hungarian MOL Group as cash provided by divestitures.
- In the first half of 2013 miscellaneous items amounted to plus 646 million euros. This positive value was related to a decline in net assets in the natural gas trading disposal group.
- Cash used in investing activities amounted to 2.3 billion euros. Capex increased to 2.1 billion euros compared with 1.9 billion euros in the prior year.
- Free cash flow decreased to 0.5 billion euros.

Balance sheet remains strong

BASF
The Chemical Company

Balance sheet June 30, 2014 vs. December 31, 2013
(billion €)



Highlights June 30, 2014

- Short-term assets increased by €2.6 billion:
  - Accounts receivables grew seasonally by €1.0 billion
  - Liquid funds up by €0.6 billion
- Net debt increased to €14.6 billion
- Equity ratio: 39%

[Chart 12: "Balance sheet remains strong"]

And now to the most relevant developments on the balance sheet:

- Compared to the end of 2013 total assets grew by 4.0 billion euros to 68.4 billion euros.
- Accounts receivables increased by almost 1 billion euros, driven by the seasonally strong Crop Protection business.
- Following the announcement that Ineos will acquire BASF's share in the Styrolution joint venture, the equity book value of Styrolution - in the amount of 776 million euros - was transferred to the disposal group. The Styrolution call option, valued at 158 million euros, is now shown under liabilities of the disposal group.
- Total liabilities increased by around 5 billion euros to 41.5 billion euros, attributable mainly to two factors:
    - We increased pension provisions by almost 2.0 billion euros due to lower assumed discount rates.
    - We issued several bonds resulting in a net increase of our financial indebtedness of 2.6 billion euros. Short-term debt increased due to the reclassification of long-term debt into short-term debt.
- Net debt increased by roughly 2.0 billion euros to 14.6 billion euros.
- At 39 percent, our equity ratio remained at a healthy level.

Outlook 2014 confirmed

BASF
The Chemical Company

Outlook 2014

- We aim to increase our sales volumes excluding the effects of acquisitions and divestitures.
- Nonetheless, sales will decline slightly compared with 2013 due to the divestiture of the gas trading and storage business planned for autumn 2014 and negative currency effects.
- We expect a slight increase in EBIT before special items, especially as a result of considerably higher contributions from the Performance Products and Functional Materials & Solutions segments.
- We aim to earn a high premium on our cost of capital once again in 2014.

Assumptions 2014

GDP:	+2.5%	(previous: 2.8%)
Industrial production:	+3.7%	
Chemical production:	+4.4%	
US$ / Euro:	1.35	(previous: 1.30)
Oil price (US$ / bbl):	110	

Kurt Bock

[Chart 13: Outlook 2014 confirmed]

Coming to the outlook:

In 2014, we expect only a slightly higher global economic growth than in 2013 and certainly lower than anticipated just 6 months ago. GDP growth in the United States was unusually weak in the first quarter of 2014, mainly due to adverse weather effects. Following a recent downward revision of the U.S. data, BASF has lowered its global GDP forecast from 2.8 percent to 2.5 percent.

Contrary to our assumptions at the beginning of this year we no longer expect that the euro will devalue. Therefore, we now anticipate a dollar/euro exchange rate of 1.35 for 2014.

Despite these negative changes, the continuing unfavorable currency effects and also increased political risks we confirm our outlook 2014 for BASF Group:

- We aim to increase our sales volumes excluding the effects of acquisitions and divestitures.
- Nonetheless, sales will decline slightly compared with 2013 due to the divestiture of the gas trading and storage business and negative currency effects.
- We expect a slight increase in EBIT before special items, especially as a result of considerably higher contributions from the Performance Products and Functional Materials & Solutions segments.
- We aim to earn a high premium on our cost of capital once again in 2014.

Thank you for your attention. We are now happy to take your questions.

BASF
The Chemical Company