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BASF 2nd Quarter 2015 Analyst Conference Call

July 24, 2015, 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

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BASF increases sales and earnings slightly in the second quarter

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Business performance	Q2'15	Q2'14*	vs. Q2'14
▪ Sales	€19.1 billion	€18.5 billion	+3%
▪ EBITDA	€3.0 billion	€2.7 billion	+11%
▪ EBIT before special items	€2.0 billion	€2.0 billion	+2%
▪ EBIT	€2.0 billion	€1.9 billion	+5%
▪ Net income	€1.3 billion	€1.3 billion	0%
▪ Reported EPS	€1.38	€1.37	+1%
▪ Adjusted EPS	€1.49	€1.53	(3%)
▪ Operating cash flow	€2.8 billion	€1.0 billion	+185%

Sales development

Period	Volumes	Prices	Portfolio	Currencies
Q2´15 vs. Q2´14	↑ 2%	↓ (8%)	0%	↑ 9%

* Previous year values restated due to dissolution of disposal group "Natural Gas Trading"

Kurt Bock

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

[Chart 3: BASF increases sales and earnings slightly in the second quarter]

In the second quarter 2015, BASF showed improved sales and earnings. As of June, we are on track to achieve our full year guidance – namely slightly higher sales than in 2014 and EBIT before special items matching the level of 2014.

As expected, the weaker Euro is a net positive for sales and earnings. The oil price – 44 percent below last year's level – led to lower earnings in Oil & Gas. Furthermore, we also saw some margin compression in our chemical business – both upstream and downstream, where prices came down compared to the start of this year. Most importantly, we saw very little growth in our markets. Not considering Oil & Gas, volumes in the remaining businesses were essentially flat. In Agricultural Solutions, we experienced a more difficult market environment after a strong start into 2015.

Overall, we experienced a disappointing development in the macroeconomic environment. Against this background we now expect the global chemical production to grow by about 3.8 percent compared to 4.2 percent previously forecasted.

The Chinese economy continues to grow, but at a slower rate than in the previous year. The construction industry declined in the first half of 2015 and even the automotive industry showed a weaker development. In North America, the business environment improved after a disappointing first quarter, but not as fast as we had anticipated. The economic development in South America

stagnated. Brazil remained in a recession as weaker commodity markets and the slowdown in key export markets negatively impacted the country's growth. Including Russia, two of the BRIC countries are in recession. Despite all the discussions about Greece, European economies continue to grow modestly.

In this environment we continue to focus on cost management and operational excellence. We are well on track to deliver the increased target of our STEP program of 1.3 billion euros of annual earnings improvement by the end of this year.

Our measures to trim working capital were successful and operating as well as free cash flow improved nicely.

In particular, we saw the following developments in Q2:

- We increased sales slightly by three percent to 19.1 billion euros. Higher volumes in the Oil & Gas segment and positive currency effects in all segments were the main drivers.
- Volumes were up by two percent, driven by higher gas trading activities in Oil & Gas. In the chemical business, volumes were flat. Prices declined by eight percent as we had to pass on lower raw material costs to our customers. However, in Agricultural Solutions, we were able to increase prices. The devaluation of the euro against major currencies positively impacted BASF's top line by nine percent.
- EBITDA went up significantly by 11 percent to 3.0 billion euros.
- EBIT before special items increased by two percent to 2.0 billion euros. Functional Materials & Solutions strongly contributed to this increase. In Other, we also saw a significant improvement as

the provision for our long-term incentive program came down following the share price development.

- A positive disposal gain from the divestment of our textile chemicals business was partly offset by restructuring costs and minor asset impairment measures.
- EBIT grew by five percent to 2.0 billion euros.
- Income taxes went up slightly to 506 million euros, because of higher pre-tax earnings. The tax rate was 26.8 percent.
- At 1.3 billion euros, net income came in on the same level as in the second quarter of last year.
- Reported earnings per share increased slightly to 1.38 euros in Q2 2015 after 1.37 euros in Q2 2014. Adjusted EPS declined slightly to 1.49 euros.
- At 2.8 billion euros, operating cash flow in Q2 2015 was much higher than last year. We adjusted inventories to reflect lower growth and reduced our net working capital currency-adjusted by approximately 600 million euros. Especially in Performance Products, Agricultural Solutions and Oil & Gas we reduced inventories significantly. However, in the short-term this resulted in lower plant utilizations and higher costs.
- Free cash flow came in at 1.2 billion euros.

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Important milestones in Q2 2015

Inauguration of first world-scale acrylics complex in South America

New chemical catalyst plant in China

New agricultural research station in India

Divestment of textile chemicals

[Chart 4: Important milestones in Q2 2015]

Let me now provide you with an overview about some of the major milestones that we achieved this quarter:

- We started up our new world-scale acrylics complex in Camaçari, Brazil. It comprises the only acrylic acid and superabsorbent polymers plants in South America and will provide us with a first-mover advantage in the region. The new complex also strengthens our position as global leader in the acrylic acid value chain.
- In June, we broke ground for our new chemical catalyst manufacturing plant in Shanghai, China. The plant will enhance our global manufacturing footprint for base metal catalysts, custom catalysts and adsorbents. With increased customer proximity we will further improve our position to meet the growing demand in the region.
- To strengthen our crop protection business we opened a new agricultural research station in Pune, India. This new research and development center will focus on herbicides, fungicides, and insecticides, as well as on solutions that go beyond classical crop protection.
- We also progressed with our portfolio optimization measures as we closed the divestment of our textile chemicals business.

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Further divestments

Chemicals

- **Stake in SolVin joint venture** (closed on July 1, 2015)

Performance Products

- **Custom synthesis business** (closing expected for Q4 2015)
- **Parts of active pharmaceutical ingredients business**

- **Paper hydrous kaolin** (closing expected for Q3 2015)

Oil & Gas

- **Selected assets on the Norwegian continental shelf** (closing expected for Q4 2015)

[Chart 5: Further divestments]

In addition, we either concluded contracts or closed transactions to divest further businesses that do not have a good fit with our strategy anymore.

- By selling our 25% share in the joint venture SolVin, we continue to focus our activities in Chemicals on value chains where we can differentiate ourselves.
- We plan to focus our pharmaceutical ingredients & services business on pharmaceutical excipients. Therefore, we agreed with Siegfried Holding AG to sell our custom synthesis business and parts of our active pharmaceutical ingredients business.
- We continue to optimize our set-up in paper chemicals. Thus, on June 8, we signed a contract to sell our global paper hydrous kaolin business.
- In order to focus our exploration and production activites on own-operated fields, we entered into a contract with Tellus Petroleum to divest selected assets on the Norwegian continental shelf.

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

Chemicals

Higher fixed costs from start-ups impact earnings

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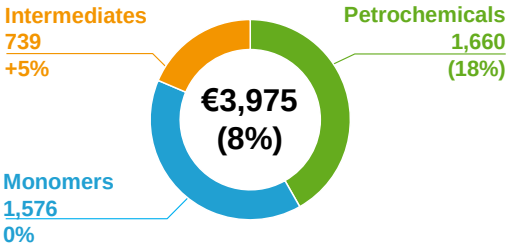
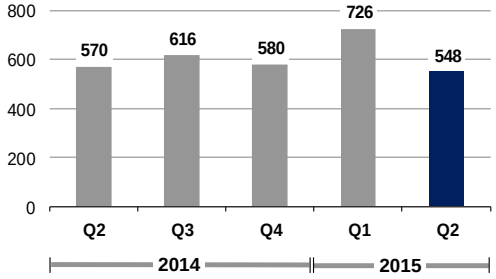
Q2'15 segment sales (in million €) **vs. Q2'14**



EBIT before special items (in million €)



Sales development

Period	Volumes	Prices	Portfolio	Currencies
Q2'15 vs. Q2'14	0%	↓ (15%)	↓ (2%)	↑ 9%

Hans-Ulrich Engel

Good morning ladies and gentlemen.

Let me highlight the financial performance of each segment in comparison to the second quarter of 2015.

[Chart 6: Chemicals – Higher fixed costs from start-ups impact earnings]

Sales in the **Chemicals** segment came in considerably lower. Declining prices in all divisions, following the lower oil price, were the main driver for this development. Volumes went slightly down in Petrochemicals and Monomers whereas they increased considerably in Intermediates. Currency effects had a positive impact on sales in all businesses. High cracker margins in Europe could not fully compensate for approximately 50 million euros of start-up costs for new plants. Therefore, EBIT before special items went down slightly.

- In **Petrochemicals** sales came in considerably lower, despite positive FX effects. While volumes were down slightly, prices declined substantially, driven by lower feedstock costs. The divestiture of our participation in Ellba Eastern resulted in a slightly negative impact on sales. Cracker margins remained high in North America and improved significantly in Europe and Asia. Prices and margins for acrylics remained on a low level caused by overcapacities. Fixed costs went up driven by the start-up of new plants and unplanned outages. EBIT before special items rose substantially.

- Sales in **Monomers** were flat. Prices, especially for isocyanates, came down significantly as we had to pass on lower raw material costs. This was more than offset by positive currency effects. Volumes were slightly down, due to planned turnarounds and plant outages. As we prepare for the start-up of our new MDI and TDI plants fixed costs increased considerably, which resulted in a significantly lower EBIT before special items.
- In **Intermediates**, sales were slightly up. Positive foreign exchange effects and higher volumes, especially in amines and polyalcohols, more than compensated for lower prices. Fixed costs went up, driven by major planned turnarounds in Europe and Asia. Hence, EBIT before special items came in significantly lower.

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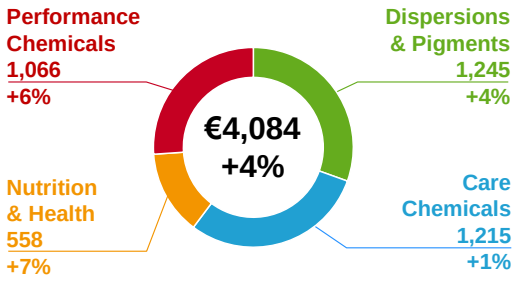
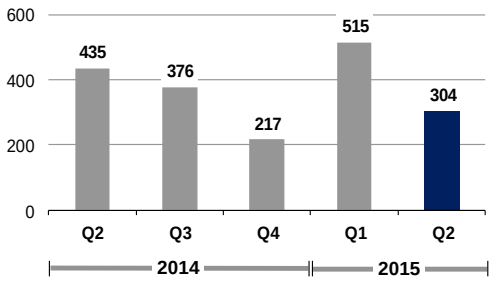
Performance Products

Earnings impacted by challenging markets

Q2'15 segment sales (in million €) **vs. Q2'14**



EBIT before special items (in million €)



Sales development

Period	Volumes	Prices	Portfolio	Currencies
Q2'15 vs. Q2'14	↓ (1%)	↓ (5%)	0%	↑ 10%

[Chart 7: Performance Products – Earnings impacted by challenging markets]

Sales in **Performance Products** came in slightly above prior-year level. Overall, prices declined in some businesses as lower raw material costs had to be passed on to customers. An unplanned outage of our polyisobutene plant in Antwerp, shortages for ethylene oxide based products as well as lackluster demand in oilfield solutions and paper chemicals resulted in slightly lower volumes. Strong positive currency results could offset the decline in prices and volumes. Product margins declined. Fixed costs went up as a consequence of the start-up of new plants as well as strict inventory management in all businesses and negative currency effects. EBIT before special items decreased strongly. We incurred positive special items from the divestiture of the textile chemicals business.

- In **Dispersions & Pigments**, sales were slightly up. Lower prices as well as lower volumes in particular for paper chemicals were more than offset by positive currency effects. Resins volumes were considerably up due to higher demand from the paints and coatings industries in Asia and Europe. EBIT before special items decreased slightly due to higher fixed costs as a result of new plant start-ups in Asia and North America.
- In **Care Chemicals,** sales came in on prior year level. Positive currency effects compensated for significantly lower prices and slightly lower volumes. Prices for hygiene, oleo surfactants and alcohols, home care as well as industrial & institutional cleaning declined since we had to pass on lower raw material costs to our

customers. A force majeure in our ethylene oxide plant in Ludwigshafen resulted in product shortages for our surfactants. EBIT before special items therefore decreased considerably.

- In **Nutrition & Health,** sales increased strongly thanks to higher volumes and positive currency effects. Prices were below prior year due to the ongoing decline of vitamin E prices. EBIT before special items declined substantially as a result of lower margins and slightly higher fixed costs.
- Sales in **Performance Chemicals** increased significantly. Positive currency effects more than compensated for lower volumes and prices. Adjusted for the unplanned production outage of our polyisobutene plant in Antwerp, volumes almost matched prior-year level. Automotive fluids and plastic additives showed good volume growth. In contrast, the market environment in oilfield solutions and paper chemicals saw a significant deterioration. EBIT before special items decreased substantially due to higher fixed costs.

Functional Materials & Solutions

Strong business with automotive and construction

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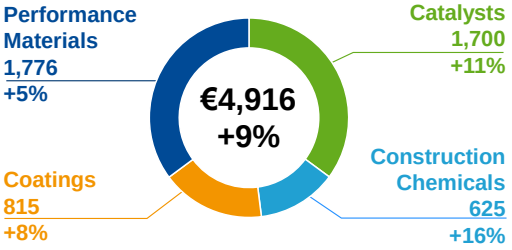
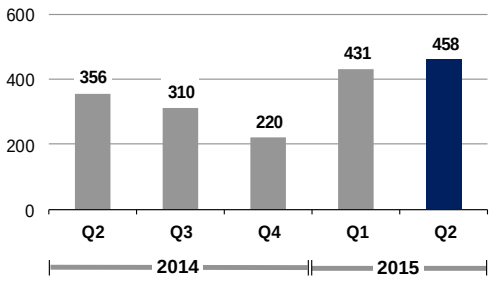
Q2'15 segment sales (in million €) **vs. Q2'14**



EBIT before special items (in million €)



Sales development

Period	Volumes	Prices	Portfolio	Currencies
Q2'15 vs. Q2'14	0%	↓ (2%)	0%	↑ 11%

[Chart 8: Functional Materials & Solutions – Strong business with automotive and construction]

Sales in **Functional Materials & Solutions** increased considerably. Positive currency effects in all divisions and stable volumes, contributed to this development. We realized higher sales with the construction industry and our business with the automotive industry remained strong. Prices were slightly down, driven by lower raw material costs. Stable volumes and higher margins resulted in the highest quarterly EBIT before special items ever achieved in Functional Materials & Solutions.

- Sales in **Catalysts** came in considerably above the prior year level. This was mainly driven by positive currency effects and higher volumes in mobile emissions and chemical catalysts. Significantly lower trading volumes and softer precious metal prices were compensated by positive FX effects. Precious metal sales increased slightly to 666 million euros. Fixed costs went up after the start-up of new plants in Europe and Asia in 2014 and 2015. EBIT before special items decreased strongly due to higher fixed costs related to the new capacities as well as reduced precious metal trading margins.
- Sales in **Construction Chemicals** increased substantially, driven by positive FX effects as well as significantly higher volumes, especially in the Middle East, Southern and Eastern Europe, South America as well as Africa. Prices were slightly down. The favorable volume development led to a considerably higher EBIT before special items.

- In **Coatings**, sales came in significantly above prior year as a result of slightly higher prices and positive currency effects. We realized good business with automotive OEM coatings in Europe and Asia. Automotive refinish coatings developed well in Europe but experienced slightly lower volumes in North America and Asia. The market for decorative paints in Brazil remained challenging. Higher fixed costs related to the start-up of new resin and base coat plants in Asia resulted in slightly lower earnings.
- Sales in the **Performance Materials** division were up, driven by the favorable currency development and stable volumes. Our business with automotive OEMs developed well. We saw higher volumes in specialty and engineering plastics. The demand for styrenic foams decreased. Prices declined slightly due to lower raw material costs. EBIT before special items increased substantially, also driven by a larger share of our specialty business.

Agricultural Solutions

Half-year results on prior year level

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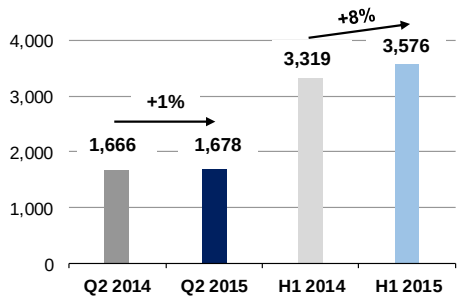
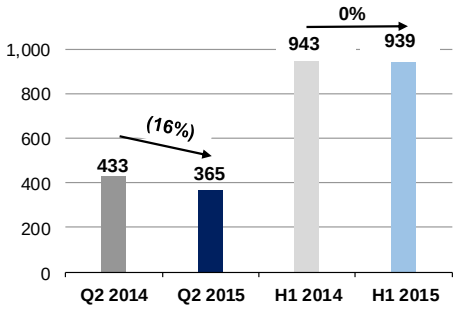
Segment sales

(Q2'15 vs. Q2'14 / H1'15 vs. H1'14; million €)



EBIT before special items

(Q2'15 vs. Q2'14 / H1'15 vs. H1'14; million €)



Sales development

Period	Volumes	Prices	Portfolio	Currencies
Q2'15 vs. Q2'14	↓ (8%)	↑ 3%	0%	↑ 6%

[Chart 9: Agricultural Solutions – Half-year results on prior year level]

In **Agricultural Solutions,** sales came in on the level of Q2 2014. Higher prices and positive FX effects were offset by a decrease in volumes. EBIT before special items decreased significantly due to lower volumes and higher fixed costs, which were triggered by the start-up of new production assets.

Sales in **Europe** went down slightly. Early-season demand benefitting the first quarter and dry weather conditions leading to a lower disease pressure resulted in lower volumes in the second quarter. However, we were able to implement price increases.

In **North America**, sales were stable. Volumes were lower caused by unfavorably cold and wet weather conditions and higher in-field inventories, especially in fungicides. We experienced positive currency effects and stable prices.

Sales in **South America** were up slightly due to increased prices and higher volumes in fungicides and Functional Crop Care solutions. This was offset by a weak insecticides business, as market conditions, especially in sugarcane, remained difficult due to increased competition from generics.

In **Asia,** we increased sales due to positive FX effects. Volumes in Japan and Korea were up. In India, however, we experienced a delayed monsoon season and pressure on herbicides from generics. Hence, volumes came in lower.

Looking at the first half of 2015, sales increased by 8 percent. EBIT before special items reached the same high level as in the prior year, despite a more challenging market environment.

Oil & Gas

Decrease in earnings driven by lower prices

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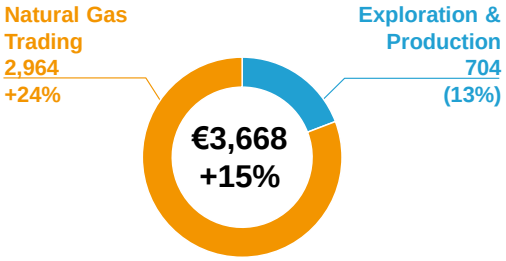
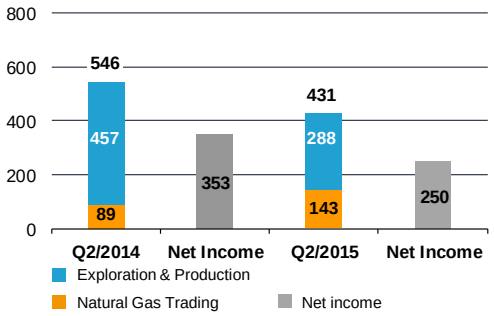
Q2'15 segment sales (in million €) **vs. Q2'14**



EBIT bSI*/Net income* (million €)



Sales development

Period	Volumes	Price/Currencies	Portfolio
Q2'15 vs. Q2'14	↑ 21%	↓ (9%)	↑ 3%

* Previous year values restated due to dissolution of disposal group "Natural Gas Trading"

[Chart 10: Oil & Gas – Decrease in earnings driven by lower prices]

Sales in Oil & Gas increased considerably mainly due to higher Natural Gas Trading activities on the European spot markets. Volumes in Exploration & Production were up. The acquisition of producing fields in Norway as well as higher production in Russia more than offset lower production volumes in Libya. Sales in Exploration & Production, however, declined considerably as a result of the lower oil and natural gas prices.

The average price for Brent crude oil decreased by 44 percent to 62 US dollars per barrel in the second quarter of 2015. EBIT before special items declined from 546 million euros to 431 million euros, since there was no offshore lifting in this quarter compared to last year and we faced lower oil and gas prices. Net income went down by 29 percent to 250 million euros. The next aperiodic offshore lifting is planned for Q3 2015.

- In the second quarter 2015, sales in Exploration & Production were down by 13 percent. The lifting from our offshore concession in Libya in the prior year quarter as well as the lower oil and gas prices could not be compensated by higher production volumes in Russia and Norway. EBIT before special items decreased by 37 percent to 288 million euros.
- Sales in Natural Gas Trading were up by 24 percent in Q2 2015 driven by significantly higher spot trading volumes. EBIT before special items increased from 89 million euros to 143 million euros mainly due to positive one-off effects from price revisions.

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Review of 'Other'

Million €	Q2´15	Q2´14
Sales	**757**	**855**
EBIT before special items	**(63)**	**(328)**
Thereof corporate research costs	*(102)*	*(97)*
group corporate costs	*(64)*	*(57)*
currency results, hedges and other valuation effects	*151*	*(117)*
other businesses	*30*	*37*
Special items	(20)	(12)
EBIT	**(83)**	**(340)**

[Chart 11: Review of “Other”]

Sales in 'Other' decreased by 11 percent to 0.8 billion euros. Main reasons were the force majeure at the Ellba joint operation in Moerdijk as well as the divestiture of our 50 percent share in Ellba Eastern.

EBIT before special items came in at minus 63 million euros. The considerable improvement of 265 million euros compared to prior year was mainly driven by the dissolution of provisions in the amount of approximately 170 million euros for our long-term incentive program, which was triggered by the lower price of BASF’s share. In addition, we incurred lower expenses from currency effects.

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Strong operating cash flow in H1 2015

Million €	H1'15	H1'14*
Cash provided by operating activities	**5,143**	**2,713**
Thereof changes in net working capital	*877*	*(1,251)*
miscellaneous items	*(32)*	*(261)*
Cash used in / provided by investing activities	**(3,331)**	**(2,376)**
Thereof payments related to tangible / intangible assets	*(2,845)*	*(2,201)*
acquisitions / divestitures	*(15)*	*355*
Cash used in financing activities	**(1,033)**	**189**
Thereof changes in financial liabilities	*1,723*	*2,781*
dividends	*(2,803)*	*(2,592)*

First half 2015

- Cash flow from operating activities nearly doubled to €5.1 billion
- Cash inflow from changes in net working capital of €0.9 billion
- Free cash flow improved from €0.5 billion to €2.3 billion, exceeding free cash flow of FY 2014

* Previous-year figures restated due to dissolution of disposal group "Natural Gas Trading"

[Chart 12: Operating cash flow in H1 2015]

Let me now turn to our cash flow. Please be reminded that we summarize the first half of 2015.

- At 5.1 billion euros we generated the highest cash flow from operating activities ever in a first half-year. A positive swing in net working capital contributed to this. We reduced inventories by 1.3 billion euros, especially in Performance Products, Agricultural Solutions and Oil & Gas.
- At 3.3 billion euros, cash used in investing activities exceeded the prior-year figure by around 1 billion euros. Payments related to tangible and intangible assets amounted to 2.8 billion euros mainly driven by our investment projects. Acquisitions and divestitures resulted in a small net cash outflow of 15 million euros. In the previous year, we had realized a significant cash inflow from the divestiture of selected E&P assets to MOL.
- Financing activities led to a cash outflow of around 1 billion euros, mainly due to the payment of the dividend.
- Free cash flow amounted to 2.3 billion euros. This means in the first half of 2015 we already exceeded the free cash flow of the full year 2014 by far.

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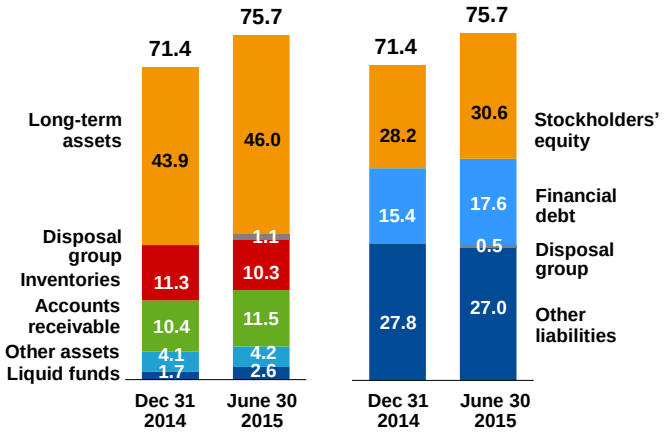
Balance sheet remains strong

Balance sheet June 30, 2015 vs. December 31, 2014*
(in billion €)



Highlights June 30, 2015

- Total assets increased by €4.3 billion due to:
  - FX-related effects
  - Investment projects
  - Accounts receivables
  - Liquid funds
- Inventories down by ~€1.0 billion
- Pension obligations down by €1.1 billion
- Net debt increased by €1.4 billion to €15.1 billion
- Equity ratio: 40.4%

* Previous year values restated due to dissolution of disposal group "Natural Gas Trading"

[Chart 13: "Balance sheet remains strong"]

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

- Compared to the end of 2014, total assets grew by 4.3 billion euros to 75.7 billion euros mainly attributable to currency effects, investments and the seasonal effect on accounts receivable.
- Long-term assets were up by 2.1 billion euros and amounted to 46 billion euros. Investment projects contributed to an increase in the value of property, plant and equipment by 1.4 billion euros.
- Short-term assets increased by 2.3 billion euros to about 30 billion euros. Accounts receivable were up by 1.1 billion euros mainly due to the seasonal Agricultural Solutions business. Inventories amounted to 10.3 billion euros down by almost 1 billion euros, reflecting our strict inventory management.
- Following the conclusion of the agreement to divest selected upstream assets on the Norwegian continental shelf to Tellus Petroleum, we transferred the respective assets and liabilities to a disposal group. This led to 'assets under disposal' of 1.1 billion euros and 'liabilities under disposal' of 0.5 billion euros.
- Total liabilities increased by 1.9 billion euros to around 45 billion euros. Long-term liabilities decreased by 1 billion euros mainly driven by the dissolution of provisions for pensions as a consequence of higher interest rates. Short-term liabilities increased by roughly 3 billion euros due to the payment of dividends in the amount of 2.8 billion euros.
- Net debt increased by 1.4 billion euros to 15.1 billion euros.
- At 40.4 percent, our equity ratio remains on a healthy level.

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Outlook 2015 confirmed

Outlook 2015

- We aim to increase volumes and sales excluding the effects of acquisitions and divestitures.
- Sales are expected to be slightly higher than in 2014, driven by higher sales in the Performance Products and Functional Materials and Solutions segments.
- EBIT before special items will likely match the level of 2014. We anticipate larger contributions from our chemicals and crop protection businesses, whereas earnings in the Oil & Gas segment are expected to decrease considerably due to the lower price of oil.
- We aim to earn again a substantial premium on our cost of capital, but on a lower level than in 2014.

Assumptions 2015

GDP:	+2.4% (+2.8%)
Industrial production:	+2.9% (+3.6%)
Chemical production (excl. pharma):	+3.8% (+4.2%)
US$ / Euro:	1.15 (1.20)
Brent oil price (US$ / bbl):	60-70

Kurt Bock

[Chart 14: Outlook 2015 confirmed]

Coming to the outlook:

As we already outlined, the macroeconomic environment does not develop as we had expected. Compared to our assessment in Q1 reporting, we reduce our macroeconomic assumptions for 2015 as follows:

- Global GDP growth is expected to be lower, at 2.4 percent.
- Industrial production is expected to grow by 2.9 percent.
- We reduce the growth expectation for the chemical production to 3.8 percent.
- We adjust our US$/€ exchange rate forecast to 1.15.
- Our assumption for the oil price remains unchanged at a level of 60 – 70 USD per barrel Brent.

Despite these macroeconomic headwinds, we are on track to meet our Full Year 2015 guidance for BASF Group.

Therefore, we confirm our outlook:

- Overall, we will continue to grow volumes and sales in 2015.
- Sales are expected to be slightly higher than in 2014, driven by higher sales in the Performance Products and Functional Materials and Solutions segments.
- EBIT before special items will likely match the level of 2014. We anticipate larger contributions from our chemicals and crop protection businesses, whereas earnings in the Oil & Gas

segment are expected to decrease considerably due to the lower price of oil.

- We aim to earn again a substantial premium on our cost of capital, but on a lower level than in 2014, when we had a number of special effects from divestitures.

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

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