BASF 1st Quarter 2016 Analyst Conference Call

April 29, 2016, 8:30 a.m. (CEST), Mannheim

Analyst Conference Call Script

Hans-Ulrich Engel

Marc Ehrhardt

The spoken word applies.

Cautionary note regarding forward-looking statements

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Q1 2016: BASF with slightly lower earnings compared to strong prior-year quarter

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Financial figures	Q1 2016	Q1 2015	Change
Sales	€14.2 billion	€20.1 billion	(29%)
EBITDA	€2.8 billion	€2.9 billion	(3%)
EBIT before special items	€1.9 billion	€2.1 billion	(8%)
EBIT	€1.9 billion	€2.0 billion	(6%)
Net income	€1.4 billion	€1.2 billion	+18%
Reported EPS	€1.51	€1.28	+18%
Adjusted EPS	€1.64	€1.43	+15%
Operating cash flow	€1.0 billion	€2.4 billion	(56%)

Sales development	Volumes	Prices	Portfolio	Currencies
Q1 2016 vs. Q1 2015	0%	↓ (6%)	↓ (22%)	↓ (1%)

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Hans-Ulrich Engel

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

[Chart 3: Q1 2016: BASF with slightly lower earnings compared to strong prior-year quarter]

Since the publication of our full-year 2015 results end of February, the macroeconomic environment has not materially changed. It is characterized by low growth, high volatility and deflationary pressure from the low prices of oil and gas as well as other commodities.

We continue to work on those areas we can directly influence. We have achieved further productivity improvements and remain focused on cost and cash management. We are implementing our three-year operational excellence program DrivE. Compared with baseline 2015, it targets an annual earnings contribution of 1 billion euros as of the end of 2018.

The ongoing restructuring measures in the Performance Products segment are progressing well and are effective. We are confident to achieve the targeted run rate of 400 million euros in annual earnings contribution compared with baseline 2012 by the end of this year.

Let me now discuss BASF's business performance in Q1 2016.

The base for comparison is an operationally strong first quarter of 2015 in the chemicals business and in our Agricultural Solutions segment, which was primarily offset by high provisions for our long-term incentive (LTI) program in Other.

In Q1 2016 the demand trends we saw at the end of 2015 continued. In the first two months of the year, customers maintained a very cautious ordering approach. In March, however, business picked up in many of our divisions.

Turning to the results compared to Q1 2015 in more detail:

- Sales in the first quarter of 2016 decreased by 29 percent to 14.2 billion euros, driven by portfolio effects of minus 22 percent. This was mainly related to the asset swap with Gazprom, which we completed at the end of September 2015. The disposed gas trading and storage activities had accounted for 4.2 billion euros of sales in the prior-year quarter. In Q1 2016, prices declined by 6 percent, and we saw negative currency effects of minus 1 percent. Volumes were stable on Group level, with a slight increase in our chemicals business. The latter was mainly driven by strong demand in Functional Materials & Solutions.
- EBITDA declined by 3 percent to 2.8 billion euros overall. However, we saw an increase in the Performance Products and Agricultural Solutions segments.
- EBIT before special items came in 8 percent lower at 1.9 billion euros. Again Performance Products and Agricultural Solutions developed positively, as did Functional Materials & Solutions.
- The earnings development on segment level in Q1 2016 is in line with our full-year outlook: In the Chemicals and Oil & Gas segments, earnings declined significantly, while in Performance Products, Functional Materials & Solutions and Agricultural Solutions, EBIT before special items slightly increased. Earnings in Other improved considerably.

- At around 1.9 billion euros, EBIT was 6 percent lower. We incurred special items of minus 40 million euros, mainly from restructuring measures.
- Income taxes dropped by half and amounted to 258 million euros. The tax rate fell to 15.4 percent from 29.7 percent in the first quarter of 2015. This was triggered by lower earnings from highly taxed activities, in particular the oil and gas business in Norway.
- At 1.4 billion euros, net income rose by 18 percent compared with the prior-year quarter.
- Earnings per share increased to 1.51 euros in Q1 2016 versus 1.28 euros in the same period last year. Adjusted earnings per share were 1.64 euros compared with 1.43 euros in the prior-year quarter.
- Cash provided by operating activities was 1 billion euros in Q1 2016, a decrease of around 1.3 billion euros compared to the first quarter of 2015. Payments related to plant, property, equipment and intangible assets were reduced by almost 300 million euros, to 1 billion euros, as several major investment projects concluded.


Milestones in Q1 2016
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Start-up of butanediol plant at the integrated PolyTHF complex in Korla, China
JV with Avantium intended for production of furandicarboxylic acid (FDCA) in Belgium
Joint operation of polyoxymethylene (POM) with Kolon Plastics planned in Korea
Update of peak sales potential for product launches in Agricultural Solutions
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[Chart 4: Milestones in Q1 2016]

Ladies and gentlemen, let me highlight a few milestones of Q1 2016.

We have continued to strengthen our asset base:

- In Korla, China, the butanediol plant at the integrated PolyTHF complex was started up. It is operated by our joint venture partner Xinjiang Markor.

We also announced plans to form new joint ventures and joint operations:

- Together with Avantium we want to establish a joint venture for the production and marketing of furandicarboxylic acid (FDCA). FDCA is produced from renewable resources and it is the essential chemical building block for the production of polyethylenefuranoate (PEF). Compared to conventional plastics like PET, PEF provides improved barrier properties for gases like carbon dioxide and oxygen. We intend to construct an FDCA production plant with a capacity up to 50,000 metric tons per year at BASF's Verbund site in Antwerp, Belgium.
- With Kolon Plastics we agreed to establish a 50:50 joint operation in South Korea to manufacture polyoxymethylene (POM), an engineering plastic used in industrial, transportation, construction and consumer markets. Operations are scheduled to start at Kolon's site in Gimcheon, South Korea, in the second half of 2018, providing annual production capacity of 70,000 metric tons. Following the start-up of this plant, we will discontinue the production of POM in Ludwigshafen.

We continue to optimize our portfolio:

- As announced on April 22, BASF signed an agreement to sell its global polyolefin catalysts business to W.R. Grace & Co. We expect to close the transaction in the third quarter of 2016.
- In February, we agreed to sell our industrial coatings business to AkzoNobel for 475 million euros. The closing of this transaction is expected by the end of 2016.
- On April 20, we announced our plan to acquire the assets of Guangdong Yinfan Chemistry Co., Ltd. in China. This transaction will allow BASF to establish a stronger automotive refinish coatings production footprint in China. It also broadens our portfolio by adding the Yinfan product line to our global brands.

Our investments in research and development effectively support our future growth:

- We updated you in late February that the projected peak sales potential of product launches in Agricultural Solutions between 2015 and 2025 is 3 billion euros, compared to 2.3 billion euros between 2010 and 2020. This illustrates the strength of our crop protection pipeline.
- Together with the International Automotive Components Group, BASF has developed the first roof frame for cars that is entirely made of natural fiber. Our Acrodur® 950 L binder ensures the necessary loading capacity and heat resistance of this lightweight component. This is just one example of the innovative solutions BASF is offering as the largest chemicals supplier to the automotive industry.

In 2015, our sales to this industry were more than 10 billion euros. Between 2007 and 2015, the annual compounded growth rate of BASF's sales to the automotive industry – excluding precious metals and refinish coatings – was 6.7%. For comparison: In the same period, the number of vehicles produced increased by an average of 2.8% per year.

Now Marc Ehrhardt, head of our Finance division at BASF, will comment on the segments.

Chemicals

Lower margins and higher fixed costs result in considerably decreased earnings

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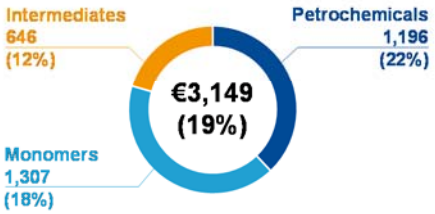
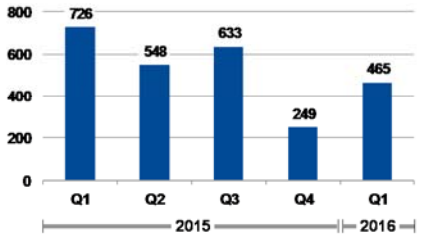
Sales Q1 2016 vs. Q1 2015
million €



EBIT before special items
million €



Sales development	Volumes	Prices	Portfolio	Currencies
Q1 2016 vs. Q1 2015	↓ (3%)	↓ (16%)	0%	0%

[Chart 5: Chemicals – Lower margins and higher fixed costs result in considerably decreased earnings]

Thank you, Hans, and good morning from my side, ladies and gentlemen.

Sales in **Chemicals** came in considerably lower in the first quarter of 2016. All divisions were impacted by the effects of lower raw material costs on prices. While we saw high margins in the prior-year quarter, we experienced pressure in several businesses in Q1 2016 caused by oversupplied markets. Fixed costs increased, particularly due to the start-up of plants. Overall, EBIT before special items decreased considerably.

- In **Petrochemicals**, sales dropped significantly, as prices came down sharply following the oil price decline. Volumes were slightly lower, as additional volumes from new plants could not fully offset lower volumes from the splitter in Port Arthur, Texas. Despite an improvement in Europe and Asia, overall cracker margins decreased on lower margins in North America. New plants increased the fixed cost base. EBIT before special items was considerably lower compared to Q1 2015.
- Sales in **Monomers** strongly declined, mainly driven by lower prices due to lower raw material prices. We also experienced a slight decrease in volumes. Sales volumes of MDI were higher. Caprolactam sales to third parties decreased due to higher captive use for our Ultramid® polymerization plant in Shanghai, which was started up in May 2015.

Margin pressure in isocyanates and caprolactam continued. While we managed to slightly reduce operational fixed costs, the start-up of new plants had an adverse effect. Overall, EBIT before special items fell sharply.

- In **Intermediates**, sales came in considerably below the prior-year quarter, following lower raw material prices. Volumes were stable. Higher sales volumes in polyalcohols and amines could compensate for significantly lower sales volumes in butanediol and derivatives. EBIT before special items declined considerably. This was caused by continued margin pressure, especially in butanediol, and higher fixed costs related to new plants.

Performance Products

Increase in earnings by 6%, supported by successful restructuring

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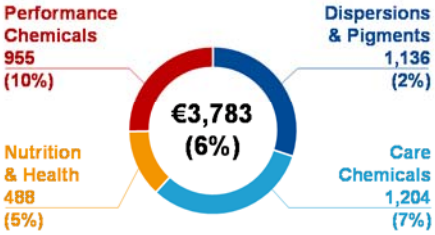
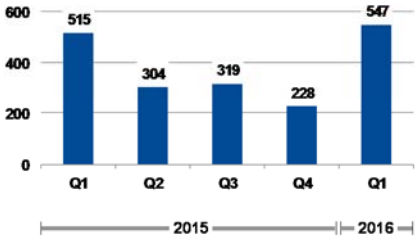
Sales Q1 2016 vs. Q1 2015
million €



EBIT before special items
million €



Sales development	Volumes	Prices	Portfolio	Currencies
Q1 2016 vs. Q1 2015	↑ 1%	↓ (4%)	↓ (2%)	↓ (1%)

[Chart 6: Performance Products – Increase in earnings by 6%, supported by successful restructuring]

Sales in **Performance Products** declined significantly. A slight volume increase was more than offset by lower prices, portfolio effects from the divestiture of several businesses, and currency headwinds. We were able to increase EBIT before special items by 6 percent, supported by successful restructuring measures and strict cost management as well as higher volumes.

- In **Dispersions & Pigments**, sales were down slightly. Prices declined, mainly due to lower raw material costs, particularly for dispersions and resins. Demand developed well in all regions except for South America. We saw volume growth in pigments, dispersions and additives. EBIT before special items increased significantly due to higher volumes, improved margins and lower fixed costs.
- Sales in **Care Chemicals** decreased considerably. Prices declined, primarily as a consequence of lower raw material costs but also because of competitive pressure, especially in the hygiene business. Slightly lower volumes and negative currency effects contributed to the decline in sales. Fixed costs were stable, despite the start-up of new plants. EBIT before special items declined considerably, mainly as a result of lower margins.
- Sales in **Nutrition & Health** came in slightly lower, mainly driven by the divestiture of parts of the pharma ingredients & services business. We increased volumes in all businesses, more than offsetting lower prices and negative currency effects.

Due to the successful implementation of our restructuring measures, fixed costs decreased. In combination with higher volumes this led to significantly higher earnings.

- Sales in **Performance Chemicals** declined considerably. This was mainly due to the divestiture of the textile chemicals and paper hydrous kaolin businesses. Prices declined on lower raw material costs, and we experienced currency headwinds. Sales volumes were down slightly, mainly due to significantly lower demand for oilfield chemicals. However, we were able to raise volumes in other areas, such as plastic additives. Strict fixed cost management led to a slight increase in EBIT before special items.

Functional Materials & Solutions

Good demand from the automotive and construction industries

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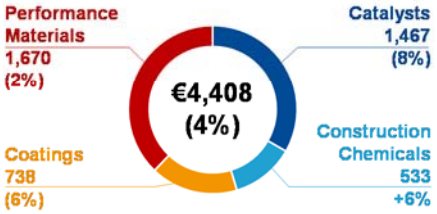
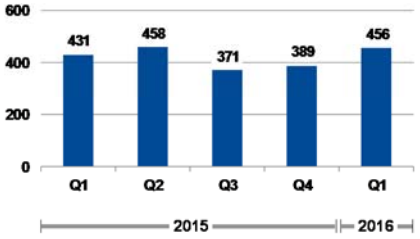
Sales Q1 2016 vs. Q1 2015
million €



EBIT before special items
million €



Sales development	Volumes	Prices	Portfolio	Currencies
Q1 2016 vs. Q1 2015	↑ 5%	↓ (7%)	0%	↓ (2%)

[Chart 7: Functional Materials & Solutions – Good demand from the automotive and construction industries]

Sales in **Functional Materials & Solutions** decreased slightly. Good demand from the automotive and construction industries led to an increase in volumes. Prices decreased mainly due to lower precious metals prices. In addition, we experienced currency headwinds. EBIT before special items increased by 6 percent, supported by improved margins and higher volumes in Performance Materials and Construction Chemicals.

- Sales in **Catalysts** were down significantly, as higher volumes could not fully offset the price decrease driven by lower precious metals prices. Demand for our mobile emissions catalysts developed positively in all market segments and regions. Sales volumes in chemical catalysts, however, were lower. Sales in precious metals trading decreased to 499 million euros versus 612 million euros in the same period last year. Fixed costs were stable. EBIT before special items came in significantly below the prior-year level, mainly caused by lower contributions from the chemical catalysts business.
- In **Construction Chemicals** sales increased significantly, driven by strong volume growth, particularly in North America and the Middle East. This more than offset negative currency effects. Prices declined slightly because of lower raw material costs. EBIT before special items increased significantly, driven by higher volumes and improved margins.

- Sales in **Coatings** decreased significantly, caused by currency headwinds and slightly lower volumes. Prices were stable. While our OEM coatings business developed well, particularly in North America, demand for refinish coatings declined. Our decorative paints business in Brazil suffered from negative consumer sentiment and currency headwinds. EBIT before special items decreased significantly due to product mix effects and lower volumes.
- In **Performance Materials** sales declined slightly. Volume growth was mainly offset by lower prices, and we also experienced negative portfolio and currency effects. Our business with the automotive industry continued to develop positively, as we saw good demand, especially for thermoplastic polyurethane and Cellasto®. Sales for biopolymers also developed well. Sales to the construction industry were negatively affected by the divestiture of our expandable polystyrene (EPS) business in North and South America at the end of March 2015. Fixed costs increased, mainly due to the start-up of new plants. EBIT before special items, however, rose considerably due to better margins from an improved product mix.

Agricultural Solutions

Slight earnings increase in a challenging market environment

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Sales
million €

EBIT before special items
million €

Sales development	Volumes	Prices	Portfolio	Currencies
Q1 2016 vs. Q1 2015	↓ (5%)	↑ 2%	0%	↓ (3%)

[Chart 8: Agricultural Solutions – Slight earnings increase in a challenging market environment]

Sales in **Agricultural Solutions** came in significantly below Q1 2015. Volumes decreased, as channel inventories were high. Currency effects were negative. Higher prices could not offset these impacts. Despite the challenging market environment we were able to slightly increase EBIT before special items. Our strict fixed-cost management and improved margins contributed to this.

- Sales to customers in **Europe** almost reached the level of the prior-year quarter. Prices and volumes were higher, particularly for herbicides in Eastern Europe and for specialty crop fungicides in Southern Europe. This nearly compensated for lower fungicides volumes in Western Europe and negative currency effects.
- Sales in **North America** declined considerably, especially in herbicides and fungicides. This was the result of high channel inventories and the cautious ordering behavior of our customers.
- Sales in **Asia** were considerably lower compared to the prior-year quarter. Volumes decreased, mainly due to higher customer inventories, particularly in Japan and China.
- Sales in **South America** decreased significantly as a result of lower volumes and negative currency effects. We experienced lower demand in Brazil, especially for insecticides and fungicides. High inventories and the challenging market environment for our customers in Brazil negatively impacted our business.

We will continue to strengthen our portfolio with innovative solutions in all indications. Recently, we submitted the regulatory dossier for a new active ingredient, Revysol®, to the European Union.

This fungicide is expected to become a new blockbuster. We are also working on the launch of a new insecticide, Inscalis™. First registration dossiers have been submitted to the authorities in the U.S. and Canada for use on a wide range of crops. We plan to introduce another insecticide active ingredient, Broflanilide, by the end of the decade.

Oil & Gas

Significantly lower sales and earnings

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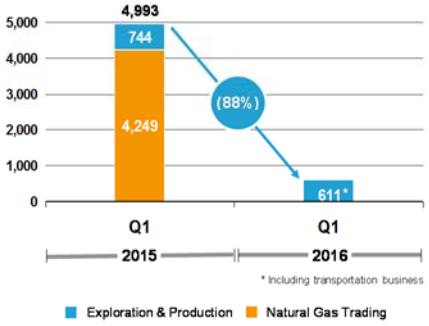
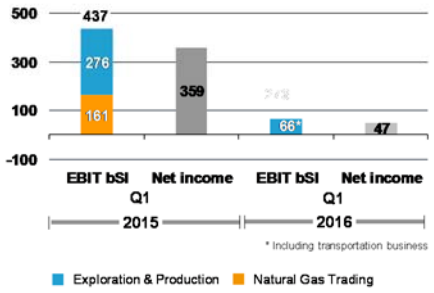
Sales
million €



EBIT before special items, net income
million €



Sales development	Volumes	Prices/Currencies	Portfolio
Q1 2016 vs. Q1 2015	↑ 2%	↓ (4%)	↓ (86%)

[Chart 9: Oil & Gas – Significantly lower sales and earnings]

Sales in **Oil & Gas** decreased significantly, mainly due to the missing contributions from the natural gas trading and storage business following the asset swap with Gazprom at the end of September 2015. In addition, lower oil and gas prices contributed to the drop and could not be offset by higher production volumes, especially from Norway. In the continuing oil and gas business, volumes grew by 12% compared with the first quarter of 2015, whereas price and currency effects were minus 27%. The average oil price of Brent crude in Q1 2016 was 34 U.S. dollars per barrel compared to 54 U.S. dollars in the same period last year. Gas prices on the European spot markets also fell sharply compared with the prior-year quarter.

Consequently, EBIT before special items declined from 437 million euros to 66 million euros.

Please keep in mind that throughout 2016 we will have lower earnings from our share in the Yuzhno Russkoye natural gas field. This year, the excess amounts received over the last 10 years will be offset by lower volumes, as contractually agreed with Gazprom.

Net income in Oil & Gas decreased from 359 million euros to 47 million euros.

Review of 'Other'

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million €		Q1 2016	Q1 2015
Sales		**477**	**688**
EBIT before special items		**(219)**	**(613)**
Thereof	Corporate research costs	(99)	(101)
	Costs of corporate headquarters	(55)	(55)
	Foreign currency results, hedging and other measurement effects	68	(382)
	Other businesses	18	35
Special items		(26)	(82)
EBIT		**(245)**	**(695)**

[Chart 10: Review of ‘Other’]

Sales in ‘Other’ decreased to 477 million euros, mainly due to lower contributions from raw material trading. EBIT before special items improved to minus 219 million euro. This was mainly attributable to two factors:

- In Q1 2016, we released provisions for the long-term incentive (LTI) program, while we incurred significant provisions in the same period of last year.
- Unlike the prior-year period, the currency result was slightly positive in Q1 2016.

Special items in ‘Other’ amounted to minus 26 million euros compared to minus 82 million euros in Q1 2015. The prior-year quarter included an employee bonus of around 100 million euros paid out in recognition of BASF’s 150th anniversary.

Cash flow Q1 2016

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million €		Q1 2016	Q1 2015
Cash provided by operating activities		**1,046**	**2,390**
Thereof	changes in net working capital	(1,248)	309
	miscellaneous items	(39)	5
Cash used in investing activities		**(1,258)**	**(1,502)**
Thereof	payments related to tangible / intangible assets	(1,001)	(1,278)
	acquisitions / divestitures	0	26
Cash used in / provided by financing activities		**1,997**	**(400)**
Thereof	changes in financial liabilities	1,996	(299)
	dividends	(4)	(101)

[Chart 11: Cash flow Q1 2016]

Let me now address the cash flow development.

In Q1 2016, cash provided by operating activities was 1 billion euros, a decrease of around 1.3 billion euros. This was attributable to changes in net working capital, which rose due to a seasonal increase in trade accounts receivable. The prior-year quarter significantly benefitted from a reduction of inventories, especially in the gas storage business, which we have since divested. In addition, the operating cash flow in the first quarter of 2015 was supported by an increase of operating liabilities and provisions.

At 1.3 billion euros, cash used in investing activities was 244 million euros lower than the prior-year quarter. Payments related to tangible and intangible assets decreased by 277 million euros and amounted to 1 billion euros. This is only slightly above the level of depreciation.

Free cash flow came in significantly lower than in the same period of 2015 and was 45 million euros.

Financing activities led to a cash inflow of 2 billion euros, compared with an outflow of 400 million euros in Q1 2015. We used the currently favorable financing conditions to further optimize the financing costs of the BASF Group.

Balance sheet remains strong

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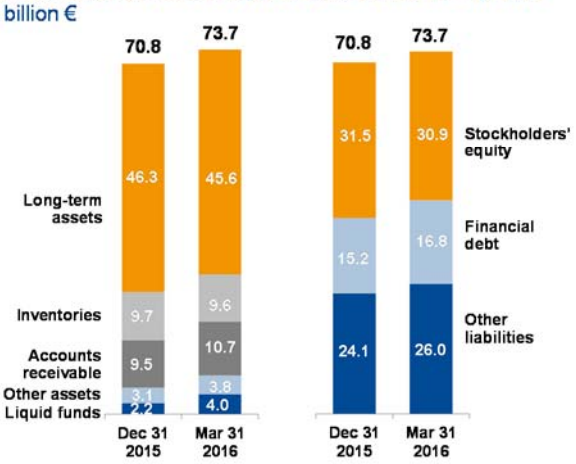
Balance sheet March 31, 2016 vs. December 31, 2015
billion €



- Total assets increased by €2.9 billion, mainly due to higher cash position and seasonally-driven increase in accounts receivable
- Long-term assets slightly lower caused by currency effects
- Provisions for pension obligations increased by €2.0 billion as a result of lower interest rates
- Net debt slightly declined to €12.8 billion
- Equity ratio: 42%

[Chart 12: Balance sheet remains strong]

Finally, let's look at our balance sheet.

- Compared to the end of 2015, total assets grew by 2.9 billion euros to 73.7 billion euros, mainly due to a higher cash position ahead of the dividend payout in May and a seasonally driven increase in trade accounts receivable.
- Long-term assets were slightly lower due to currency effects. They amounted to 45.6 billion euros.
- On the liability side, provisions for pension obligations increased by 2.0 billion euros reflecting the lower interest rate environment.
- Short-term liabilities increased from 14.2 billion euros to 17.1 billion euros, mainly caused by a higher utilization of our commercial paper program and the reclassification of bonds from long to short-term.
- Financial debt rose by 1.6 billion euros to 16.8 billion euros. Net debt decreased by roughly 200 million euros to 12.8 billion euros.
- Our equity ratio remained at a healthy level and amounted to 42 percent.

And with that, back to you, Hans, for the outlook.

Outlook 2016 confirmed

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Outlook 2016

- Sales will be considerably below prior year, due to the divestiture of the natural gas trading and storage activities and the lower oil and gas prices. Excluding the effects of acquisitions and divestitures, we expect higher volumes in all segments.
- We expect EBIT before special items to be slightly below the previous year driven by drastically lower earnings of Oil & Gas. We plan higher earnings in our chemicals business and in the Agricultural Solutions segment.
- EBIT after cost of capital is expected to be significantly below prior year. However, we still expect to earn a premium on our cost of capital.

Assumptions 2016

GDP growth:	+2.3%
Growth in industrial production:	+2.0%
Growth in chemical production (excl. pharma):	+3.4%
Exchange rate:	$1.10 per euro
Oil price (Brent):	$40 per barrel

[Chart 13: Outlook 2016 confirmed]

Today, we are confirming our sales and earnings outlook for 2016, as provided at the end of February:

- Sales in 2016 will be considerably below prior year, due to the divestiture of the natural gas trading and storage activities as well as lower oil and gas prices.
- Excluding the effects of acquisitions and divestitures, we continue to expect higher volumes in all segments, supported by our increased capacities.
- We estimate EBIT before special items to be slightly below the previous year. Based on our oil and gas price scenario, we will see a drastic reduction of our Oil & Gas earnings, which cannot be offset by higher earnings in our chemicals business and in the Agricultural Solutions segment.
- We also expect a slightly lower EBIT than in 2015.
- EBIT after cost of capital will be significantly below prior year, but we still expect to earn a premium on our cost of capital.

Our expectations for the global economic environment in 2016 remain unchanged. We continue to expect an average oil price of 40 U.S. dollars per barrel Brent and an average exchange rate of 1.10 U.S. dollars per euro. The global economy will presumably grow at a level approximating that of 2015.

In the current volatile and challenging macroeconomic environment, we continue to regard our targets for 2016 as ambitious and particularly dependent on oil price developments. However, the Q1 results provide a good base to achieve these targets.