

News Release



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BASF: Market environment remains volatile and challenging

Full year 2015:

- Sales €70.4 billion (minus 5%)
- EBIT before special items €6.7 billion (minus 8%)
- EBIT €6.2 billion (minus 18%)
- Higher earnings in the chemicals business; Oil & Gas considerably below previous year
- Earnings per share €4.34 (minus 23%); Adjusted earnings per share €5.00 (minus 8%)
- Record operating cash flow of €9.4 billion (plus 36%)
- Dividend proposal of €2.90 for business year 2015

Outlook 2016:

- Considerable sales decline due to divestiture of gas trading business
- EBIT before special items expected at level slightly below 2015, based on an average oil price of \$40 per barrel

Speech by

Dr. Kurt Bock, Chairman of the Board of Executive Directors and
Dr. Hans-Ulrich Engel, Chief Financial Officer of BASF SE

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The spoken word applies.

Ladies and Gentlemen,

Welcome to our press conference in Ludwigshafen.

Let me begin with some facts and figures: For 2015, we had anticipated growth in global gross domestic product to be 2.8% and growth in global chemical production to be 4.2%; in fact, the growth rates were only 2.4% and 3.6% respectively. Over the course of the year, global economic growth slowed significantly. Dampening effects came mainly from emerging markets, especially from China where growth weakened considerably. Brazil and Russia are both in a deep recession. The average annual oil price in 2015 declined by almost half compared with the previous year: It decreased from \$99 per barrel to \$52 per barrel.

In this economic environment, we have taken decisive measures: We have significantly reduced our inventories, strengthened our cost management and pruned our portfolio. We continue to pursue our long-term strategy. We want to grow and make BASF even more profitable. In 2050, nearly ten billion people will live on Earth. While the world's population and its demands will keep growing, the planet's resources are finite. Chemistry helps to provide innovative and sustainable solutions. This remains the cornerstone of our "We create chemistry" strategy.

Sales and earnings of BASF Group in the 4th quarter and full year 2015

Now, a look at the numbers for the fourth quarter of 2015: At €13.9 billion, sales were 23% below the level of the same quarter of the previous year. This was mainly due to the asset swap with Gazprom, which was completed at the end of September. As a result of the swap, the sales contribution of roughly €3 billion from the gas trading and storage business ceased in the Oil & Gas segment in the fourth quarter of 2015. In total, portfolio measures in the fourth quarter reduced sales by 19%. Due to lower raw material prices, sales prices declined by 11%; volumes grew by 4%. Positive currency effects contributed 3%.

Income from operations (EBIT) before special items fell by €436 million to about €1 billion in the fourth quarter. The decline was especially due to significantly lower earnings in the Oil & Gas and Chemicals segments compared with the previous fourth quarter. Earnings in Oil & Gas decreased primarily due to lower prices, whereas in the Chemicals segment the decline was mainly attributable to lower margins in the Petrochemicals division.

For the full year, sales decreased by 5% to €70.4 billion. Sales prices fell in almost all divisions (minus 9%), largely on account of the sharp drop in raw material prices. Sales volumes in 2015 rose slightly overall (plus 3%), mainly as a result of higher volumes in the Oil & Gas segment. Volumes in the chemicals business, which comprises the Chemicals, Performance Products and Functional Materials & Solutions segments, were almost at the same level as the previous year. We were able to raise volumes and prices in the Agricultural Solutions segment. Currency effects positively influenced sales in all segments (plus 6%). The asset swap with Gazprom reduced sales (portfolio: minus 5%).

At €6.7 billion, EBIT before special items was €618 million below the level of the previous year. Major influences here were the oil-price-related decline in sales from our oil and gas production activities as well as decreased earnings in Other, mainly brought about by currency effects. Contrasting this was the significant increase in earnings in the Functional Materials & Solutions segment

Hans Engel will give details on the segments and financial data later.

Dividend proposal of €2.90

We stand by our ambitious dividend policy and plan to propose a dividend of €2.90 per share for the business year 2015 at the Annual Shareholders' Meeting (previous year: €2.80). We would thus pay out around €2.7 billion to our shareholders. Based on the year-end share price for 2015 of €70.72, BASF shares again offer a high dividend yield of around 4.1%. We continue to aim to increase our dividend each year, or at least maintain it at the previous year's level.

“We create chemistry” strategy

We cannot predict or change many of the factors that influence our business. We therefore work with scenarios and stay the course even in volatile times. The investment projects we have completed in the previous months negatively affect our earnings in a weak economic environment. However, they are the basis for future growth – in Europe, in North America and in emerging markets. The emerging markets provide great opportunities for BASF, even if they are growing more slowly than expected at the moment. Just consider the fact that growth of “only” 7.0% in gross domestic product in China means additional economic output equivalent to the annual GDP of Sweden – this illustrates the importance of the Chinese market for the global economy. Chemical production in China now accounts for a good third of global production.

Our Verbund system is the basis for our long-term success. It is unique in the industry. We will continue to expand this sophisticated and profitable system, which encompasses the Production Verbund, Technology Verbund and Know-How Verbund. This is how we combine our strengths and add value as one company.

To be successful in the market, we concentrate on the things we can influence. We want to be an attractive supplier and partner for our customers. With innovative products and solutions and excellent service, we want to convince them to buy from us. And we succeed in this: In about 70% of the business areas in which we are active, BASF occupies one of the top three market positions

Competence in production

In the production of chemicals, excellence in production processes and reliably high product quality are essential. To achieve this, we rely on our chemical and technical expertise. The following two examples demonstrate this:

- Over the past few years, we have been constantly improving our production process for **isononanol** (INA), an important precursor for products like plasticizers. We have been able to increase the

production and energy efficiency as well as the flexibility of this process and expand its raw material base, so that in addition to steam cracker products, side streams from refineries can also be used as a raw material. This increases our supply security and improves our cost structure. Together with our partner Sinopec, we started up the first INA production plant in China in October 2015, and thus successfully implemented the new production process.

- As a cleaning chemical, **sulfuric acid** plays a critical role in the electronics industry when it comes to producing microchips. Semiconductor manufacturers are constantly competing to develop even higher-performance computer chips for electronic devices. The product's increased purity reduces deposits, allowing very fine structures to be created. Our ultrapure sulfuric acid provides a level of purity 20 times higher than existing standards. It enables our customers, for the first time, to produce surface patterns on a 10-nanometer scale, which is 10,000 times thinner than a human hair. This allows for chips that are 7 times faster and 2.5 times more energy efficient than today's usual 22-nanometer scale.

Competence in research & development

We focus our research on the segments where our customers place value on product innovations: 26% of our research and development spending in 2015 was in the Agricultural Solutions segment, and 20% each in the Functional Materials & Solutions and Performance Products segments.

Expenditures on research and development were €1.95 billion in total last year. A vital factor for our success is also a global research and development presence. The increased footprint outside Europe creates new opportunities for fortifying and expanding customer relations and scientific collaborations. This strengthens our Research and Development Verbund and makes BASF an even more attractive partner and employer in the regions. We continued to broaden our activities in 2015, especially in Asia.

- In May, we opened an agricultural research station in Pune, India. The new facility focuses on global research in the areas of herbicides, fungicides and insecticides, as well as on the area of Functional Crop Care. In addition, we are also addressing topics there that are especially relevant for India.
- The extension of our Innovation Campus Asia Pacific in Shanghai, China, was inaugurated in November, strengthening regional research capacity for new materials and systems, as well as our power of innovation in both the Asia Pacific region and the world.

Researchers at the Innovation Campus have already developed new applications for the region. One example is utility poles made with BASF's polyurethane system Elastolit[®] that were developed in collaboration with customers in Asia. Based on filament winding technology, the utility poles are at least 2.5 times more wind-resistant than concrete utility poles, but weigh only 250 kilogram each, about one fourth the weight of concrete poles. In 2014, when typhoon Rammasun hit Guangdong province, they proved their superior wind resistance: While more than 70,000 concrete and metal utility poles were destroyed, the polyurethane poles remained standing.

Our research pipeline comprises approximately 3,000 projects. In order to bring promising ideas to market even faster, we regularly assess our research projects using a multistep process that allows us to define focus areas and adjust or even discontinue research projects.

As part of our regular portfolio review in plant biotechnology, we will refocus our research portfolio and will restructure our Plant Science operations. We will discontinue projects with extremely high technical challenges, which would require significant time and financial investment. We will accelerate projects such as herbicide tolerance and fungal resistant soybean. Through the adjustment of our site footprint in North America and Europe, approximately 350 positions are to be reduced. By refocusing our plant biotechnology portfolio, we will enable BASF to bring the most promising research projects to success.

Our innovation pipeline in the Agricultural Solutions segment comprises products to be launched between 2015 and 2025. With a current peak sales potential of €3 billion, the pipeline includes innovations from all business areas. One success story in our fungicide portfolio is Xemium®. It is currently used in 70 crops in 50 countries. Our Seltima® formulation from the Functional Crop Care portfolio offers farmers an efficient and environmentally friendly solution for guarding rice crops against fungal infections. The special encapsulation technology developed in the BASF Verbund ensures the precise release of its active ingredient exclusively on the rice leaf's surface.

Such innovations are an important success factor for BASF's long-term growth. In developing new products, we take advantage of the opportunities arising from value chains in the BASF Verbund.

Contribution of our products to sustainability

Our customers are putting an increasing emphasis on sustainability. We see business potential here, which we want to leverage with our innovations. We want to further increase the share of sales from products that contribute particularly to sustainability in their application.

Here, too, I want to give you an example: One of our "Accelerator" products is the chelating agent Trilon® M, which has established itself as a high-performance alternative to phosphate in dishwasher detergents. European Union regulations will almost entirely prohibit the use of phosphates for this application in Europe starting in 2017. In 16 states in the United States, this has already been the case since 2010. Chelating agents' most important task is to capture metal ions in dishwashing water in order to inhibit calcium buildup on dishes. Trilon® M is readily biodegradable and improves cleaning power. At the end of 2015, we started up a new plant for Trilon® M in Theodore, Alabama.

Active portfolio management

In 2015, we further focused our portfolio on high-growth businesses. We divested some business areas such as the global textile chemicals business as well as parts of the pharmaceutical ingredients and custom synthesis business. We concluded the swap of assets with Gazprom at the end of September 2015. With the swap, we are expanding our oil and gas production in western Siberia and exited the low-margin natural gas trading and storage business.

Last week, we reached a general agreement with AkzoNobel on the sale of our industrial coatings business for €475 million. With this transaction, BASF will further strengthen its focus on its core automotive OEM and automotive refinish coatings businesses as well as the Suviniil® brand decorative paints business in Brazil.

We further developed our portfolio in 2015 through smaller innovation and technology-driven acquisitions in Taiwan, China, Japan, Mexico and Germany. We strengthened the Performance Materials division through the acquisition of Taiwan Sheen Soon. The company is a leading manufacturer of precursors for adhesives based on thermoplastic polyurethanes (TPU). BASF can now provide its customers with integrated solutions for TPU materials and adhesives.

Outlook for full year 2016

The turbulent start to the year on the raw material and stock markets shows just how many uncertainties there are in an outlook for 2016. The year has begun subdued, mainly due to a weak volume development in China, where Chinese New Year was very early this year. Nonetheless, in 2016 we still expect the global economy to grow at about the same rate as in 2015. Growth in the European Union will remain comparable with prior-year levels. In the United States, growth is expected to slow down somewhat. We forecast that economic growth in China will continue to decelerate slightly and that the recession will ease up somewhat in Russia and Brazil. Global chemical production is likely to grow at a slightly slower rate than in 2015.

For our outlook, we assume the following economic conditions for 2016 (previous year figures in parentheses):

- Global economic growth: +2.3% (+2.4%)
- Growth in global chemical production (excluding pharmaceuticals): +3.4% (+3.6%)
- An average euro/dollar exchange rate of \$1.10 per euro (\$1.11 per euro)
- An average oil price (Brent) of \$40 per barrel (\$52 per barrel)

Risks continue to rise for the global economy. We nevertheless aim to raise sales volumes in all segments. BASF Group sales will decline considerably, however, especially as a result of the divestiture of the gas trading and storage business.

We expect EBIT before special items to be slightly below 2015 levels. This is an ambitious goal in the current volatile and challenging environment, and is particularly dependent on the development of the oil price. We expect a significant decrease in the Oil & Gas segment. In the Chemicals segment, we will not be able to match the good earnings of the first three quarters of 2015 and expect a significantly lower contribution. In contrast, we aim to increase earnings slightly in the remaining three segments.

We expect EBIT to decline slightly overall in 2016. In addition to a lower level of EBIT before special items, this assumption reflects the charges expected to arise from restructuring measures.

In 2015, we invested around €5.2 billion in property, plant and equipment, compared with €5.1 billion in the previous year (excluding additions to property, plant and equipment resulting from acquisitions, capitalized exploration, restoration obligations and IT investments). We presume that average yearly investment between 2016 and 2020 will be lower compared with 2015, after having started up operations at several major plants. For 2016, we plan total investments of around €4.2 billion. Compared with the previous year, we thus aim to reduce capital expenditures by €1 billion.

At the same time, we are working on increasing our productivity and lowering costs. Our strategic excellence program, DrivE, also contributes to this aim. As of the end of 2018, we expect this program to contribute around €1 billion in earnings each year compared with baseline 2015.

And now Hans Engel will give you additional details on the segments and financial data.

[Presentation Hans-Ulrich Engel]

Development of the segments

In the **Chemicals** segment, sales in the fourth quarter fell by 22% to €3.2 billion mainly due to lower prices. EBIT before special items decreased by €331 million to €249 million, mainly as a result of declining margins in Petrochemicals. Full-year sales declined by 14% to €14.7 billion, largely due to lower prices on account of decreased raw material costs, especially in the Petrochemicals division. EBIT before special items fell by €211 million versus the previous year to €2.2 billion. This was primarily attributable to the declining margins in the Monomers division as well as rising fixed costs from the startup of new production plants, such as in Camaçari, Brazil, and Chongqing, China.

In the **Performance Products** segment, fourth-quarter sales declined by 2% to €3.6 billion due to prices and portfolio effects. Compared with the previous fourth quarter, EBIT before special items rose by €11 million to €228 million due to higher contributions from the Performance Chemicals and Dispersions & Pigments divisions. In the full year, sales were up by 1% to €15.6 billion. Positive currency effects in all divisions were able to more than compensate for lower sales prices and weaker volumes. At €1.4 billion, EBIT before special items was €89 million below the prior year's level because of higher fixed costs. These resulted from negative currency effects, the startup of new plants – such as those in Camaçari, Brazil, and Freeport, Texas – and inventory reductions.

In the **Functional Materials & Solutions** segment, sales in the fourth quarter increased by 1% to €4.5 billion due to higher volumes and positive currency effects. EBIT before special items grew by €169 million to €389 million, especially due to a higher earnings contribution from Performance Materials. We raised full-year sales by 5% to €18.5 billion. Prices declined slightly overall, with volumes stable; currency effects were positive. We increased EBIT before special items by €452 million to €1.6 billion, mainly because of the considerable improvement in earnings in the Performance Materials and Construction Chemicals divisions.

In a challenging and highly competitive business environment, sales in the **Agricultural Solutions** segment increased in the fourth quarter by 5% to €1.2 billion due to prices and volumes. EBIT before special items rose by €21 million to €144 million, especially due to the good business with herbicides in North America. Sales in 2015 exceeded the level of 2014 by 7% and reached €5.8 billion, primarily driven by higher sales prices. Over the course of the year, there were continued low prices for agricultural products and therefore a slowdown in demand for crop protection products. In emerging markets in particular, our business development was hindered by the volatile environment and depreciation of local currencies. At €1.1 billion, EBIT before special items almost reached the previous year's level (minus 2%).

In the **Oil & Gas** segment, fourth-quarter sales decreased by 82% to €731 million. This was largely a result of the asset swap with Gazprom completed at the end of September, through which contributions from the natural gas trading and storage business ceased. EBIT before special items was down by €220 million to €127 million. For the full year, sales declined by 14% to €13.0 billion. This was mainly due to the portfolio changes, but also due to the dramatic drop in the price of oil. Higher volumes in both the Exploration & Production and Natural Gas Trading business sectors had a positive effect on sales. EBIT before special items declined by €429 million to €1.4 billion as a result of the lower sales.

Sales in **Other** in the fourth quarter were €660 million, 6% below the same quarter of the previous year, especially due to lower prices in raw materials trading as well as the disposal of our share in Ellba Eastern Private Ltd., Singapore, at the end of 2014. EBIT before special items in the fourth quarter declined by €86 million to minus €114 million, mainly due to negative currency effects. For the full year, sales in Other shrank by 23% to €2.8 billion, mainly on account of a reduced contribution from raw materials trading. EBIT before special items dropped by €322 million compared with the previous year and was minus €888 million. Major factors were a lower currency result and higher expenses for provisions for our long-term incentive program.

Earnings development of the BASF Group in 2015

At €6.2 billion, EBIT for the BASF Group in 2015 was €1.4 billion lower than the previous year's level. Special items in 2015 resulted in an earnings impact to EBIT of minus €491 million compared to an earnings contribution of plus €269 million in 2014. This was mostly due to impairments of around €600 million on assets in the Oil & Gas segment, as a result of the strong decline in oil and gas prices in past months. The impairments had no effect on cash flow.

The financial result fell to minus €700 million in 2015, compared with minus €423 million in the previous year. The previous year had contained special income of €220 million from the disposal of our shares in VNG – Verbundnetz Gas AG. Earnings before taxes decreased by €1.7 billion in 2015 to €5.5 billion. Return on assets amounted to 8.7%, compared with 11.7% in the previous year.

Income taxes were reduced from €1.7 billion in 2014 to €1.2 billion in 2015. The tax rate fell from 23.8% to 22.5%, predominantly due to lower earnings contributions in countries with high tax rates, especially Norway, as compared with the prior year

Income before minority interests declined from €5.5 billion to €4.3 billion. Net income amounted to €4.0 billion, below the previous year's level of €5.2 billion. Earnings per share dipped from €5.61 to €4.34. In 2015, earnings per share adjusted for special items and amortization of intangible assets amounted to €5.00 compared with €5.44 in the previous year.

Record operating cash flow

At a record level of €9.4 billion, cash provided by operating activities in 2015 exceeded the previous year's level by €2.5 billion. This was largely attributable to a decrease in the amount of capital tied down in net working capital. Free cash flow rose by €2.0 billion to €3.6 billion in 2015 despite higher payments for property, plant and equipment and intangible assets.

At 44.5% (December 31, 2014: 39.5%), the equity ratio was at a very high level. Net debt decreased by €710 million to €13.0 billion.

Additional information is available in our Report 2015 that was published today. It also includes the audited financial statements of the BASF Group.

And now we look forward to answering your questions.