# Driving future growth

Dr. Jürgen Hambrecht, CEO

BASF
The Chemical Company


July 2008, London

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1 | BASF – A compelling investment story

2 | A different look at the portfolio

3 | Clear priorities for use of cash

4 | Outlook 2008 and beyond

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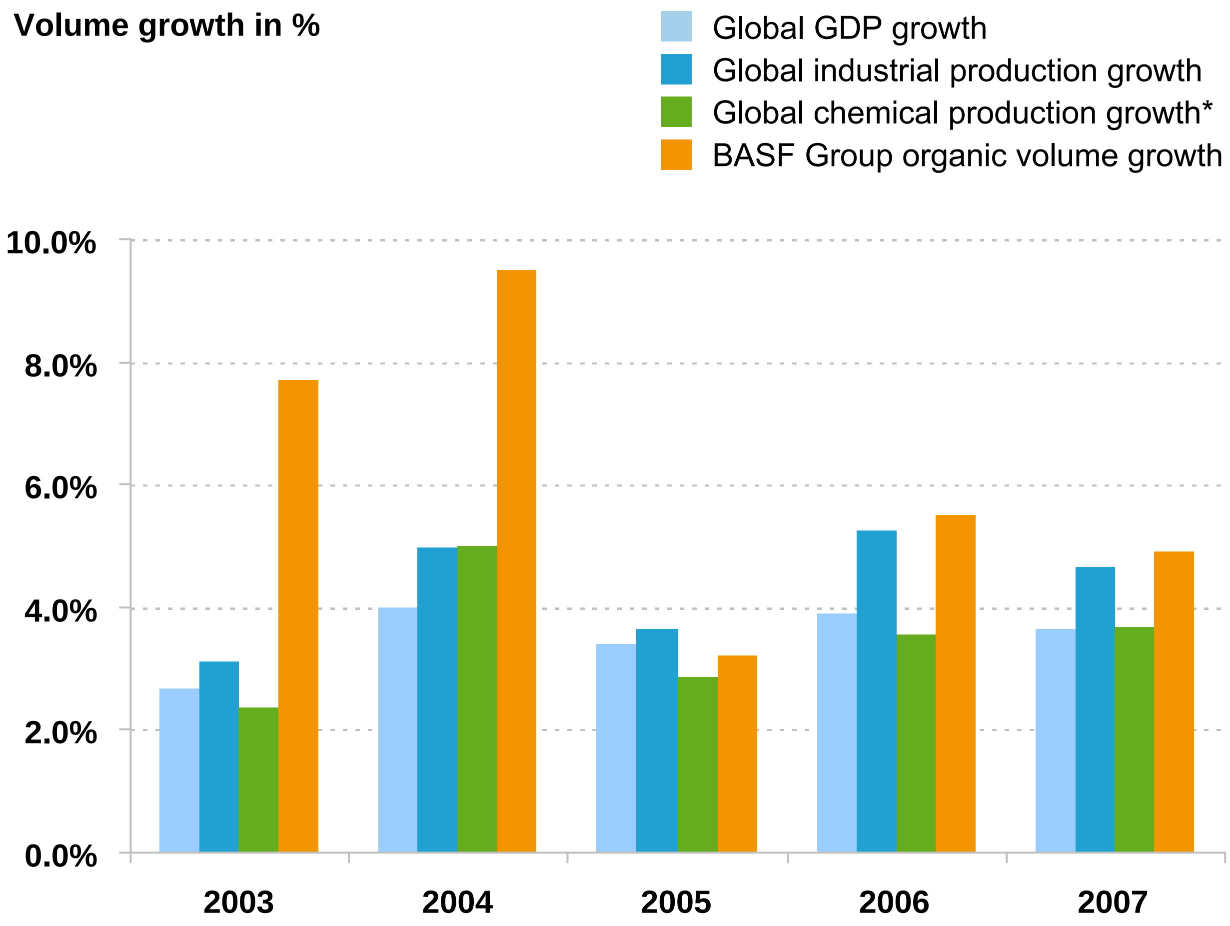
# BASF – A compelling investment story

- Organic volume growth* two percentage points above growth of chemical market
- Top-class 5-year EPS CAGR of 51%
- Outstanding free cash flow yield of 6.7% in 2007**
- Industry benchmark dividend yield of 4.5%***
- Sector-leading share buyback program

* Compound annual growth rate 2003-2007
** Based on the share price of December 31, 2007 (€101.41)
*** Based on the share price of June 30, 2008 (€43.82)

# Organic growth well above market

Volume growth in %




* Excluding pharma

**CAGR 2003-2007:**

**Market:**

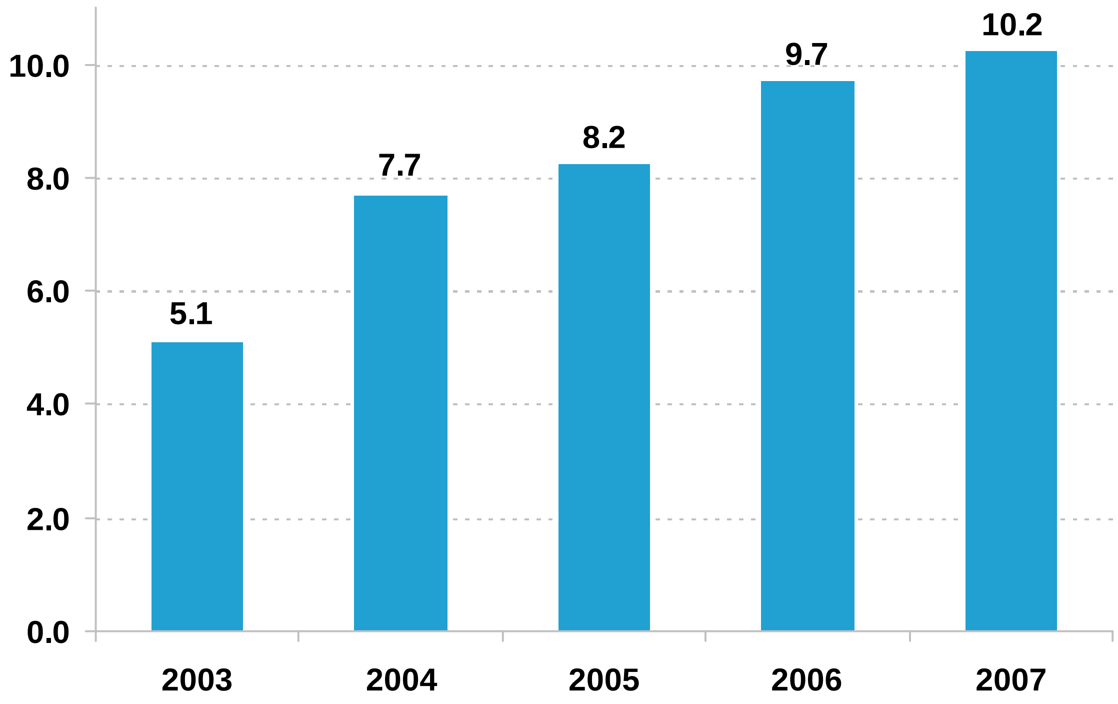
| | |
|---|---|
| Global GDP: | 3.7% |
| Global industrial production: | 4.6% |
| Global chemical production*: | 3.8% |

**BASF:**

| | |
|---|---|
| BASF Group organic volume: | 5.8% |

# Industry benchmark in EBITDA growth

**EBITDA* in billion €**




* EBITDA based on company reports 2003-2007

**EBITDA***
**CAGR 2003-2007:**

BASF Group: 19.0%

BASF Group (excl. non-deductible oil taxes): 18.0%

Peer Group

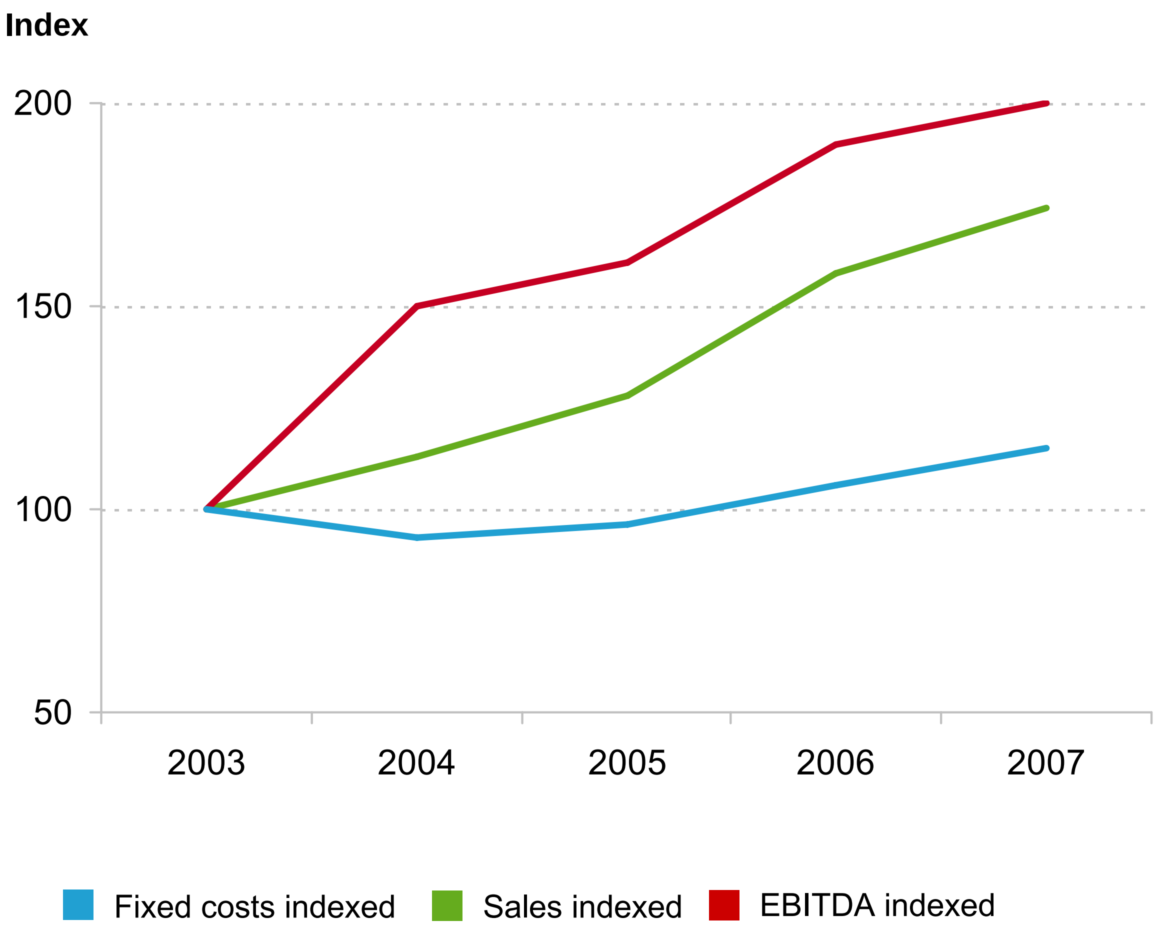
US peers**: 7.2 - 11.9%

EU peers***: (0.8) - 16.4%

** US peers: Dow, DuPont, PPG, Rohm&Haas

*** European peers: Akzo (excl. pharma and ICI), Bayer, Ciba, DSM, Rhodia, Solvay

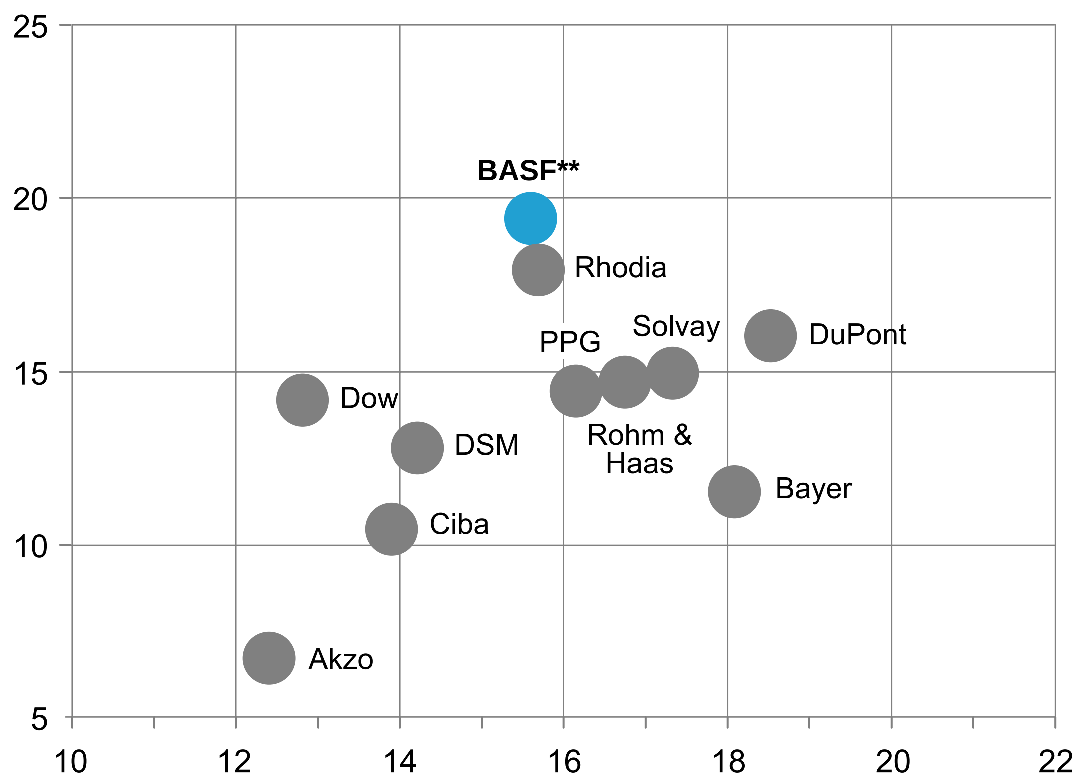
# Effective fixed cost management as key driver for sustainable EBITDA growth




- Restructuring and efficiency improvement programs reduced fixed costs by €1.3 billion
- Acquisitions in 2006 pushed fixed costs slightly up (excluding acquisitions fixed cost curve was flat).

# BASF – The leader in capital profitability

EBITDA* / assets in %




**EBITDA-margin**
**(EBITDA* / net sales to third parties in %)**

* EBITDA based on company reports 2007 (Akzo excl. pharma and ICI)
** BASF EBITDA excl. non-deductible oil taxes

# BASF today – A well-balanced portfolio

## Total sales 2007: €58 billion

**Percentage of sales**






| Chemicals | Plastics* | Performance Products | Functional Solutions | Agricultural Solutions | Oil & Gas |
|---|---|---|---|---|---|
| 16% | 17% | 15% | 16% | 6% | 18% |
| Inorganics | Performance Polymers | Acrylics & Dispersions | Catalysts | Crop Protection | Exploration & Production and Natural Gas Trading |
| Petrochemicals | Polyurethanes | Care Chemicals | Construction Chemicals | | |
| Intermediates | | Performance Chemicals | Coatings | | |

* Styrenics are reported under 'Other' following the transfer of the Specialty Plastics and Foams business units to the Performance Polymers division as of January 1, 2008

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# A different look at the portfolio

## Commodities versus specialties: Basic definition principles

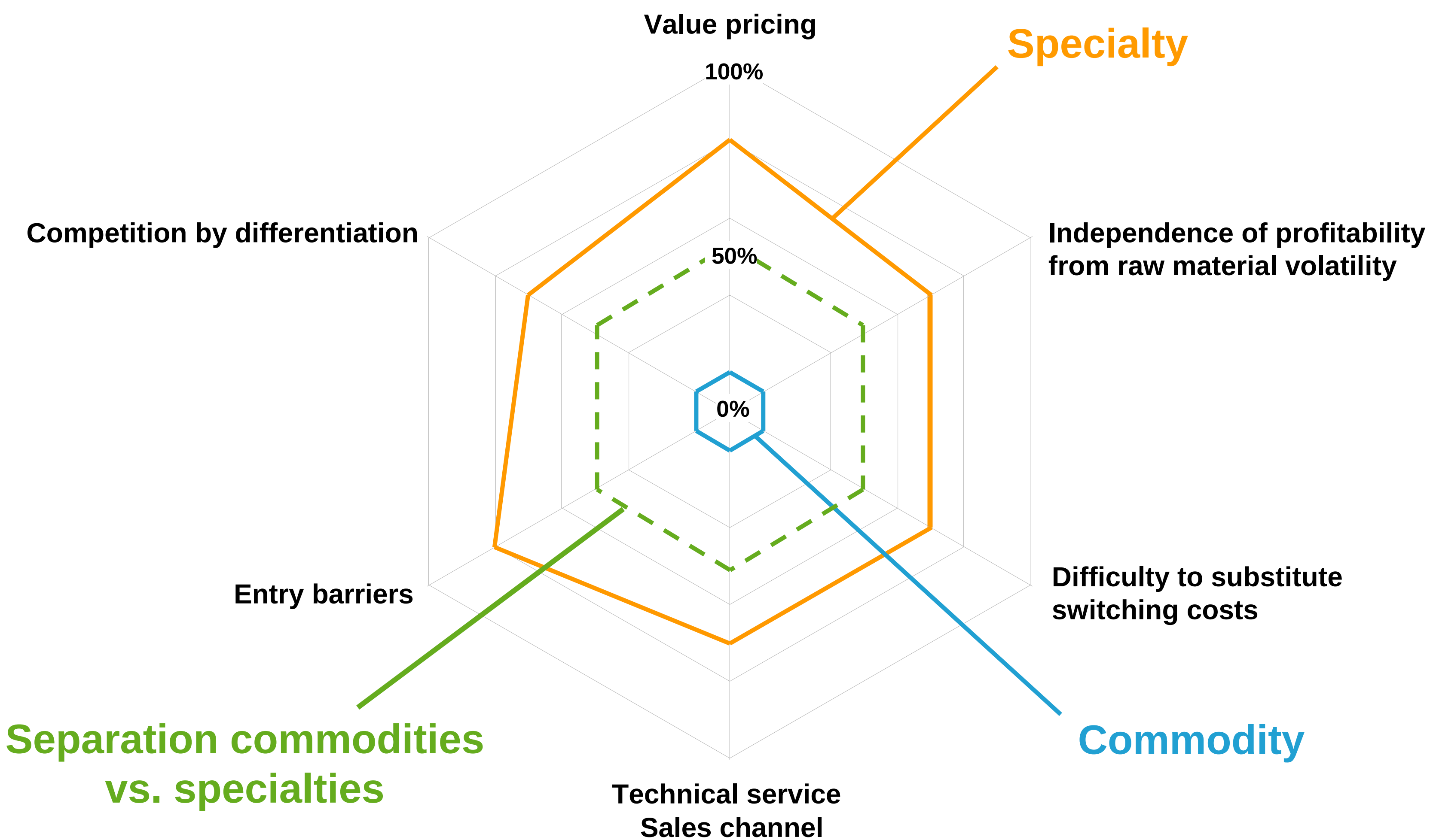
| | Maximum commodity character | Maximum specialty character |
|---|---|---|
| **Market pricing**<br>Is pricing public and are cost structures transparent to the customer?<br><br>What are the main pricing drivers? | Prices are public or based on cost-related formula<br><br>Raw material costs<br>Supply/demand balance | Value pricing decoupled from raw material cost cycle<br><br>Prices reflect the value added to customer |
| **Raw material costs**<br>How much does raw material account for in the sales price? | > 65% | < 40% |
| **Substitutability – switching cost/time for the customer**<br>How easily can our customers switch to a different supplier? | Defined chemical entity<br>Properties specified with few parameters<br>Customer can easily switch to a different supplier | Customer's production process has to be adapted<br>Switching takes significant amount of time and money<br>Few suppliers |

# A different look at the portfolio

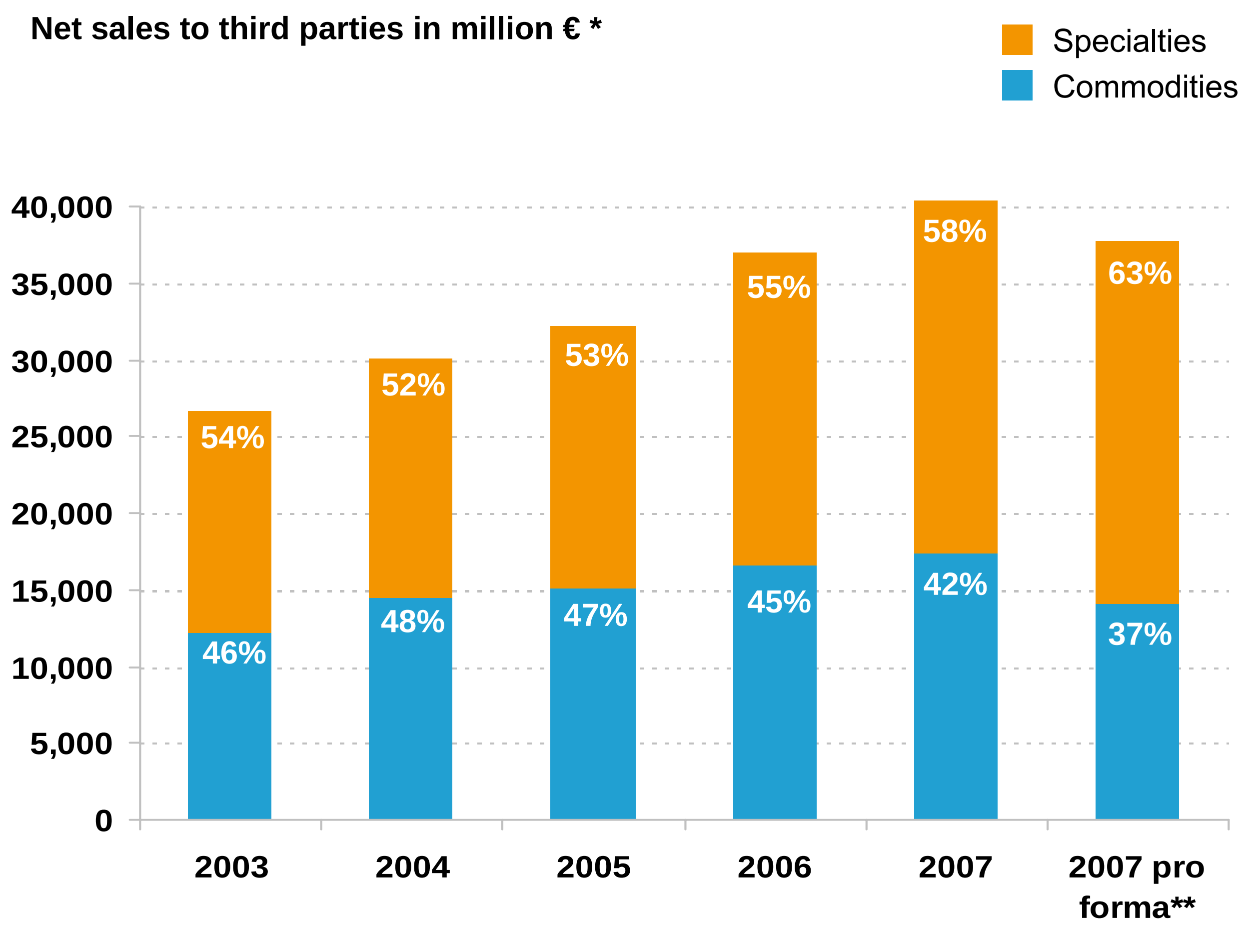
## Commodities versus specialties: Basic definition principles

| | Maximum commodity character | Maximum specialty character |
|---|---|---|
| **Technical service and sales channel**<br>How are the products sold?<br>Is technical service relevant for the customer? | Standard terms<br>No service needed | Longer-term customer specific commitments<br>Customized package (e.g. technical service) is essential |
| **Entry barrier**<br>Are specific know-how and technology relevant? | Low barrier<br>Know-how and technology are easily accessible | Long-term experience needed<br>Advanced technology<br>Patent protection |
| **Competitors**<br>How many competitors are in the strategically relevant market?<br>How do competitors behave? | Many<br>Competition driven by price, aim for higher market share and capacity utilization | Few<br>Competition by differentiation |

# Basic definition principles
# Commodities vs. specialties



# Increasing share of specialty chemicals
## Development of sales



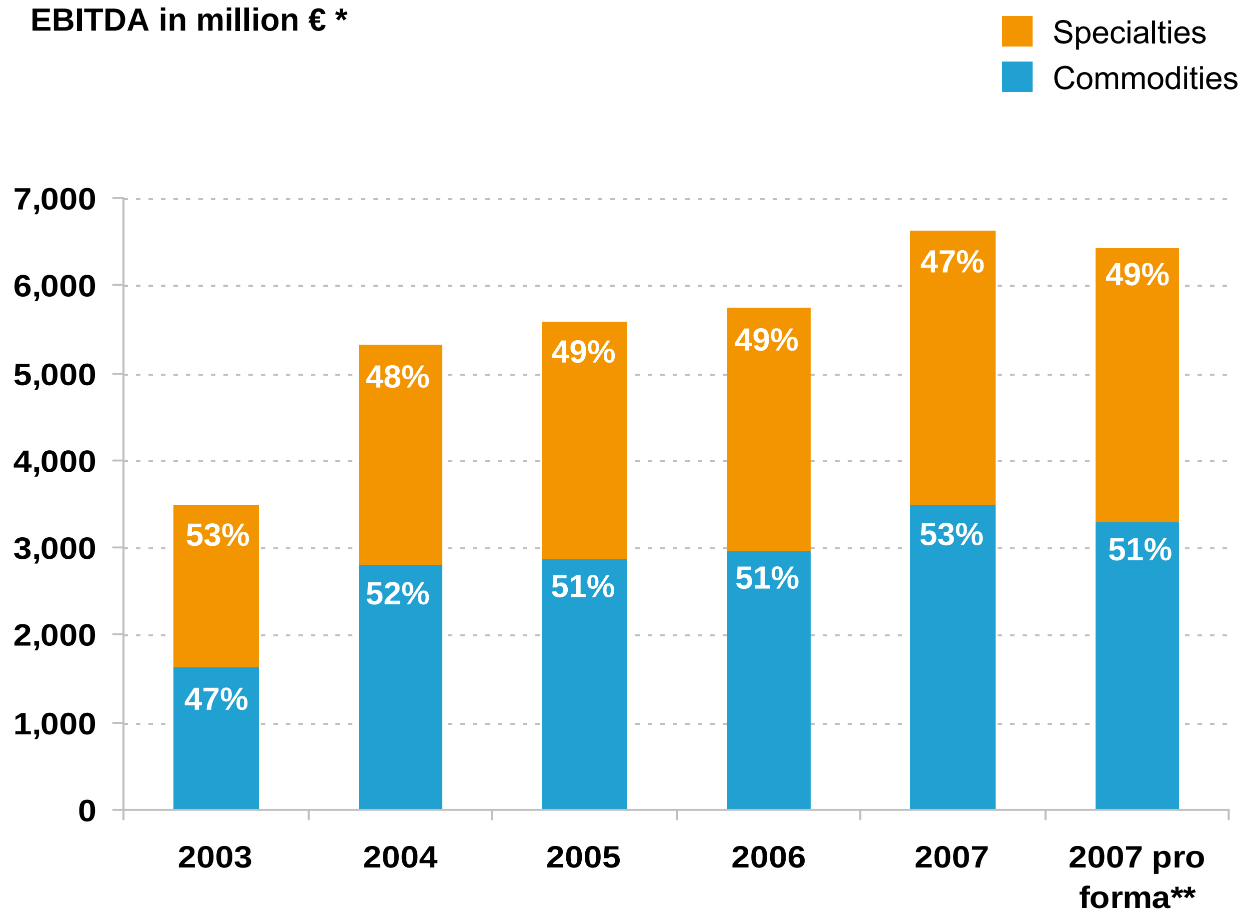

* Excluding Precious & Base Metal Services, Oil&Gas and 'Other'
** Excluding Styrenics commodity business

- CAGR (2003-2007**):
  - Commodities: 3.6%
  - Specialties: 13.1%
- Acquisitions in 2006 contributed substantially to higher share of specialty businesses within chemical portfolio

# Increasing share of specialty chemicals

## Development of EBITDA

**EBITDA in million € ***

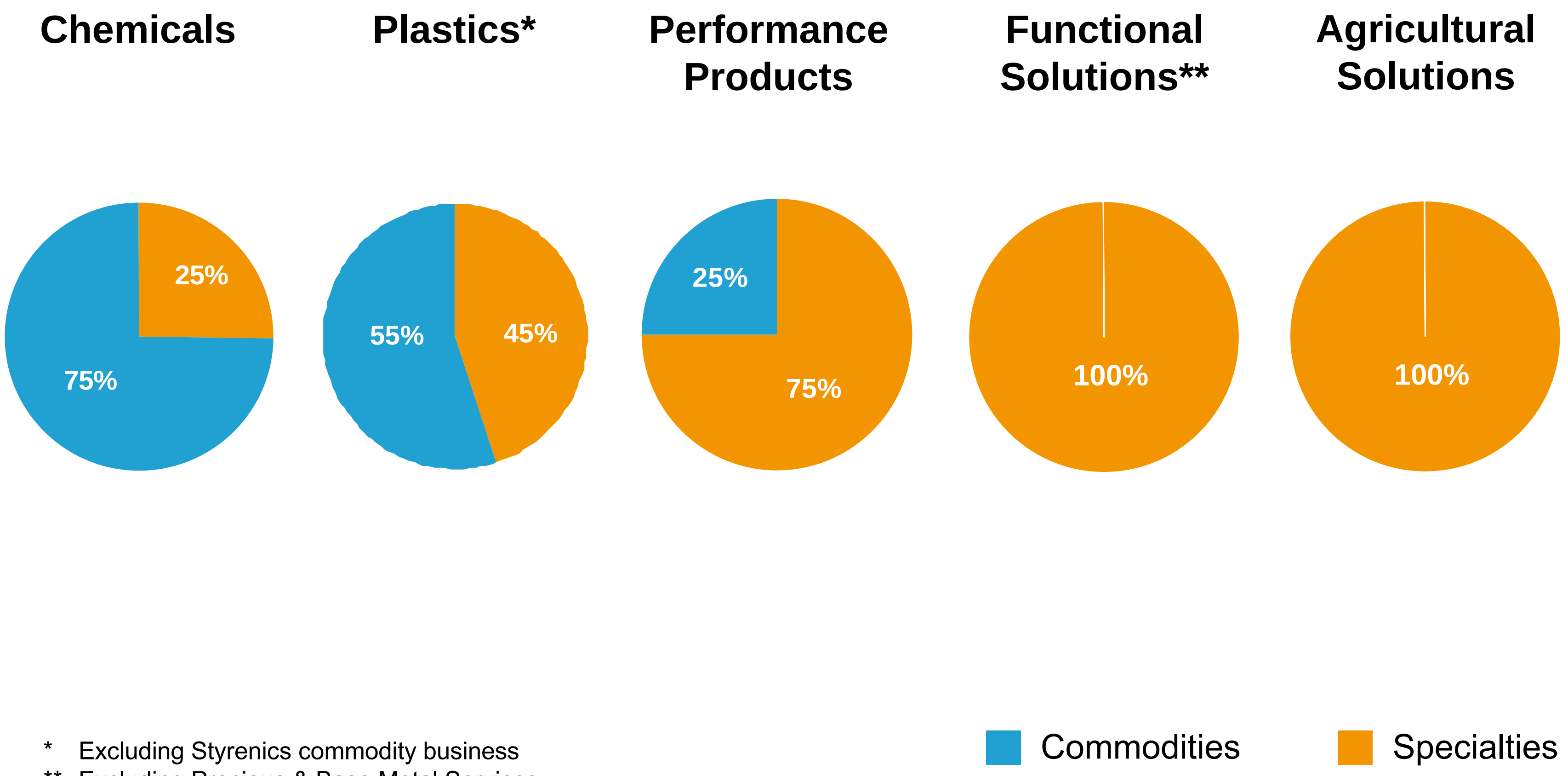



- CAGR (2003-2007**):
  - Commodities: 19.1%
  - Specialties: 13.8%
- Sustainable EBITDA improvement fueled by:
  - market growth
  - intelligent portfolio management
  - significant fixed cost savings
- High EBITDA increase in commodity businesses as a result of dedicated business models and favorable supply/demand situation

* Excluding Precious & Base Metal Services, Oil&Gas and 'Other'
** Excluding Styrenics commodity business

# Dedicated commodity and specialty businesses

## Sales split 2007




* Excluding Styrenics commodity business
** Excluding Precious & Base Metal Services

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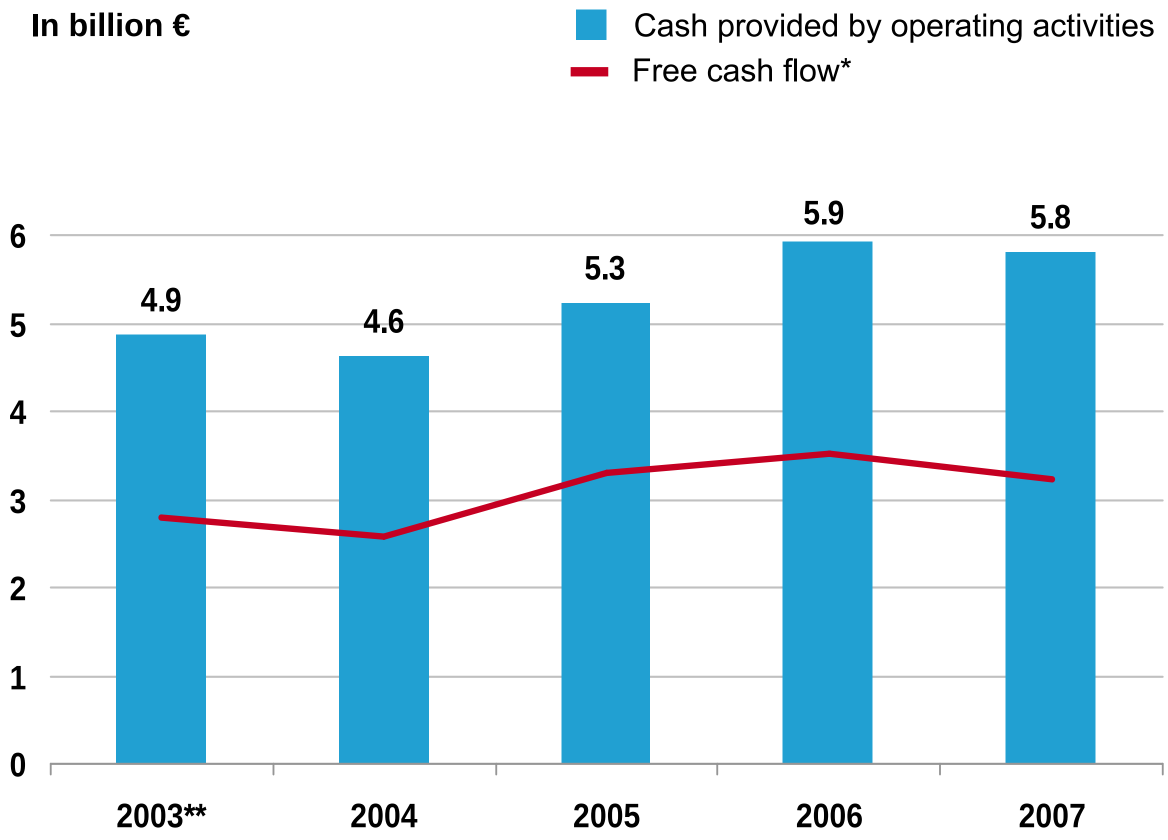
# Outstanding free cash flow

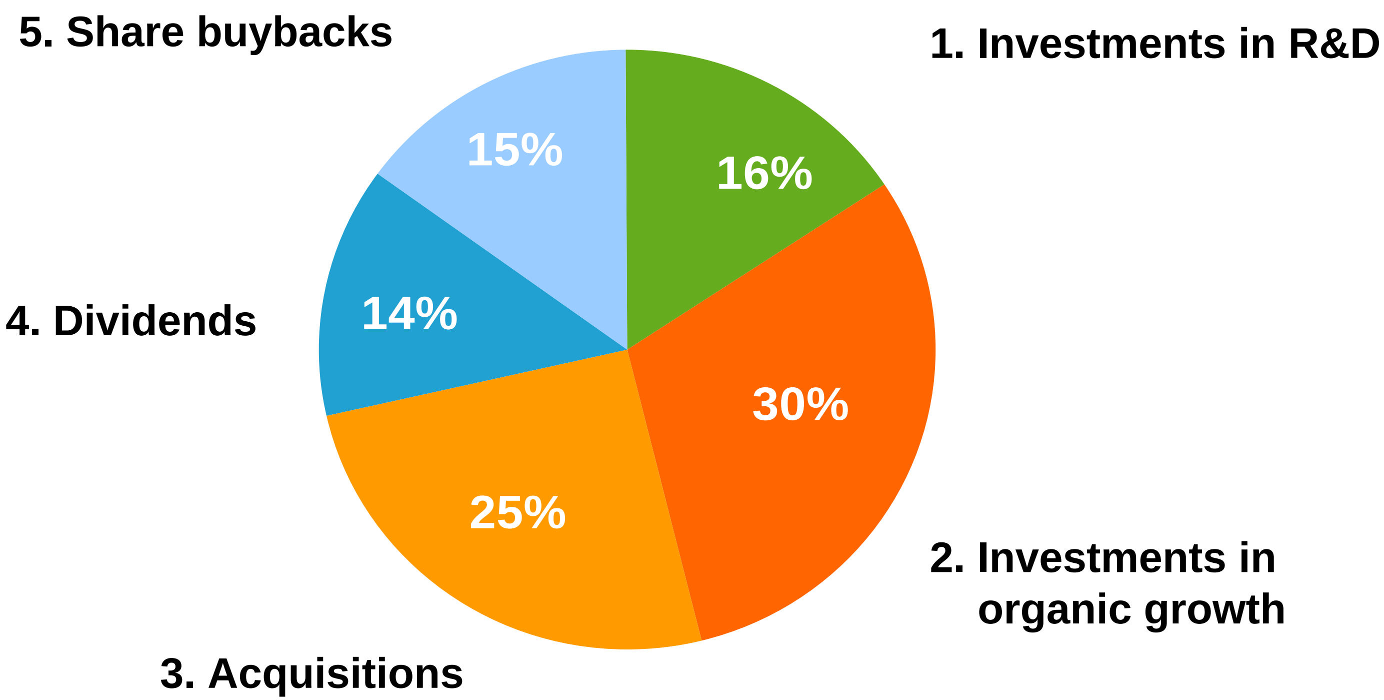



## Cash flow

- 2007 operating cash flow at €5.8 billion
- 2007 free cash flow* at €3.2 billion
- Free cash flow yield of 6.7% in 2007***

* Cash provided by operating activities less capex (in 2005 before CTA)
** According to German GAAP
*** Based on the share price of December 31, 2007 (€101.41)

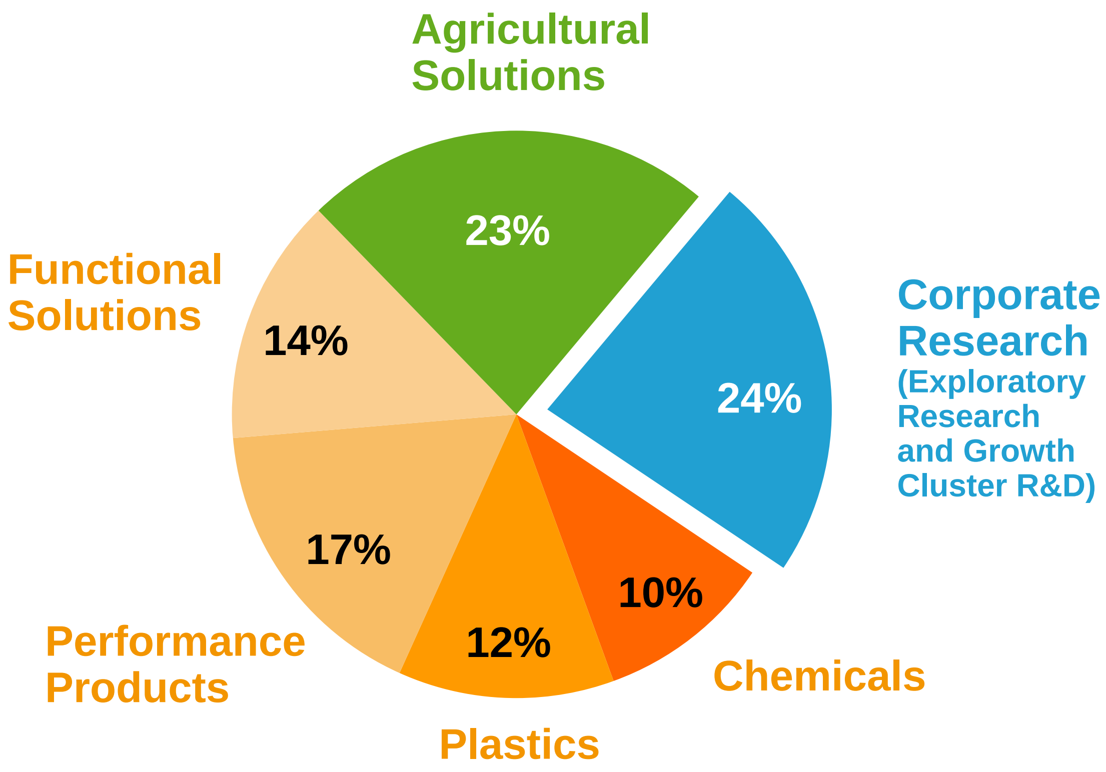
# Clear priorities for use of financial resources




**2003-2007 use of financial resources: €37 billion**

# 1. Innovation will spur further growth

## R&D expenditures




**R&D expenditures 2008: €1.45 billion**
[thereof €360 million for growth clusters]

- R&D Verbund extends to 1,800 co-operations, thereof over 40% with industrial partners
- Targeted annual sales from product innovation*:
  - 2010: €4 billion p.a.
  - 2015: €5 billion p.a.
  [thereof 10-20% annual top-line growth]

* New or improved products or new applications, max. 5 years on market

# 1. Innovation will spur further growth

## Meeting today's megatrends: 5 growth clusters

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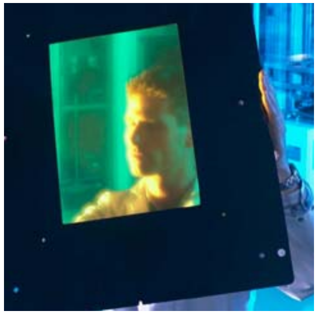
| Growth and aging of the world population | Urbanization and metropolization | Energy demand and climate impact | Economic globalization and emerging markets |
|---|---|---|---|
| Health & Nutrition | Housing & Construction | Energy & Resources | Mobility & Communication |

**Growth Clusters**



**Energy Management**

**Nano-technology**

**Plant Biotechnology**

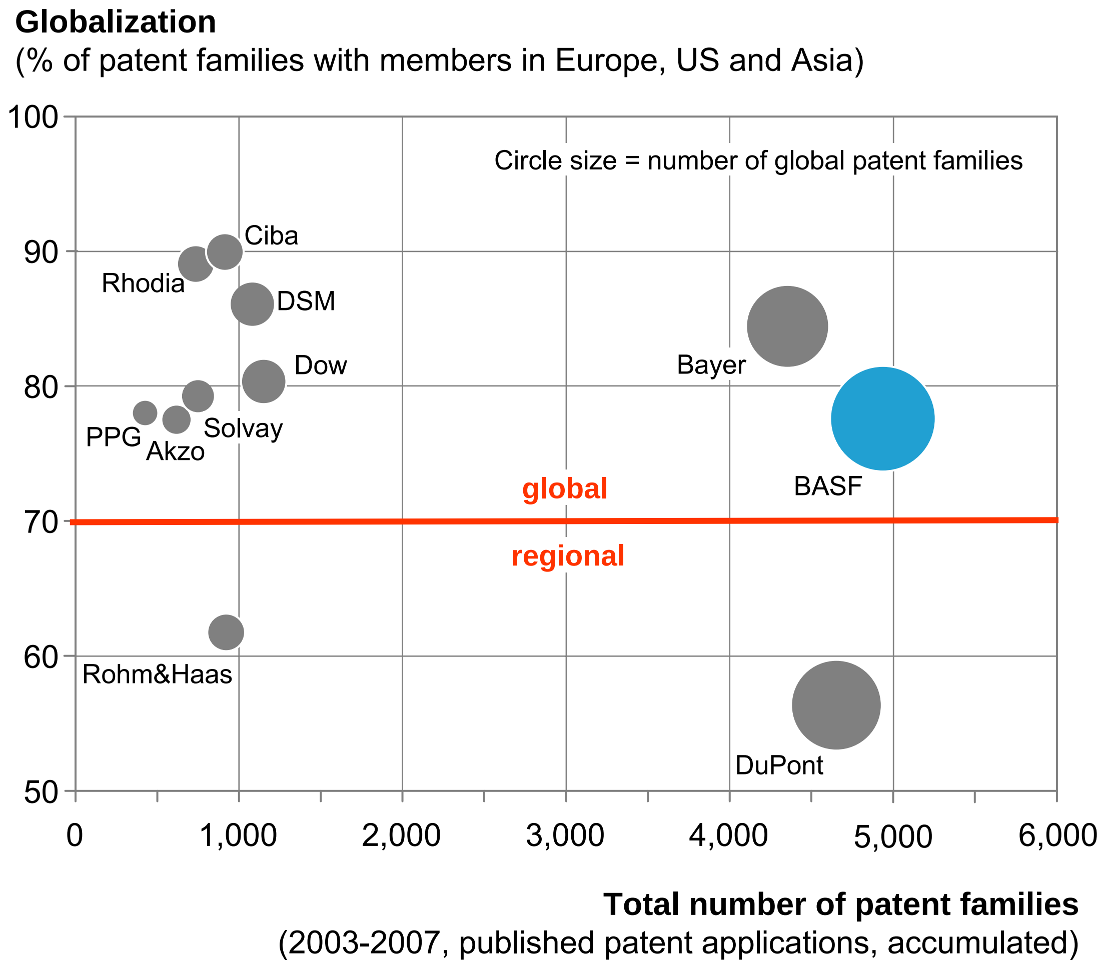
**Industrial Biotechnology**

**Raw Material Change**

**Growth cluster top line growth: 2010: €0.5 - 1 billion p.a. 2015: €2 - 4 billion p.a.**

# 1. Innovation will spur further growth

## Global patent applications

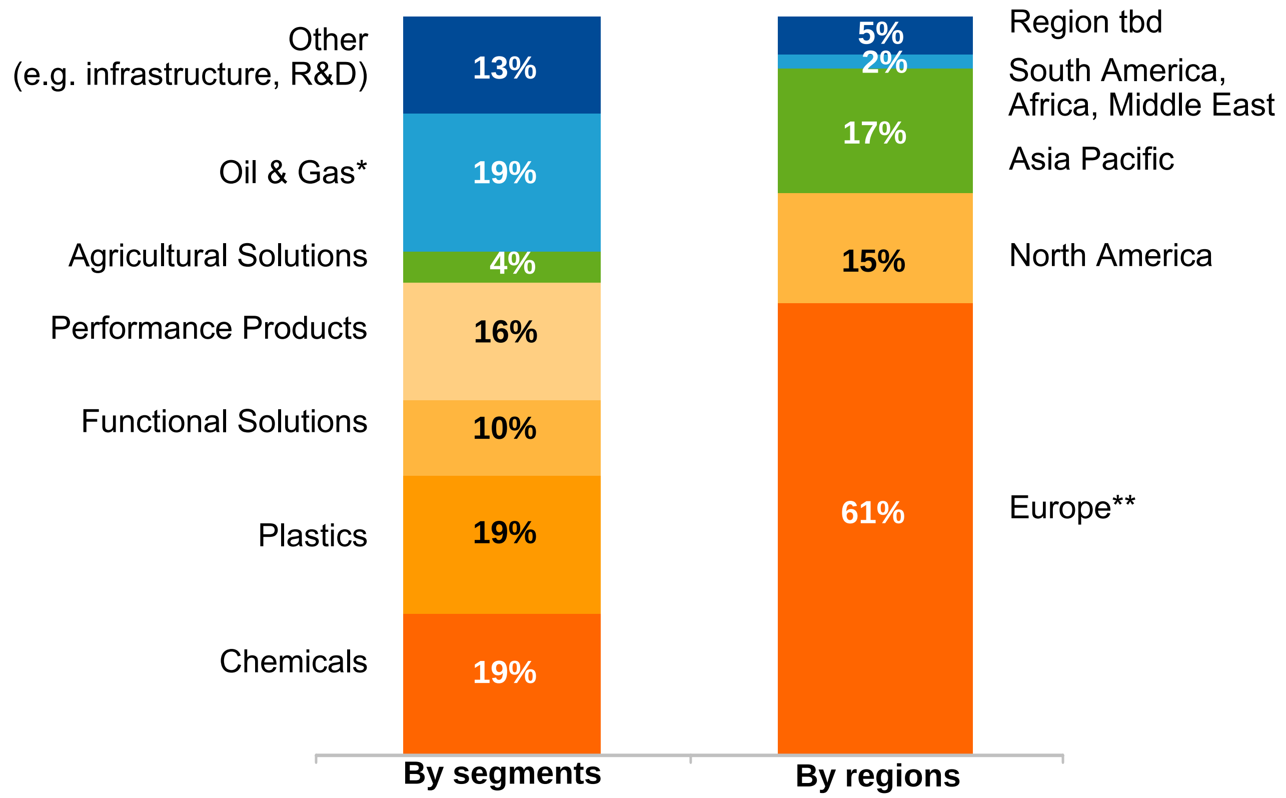



- High degree of global patent applications is important
- BASF is the leader in number of global patent applications
- Three patent applications per day
- Portfolio of almost 130,000 patents and patent applications

Source: WPIX by Thomson Reuters (Companies as in WPIX; DuPont incl. Pioneer Hi-Bred)

# 2. Investments in organic growth

**Planned investments 2008–2012: €11 billion***




* Excluding investments in Nord Stream and Yuzhno Russkoye (approx. €2 billion until 2012)
** Thereof 19 percentage points Oil & Gas

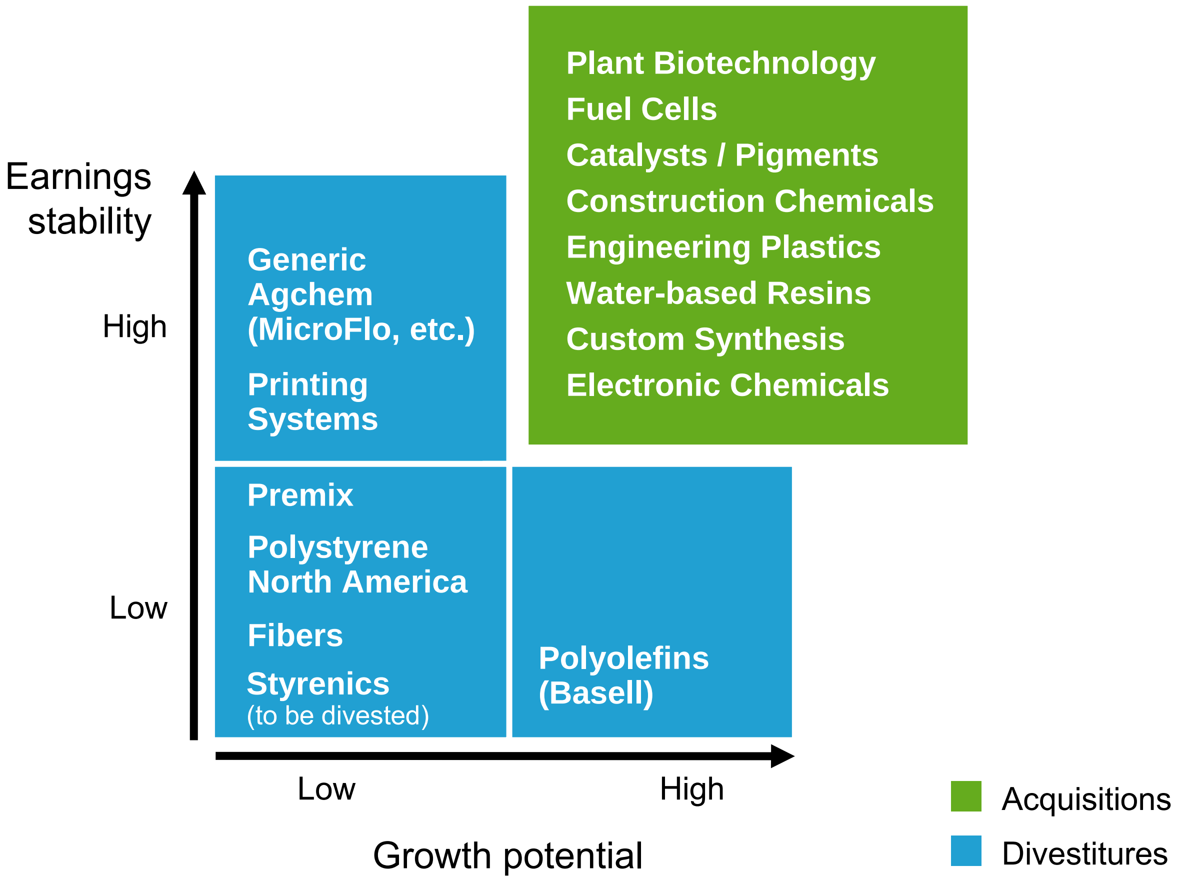
# 2. Excellent growth opportunities
through positioning in above-average growth businesses

| Market growth | Businesses | % of sales* 2007 |
|---|---|---|
| > 5% | Admixture systems<br>Electronic materials<br>Inorganic specialties<br>Polybutylene terephthalate<br>Polyurethanes<br>Specialty polymers and foams | 20% |
| 3-5% | Amines<br>Personal care ingredients<br>Catalysts<br>Construction systems<br>Plasticizers<br>Polyamide<br>Polymer dispersions for adhesives<br>Superabsorbent products | 45% |
| < 3% | Automotives refinish<br>Herbicides, insecticides, fungicides<br>Paper chemicals<br>Vitamins | 35% |

* Excluding Oil&Gas, Styrenics commodities and Precious & Base Metal Services

# 3. Proactive portfolio management towards higher returns and reduced cyclicality

**Selected transactions (2003-2007)**

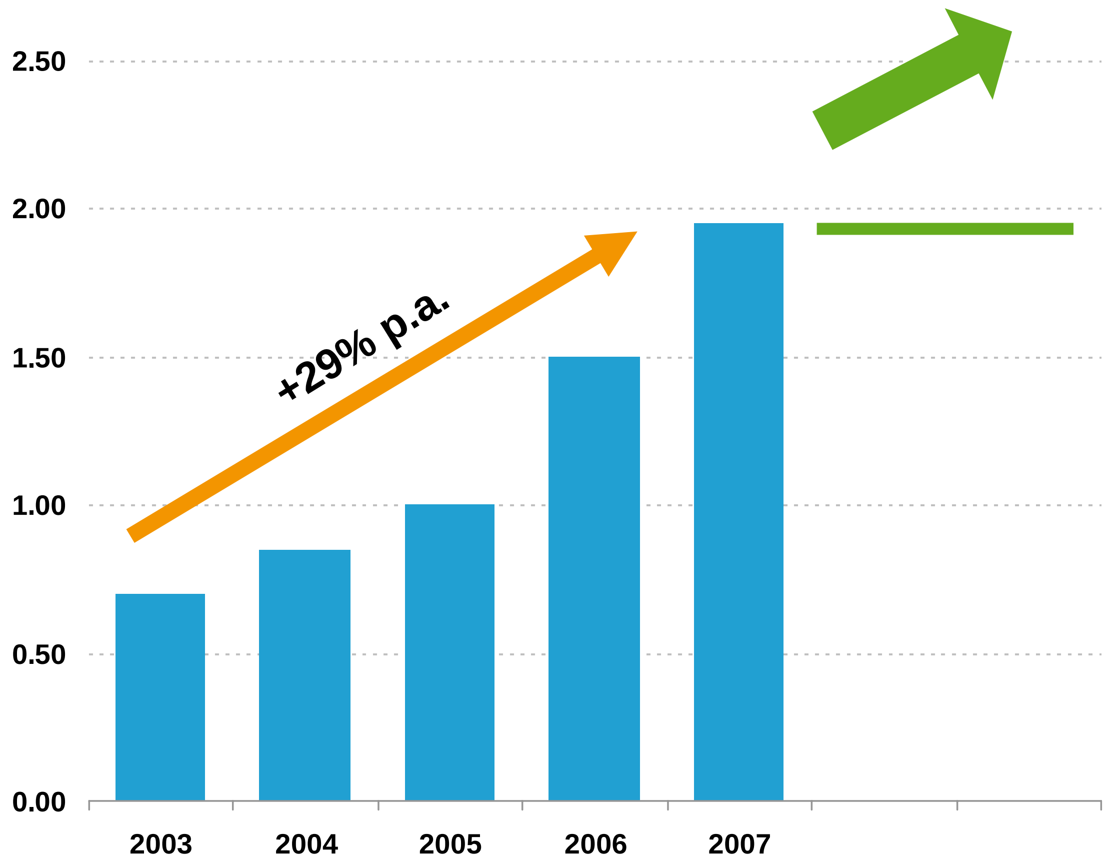



Our goal is to acquire businesses that

- Generate growth above industry average
- Are innovation driven
- Offer a special value-proposition to customers
- Generate synergies
- Reduce earnings cyclicality
- Meet our financial acquisition criteria

# 4. Industry-leading dividends

Dividend in € per share*

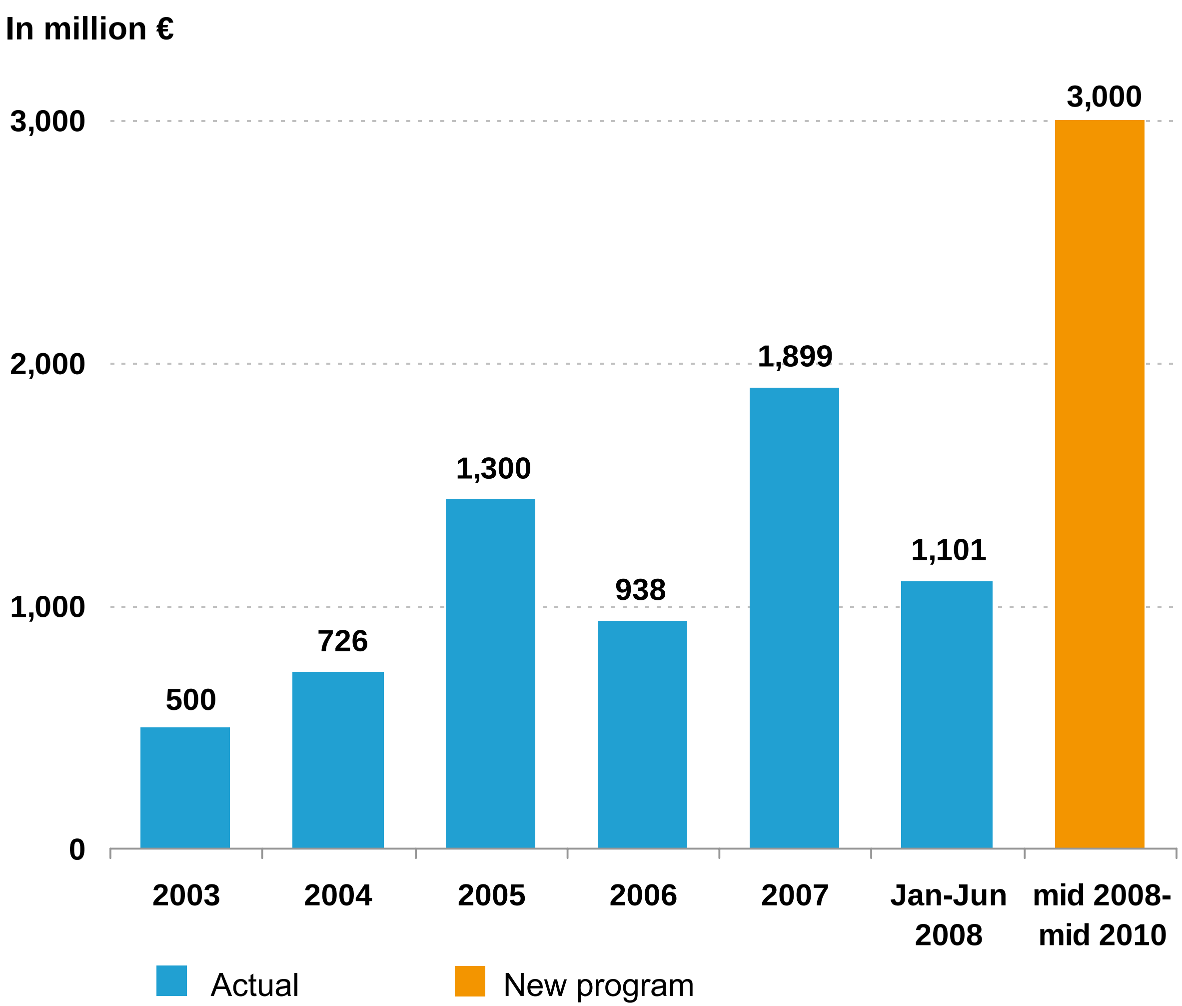



- In 2007, dividend increased by 30% to €1.95 per share*
- Attractive dividend yield of 4.5%**
- We aim to increase our dividend each year, or at least maintain it at the previous year's level
- Two-for-one stock split took effect on June 27, 2008

* Adjusted for stock split

** Based on the share price of June 30, 2008 (€43.82)

# 5. Sector-leading share buyback program




- 27.6% of shares outstanding bought back for €9.4 billion from 1999 to June 2008
- 2007/2008 €3 billion program completed in June 2008, ahead of schedule
- Started new €3 billion share buyback program, to be completed by mid-2010

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# Tougher environment – Clear answers

| | |
|---|---|
| **Currency volatility** | • Geographical diversity of asset base<br>• Partly offset by hedging<br>• Mainly translational effect |
| **Higher oil and raw material prices** | • Natural hedge of E&P business<br>• Benefits through scale |
| **Tougher economic environment** | • Innovative product offerings<br>• Diversified customer portfolio<br>• Strong global presence |
| **Cyclicality in commodities** | • Limited petrochemicals exposure<br>• Increasing share of specialties |
| **Risk of overpriced acquisitions** | • Financial discipline<br>• Excellent track record |

# Possible impact of margin decline in cracker products

- Foreseeable cracker margin squeeze 2008-2011

  - Margin at risk for BASF ~ 5% of BASF EBIT
- Cracker products in BASF predominantly (≥ 95%) for captive use – net purchaser of propylene, aromatics
- Portfolio optimization towards downstream close to customer specialties
- Leap frog innovation towards new feedstock routes

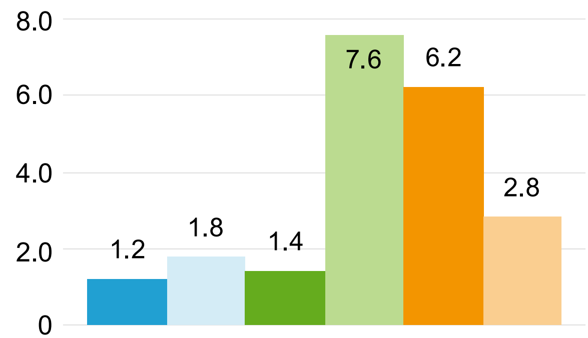
# Confident for 2008

Basic assumptions for 2008:

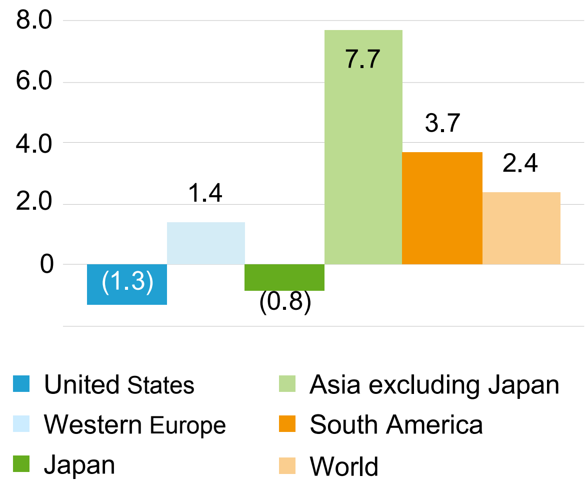
- Global GDP growth of 2.8%
- Chemical production growth reduced to 2.4%
- Average exchange rate of US$1.55 per €
- Average oil price of US$120/bbl

**In 2008, assuming there are no changes made to our portfolio, we aim to increase sales and improve EBIT before special items slightly.**

**Gross domestic product forecast* (%)**




**Chemical production forecast* (%)**




* Real changes compared with 2007, Chemical production excl. pharma

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# Our financial targets for the next 5 years*

- We expect to grow volume on average 2 percentage points per year above chemical market (excluding pharma)
- We expect to realize an EBITDA margin of greater than 14% under general trough conditions
- We strive to achieve an EBITDA margin of 18% in this time frame

* based on existing portfolio; oil price of US$100 per barrel; US$1.40-1.50 per €

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