News Release

BASF
The Chemical Company

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Annual Press Conference in Ludwigshafen

New record year 2007 gives BASF confidence for 2008

- **Record sales (plus 10 percent) and EBIT before special items (plus 5 percent) in 2007**
- **Further high premium on cost of capital of €2.9 billion**
- **Carbon balance demonstrates active contribution to climate protection from BASF products**
- **Outlook 2008: Higher sales and slightly higher EBIT before special items**

Speech by Dr. Jürgen Hambrecht, Chairman of the Board of Executive Directors of BASF SE, Ludwigshafen

Speech by Dr. Kurt Bock, Chief Financial Officer of BASF SE, Ludwigshafen

The spoken word applies!

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Ladies and Gentlemen, welcome to Ludwigshafen.

2007 was another record year for BASF. The new year 2008 marks the positive start to a new chapter of BASF history, as BASF SE, a European Company. With the conversion to a European Company we:

- play a leading role in the chemical industry,
- strengthen the involvement of our European employees,
- improve our corporate governance,
- and increase our flexibility and efficiency for shaping the future of our company.

This, too, shows that BASF – *The Chemical Company* – is the world's leading chemical company.

Thanks to organic growth and the very positive development of our acquired businesses, we posted sales of almost €58 billion and income from operations (EBIT) before special items of more than €7.6 billion in 2007. Our employees can be particularly proud of this great achievement because the economic challenges have increased in recent months. The turbulent start to the year shows that we must maintain our own efforts, since the coming months are likely to be a little more difficult for some of our businesses and regions.

The same applies to our company, to the entire industry, and even to the global economy. The topics are familiar to you all: subprime crisis, high and volatile raw material prices, the weak dollar, the ups and downs on the stock markets and their effects on consumer behavior and business. I would like to explain how we are facing up to these challenges and why we are nevertheless confident with regard to 2008.

Let me start with a few details from our annual results. In the fourth quarter of 2007, we slightly increased sales by almost 2 percent. EBIT declined by just over 3 percent, primarily due to low capacity utilization rates as a result of turnarounds of key plants that lasted longer than scheduled. Volume demand and the level of orders remained strong in the fourth quarter of 2007.

With regard to the full year, I am pleased to report that BASF earned its highest ever premium of €2.9 billion on its cost of capital in 2007. We again grew profitably and faster than the market in 2007. We increased full-year sales by more than 10 percent. The operational integration of the acquired businesses is now complete and the activities contributed approximately €3.6 billion to sales in 2007. Overall, EBIT before special items grew by approximately 5 percent.

BASF is confident for 2008 and sets itself ambitious goals

The first weeks of 2008 have run on smoothly from the past year for BASF. The level of orders remains strong and the capacity utilization rates of our plants are high. We therefore expect that BASF's business will also develop positively in 2008. We are basing our business planning on the following assumptions:

- A moderate slowdown in global economic growth and global chemical production (excluding pharmaceuticals) to 2.8 percent
- Declining interest rates in the United States in the course of 2008 with moderate knock-on effects in Europe
- An average euro/dollar exchange rate of $1.45 per euro
- An average oil price of $78 per barrel for Brent crude in 2008

We see possible risks posed by:

- continuing uncertainty due to the global credit crisis;
- unfavorable developments in our customer industries, in particular in the construction and automotive industries;

- an increasing imbalance in exchange rates;
- economic risks due to the continuing high prices of raw materials, in particular oil; and
- an aggravation of geopolitical tensions.

We will therefore continue to rigorously implement our measures to optimize our portfolio, increase our efficiency and reduce costs. In 2008, it remains our declared goal to improve the productivity of the BASF Group in order to ensure the competitiveness of our company in the long term.

In order to ensure that we can expand on our position as the world's leading chemical company, further increase the value of BASF and earn an attractive premium on our cost of capital in 2008 and beyond, we are focusing on innovations. We have therefore increased the budget for our five growth clusters – energy management, nanotechnology, white (industrial) biotechnology, plant biotechnology and raw material change – to more than €900 million for the period 2006 through 2008. From 2015 onward, we expect innovations arising from research and development in the growth clusters to generate additional annual sales of €2 billion to €4 billion.

But this is not the only measure: In 2008, we also plan to increase our total global expenditures for research and development by 5 percent.

Assuming that there are no changes to our portfolio, we aim to increase sales and improve income before special items slightly in 2008. We aim to grow faster than the chemical market each year, and we are convinced that BASF will earn at least its cost of capital in any given year.

Chemicals segment: Double-digit sales and earnings growth

Now I'd like to mention a few highlights related to the performance of our segments in 2007. As always, you can find more detailed information in your documents.

With sales totaling more than €14 billion, the **Chemicals** segment achieved double-digit sales growth. This was due primarily to the new Catalysts division, which contributed a first full year of sales for the first time. We increased EBIT before special items by more than 18 percent to €2 billion.

Higher volumes and price increases improved sales and EBIT before special items in the **Plastics** segment. Sales rose by approximately 6 percent to €13.5 billion, while earnings increased by 9 percent to €1.3 billion.

In the **Performance Products** segment, sales climbed by more than 15 percent to €11.7 billion. This was due in particular to the acquired businesses. The rise in earnings in the Construction Chemicals and Performance Chemicals divisions more than compensated for the decline in the Coatings and Functional Polymers divisions.

In the **Agricultural Products & Nutrition** segment, the Agricultural Products division posted higher sales and the Fine Chemicals division almost matched the previous year's sales level despite divestitures. Higher sales prices in the Agricultural Products division and successful restructuring measures in the Fine Chemicals division resulted in significantly higher earnings in both divisions.

Sales and earnings declined in the **Oil & Gas** segment. Sales from Exploration and Production declined, but rose in Natural Gas Trading thanks to higher volumes. By contrast, earnings in the natural gas trading business were significantly lower than in the previous year because of the lag in adjusting sales prices to reflect purchasing prices that are based on the price of oil.

Further sales growth in all regions

In **Europe,** sales by location of company rose by 9 percent. The sales growth was driven by the Catalysts and Construction Chemicals divisions as well as higher sales volumes and prices in the Intermediates and Inorganics divisions. Compared with 2006, income from operations declined slightly by 1.3 percent as a result of the Oil & Gas segment.

In 2007, we opened a further chapter in our successful partnership with Gazprom with the completion of an agreement on BASF's participation in the west Siberian gas field Yuzhno Russkoye. We are now working with Gazprom along the entire natural gas value chain, from production and transport through to distribution.

Sales in **North America** rose 13 percent in local currency terms and by 5 percent in euro terms. The Chemicals and Performance Products segments posted significantly higher sales. This was due in particular to the contribution of the activities acquired in 2006. Sales declined in the Plastics segment and in the Agricultural Products division, also as a result of currency effects. Income from operations amounted to €762 million and was 12 percent lower than in 2006. This decline in earnings was due to one-time effects such as the scheduled plant turnarounds in the Petrochemicals division and the shutdown of the TDI plant in Geismar, Louisiana, for a number of weeks, as well as weaker demand from the automotive and construction industries and higher special items.

Last year, we further strengthened our North American business with two new world-scale plants. At our Verbund site in Freeport, Texas, we started operations at a superabsorbents plant with a capacity of 180,000 metric tons per year and a production line for polyamide 6 (nylon) with a capacity of 120,000 metric tons per year. Freeport is now the manufacturing base for BASF's entire polyamide intermediates and polymers business in North America. Production at the site is particularly efficient because it is integrated into our Verbund.

Growth remains very dynamic in **Asia Pacific:** Sales rose by more than 25 percent in local currency terms and by 18 percent in euro terms. The greatest contribution was made by the Chemicals segment, in particular due to the new Catalysts division. New plant startups in the Plastics and Performance Products segments benefited from the above-average growth in the Asian markets. For example, in Shanghai, China, we opened a new compounding plant for engineering plastics as well as a site for polyurethane specialties. In Caojing, China, we started operations at a production plant for coatings materials. Additional impulses came from a number of new plants in the Construction Chemicals division.

Income from operations amounted to €828 million and was thus more than four times higher than in the previous year. This was due to strong earnings growth in the Chemicals and Plastics segments as well as significantly lower special items.

The expansion of our Verbund site in Nanjing, China, is proceeding according to plan. We will submit a technical and commercial feasibility study shortly. Furthermore, we are considering the construction of a world-scale 400,000 metric plant for MDI in Chongqing, China. The startup is planned from 2010 onward.

In Caojing, China, we have successfully tested the mothballed tetrahydrofuran (THF) plant for the production of maleic anhydride. Maleic anhydride is used in the production of unsaturated polyester resins that are commonly used in composite materials that are in great demand, in particular in automotive construction, shipbuilding and in the construction industry.

We are also intensifying our research and development activities in Asia so that we can respond faster and better to new impulses from the market. In China, for example, we have opened research and development laboratories for catalysts, performance polymers, polyurethanes and construction chemicals. We have also opened a new research center for organic electronics in Singapore. In the area of plant biotechnology, we have entered into cooperation and licensing agreements with the Crop Functional Genomics Center in Seoul, Korea, and with the National Institute of Biological Sciences in Beijing, China.

In the region **South America, Africa, Middle East,** sales increased by 28 percent in local currency terms and by 24 percent in euro terms. Income from operations rose by 45 percent to €311 million. This was due in particular to higher volumes and prices for agricultural products in South America, especially in Brazil. In a positive market environment with persistently high prices for soybeans and strong demand for sugar cane, export-oriented customers invested more strongly in high-value crop protection products. Sales of architectural coatings and to the automotive industry also increased. The successful integration of the catalysts business in South Africa also contributed to the rise in earnings.

My colleague Kurt Bock will now provide you with detailed information on our consolidated financial statements.

[Speech by Dr. Kurt Bock]

Ladies and Gentlemen,

Before I present details of BASF's financial statements for 2007, I would like to highlight some key aspects:

- In 2007, we again increased BASF's earnings at all levels of the income statement. Earnings per share rose by 31 percent compared with 2006 to €8.32.
- At €5.8 billion, cash provided by operating activities reached the previous year's very high level. This solid operating cash flow and our healthy balance sheet are two of BASF's key strengths.
- Share buybacks in 2007 reached a new high of €1.9 billion. This is the highest volume repurchased in a single year since we started buying back shares in 1999. We will complete the ongoing €3 billion buyback program as planned in the course of this year.

Now let me provide some more detailed information:

Sales in 2007 rose by more than €5 billion to almost €58 billion. Of this increase, nearly €2.6 billion was due to higher volumes posted in almost all areas of our portfolio. In many businesses we were also able to increase prices and pass on higher raw material costs. The net effect of acquisitions and divestitures added almost €3.5 billion to sales. In particular, this applied to the acquisitions we completed in June and July 2006.

We increased income from operations, or EBIT for short, by 8.4 percent to €7.3 billion. In 2007, EBIT contained special charges of €298 million compared with €507 million in 2006. Of this amount, €185 million was due to restructuring measures, the vast amount of which was incurred in the fourth quarter. These measures related to European sites and the Coatings division in North America. The integration of the businesses acquired in 2006 resulted in special charges of €63 million.

Special gains totaling €65 million resulted from the sale of our minority stake in an ethane cracker in the United States and from the reversal of provisions established for restructuring measures in the Fine Chemicals division in 2006 that were not fully needed. We have advanced with the exit from the premix business for animal feed as announced, and the majority of the business has already been sold.

The financial result declined to minus €381 million from minus €223 million in 2006. Interest expenses were higher because the financing costs for acquisitions were incurred throughout the whole year. In addition, the financial result in 2006 contained a tax-free special gain from the sale of securities.

Compared with the previous year, income before taxes and minority interests increased by 6.3 percent to €6.9 billion; net income increased by 26.4 percent to around €4.1 billion. The tax rate declined from 46.9 percent to 37.6 percent. In this we were helped by the German corporate tax reform, which required the reassessment of deferred tax assets and liabilities. This resulted in non-cash income of €229 million. In addition, we considerably increased our profitability in countries with very low tax rates, in particular in Asia. From 2008 on, the German tax reform itself will have only a slight influence on our tax rate – about 1 to 2 percentage points. This is because the abolition of accelerated depreciation has a material impact on BASF. Noncompensable foreign income taxes on oil production amounted to €1,302 million compared with €1,282 million in 2006.

At €5.8 billion, cash provided by operating activities was almost at the previous year’s level. Net working capital rose due to the expansion of our business and a decline in trade accounts payable.

As in previous years, capital expenditures were again below the corresponding level of depreciation and amortization.

Expenditures for acquisitions amounted to €635 million and were primarily attributable to the compensation payments for the asset swap with Gazprom in connection with the Yuzhno Russkoye project. Financial investments and other items amounting to €514 million were primarily related to BASF’s share in the bridge financing for the production activities in Siberia. Divestitures generated proceeds of almost €100 million.

Free cash flow, in other words, cash provided by operating activities minus capital expenditures, amounted to €3.2 billion compared with €3.5 billion in 2006.

In 2007, we returned €1.9 billion to our shareholders in the form of share buybacks. That is more than in any other year since we started to buy back shares. Last year, we repurchased 21.5 million shares at an average price of €88.35 per share. As a result, we have bought back shares for a total of €8.25 billion between the start of the program in 1999 and the end of 2007.

On the assets side, in long terms assets, there was a rise in intangible assets and financial assets. This increase was primarily due to the asset swap with Gazprom and the associated addition to intangible assets for the marketing contract for the natural gas from the Yuzhno Russkoye gas field. Furthermore, the production company, which is consolidated using the equity method, was financed with loans. Overall, the swap extended the balance sheet by approximately €2 billion.

As a result of the swap, Wintershall has an interest of 35 percent in the economic rewards of the Yuzhno Russkoye field. In return, Gazprom received a 49 percent stake in a German BASF Group company that holds exploration and production rights in Libya. In addition, Gazprom's stake in our natural gas trading company, WINGAS, was increased from 35% to 50% minus one share. The asset swap with Gazprom was completed with economic effect as of June 1, 2006.

Inventories declined slightly despite a higher business volume and higher raw material prices. We further reduced days of inventory invested in the course of the year. Trade accounts receivable increased but remained at the previous year's level in terms of total assets. We further reduced days of sales outstanding in the course of the year.

On the liabilities site, stockholders' equity rose by around €1.5 billion. This was due to the high level of earnings and the asset swap with Gazprom. The assessment of the swapped assets at fair value resulted in a gain of €634 million which was recognized in retained earnings not affecting net income. In addition, both the Libyan activities and WINGAS are still fully consolidated in BASF's financial statements. The additional capital shares of Gazprom thus result in an increase in minority interests.

These effects were partially offset by the payment of dividends, the repurchase of shares, as well as negative foreign currency translation effects. The equity ratio increased to 43 percent.

Net debt rose by €686 million compared with 2006 to €9.3 billion; short-term debt was partially refinanced through long-term bonds.

We now arrive at the key ratios that reflect the positive development of our business.

Compared with the very successful previous year, we again achieved a significant increase in earnings per share – from €6.37 to €8.32. At 16.4 percent, the return on assets was lower than in 2006, but this is largely a mathematical effect: The returns are calculated on the basis of average fixed capital. Therefore, the large acquisitions made in 2006 had an effect because they were on our books for a full year for the first time in 2007.

At around €2.9 billion, EBIT after cost of capital was again high. We determine this key performance and management indicator by subtracting the cost of capital and noncompensable foreign income taxes on oil production from the total EBIT posted by our operating divisions. If EBIT after cost of capital is positive, then BASF has earned a premium on the returns expected by providers of equity and debt, and has thus created value.

Let me close by taking a look at the performance of BASF shares: Our shares increased value by 42 percent in 2007. This is a very good performance compared with the DAX 30 and EURO STOXX 50 indices and in comparison with the global chemical industry. The markets became more turbulent at the beginning of 2008, and this also affected BASF shares.

We are very pleased by the fact that even after the delisting from the New York Stock Exchange, the United States and Canada account for 26 percent of BASF’s share capital and constitute the largest regional group of institutional investors.

You can obtain further information on BASF's consolidated financial statements from the Annual Press Conference report published today or from the more detailed audited report that we will publish on March 12. As we announced, this report will contain key information previously contained in the Annual Report on Form 20-F that we no longer prepare following the deregistration. Examples include information on capital expenditure projects, segment strategies as well as supplementary data on the oil and gas business.

[Speech by Dr. Jürgen Hambrecht continued]

3:1 for more climate protection:
BASF presents the world's first detailed carbon balance

Ladies and Gentlemen,
Climate protection is an integral part of BASF's sustainability strategy. BASF is the world's first global industrial company to present a detailed carbon balance for its operations. We compared the carbon dioxide emissions associated with the production and disposal of all our products with the amount of carbon dioxide that can be saved by using our products. The results are impressive: BASF products can save three times more greenhouse gas emissions than the entire amount caused by the production and disposal of all of the company's products. An independent third party, the Öko-Institut in Freiburg, has reviewed and confirmed the results of our study.

But we are not satisfied with this. We want to further improve our impressive carbon balance. In order to do this, we have increased our ambitious climate protection goals. By 2020, we aim to reduce our specific greenhouse gas emissions, i.e., per metric ton of product sold, by 25 percent compared with 2002. Thanks to the inventiveness of our employees, we already achieved our previous goal of reducing these specific emissions by 10 percent by 2012 last year.

At the same time, by 2020 we want to increase the energy efficiency of our production processes by 25 percent compared with 2002. We have made great progress in recent years and have continuously improved BASF's energy efficiency. In 2008, we are now setting ourselves a quantitative goal for increasing energy efficiency. We plan to achieve our goal through a number of measures: We will further optimize energy production and distribution at our sites worldwide and will systematically opt for resource-saving alternatives for our replacement investments; we also plan a global program to reduce the energy used in our chemical plants. BASF sees energy efficiency as the key to combining climate protection, conserving resources and achieving a competitive advantage.

To emphasize the strategic importance of climate protection, BASF will appoint a Climate Protection Officer for the first time. The Climate Protection Officer will be a member of BASF's Sustainability Council and will coordinate all of BASF activities in this area – worldwide.

With these measures, BASF is adopting a pioneering role in industry. But the challenges of climate change cannot be solved in Germany or in Europe alone. Climate change does not recognize national borders and can therefore only be addressed by means of global agreements. Unilateral German or European initiatives that lead to competitive imbalances must be avoided at all cost.

We are therefore extremely critical of the E.U. Commission's latest proposals for the third trading period of emission certificates. In effect, these plans are equivalent to a production tax and jeopardize the existence of entire value chains in Europe. Our message to politicians is therefore: We say yes to clear rules, but they should apply across the board and worldwide.

Kurt Bock and I would now be pleased to take your questions.