

# Speech to the Annual Shareholders' Meeting

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Chairman of the Board of Executive Directors  
of BASF SE

The spoken word applies.

Annual Shareholders' Meeting BASF SE  
on May 12, 2017

 **BASF**  
We create chemistry



Good morning ladies and gentlemen,  
dear shareholders,

Welcome to the Annual Shareholders' Meeting of BASF SE. I appreciate your interest in the company.

BASF had a successful start to the new year: Sales volumes, sales and earnings increased substantially in the first quarter. We achieved record earnings in the chemicals business.

We have proposed to you, our shareholders, that the dividend be raised once again. The proposal reflects that we achieved our economic goals in 2016. After a moderate start to the year, our chemicals business grew in every quarter. At year-end, our earnings before interest and taxes (EBIT) were considerably higher than in the previous year. As expected, our sales and earnings in the Oil & Gas business declined, primarily as a result of the divestiture of the gas trading business at the end of 2015. The annual figures more than met our expectations.

But we also know that 2016 was a painful year for some families and for BASF. As a result of the accident on October 17 at the North Harbor of the Ludwigshafen site, four families lost sons, fathers, brothers and husbands. The pain is still being felt today. Other families were worried about their injured relatives, whose recovery was uncertain for a long time – and in some cases, is still ongoing.

For BASF employees, for every single one of us, the accident and the loss of colleagues and friends came as a shock.

We all know that working in the chemical industry can mean handling dangerous materials. That is especially why we have such comprehensive safety measures and a rule we live by at BASF is: We never compromise on safety – in all our decisions. Human and environmental safety is fundamental for us, both in production and when our products are used.

The authorities have not yet completed their investigation into the causes of the accident. It is clear, however, that a mistake was made, which as far as anyone can tell and in light of all the precautionary measures, should never

have happened. During maintenance work, a cut was made in the wrong pipeline which had not been emptied.

This is no consolation to the relatives of the accident victims. Our thoughts are still with you, the families and friends, and with the injured. We wish a return to health for those injured. BASF will continue to provide support to them in the future. And we will do everything we can to ensure that an accident like this never happens again.

Yet the accident also demonstrated the strength of the BASF team and this company. The way our fire department, doctors and paramedics worked with the emergency forces from the cities of Mannheim and Ludwigshafen to fight the fire and its aftermath was exemplary – quick, professional and brave.

Looking at the pictures immediately after the accident, many thought that the site would be disrupted for months because a key logistics bottleneck was badly damaged. Our team performed an incredible feat: getting logistics and production almost fully back to normal in a very short period of time. They worked day and night.

On behalf of the Board of Executive Directors, I would like to thank all employees for this effort and for their unity with BASF. We stand together. And this solidarity makes BASF strong.

Ladies and gentlemen,

You can read in detail what BASF does for you, our shareholders, in our annual report. It is especially worth taking a look at the online version in order to get to know BASF even better. This reading material often puts the focus on economic success, which is important to secure our future. For research and development, for investments and for your dividend.

But just as important are the protection of humans and the environment as well as our social contributions. And you will find a lot of interesting information about those, too. We focus on the conservation of natural resources as well as safe and fair working conditions. In this way, we contribute to reaching the United Nations' 17 Sustainable Development Goals

that were adopted in 2016. We are pleased that BASF was just recognized as a leading European company for its contribution to reaching these global goals and reporting extensively on this.

## I. Review 2016

Today I will present you with examples relating to the three dimensions: economic, environmental and social. What goals have we set for ourselves and what have we achieved? I will then tell you about how we want to further develop BASF – and in particular the role digitalization will play in this. Let me start with our business performance in 2016, the economic dimension.

### *Our business development*

We reached our growth and earnings goals. In 2016 we wanted to sell more in our chemicals business, to improve our earnings and to save costs at the same time. And we did this. Here are the most important key figures:

- Our sales volumes rose from quarter to quarter. Compared with the previous year, volumes were up by 2%.
- In our chemicals business, we sold 4% more. We therefore slightly exceeded the growth in global chemical production.
- We were especially successful in Asia. We increased our sales volumes and grew substantially. This shows that our investments in plants as well as in research and development are paying off.
- Nevertheless, the growth in the chemicals business could not offset the decline in sales in the Oil & Gas segment. Due to lower oil and gas prices and in particular the divestiture of our gas trading business, sales and earnings did not surpass the previous year's level until the fourth quarter.
- In line with our expectations, sales therefore declined by 18% to €57.6 billion. Compared with the prior year, EBIT before special items of €6.3 billion was 6% lower, while net income was 2% higher at €4.1 billion.
- Our discipline with regard to expenditures and costs was important, as it gave us room to maneuver. For example, our excellence program "DriveE – Drive Efficiency" contributed €350 million to earnings.

- After several years of high expenditures, as planned, we reduced our investments. They will however remain slightly higher than depreciation and amortization in the future. This means we want to continue to grow.

How have each of our businesses developed?

- **In the chemicals business**, we delivered an impressive result. Earnings increased considerably in the segments Performance Products and Functional Materials & Solutions. The Chemicals segment was affected the most by the accident, but earnings nevertheless almost matched the previous year's level.
- **Oil & Gas:** The average oil price in 2016 fell by around 15% to \$44 per barrel of Brent crude. At the beginning of the year, it was even below \$30. But we rolled up our sleeves, lowered our costs and still managed to produce nearly 10% more oil and gas. Earnings were down considerably compared with the previous year – also due to the lack of contributions from the gas trading business. But that was as we had expected.
- **In the crop protection business**, we kept our earnings stable in a difficult market environment. This was a solid performance – especially in comparison to our competitors – although we had been planning for slightly more at the beginning of the year.

Overall, we showed that we can be very disciplined with our expenditures and grow at the same time. This is even more important in times of low oil and gas prices, when this business therefore makes a considerably smaller contribution to our success.

We can see this in a long-term comparison. Traditionally, the Oil & Gas segment has accounted for around 25% of EBIT before depreciation and amortization, but in 2016 this figure was just 15%. It is therefore even more important to improve the profitability of our chemicals and crop protection businesses year after year. In recent years, we have managed to do this by an average of around 5% annually.

Despite weak earnings in the Oil & Gas segment, in 2016 we managed to finance our investments and pay out the dividend entirely from the funds we generated.

*We offer a reliable dividend policy*

Against this backdrop, we propose to raise the dividend once again by 10 cents to €3.00 per share and pay out €2.8 billion to you, our shareholders. We thus remain true to our dividend policy. We aim to increase our dividend each year, or at least maintain it at the previous year's level. We have achieved this every year since 2001, with the exception of the crisis year 2009. This demonstrates that BASF is reliable.

For you as shareholders, the share price also plays a decisive role. In 2016, our share price rose by 25% to reach €88.31 at the end of the year. This was the third-best performance in the DAX 30.

As you know, it is not just the past 12 months that are important, but also the share performance over a longer period of time. In this case, too, things look good. Assuming you invested €1,000 in BASF shares 10 years ago and reinvested the dividends in more stock, your shareholding would have been worth €3,538 in 2016 and you would have achieved an annual return of 13.5%. The BASF shares thus once again outperformed the benchmark indices DAX 30 (6%), DJ EURO STOXX 50 (1%) and MSCI World Chemicals (7%).

## II. How we are economically successful

BASF's economic performance is impressive. But for us it is just as important how we achieve this. How do we fulfill our environmental and social responsibilities?

Dear shareholders, you ask this question, and so do our customers, our neighbors and our employees. The answers to this question are becoming more and more important. And we have answers. Our purpose is: "We create chemistry for a sustainable future." We have criteria we use to examine our actions in terms of a sustainable future. When we manage risks, when we make decisions about investments, or when customers use our products.

Today, I want to focus on two topics: What is the significance of safe work at BASF? And: How do we work together with our suppliers?

*We never compromise on safety*

Safety has two aspects, which are both equally important: How safe are our plants and processes? And, are the people working at our sites doing so in a safe manner?

We ensure that our chemical plants and work processes are state-of-the-art. In our chemicals business, each year 5-10% of our investments are spent directly on measures relating to environmental protection, health and safety. The expenditures to constantly update our plants also mainly serve this purpose; in Ludwigshafen alone, last year we invested €1.5 billion – and the trend is rising. When making these spending decisions, we never compromise on safety.

But that is not enough. It is also vital that every employee knows how to act: on a day-to-day basis, in an exceptional situation, and in an emergency.

We have concepts, rules and regulations, training and inspections. Around 1,400 employees worldwide work exclusively on safety. We organize training, such as the "global safety days," where this year, during one week in March, nearly 1,000 events took place at 360 sites. In this way, we want to raise our employees' risk awareness and learn from each other. As part of the Safety Champions initiative, in Ludwigshafen we have a training center dedicated to

making BASF safe. We trained 19,000 employees and partners there in 2016. Around the world, the corresponding figure was 118,000.

And the results? We are very safety conscious. We have high standards. We have a very strong safety culture.

The statistics also show this:

- Our work-related accidents have decreased by more than 20% in the past five years.
- Only every tenth accident involves chemical products. The lion's share of accidents involve everyday causes such as tripping or slipping.
- Compared with the German chemical industry, the accident rate at BASF is four times lower.

We know that nobody is interested in statistics. Figures mean nothing when an accident happens. Every accident is one too many. We are working on decreasing the probability of accidents occurring. To do this, we are calling in external experts to evaluate our measures. We want to learn and become even better; I promise you that.

#### *How we assume corporate social responsibility*

How do we handle this responsibility outside of our site gates? One example is the U.N. Sustainable Development Goals for labor and social standards. These are particularly important for emerging markets. These countries are increasingly relevant to BASF, both as markets and as suppliers.

We require that our suppliers recognize our Code of Conduct. This covers compliance with human rights as well as labor and social standards, protecting the environment and antidiscrimination policies.

Back in 2011, BASF and six leading chemical companies established the initiative "Together for Sustainability," which now has 19 companies participating. We want to ensure that our suppliers uphold these standards. Last year, BASF audited more than 100 of our suppliers' sites and commissioned more than 500 reports from external experts. If we identify deficiencies, we help our suppliers meet our standards. But, if our partners

cannot or do not want to improve, we are not afraid to end the business relationship. We did this twice in 2016.

I think it is clear to all of us that BASF is not only focused on growth and economic success. For us, how we do this is at least as important. Some things require perseverance. To us, sustainability also means that the short term should not take precedence over the long term. It's an old question: Should we invest for the future or make a buck now? It is a question that you also ask yourselves often. So, what creates value for BASF and thus for you, dear shareholders?

### **III. Outlook 2017**

Let's take a look into the future. How will we further develop BASF and our portfolio of businesses? And what opportunities does digitalization present to us?

BASF's portfolio is broad, but most importantly, also highly effective. Each of our businesses should achieve a leading market position if possible – especially in comparison with its competitors. The Verbund helps us achieve this.

*We add value as one company*

Our factories are connected. The by-products of one factory serve as raw materials for another factory. The heat given off by one plant supplies energy for a neighboring plant. As a result, we conserve raw materials and energy and lower our emissions and transport costs. Our competitors prove how modern and up-to-date our Verbund is because they try to copy our model as best they can.

Our Verbund includes production and logistics as well as research and development and our market presence vis-à-vis our customers. One example is the automotive industry. We offer our customers solutions in more than 50 areas, ranging from coatings, catalysts and components for bodies and motors, to electronics, batteries, engine coolants and brake fluids.

Our portfolio is constantly changing. We buy and sell businesses, both smaller and larger ones. When doing so, we ask ourselves one crucial question: What creates value for BASF?

I'll give you three examples:

- Last December we acquired Chemetall. Chemetall is the market leader in the pretreatment of surfaces made of metal, plastic and glass. The products can prevent vehicles and airplanes from rusting, for example. They are usually customized, such as for airplane turbines. With this acquisition, we expanded the business of BASF Coatings beyond coatings.
- Our purchase of Rolic AG was a technology-driven acquisition. The Swiss company is a specialist for LCD and OLED displays, which can be used in televisions, computers and smartphones. With its patents and the expertise of the Rolic employees, we are making advances in electronic chemicals.
- In March, we agreed to combine our leather chemicals business with the Stahl Group. The Stahl Group is a leading supplier of leather chemicals. BASF will hold a minority stake of 16% in the firm.

In the future, we will continue to adapt our portfolio towards more growth and earnings stability. We strengthen those activities we do well and we divest businesses that can create more value in someone else's hands.

New products, better processes and investments, operational excellence and customer proximity – these are the core factors that make us competitive. In order to strengthen these, we also utilize digitalization. Many of you will associate digitalization more with risks than with opportunities. We see mainly the opportunities for BASF, since digitalization offers new and often unexpected possibilities.

You all know the buzzwords: Industry 4.0, big data, connectedness and the internet of things. Even though we do not yet know exactly what digital work will look like in the future, we are determined to take advantage of the opportunities it offers. To do so, we have established the initiative "BASF 4.0," which bundles, focuses and accelerates many promising projects.

What drives us to do this?

- How do we want to work seamlessly with customers and partners in the future and develop new business opportunities?
- How can we better manage our factories and our logistics?
- Which opportunities are arising in research, for example, because of artificial intelligence?

#### *Digitalization in research and production*

Our research and development team was looking for a new, very specialized surface coating for a customer. Our scientists conducted research, they tried everything, but could not find a solution in spite of all their experience, expertise and persistence. We then tried a new digital technology. And the result was something that did not make any sense at first glance. On closer inspection, it became clear that it did in fact work. This shows that digital technologies have led to qualitative advances in knowledge that otherwise would not have been possible.

It is not just about speed, it is about new knowledge. To this end, we are working with Hewlett Packard Enterprise on one of the world's largest supercomputers for industrial research. This will give our scientists the best instruments for their models and simulations – before they go into the lab.

In production, one aim is being able to better plan maintenance work. We can better predict when we will have to replace a plant component, such as a pump. Digitalization will also help us make processes even safer and improve the support for our teams in the plants.

#### *Digitalization in logistics and at our customers*

At our Ludwigshafen site, we are introducing a completely new, digitally controlled transport system. Since April, we have been testing a self-driving, remote-controlled vehicle. It fits perfectly in our sophisticated logistics operation, especially for the new tank containers which will replace the tank rail cars. The prototype conceived by BASF is 16 meters long, has 32 wheels and is very maneuverable. It can carry three times the payload of a conventional vehicle. Now we only need a few hours rather than an entire day

from the time an order is placed until delivery. With a transport volume of several million metric tons per year, this is valuable progress – for our customers and for BASF.

We are also working with digital technologies at our customers, for example, in the crop protection business. Since 2016 we have offered farmers a digital application called Maglis™. Maglis collects, interprets and monitors data about crop management, including information about the weather, soil conditions and weeds. Maglis helps farmers make the right decisions. And the result? Better harvests, higher income and less risk. Our application combines innovation, digitalization and sustainability. It means farmers only use exactly the amount of crop protection products necessary. This will be even more important in the future and that is why we signed an agreement at the end of April to acquire ZedX. The U.S. firm is an expert in digital intelligence for agriculture.

As you can see, we are working with an eye on the future. But we also make sure that our businesses are running well today.

#### *First-quarter results 2017*

The first four months of this year were good for BASF. We had substantial growth, especially in Asia, and our sales and earnings increased considerably. Our Oil & Gas business continued to recover.

In light of many uncertainties, we will nevertheless continue to be economical, act cautiously and closely monitor our costs and investments. This year, we want to achieve a slight improvement in earnings – meaning an increase of up to 10%.

Are we too cautious, too conservative, as some equity analysts claimed after the good first quarter? The second half of the year will show whether we are really being too modest, as the newspaper Frankfurter Allgemeine Zeitung wrote. The economy is growing, yet the political risks remain high – around the world, but especially in Europe.

This also includes the German federal election on September 24. It would be nice if the new German government would lay the right groundwork for growth and more participation:

- A regulation that is not just well intentioned, but that actually gives companies more flexibility, for example, for digital workplaces.
- A predictable energy policy that actually reduces greenhouse gas emissions, stops creating energy winners and losers, and no longer punishes those who have in fact made their contribution – namely, the chemical industry.
- A tax policy that encourages rather than discourages performance and dedication, and therefore increases the size of the pie that everybody would like to share.

I hope that these will not be just pipe dreams for 2018, so that the chemistry will be right for our business.

And we have good chemistry here at BASF, also in our Board of Executive Directors. We work well and happily together. Today Margret Suckale and Harald Schwager are leaving the Board of Executive Directors. The Supervisory Board has appointed Saori Dubourg, formerly head of the Nutrition & Health division, and Markus Kamieth, previously head of the Coatings division, as members of the Board of Executive Directors. I am looking forward to working together and wish them both a lot of success and enjoyment in their new roles.

To conclude, ladies and gentlemen, I would like to say thank you.

Margret Suckale came to BASF in 2009 and has been a member of the Board of Executive Directors since 2011. Her role as Industrial Relations Director included Human Resources. But in fact her responsibilities were much broader and also included the Ludwigshafen site with its 35,000 employees, Engineering, Environmental Protection and Safety. These are vital and highly complex responsibilities. Appointing a board member from outside of BASF was an experiment, and it turned out to be a great success. Margret, you were the right woman for the job.

Harald Schwager has been with BASF for 29 years. From joining the company as a chemist in polymer research, you eventually headed up the Ludwigshafen site and then joined our Board of Executive Directors in 2008. You have been Industrial Relations Director and were later in charge of our Oil & Gas segment as well as the region Europe, crop protection and our construction chemicals business. And now as you head north, we wish you all the best and lots of success with your new challenge.

Today is also the last time Robert Oswald will be sitting here on the podium. You have been head of the works council for 17 years and a member of it for 27 years. You came to BASF nearly 47 years ago as an apprentice chemical lab technician. With your departure, the Board and BASF are losing a dialog and negotiating partner who is not only smart and assertive, but also fair. You have set milestones: not least, the five site agreements that benefit the employees as well as BASF. Thank you very much for that.

And I would like to thank you, dear shareholders, for your trust in BASF and your interest in the company. BASF's economic performance is impressive. But it is just as important how we achieve this. I hope you will continue to support us in the future.

#### **Forward-looking statements and forecasts**

This document contains forward-looking statements. These statements are based on current estimates and projections of BASF management and currently available information. They are not guarantees of future performance, involve certain risks and uncertainties that are difficult to predict, and are based upon assumptions as to future events that may not be accurate. Many factors could cause the actual results, performance or achievements of BASF to be materially different from those that may be expressed or implied by such statements. BASF does not assume any obligation to update the forward-looking statements contained in this document.

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