

# News Release

P376/18e  
November 20, 2018

## **BASF's new strategy aims for both profitable and CO<sub>2</sub>-neutral growth**

- **Growth above global chemical production targeted, driven by high attractiveness for customers**
- **BASF to leverage Verbund, innovation, sustainability, digitalization and operational excellence**
- **Sales with products that make a substantial contribution to sustainability to reach €22 billion in 2025**
- **Increase of 3-5% per year in EBITDA before special items targeted**
- **Dividend per share to increase every year**

Presentation by

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

The spoken word applies.

---

Media Relations  
Jens Fey  
Phone: +49 621 60-99123  
[jens.fey@basf.com](mailto:jens.fey@basf.com)

BASF SE  
67056 Ludwigshafen  
[www.basf.com](http://www.basf.com)  
[presse.kontakt@basf.com](mailto:presse.kontakt@basf.com)

[Martin Brudermüller]

[Slide 1]

Ladies and gentlemen,

On behalf of the BASF Board of Executive Directors, we are pleased to welcome you here in Ludwigshafen today. Hans Engel and I really appreciate your interest in our new BASF strategy, which I promised you when I assumed my new position in May.

Our most recent strategy, “We create chemistry”, was unveiled in 2011. I don’t need to tell you how much the world has changed since 2011 and how the pace of change is quickening. Which means there are many reasons now to realign our strategy. After all, chemistry is the key to many of the social and environmental challenges facing the world’s population and our planet: limited natural resources, demographic change and growing consumer demand in developing countries, to name just a few. BASF wants to be the leading chemical company in the future, too.

Our customers have high expectations of us and they demand a high level of transparency and compelling measures to ensure a sustainable value chain. And, we are in constant competition, particularly with specialized companies in Asia. This means that in growth markets especially we must prove ourselves against new local market leaders.

[Slide 2]

Ladies and gentlemen,

Since 2012, our income from operations before depreciation, amortization and special items has grown on average by 8% per year, considerably faster than the 3% increase in fixed costs. Our earnings growth thus also outpaced the 3.7% annual increase in global chemical production. Moreover, we have achieved strong free cash flow in recent years and a high return on capital employed (ROCE) – most recently 15.4% – which significantly exceeded our cost of capital.

However, the development of our sales in the past few years has not been satisfactory. Likewise, we are not content with our volumes growth of 2.3% annually, which falls short of the increase in global chemical production.

With our new strategy, we are setting BASF on a course for growth.

*[Slide 3]*

We are aware that as the leading chemical company we have to further build on our strengths.

We know what is needed to accomplish this:

- To grow faster, we will have an even stronger focus on our customers and develop tailor-made offerings for them. We want to simplify our structures and processes to become faster and more flexible.
- We will sharpen our portfolio and strengthen our Verbund.
- We will transform our organization to be more agile and customer-focused. Our employees will collaborate even more closely with our customers.
- We will focus on organic business growth.
- We will grow in China, the largest market, and
- We will pursue CO<sub>2</sub>-neutral growth.

*[Slide 4]*

[Hans-Ulrich Engel]

Good morning ladies and gentlemen!

With our new strategy, we are targeting profitable growth. And this requires a good positioning in Asia, above all in China. BASF is already well established in the growing Asian market. With a world market share of more than 30%, China is the world's largest chemical market and drives the growth of chemical production. By 2030, China's share will increase to nearly 50%, and we want to participate in this growth. Our new Verbund site in Zhanjiang, Guangdong Province and the expansion of the site in Nanjing will significantly enhance our growth in this dynamic market.

## **We set ambitious targets and measure our success**

*[Slide 5]*

With our new strategy, we are setting ourselves new and ambitious targets – both financial and non-financial. We want to be an attractive partner, for our customers, our investors, our employees and other stakeholders.

We are the leading chemical company. And this leadership extends to our targets. Leading means achieving stronger growth than the market. We aim to grow our sales volumes faster than the growth of global chemical production.

And in terms of profitability: We want to increase BASF's EBITDA before special items by 3% to 5% per year. Moreover, we aim to achieve a return on capital employed (ROCE) well above the cost of capital percentage every year. This means we create true added value.

And we also want to be leading in the eyes of our shareholders. This means we strive to deliver above-average value to them compared to the chemical industry. Consequently, we want to increase our dividend per share every year, supported by a strong free cash flow.

[Martin Brudermüller]

Ladies and gentlemen,

We have also set ourselves non-financial targets. And here, too, we want to be leading. I am very proud today to announce a target that combines profitable economic growth with sustainable climate protection.

We have launched an ambitious Carbon Management program, made up of two components. First, we commit to keeping our greenhouse gas emissions flat at today's level until 2030 – even though we are targeting considerable annual production growth, including planned major investments, such as the new Verbund site in Guangdong in southern China.

This means we will decouple our greenhouse gas emissions from organic growth. To achieve this, we will improve the management, efficiency and integration of our plants and, wherever possible, we will purchase a greater share of electricity from renewable energy sources.

Given the already very high technological standards at our plants, this is a very ambitious goal that will require exceptional creativity to do things differently. And we must not forget that we have already reduced our greenhouse gas emissions by 50% in absolute terms compared to 1990 levels – while doubling our production volumes in this period.

In parallel, we have launched a new R&D program to develop groundbreaking technologies that will be available after 2030 to further significantly reduce greenhouse gas emissions in the most CO<sub>2</sub>-intensive chemical processes.

Yet it is clear already: To accomplish this, we will need a suitable regulatory environment in Germany, Europe and around the world.

We at BASF are making a very ambitious commitment here. But successfully overcoming challenges has been part of our DNA for more than 150 years. We are leading the way and, in doing so, we want to fulfil our responsibility to society.

In addition to our target of CO<sub>2</sub>-neutral growth until 2030, we want to generate around €22 billion in sales with our Accelerator products in 2025. Accelerator is the name we give to products which make a substantial sustainability contribution in the value chain.

Furthermore, in procurement, we also want to cover 90% of our relevant spend with sustainability evaluations by 2025 and work towards having 80% of our suppliers improve their sustainability performance upon reevaluation.

But none of this will be possible without our employees. That is why, for the first time, we are setting a target for employee satisfaction: We want more than 80% of our employees to feel that at BASF they can thrive and perform at their best.

We will use all these key performance indicators (KPIs) to measure our success.

[Hans-Ulrich Engel]

*[Slide 6]*

To help reach our ambitious targets, we are initiating a new excellence program which will run from 2019 until 2021. It targets annual earnings contributions of €2 billion from the end of 2021 onwards. The program will include measures focused on production, logistics, research and development as well as digitalization and automation activities and organizational development.

As part of the further development of our organization, we are creating leaner structures in services, R&D and governance functions. By embedding significant parts of the functional services into the operating divisions, BASF is bringing its employees closer to its customers. Moreover, the remaining functional and research activities will be more efficiently organized. We expect all these measures, which will directly and indirectly affect 20,000 employees worldwide, to result in better differentiation of the business units as well as substantial productivity gains.

This means we will enable more entrepreneurial freedom, but also assign clear responsibilities. When appropriate, we will transfer greater decision-making authority to the business units. This will enhance their effectiveness and consequently improve customer satisfaction as well.

### **We identify action areas to achieve our targets**

*[Slide 7]*

[Martin Bruder Müller]

Ladies and gentlemen,

We want our customers to have a new experience with BASF. Therefore, we will further develop our organization so we can work more effectively and efficiently and focus even more on our customers. We want to strengthen our passion for our customers throughout the entire organization. We want to anticipate and fulfill our customers' needs even better. By combining our unique expertise in the chemical industry with our customers' competencies, we will jointly develop solutions that are both profitable and responsible. To this end, we are launching a series of measures which will, among other things, increase our transparency for our customers, enhance customer service and explore joint growth potential.

To reach our targets and be the leading company in the chemical industry for our customers, we are focusing on six action areas: portfolio, people, innovation, sustainability, operations and – last but not least – digitalization.

*[Slide 8]*

### **Portfolio management: Use the strength of our Verbund integration**

We have undertaken a review of our segment structure and will be introducing a new structure in January 2019. We will sharpen our portfolio and focus our capital allocation more towards growing business areas. BASF's new segment structure will create a higher transparency regarding the steering of our businesses, the importance of value chains and the role of our Verbund.

As of January 1, 2019, we will have six segments, each containing two operating divisions, with the exception of Agricultural Solutions:

- **Chemicals** with Petrochemicals and Intermediates
- **Materials** with Performance Materials and Monomers
- **Industrial Solutions** with Dispersions & Pigments and Performance Chemicals
- **Surface Technologies** with Catalysts and Coatings
- **Nutrition & Care** with Care Chemicals and Nutrition & Health, and finally
- **Agricultural Solutions**

We aim to clearly position each business against its relevant competitors and establish a high-performance BASF to enable us to be successful in an increasingly competitive market environment.

We will focus primarily on organic growth through capital expenditures and innovation, but also make acquisitions where necessary. Our main emphasis will be on designing processes to be efficient and reliable. Businesses where we cannot achieve such a position will eventually be exited.

*[Slide 9]*

The Verbund will continue to play a central role for us. BASF's portfolio has unique benefits because of physical as well as technological, market-related and digital Verbund advantages. The Verbund helps us realize technological advantages throughout all the segments. We can effectively support our customers with a broad portfolio.

Value chains can only be operated truly efficiently in the Verbund. Thanks to the integrated production in the Verbund, we achieve annual cost savings of at least €1 billion, for example, for raw materials, energy and logistics. At the same time, we

avoid considerable emissions, too. BASF will continue to lead the industry in building and developing Verbund structures and in consolidating operations at fewer, highly efficient sites.

*[Slide 10]*

[Hans-Ulrich Engel]

We have produced a roadmap for every segment. These roadmaps create clarity and a shared understanding of each segment's strengths, special characteristics and focus topics. They are organized according to various criteria. We take into account the key strategic levers such as innovation, capex, acquisitions and sustainability. Ultimately, our aim is to optimally manage all our business areas, to concentrate the necessary resources, ensure clear management focus and achieve the best outcome.

*[Slide 11]*

### **Creating a high-performance organization**

Ladies and gentlemen,

To successfully change our company, we also need to improve our internal processes and how we work together. Our people are what will make the implementation of our new strategy successful. We need to have flexible structures and ensure our employees have the tools and skills necessary to be able to offer our customers differentiated and customized products and services. It is essential that we become faster and more agile and thus more efficient and effective.

We will adapt our business models and organizational structures so that each business can optimally serve its market segment. Bringing the most customer-relevant functional services into the businesses will allow the business units to tailor their offerings to the needs of their markets.

Our current organizational matrix setup of businesses, regions and functions will be simplified by more complementary roles and responsibilities.

To ensure that we capture our potential market opportunities in every country, we plan to introduce complementary market development models. Our operating divisions will decide which local markets they will treat as focus markets served by

their own personnel and in which markets they will hand over the business mandate to local country organizations.

Furthermore, we have established a process simplification task force to focus on making key processes less complicated. Our goal is to simplify and streamline processes and enable faster decision-making.

*[Slide 12]*

[Martin Bruder Müller]

### **Solving challenges with innovative solutions**

BASF has always worked on developing the most attractive innovations for its customers. Competitiveness and customer relevance are achieved through excellence in processes and technologies. Our new strategy will now bring our research units closer to business and customer needs. Research and development will be more closely connected organizationally and thus more focused on customer needs. This will help to shorten the time to market and drive organic growth. Our ambition is to be the most attractive partner for our customers whenever they are confronted with challenges that can be approached with chemistry.

We will design our innovation chain to be as seamless as possible so that we can bring products to the market more quickly. This means fostering a higher level of excellence throughout the entire innovation process, starting from the lab all the way to the customer.

We will also increase collaborations with external partners to develop breakthrough innovations that meet and exceed our customers' expectations.

Through the closer connection between research and development, we will strengthen the voice of the customer in our research units and at the same time strengthen the voice of innovation in our business units.

### **Being an action leader in sustainability**

Our purpose is: "We create chemistry for a sustainable future." And we want to live up to this. BASF is only successful if our products, solutions and technologies add value to society. Integrating sustainability deeply into our business models and business conduct secures the long-term success of our company, creates business opportunities and establishes us as a key partner supporting our customers.

We want to be a thought and action leader in sustainability and we therefore want to increase the relevance of sustainability in our business decision-making processes.

*[Slide 13]*

Ladies and gentlemen,

Plastics offer indispensable benefits; for example, they protect food, make vehicles lighter and insulate houses. But plastic waste, especially plastic litter in the world's oceans, is a major global challenge. There is also increasing regulatory pressure, with higher recycling quotas and recyclability requirements being introduced. At the same time, many of our customers have committed to increasing the share of recycled material in their products. Solving these challenges requires innovation and joint efforts globally across the value chain. We will contribute to tackling this issue.

A prime example of this is our ChemCycling project. With chemical recycling, fossil resources for chemical production can be partially replaced with recycled material from plastic waste. How does it work? Plastic waste is transformed into a raw material using thermochemical processes, and this can then be fed back into the Verbund. Our sales products manufactured with this process have the same properties as materials made from fossil-based raw materials.

We thus help the market to recycle various chemical products, such as mixed plastics, which were previously not recyclable. This contributes to achieving recycling targets efficiently. However, this will require the refinement of technological approaches and both the market and regulators will have to recognize thermochemical recycling as recycling. With our Eco-Efficiency Analysis, we ensure that our innovative approach creates value for the environment.

To give you a better idea of this concept, we'd like to show you a short film that explains how the ChemCycling principle works.

*[Slide 14]*

Ladies and gentlemen,

Chemical recycling represents an exciting business opportunity for us and our customers, as the resulting products are of equal quality to the products derived from fossil raw materials.

And just a few days ago, the first pyrolysis oil made from waste plastics was used in the Verbund in Ludwigshafen – a major milestone in the project. We are working with our customers to develop the first prototypes for consumer products made from chemically recycled materials, for example, this mozzarella packaging. But this is just the beginning: We will keep you updated about the progress of this project over the coming months. And many technical, economic and regulatory questions still must be answered, but we are eager to work on them and optimistic that we can cope with all challenges.

*[Slide 15]*

### **Being the leading operator**

[Hans-Ulrich Engel]

Operational excellence has always been one of BASF's key strengths. But, unfortunately, we have learned that we must begin taking care of our assets more consistently and carefully again. Our customers expect us to deliver products on spec and in time. To do this, we must run our production safely, efficiently and reliably.

We have identified several key components to adapt to an increasingly fast market environment and to the higher demands of our customers. We will improve the reliability of our assets and our agility. We have therefore increased our dedicated budget for boosting operational excellence to €400 million per year. This is significantly more than the average in recent years. Continuous process improvements and efficient debottlenecking of our existing asset base are paramount to ensure our competitiveness.

In addition to these operational excellence measures, we are fully committed to driving forward the digitalization process in our company. And with innovative solutions, we will increase our productivity and our contribution to a sustainable future. This will enable us to react faster to changes and strengthen our position as a technology leader.

*[Slide 16]***Leverage digitalization across the company**

[Martin Brudermüller]

Ladies and gentlemen,

Digitalization offers unprecedented opportunities along the entire life cycle of our assets. For example, we can simulate different processes or investment ideas using our computers, which helps to minimize costs. Augmented reality is already being used to support our workforce in daily operations. We aim to digitalize processes at more than 350 of our plants worldwide by 2022.

Digitalization is key to preserving our overall competitiveness and not just in operations. We have many good ideas for digitalization. But we also recognize that we need to become faster at implementing digital projects.

Our goal is to make digitalization an integral part of BASF's business. We will create additional value for our customers, grow our business and improve efficiency through digitalization. It will also increase our creativity in R&D, not least owing to a more intensive use of our supercomputer Curiosity. We will foster a data-driven mindset and offer data-driven services and products.

To ensure that we get the best value from our data, we will further improve data availability and quality, provide the necessary infrastructure to connect our backend systems and use existing data to support decision-making.

BASF will gain speed, impact and reach in its digitalization efforts to stay ahead of its peers in the chemical industry. We will provide the necessary structure and infrastructure in production. And we will define and describe the necessary measures in specific digital roadmaps.

These digital roadmaps and the newly created post of Divisional Digital Officer will guide every operating and functional division through the digital transformation. By promoting comprehensive digital skills among our future leaders and our entire workforce, we will ensure that the necessary resources are available.

*[Slide 17]*

Ladies and gentlemen,

I think it is clear what course BASF is taking.

- We are realigning our organization – with a focus on customers and innovations.
- We will leverage the Verbund, digitalization, sustainability and operational excellence.
- In Asia, especially in China, we want to further expand our good position and participate in the strong growth of the Chinese market.
- And: we want to achieve growth that is both profitable and CO<sub>2</sub>-neutral and create value for society.

The entire Board of Executive Directors is looking forward to implementing this strategy, which we have developed over the past few months in collaboration with many BASF experts and managers worldwide. We are convinced that this is the right path – because we also know the enormous potential of BASF's employees. We want to empower them more – and we are certain that their impressive creativity and passion for chemistry will create the next-generation BASF!

You have heard a lot of new information and you probably have a lot of questions too. Hans Engel and I are looking forward to discussing with you now.