



# Speech to the Annual Shareholders' Meeting of BASF SE May 2, 2014

 **BASF**  
The Chemical Company

The cover photo shows two BASF engineers with a plastic part created for the automotive industry using our Ultrasim® simulation method. Lightweight components like this one help reduce weight in vehicles, lowering both fuel consumption and carbon emissions.

## We innovate to make our customers more successful

Speech by Dr. Kurt Bock

Chairman of the Board of Executive Directors of BASF SE

*The spoken word applies.*

### Good morning ladies and gentlemen, dear shareholders,

Welcome to our Annual Shareholders' Meeting. I would also like to welcome you on behalf of my colleagues on the Board of Executive Directors.

What do Playmobil figures, a farmer from Arkansas, and the Marmaray Tunnel in Istanbul have in common? They are all examples of how BASF works together with customers from different industries. Some examples go far back in our history. You may see this as a small preview of our 150th anniversary, which we will be celebrating next year. But I do not want to give away too much, just this: In 2015, we will not only concern ourselves with the past. We also will break new ground. We want to take advantage of the interest in BASF to promote our "We create chemistry" strategy. And we will involve a lot of people – in Ludwigshafen and all over the world.

I would like to start off today by looking at BASF's performance in 2013 and the targets we have set for ourselves in 2014.

We were again able to further increase sales and earnings compared with the previous year. We achieved this in the face of considerable headwind. The global economy and industrial production grew even more slowly than in the previous year. Currencies in Japan and emerging markets strongly declined in value, whereas the euro rose significantly in 2013. Despite this, we sold more, worked even more closely with our customers, and further enhanced our product portfolio. We are proud of this performance of the BASF team. I would like to express my heartfelt gratitude to our employees for their efforts.

We do not only set goals for our economic performance. You can read about our goals in detail in our corporate report. Particularly important to us is occupational safety. By 2020, we want to reduce the number of work-related accidents by 80% compared with 2002. In 2013, the lost time injuries were down 58%. That is a good result and my special thanks go once again



to the BASF team worldwide. Nevertheless, every accident is one too many. We will work very hard to achieve our goal by 2020.

Let us have a closer look at the previous year. Sales increased by around 3%. Sales volumes in the Oil & Gas and Agricultural Solutions segments developed particularly well. In the chemicals business, we were able to slightly increase sales volumes. Our chemicals business includes the Chemicals, Performance Products and Functional Materials & Solutions segments. Increased sales also came from acquisitions which we made in the previous two years – namely Pronova BioPharma, a producer of omega-3 fatty acids, and Becker Underwood, a specialist in the area of crop protection, as well as oil and gas reserves in Norway.

Income from operations (EBIT) before special items surpassed the level of 2012 by 8%. This was due to our strong business with crop protection products and in the Functional Materials & Solutions segment. Net income slightly surpassed the level of the previous year. At €7.9 billion, cash provided by operating activities reached a record level. The equity ratio of 43% was high. The rating agencies have just recently confirmed that we are very soundly financed.

### Segment overview (million €)

	Sales		EBIT before special items		EBIT	
	2013	2012	2013	2012	2013	2012
Chemicals	16,994	17,887	2,182	2,171	2,086	2,173
Performance Products	15,534	15,713	1,365	1,421	1,100	1,276
Functional Materials & Solutions	17,252	17,049	1,070	932	1,027	806
Agricultural Solutions	5,227	4,679	1,222	1,037	1,208	1,026
Oil & Gas	14,776	12,740	1,969	1,876	2,516	1,676
Other	4,190	4,061	(618)	(790)	(664)	(215)
	<b>73,973</b>	<b>72,129</b>	<b>7,190</b>	<b>6,647</b>	<b>7,273</b>	<b>6,742</b>

Who owns BASF? At the end of 2013, just under a quarter of our share capital was held by private investors, most of them residing in Germany. That means that we are one of the DAX 30 companies with the largest percentage of private shareholders. The biggest group of institutional investors, accounting for 16% of share capital, comes from the United States and Canada.

As shareholders, you experienced an unsteady stock market year with a strong start, share price declines in the second quarter, and a better development in the second half of the year. At the end of 2013, BASF's share price was €77.49, representing a growth of 9% over the previous year. Seen over the course of the entire year, our shares gained 13% in value – when we include the reinvested dividends. In contrast to previous years, we underperformed the German and European stock markets as well as the global chemicals indices. Another picture emerges, however, if we look at the past five or ten years: Our shares significantly outperformed these market indices and the shares of our competitors. Let me illustrate this with an example: Assuming you had purchased €1,000 in BASF shares at the end of 2003 and reinvested the dividends in additional BASF shares, you would have had an investment worth €5,090 at the end of last year. This is an average annual return of nearly 18%.

You can also rely on our dividend policy. We aim to increase our dividend each year, or at least maintain it at the previous year's level. We propose to you today that the dividend be raised by 10 cents to €2.70 per share. In total, we would pay out to you, dear shareholders, just under €2.5 billion. The remaining profit – providing you agree – will be allocated to retained earnings.

That is all I wanted to say about the past year. You can find more information in our Report 2013, which also includes our audited financial statements. We already published this report of BASF Group in February at our Annual Press Conference.

### What we are planning for 2014

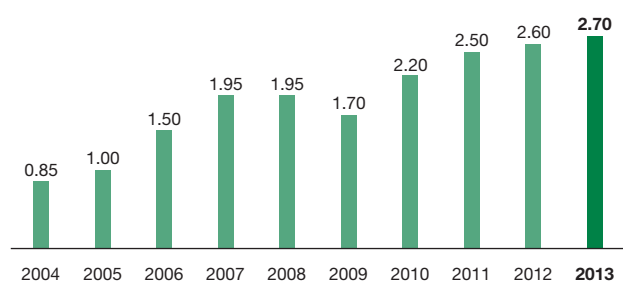
We had a good start to the year in our chemicals business and in the Agricultural Solutions segment: We sold more. This more than compensated for the negative effects on sales from the comparatively weak U.S. dollar and currencies in emerging markets. Overall, sales and EBIT before special items in the first quarter were slightly below the level of the first three months of 2013. Sales were €19.5 billion, EBIT before special items amounted to €2.1 billion. The decline was due to a weaker Oil & Gas business. Earnings per share rose from €1.57 to €1.61 due to special income resulting from the sale of shares in oil and gas fields in the British North Sea.

Now I would like to give you a brief outlook about what we expect in 2014. We anticipate that the global economy will grow somewhat faster than in 2013. Global chemical production will grow on average by 4%, roughly at the same rate as it did in the previous year. Important industries, particularly the automotive, consumer goods and electronics industries, are picking up speed. They are important customers for us. Therefore, we expect higher demand and more business from these industries. Our optimism notwithstanding, we should not forget that the global economy will continue to experience ups and downs. The past months have also clearly shown that emerging market currencies repeatedly come under pressure.

Therefore, it is important that we concentrate on the things that we ourselves can influence. We want to participate in the market growth with our innovations. We expect, however, that our sales will decline slightly in comparison with 2013. The reason for this is the divestiture of the gas trading and storage business in the middle of this year.

EBIT before special items is expected to be slightly higher in 2014 than in the previous year. We anticipate higher demand from our customers especially in the Performance Products and Functional Materials & Solutions segments. We expect EBIT for the BASF Group to be higher than in the previous year. The proceeds from the sale of the gas trading business will also contribute to the increase.

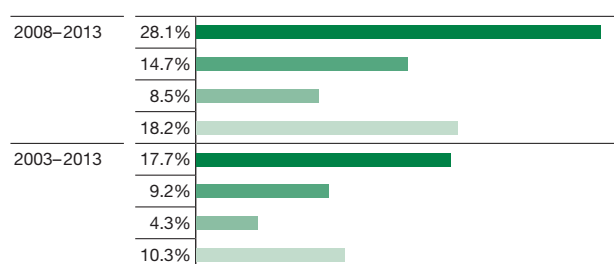
Dividend per share\* (€ per share)



\* Adjusted for two-for-one stock split conducted in 2008

BASF shares compared with indexes

(Average annual performance with dividends reinvested)



■ BASF share ■ DAX 30 ■ EURO STOXX ■ MSCI World Chemicals

### How we want to achieve our goals

Our “We create chemistry” strategy gives us the tools to achieve our goals. We must continually work on our products and solutions: Do we have the right products for our customers? Are we better than our competitors? Do we need to develop or acquire and integrate products and knowledge to make progress? Or do we have to divest businesses to stay competitive? How can we become even better?

For example, we have continued to strengthen our activities in Oil & Gas over the past two years. We are successful when we explore new sources for oil and gas or operate existing sources with new production methods. This is our core business and we want to concentrate on it. This is why we are divesting the gas trading business. The German government and the EU Commission have approved our plans. In Norway, we increased our production of oil and gas fields in 2013 tenfold by acquiring shares in additional fields.

We also will continue to invest in Russia. We will receive additional shares in the Urengoi natural gas field in Western Siberia, one of the largest deposits in the world. In exchange for these shares, Gazprom will take over the gas trading business and 50% of Wintershall Noordzee, which produces gas in the Netherlands. Over the past 20 years, we managed the gas trading business together. Based on this experience, I can say that Gazprom is trustworthy, reliable and predictable. Oil and gas production in Russia is an important business for us and we have confidence that the political situation will stabilize.

Due to changing markets and regional shifts, some of our activities in the Performance Products segment are in difficult waters. This includes leather and textile chemicals, paper chemicals, water treatment chemicals, pigments, plastic additives as well as business areas in nutrition and health. Our customers place other demands on us now than they did in the past. If we ask ourselves whether we have the right products for the market in these cases, we have to honestly say that this is not true in every case. That is why we have divested some activities, realign others and improve our processes. This restructuring is associated with cutbacks for our employees. In total, there will be a reduction of around 2,000 positions. All these steps are necessary. In this way, we can fully concentrate on the business areas that we want to grow.

If you want to grow, you need to invest. That is also part of our “We create chemistry” strategy. We target investments in regions which are growing. That is where the customers are who buy our products. For this reason, we are expanding and

building plants especially in Asia and North America. As far as the chemical industry is concerned, the United States is attractive for a second reason: With shale gas and shale oil, we also have access to cheap energy and raw materials for our production. In the United States in 2013, natural gas cost only about one third of the price we pay in Europe.

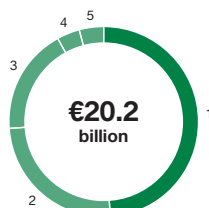
In order to take advantage of these favorable prices, we are exploring the possibility of an additional large investment on the U.S. Gulf Coast. We are planning a complex to manufacture propylene from methane via the intermediate of methanol. We are using a new technology. Propylene is one of the most important basic chemicals. We want to further process this basic product in North America and significantly expand our business. Propylene is needed, for example, for coatings, detergents, or superabsorbents for diapers. Until now, we have produced propylene mainly in steam crackers from naphtha and purchased it on the market.

The price of energy in Europe is one of the highest, and Germany tops the list. At least there is some good news. In this country, companies that already operate their own power plants, which generate steam and electricity for their own production in an environmentally friendly way, will continue to not be subject to the green energy surcharge. The politicians have now decided this. It is, however, not so good that we are not willing to develop new energy sources in Germany. I am thinking here of shale gas. High energy prices and untapped sources do not promote higher competitiveness. This is compounded by the fact that the chemical industry in Europe has not grown over the past years. Over the next five years, our investments in Europe, compared with our investments globally, will fall below 50% for the first time.

What is the current situation with regard to research and development? This is where we are spending most of our money in Europe. Germany will remain a strong base for our research in the future. Nonetheless, things will also change in research and development. By 2020, we aim to conduct half of our research and development activities outside of Europe. This is the only way we can get closer to our customers and their knowledge, closer to innovation centers and closer to talent. In 2013, we made further strides in this direction. We invested heavily in research for crop protection and plant biotechnology in North America. And in Japan, we expanded our research and development of battery materials. In 2013, we spent €1.8 billion on research, €100 million more than in the previous year. We also plan to invest even more in research this year.

### Planned capital expenditures by region 2014–2018

1	Europe	49%
2	North America	25%
3	Asia Pacific	18%
4	South America, Africa, Middle East	4%
5	Site alternatives currently being investigated	4%



### Goals for sales and EBITDA with innovations (billion €)

Sales	2020 <sup>1</sup>	30	<div style="width: 100%;"></div>
	2015 <sup>2</sup>	10	<div style="width: 33%;"></div>
EBITDA	2020 <sup>1</sup>	7	<div style="width: 100%;"></div>
	2015 <sup>2</sup>	2.5	<div style="width: 36%;"></div>

<sup>1</sup> Pertains to innovations then on the market for less than ten years

<sup>2</sup> Pertains to innovations then on the market for less than five years



“Concept 1865” is made almost entirely of plastics from BASF. Only its brakes, axles, and motor are still made of metal.

### How we make customers more successful with innovations

Research and development means thinking in new ways and seeing things from another perspective. Karl Drais built the first dandy horse out of wood. What would this bicycle look like today – with materials from the 21st century and modern technology? It would have an electric drive, be super light and the tires would be maintenance free. Together with a design studio, BASF developed such a bicycle bearing the title “Concept 1865.” You can have a look at it here in the Rosengarten today. It is almost entirely made of our plastics. Only its brakes, axles, and motor are still made of metal. We exhibited Concept 1865 for the first time in Düsseldorf at the international plastics trade fair, K 2013. It is an excellent example of what all can be done with plastics today.

But what is it that characterizes an innovation? Three things have to come together. A researcher recognizes a problem. Let us take Karl Drais as an example. He was looking for a vehicle that could be powered without the help of a horse, as oats were getting increasingly expensive in the 19th century. This researcher then has the ambition to solve this problem – using his creativity and knowledge of science. Having both of these still does not constitute an innovation. An innovation must also be accepted in the market. BASF is only successful if our customers buy our products. And our customers only buy our products if they help make them more successful. We have, therefore, formulated the following principle in our strategy: “We innovate to make our customers more successful.”

More than 100 years ago, Carl Bosch already was thinking intensively about this. He had managed to industrially produce nitrogen fertilizer based on the research of Fritz Haber. The next challenge he faced was to convince farmers that it worked. They should see for themselves that they could obtain a better harvest when they spread the factory fertilizer on their fields. Bosch decided to set up an agricultural research station in Limburgerhof near Ludwigshafen. The location seemed perfect: The fields were made of poor, sandy soil with few nutrients of their own, and it seldom rained. This fueled Bosch’s ambition. After just a short time, the first tests showed very promising results. Carl Bosch provided his customers with persuasive evidence.

Our business with farmers has developed very successfully over decades. It is key to know exactly who the customer is and what he needs. Let us take a look at North America: Brad Koen from BASF has known the farmers in southeast Arkansas for many years now. Matt Miles, for instance, took over his father’s farm and faced the task of having to significantly increase yields in order to continue to run the business successfully. Together with BASF, he has created a plan – from sowing and application of fertilizer and crop protection products through to harvesting. The plan is continually fine-tuned. In 2013, Matt Miles set a record in Arkansas: He harvested more than 100 bushels of soybeans per hectare. The average yield is around 50 bushels per hectare.

### How collaboration is changing

In the automotive industry, however, it is not about more, but rather less. We have been helping automotive manufacturers make their products lighter for 50 years now. Initially, the focus was mostly car racing. Car bodies made of polyester resin and gas tanks of polyethylene were thus developed. In the meantime, lightweight construction has become one of the big trends. Every gram counts, as the cars of the future must be efficient. And this is where our plastics once again come into play. BASF developed the first thermoplastic engine oil pan for trucks and the first plastic engine support for the six-cylinder diesel engine in the new Mercedes GL Class. In the meantime, cars contain roughly 15% plastic.

And there are almost no parts of a car not involving chemistry. We generate sales of nearly €10 billion per year with the automotive industry. This industry is one of our biggest customers. BASF supplies far more than engineering plastics, polyurethane and specialty foams, as lightweight construction is just one trend in the automotive industry. We also produce catalysts, coatings, fuel additives, engine coolants, brake fluids, pigments and battery materials. It is especially the collaboration with automobile manufacturers that has changed over the many years.

In the beginning we were simply a materials supplier. We had the knowledge about materials. The automobile manufacturers, on the other hand, knew their products and had their special requirements. The individual parts of the car became more and more complex, however. Gradually, manufacturers outsourced more of the development work to their suppliers. We recognized that and took advantage of this trend.

Take car paint, for instance. We no longer supply paint just by the kilogram. Paint for us is all about having an overview of our customers' complete painting processes and offering them our services directly at their premises. As painting especially requires a lot of energy in the production of automobiles, we asked ourselves the following question: How can we fundamentally improve the painting process? We came up with an integrated technology which allows the elimination of one drying phase. Previously, car bodies required 30-minute rounds in the drying oven, after application of the primer as well as the basecoat and clearcoat. Now the three layers are applied wet-on-wet and subsequently dried. The customer saves time, energy, and space in the paint line. Nissan already uses this process at sites in the United States, Japan and China. Such improvements

would not have been possible without knowing about our customers' processes and having the requisite knowledge of materials.

Sometimes we do not hit the mark straight away. That Playmobil was launched on the market in 1974 of all times was a consequence of the oil crisis. This is because the price of plastics rose along with the price of the raw material, thus making large plastic toys almost unaffordable. geobra Brandstätter's idea of manufacturing a toy that was small, simple and likeable sounded good to BASF. Our sales representative, however, was skeptical at first: Did the toy figures really have to be so simplified that they did not even have a nose? He was not the only one who thought that. The toy buyers expressed their concerns and reacted cautiously at the premiere of Playmobil at the toy fair in Nuremberg. Despite all the expert knowledge, children and parents were immediately enthusiastic about Playmobil – and their success story continues on until today. BASF has been collaborating with geobra Brandstätter, the medium-sized company from Zirndorf, from the very beginning. The plastic still has to meet high requirements today, for example, it must withstand the weight of an adult and still maintain its form.

The versatility of BASF plastics contributed significantly to Playmobil's ability to develop. In the beginning, the arms and hands were made of one piece and later they were made of two pieces with rotating arms and hands. At first, the eyes were printed on and later they were injection molded. Today, Playmobil offers more than 30 sets based on different themes. Within 40 years, geobra Brandstätter increased Playmobil sales from 3 million Deutsche marks to more than €550 million – and we have continually expanded our sales volumes.

#### BASF sales by industry

Direct customers

> 15%	Chemicals and plastics   Energy and resources
10–15%	Consumer goods   Transportation
5–10%	Agriculture   Construction
< 5%	Health and nutrition   Electronics

#### Trend lightweight materials

Share of plastics in modern vehicles

~15%

### How we bundle our knowledge

The first plans for the Bosphorus tunnel, linking Europe and Asia together, are more than 150 years old. Although it was not technically realizable back then, people could not get the idea out of their heads. That is why it was a special moment when the Turkish government decided to build the tunnel over 15 years ago. It was clear that such a construction would require very special concrete. We had to develop concrete that would last at least 100 years, and withstand water pressure of 7 bar and even an earthquake up to a magnitude of 9.0 on the Richter scale. We put together a project team to bundle knowledge in our company. Tunnel and mining experts, who had experience with large infrastructure projects, worked closely together with colleagues from research and development and quality management, as well as experts for concrete additives and construction systems. The task was immense: Even the smallest crack visible under a microscope was not allowed in the concrete structure. In order to test this, the Istanbul Technical University set up a special Marmaray laboratory. Scientists tested BASF's concrete mixture under these extreme conditions. Our recipe for success comprised water, cement, several super-plasticizers, an air entraining agent, microsilica as well as fly ash which acted as a binder. The project was completed on October 29, 2013, and the Marmaray tunnel was ceremoniously inaugurated.

### How we build trust

Whether we are working together with medium-sized construction companies, local farmers or major global customers from the automotive industry, it all boils down to one thing in the end: Trust. This feeling has the same meaning – independent of the county, culture or language. Companies are only successful if there is a culture of trust: when customers trust the company, when employees trust their employer, when shareholders trust that a company is successful, and when the Board of Executive Directors and the Supervisory Board trust one another.

Eggert Voscherau has been the Chairman of the Supervisory Board since 2009; his career at BASF, however, goes back much further than that. He has been working at BASF for 45 years – 24 of those in North and South America – and has got to know the company very well over this long time period. I appreciate his advice all the more so. Eggert Voscherau once said that for the Board he was something like “an advisor, a wailing wall and also a smart aleck.” An advisor, yes; a wailing wall, yes; but a smart aleck? Well, I cannot let that stand. Eggert Voscherau is

chairing the Annual Shareholders' Meeting for the last time today. Eggert, at this point I would like to take this opportunity to sincerely thank you.

Today, Max Dietrich Kley is also retiring from the Supervisory Board. He has one thing in common with Mr. Voscherau: He also joined BASF in 1969. And he has one thing in common with me. He was, among other things, Chief Financial Officer, and my predecessor in that office. Mr. Kley has headed the Audit Committee on the Supervisory Board since 2003, and in this capacity, became thoroughly familiar with our financial figures. My sincere thanks to you as well for the good cooperation.

From the employee representatives, Ralf Sikorski is leaving the Supervisory Board. He has been a member for more than 10 years. Many thanks to you as well and I wish you much success in your new assignments.

Above all, I would like to thank you, dear shareholders, for placing your trust in BASF. We need you in order to be successful. And I can promise you: The Board of Executive Directors and the employees are working together with all of our energy to ensure the success of BASF.

### Forward-looking statements

This speech 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 prove to 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. Such factors include those discussed in the BASF Report 2013 from page 106 to 114. The BASF Report is available in the internet under [basf.com/report](http://basf.com/report). We do not assume any obligation to update the forward-looking statements contained in this report.

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## Our purpose

# We create chemistry for a sustainable future

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Interim Report 1st Half 2014

# July 24, 2014

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Interim Report 3rd Quarter 2014

# Oct. 24, 2014

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Full-Year Results 2014

# Feb. 27, 2015

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Annual Shareholders' Meeting 2015 / Interim Report 1st Quarter 2015

# April 30, 2015

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## Further information

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## Contact

**General inquiries**  
Phone +49 621 60-0

**Corporate Media Relations**  
Jennifer Moore-Braun, Phone +49 621 60-99123

**Investor Relations**  
Magdalena Moll, Phone +49 621 60-48230