

Our strategy

Corporate strategy

With the “We create chemistry” strategy, BASF has set itself ambitious goals in order to strengthen its position as the world’s leading chemical company. We want to contribute to a sustainable future, and have embedded this into our corporate purpose: “We create chemistry for a sustainable future.”

In 2050, around nine billion people will live on this planet. While the world population and its demands will keep growing, the planet’s resources are finite. On the one hand, population growth is associated with huge global challenges; and yet we also see many opportunities, especially for the chemical industry.

Our purpose

We create chemistry for a sustainable future

Through research and innovation, we support our customers in nearly every industry in meeting the current and future needs of society. Our products and solutions contribute to conserving resources, ensuring good nutrition and improving quality of life.

Innovations based on chemistry will play a key role in three areas in particular:

- Resources, environment and climate
- Food and nutrition
- Quality of life

Our leading position as an integrated global chemical company opens up opportunities for us in all three of these areas. In pursuing them, we act in accordance with four strategic principles.

Our strategic principles



We add value as one company



We innovate to make our customers more successful



We drive sustainable solutions



We form the best team

We add value as one company. Our Verbund concept is unique in the industry. We plan to strengthen this sophisticated and profitable system even further. It extends from the Production Verbund and Technology Verbund to the Know-How Verbund, and provides access to all relevant customer industries worldwide. In this way, we combine our strengths and add value as one company.

We innovate to make our customers more successful. We want to align our business even more closely with our customers’ needs and contribute to their success with innovative and sustainable solutions. Through close partnerships with customers and research institutes, we link expertise in chemistry, biology, physics, materials sciences and engineering to jointly develop customized products as well as functional materials and system solutions.

“We create chemistry” strategy

- Our purpose: We create chemistry for a sustainable future
 - Innovations based on chemistry will play a key role in three areas in particular: resources, environment and climate; food and nutrition; quality of life
 - Our strategic principles: We add value as one company – We innovate to make our customers more successful – We drive sustainable solutions – We form the best team
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We drive sustainable solutions. In the future, sustainability will serve more than ever before as a starting point for new business opportunities. We therefore value sustainability and innovation as important drivers for profitable growth.

We form the best team. Committed and qualified employees around the world are the key to making our contribution to a sustainable future. That is why we will continue to pursue our goal of building the best team. We offer excellent working conditions and an open leadership culture that fosters mutual trust and respect and encourages high motivation.

 **For more on innovation, see page 30 onward**
For more on business opportunities with sustainability, see page 27 onward
For more on the Best Team Strategy, see page 39 onward

Our values

How we act is critical for the successful implementation of our strategy: This is what our values represent. They guide how we interact with society, our partners and with each other.

Creative

In order to find innovative and sustainable solutions, we have the courage to pursue bold ideas. We join our areas of expertise from many different fields and build partnerships to develop creative, value-adding solutions. We constantly improve our products, services and solutions.

Open

We value diversity – in people, opinions and experience. That is why we foster dialog based on honesty, respect and mutual trust. We explore our talents and capabilities.

Responsible

We act responsibly as an integral part of society. In doing so, we strictly adhere to our compliance standards. And in everything we do, we never compromise on safety.

Entrepreneurial

All employees contribute to BASF's success – as individuals and as a team. We turn market needs into customer solutions. We succeed in this because we take ownership and embrace accountability for our work.

Strategic focus areas

We have defined strategic focus areas within our company: In order to achieve our goals, we are concentrating on the areas of sustainability, innovation, sector orientation, employees, technological and operational excellence. To maximize our potential, we combine our strengths and act as one company to even better use the full range of competencies that make us unique in our industry. We will tap new growth markets by linking our research and development expertise, our operational excellence, our market knowledge and our customer relationships even more closely together. In this way, we promote the long-term success of both BASF and of our customers with our products and solutions. Our employees are fundamental to achieving the goals of our “We create chemistry” strategy.

Global standards

Our standards are aligned with internationally recognized principles and fulfill or exceed existing laws and regulations. We respect and promote

- The 10 principles of the United Nations Global Compact,
- The Universal Declaration of Human Rights and both United Nations covenants on human rights,

Our values

- Creative
- Open
- Responsible
- Entrepreneurial

Focus areas

- Sustainability
 - Innovation
 - Industry orientation
 - Employees
 - Technology and operational excellence
-

- The ILO's core labor standards and Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration),
- The OECD Guidelines for Multinational Enterprises,
- The Responsible Care Global Charter, and
- The German Corporate Governance Code.

We stipulate rules for our employees with standards that apply Group-wide. We set ourselves ambitious goals with voluntary commitments and review our environmental, health and safety performance using our Responsible Care Management System. Regular audits and a three-pronged monitoring system ensure our compliance with labor and social standards. This system comprises the following instruments:

- External compliance hotlines,
- The annual survey of our Group companies to inspect the prevailing working conditions, and
- Close dialog with our stakeholders, such as employee representatives and international organizations.

Our business partners are expected to align their actions with internationally recognized principles. We have established monitoring systems to ensure this.

 **For more on labor and social standards, see page 44**
For more on Responsible Care Management, see page 93
For more on corporate governance, see page 121 onward
For more on compliance, see page 127 onward

Innovations for a sustainable future

Innovations in chemistry are necessary to meet the needs of the growing world population on a long-term basis. The development of innovative products and solutions is, therefore, of vital significance for BASF's success. In 2020, we aim to generate around €30 billion of our sales and €7 billion of our EBITDA with the help of innovative products that will have been on the market for less than 10 years. This means effective and efficient

research is becoming increasingly important. We defined technology and growth fields with which we can make a decisive contribution to innovative solutions for global challenges and contribute to sustainable development. We are continuing to expand our research and development activities in Asia as well as in North and South America in order to participate in regional innovation processes and gain access to local talent. By 2020, we aim to conduct half of our research and development activities outside of Europe.

 **For more on innovation, see page 30 onward**

Business expansion in emerging markets

In the years ahead, we want to grow even more robustly within the emerging economies and expand our leading position there. Today's emerging markets are expected to account for around 60% of global chemical production in 2020. We aim to benefit from the significant growth in these regions and therefore plan to invest more than a third of our additions to property, plant and equipment there between 2011 and 2020.

In 2013, emerging markets saw substantially higher growth rates than the industrialized countries; however, this increase was not as high as in the previous year. This was largely due to the weak global economy, which dampened export demand. Furthermore, currency appreciation in many emerging markets led to higher import prices. Capital outflow also had a negative impact on investment activity there.

Nevertheless, our business in emerging markets grew once again in 2013: Compared with 2012, we were able to increase the sales of our companies headquartered in these countries by 1% to €16,294 million. Based on customer location, we increased sales (excluding Oil & Gas) in emerging markets year-on-year by 1% to €19,757 million; sales to customers in emerging markets therefore amounted to around 33% of total sales (excluding Oil & Gas) in 2013. By 2020, we aim to expand this proportion to 45%.



Global standards

- We act according to clearly defined values and standards of conduct that fulfill or go beyond laws and regulations
- We review our performance with regular audits and a three-pronged monitoring system

Sales¹ in emerging markets

2020	45%		55%
2013	33%		67%
2003	24%		76%

 Emerging markets  Industrialized countries²

¹ Percentage of BASF Group sales (excluding Oil & Gas) by location of customer

² Comprises EU15, Norway, Switzerland, North America, Japan, Australia, New Zealand

Goals

In 2011, we set ourselves sales and earnings goals for 2015 and 2020 as part of the "We create chemistry" strategy. The application of International Financial Reporting Standards 10 and 11 as of January 1, 2013, translates into lower reported sales and income from operations for the BASF Group. We have therefore adjusted our sales goals for 2015 and 2020 by €5 billion each and our EBITDA goals by €1 billion each. We reduced the yearly goal for the premium on our cost of capital from €2.5 billion to €2 billion. The goal for earnings per share in 2015 remained unchanged.

Adjustments do not yet include the asset swap with Gazprom that will be completed in 2014 with retroactive finan-

cial effect as of April 1, 2013. The transaction comprises the divestiture of the gas trading and storage business as well as shares in production activities in the North Sea. In 2012, these activities contributed around €10 billion to sales and around €500 million to the EBITDA of the BASF Group. In return, we will receive 25% plus a share in two additional Achimov Formation blocks in Western Siberia.

Our goals are based on the assumption that global gross domestic product will grow by an annual average of 3% from 2010 to 2020 and worldwide chemical production by 4% each year. We aim to grow two percentage points faster than global chemical production every year.

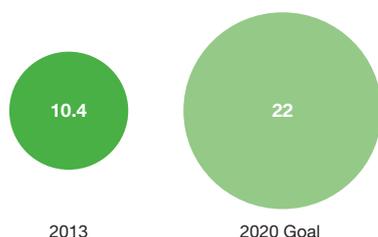
Growth and profitability

	Annual goals	2015 Goals	2020 Goals	Status at year-end 2013
Sales		Approx. €80 billion	Approx. €110 billion	€74.0 billion
Premium on cost of capital	At least €2.0 billion on average each year			€1.9 billion
EBITDA		Approx. €14 billion	Approx. €22 billion	€10.4 billion
Earnings per share		Around €7.50		€5.27

Employees

	Long-term goals	Status at year-end 2013	More on
International proportion of senior executives	Increase in the proportion of non-German senior executives (baseline 2003: 30%)	35.0%	Page 42
Senior executives with international experience	Proportion of senior executives with international experience over 80%	81.6%	Page 42
Women in executive positions	Increase in the proportion of female executives worldwide	18.5%	Page 41
Employee development	Establishment of employee development as a responsibility shared by employees and leaders based on relevant processes and tools	The project has been implemented for around 40,000 employees worldwide	Page 40

EBITDA (billion €)



Senior executives

Proportion of senior executives with international experience
(Goal: over 80%)



Safety, security and health

	2020 Goals	Status at year-end 2013	More on
Transportation			
Transportation accidents per 10,000 shipments (baseline 2003)	-70%	-61%	Page 94
Production			
Lost time injuries per million working hours (baseline 2002)	-80%	-58%	Page 95
Health Performance Index (annual goal)	>0.9	0.89	Page 95
Products			
Risk assessment for all products sold worldwide by BASF in quantities of more than one metric ton per year	>99%	56%	Page 97

Environment

	2020 Goals	Status at year-end 2013	More on
Energy and climate protection			
Improvement of energy efficiency in production processes ¹ (baseline 2002)	+35%	+19.8%	Page 100
Greenhouse gas emissions per metric ton of sales product ¹ (baseline 2002)	-40%	-34.0%	Page 100
Stop flaring of associated gas released during Wintershall's production of crude oil (2012 goal)	100%	100%	Page 100
Greenhouse gas emissions per amount and distance of transported gas (baseline 2010)	-10%	-9.0%	Page 100
Water			
Emission of organic substances to water ¹ (baseline 2002)	-80%	-78.5%	Page 103
Emission of nitrogen to water ¹ (baseline 2002)	-80%	-86.8%	Page 103
Emission of heavy metals to water ¹ (baseline 2002)	-60%	-64.2%	Page 103
Withdrawal of drinking water for production (baseline 2010)	-50%	-25.3%	Page 103
Introduction of sustainable water management at production sites in water stress areas	100%	11.1%	Page 103
Air			
Emission of air pollutants ¹ (baseline 2002)	-70%	-62.2%	Page 105

¹ Excluding oil and gas production

Transportation safety
Transportation accidents per 10,000 shipments, baseline 2003 (2020 goal: -70%)

Water
Introduction of sustainable water management at production sites in water stress areas (2020 goal: 100%)



Value-based management

“We add value as one company” is one of the four principles of our “We create chemistry” strategy. To create value in the long term, a company’s earnings must exceed the cost of stockholders’ equity and borrowing costs. This is why we strive to earn a premium on our cost of capital of at least €2 billion on average each year. To ensure BASF’s long-term success, we encourage all employees to think and act entrepreneurially along the lines of our value-based management concept. Our goal: to create awareness as to how each and every employee can find value-oriented solutions in the company’s day-to-day operations and implement these in an effective and efficient manner.

EBIT after cost of capital

Earnings before interest and taxes (EBIT) after cost of capital is a key performance and management indicator for the BASF Group and its operating divisions and business units. This figure combines the company’s economic situation as summarized in EBIT with the costs for the capital made available to us by shareholders and creditors. When we earn a premium on our cost of capital, we exceed the return expected by our shareholders.

Calculation of the cost of capital percentage

The cost of capital percentage (weighted average cost of capital, WACC) is determined using the weighted cost of equity and borrowing costs. The cost of equity is ascertained using the Capital Asset Pricing Model. Borrowing costs are determined based on the financing costs of the BASF Group.

EBIT after cost of capital, which we use as a steering parameter, is a pretax figure. Therefore, we use the current average tax rate to derive the pretax cost of capital percentage from the WACC. In 2013, this cost of capital percentage was 11%; it will be at the same level in 2014. Based on this, an EBIT threshold is determined which must then be reached by all the BASF Group’s operating units put together in order to earn the cost of capital.

Value-based management throughout the company

For us, value-based management means the daily focus placed on value by all of our employees. To this end, we have identified value drivers that show how each and every unit in the company can create value. We develop performance indicators for the individual value drivers that help us to plan and pursue changes.

An important factor in ensuring the successful implementation of value-based management is linking the goals of BASF to the individual target agreements of employees. In the operating units, the most important performance indicators are the achievement of a positive EBIT after cost of capital and a competitive return. By contrast, the value contribution of the functional units is evaluated on the basis of effectiveness and efficiency.

All this forms a comprehensive system of value drivers and key indicators for the individual levels and functions at BASF. In addition to EBIT after cost of capital, EBIT and EBIT before special items are the most significant performance indicators for measuring economic success as well as for steering the BASF Group and its operating units.

We primarily comment on EBIT before special items on a segment and division level in our financial reporting because this figure is adjusted for influences not associated with typical business operations. This makes it particularly suitable for describing economic development over time. In addition to EBIT before special items, we also report on sales as another main driver for EBIT after cost of capital. BASF’s nonfinancial targets are focused more on the long term, and are not used for short-term steering.

According to our value-based management concept, all employees can make a contribution in their areas of business to help ensure that we earn the targeted premium on our cost of capital. We pass this value-based management concept on to our team around the world through seminars and training events, thereby promoting entrepreneurial thinking at all levels within BASF. 🌐

EBIT after cost of capital¹ (million €)
Five-year summary

2013	1,872	
2012 (restated)	1,164	
2012	1,534	
2011	2,551	
2010	3,500	
2009	(226)	

¹ The figures for 2009 to 2011 were not restated according to IFRS 10 and 11 (see page 5). The figures for 2012 are shown before and after the restatement.

Calculation of EBIT after cost of capital (million €)

	2013	2012
EBIT BASF Group	7,273	6,742
– Less EBIT for activities not assigned to the segments ²	(664)	(215)
– Less cost of capital ³	6,065	5,793
EBIT after cost of capital	1,872	1,164

² The projected net expense is already provided for by an increase in the cost of capital percentage.

³ In 2012 and 2013, the cost of capital percentage was 11%.