

Our strategy

Corporate strategy

Purpose

**We create chemistry
for a sustainable future**

Principles

**As strategic basis for our
success on the market**

Values

**As guideline for our conduct
and actions**

With the “We create chemistry” strategy, BASF has set itself ambitious goals. 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, nearly 10 billion people will live on Earth. While the world's 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 corporate purpose

■ We create chemistry for a sustainable future

We want to contribute to a world that provides a viable future with enhanced quality of life for everyone. We do so by creating chemistry for our customers and society and by making the best use of available resources.

We live our corporate purpose by:

- Sourcing and producing responsibly
- Acting as a fair and reliable partner
- Connecting creative minds to find the best solution for market needs

For us, this is what successful business is all about.

As an integrated global chemical company, we make important contributions in the following three areas:

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

In doing so, we act in accordance with four strategic principles.



Our strategic principles

We add value as one company. Our Verbund concept is unique in the industry. Encompassing the Production Verbund, Technology Verbund and Know-How Verbund as well as all relevant customer industries worldwide, this sophisticated and profitable system will continue to be expanded. This is how we combine our strengths and add value as one company.

We innovate to make our customers more successful. We want to align our business optimally 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 science and engineering to jointly develop customized products, functional materials, and system solutions as well as processes and technologies.

We drive sustainable solutions. In the future, sustainability will more than ever serve as a starting point for new business opportunities. That is why sustainability and innovation are becoming significant drivers for our 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. Because we want to form the best team, we offer excellent working conditions and inclusive leadership based on mutual trust, respect and dedication to top performance.

For more information on innovation, see page 35 onward

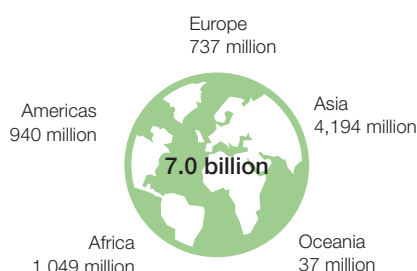
For more information on business opportunities with sustainability, see page 29 onward

For more information on the Best Team Strategy, see page 42 onward

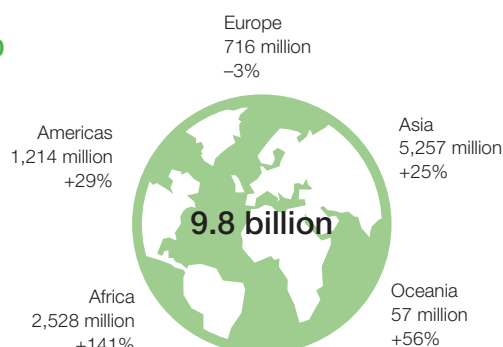


World population growth

2010



2050



Our values

Our conduct 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 link 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 experiences. That is why we foster dialog based on honesty, respect and mutual trust.

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.



Our focus areas

■ We set ourselves goals along the value chain for our focus areas

Sustainability is key to the company's long-term success and as such, is embedded into our corporate strategy. We have systematically formulated expectations for our conduct and defined focus areas to meet the growing challenges along the value chain:

- We source responsibly
- We produce safely for people and the environment
- We produce efficiently
- We value people and treat them with respect
- We drive sustainable products and solutions

 For more information on our materiality analysis, see basf.com/materiality

 For more information on our goals, see page 26 onward
For more information on the integration of sustainability, see page 29 onward 

The BASF brand

- Above-average awareness of, and trust in, BASF brand in chemical industry
- Corporate design updated

BASF's success as an integrated global chemical company relies on having a strong brand. This is derived from our strategy and our corporate purpose – “We create chemistry for a sustainable future” – as well as our strategic principles and values.

“Connected” describes the essence of the BASF brand. Connectedness is one of BASF's great strengths. Our Verbund concept – realized in production, technologies, knowledge, employees, customers and partners – enables innovative solutions for a sustainable future. The claim that “We create chemistry,” as stated in the BASF logo, helps us embed this solution-oriented strategy in the public perception. Our brand creates value by helping communicate its benefits for our stakeholders as well as our values.

Wherever our stakeholders encounter our brand, we want to convince them that BASF stands for connectedness, intelligent solutions, value-adding partnerships, an attractive working environment and sustainability. This contributes to our customers' confidence in their buying decisions and to our company value.

We are constantly developing our brand image. We regularly measure awareness of and trust in our brand, and therefore in our company. A global market research study conducted every two years showed in 2016 that, in terms of awareness and trust, BASF is above the industry average in numerous countries. Our goal is to continue increasing awareness of BASF in all of our relevant markets. In 2017, we updated our corporate design to be able to present our brand flexibly, uniformly and efficiently in a fast-moving media landscape.



Global standards

- We act according to our values and internationally recognized standards of conduct
- We review our performance with audits

Our standards fulfill or exceed existing laws and regulations and take internationally recognized principles into account. We respect and promote:

- The 10 principles of the U.N. Global Compact
- The Universal Declaration of Human Rights and the two U.N. Human Rights Covenants
- The core labor standards of the ILO and the Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (MNE Declaration)
- The OECD Guidelines for Multinational Enterprises
- The Responsible Care® Global Charter
- The German Corporate Governance Code

We stipulate rules for our employees with standards that apply throughout the Group. We set ourselves ambitious goals with voluntary commitments and monitor our performance in terms of the environment, health and safety using our Responsible Care Management System. In terms of labor and social standards, this takes place using three elements: the Compliance Program (including the compliance hotlines, which can be used for internal and external questions or complaints), close dialog with our stakeholders (such as with employee representatives or international organizations), and

the global management process for the respect of international labor norms.

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

For more information on labor and social standards, see page 47
For more information on the Responsible Care Management System, see page 97
For more information on Corporate Governance, see page 127 onward
For more information on compliance, see page 135 onward
For more information on Supplier Standards, see page 93 onward

Innovations for a sustainable future

Innovations in chemistry are indispensable to meeting 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. In the long term, we aim to continue to significantly increase sales and earnings with new and improved products. Effective and efficient research lays the foundation for this. We believe that the digitalization of research offers great potential and are driving this forward around the world.

We are engaged in intensive research and development activities in our established business areas. One focus of our research is on the enhancement and innovative application of specific key technologies. They pool the diverse competencies of our international Research and Development Verbund to strengthen our competitive ability in the long-term. In addition, we are addressing clearly defined topics to drive forward innovation in new business fields and with new technologies above and beyond the current focus areas of our divisions. We are also working on overarching projects with a high technological, social or regulatory relevance. With our research, we aim to make a decisive contribution to innovative solutions for global challenges and contribute to sustainable development.

Our three global technology platforms are based in our key regions – Europe, Asia Pacific and North America: Process Research & Chemical Engineering (Ludwigshafen, Germany), Advanced Materials & Systems Research (Shanghai, China) and Bioscience Research (Research Triangle Park, North Carolina). We want to continue expanding our research and development activities on a global level. The stronger presence of our research and development in key markets opens up new opportunities to find appropriate solutions for regional markets, actively participate in worldwide innovation processes and gain access to talent.

For more information on innovation, see page 35 onward
For more information on competition for talent, see page 43

Business expansion in emerging markets

In the years ahead, we want to continue to grow in the emerging markets and expand our position there. We define the emerging markets as Greater China, the ASEAN countries,¹ India, Pakistan and Bangladesh; Central and South America; eastern Europe; the Middle East, Turkey and Africa. Today's emerging markets are expected to account for around 65% of global chemical production in 2025. We aim to benefit from the above-average growth in these regions, which is why we have invested more than a quarter of our capital expenditures² (excluding Oil & Gas) there in the past five years.

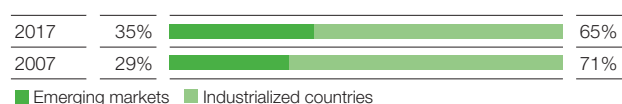
Growth in the emerging markets gathered pace slightly in 2017. This was attributable on the one hand to more positive developments in eastern Europe. The eastern European E.U. countries recorded dynamic growth and the Russian economy again improved slightly after two years of recession. In Brazil, too, the economic situation improved markedly over the course of the year. In China and the other Asian emerging markets, growth was slightly higher than in 2016, while India recorded a slight decline. Overall, economic growth in the region was roughly as strong as in the previous year. Growth in the Middle East slowed slightly, but increased somewhat in Africa.

Compared with 2016, sales (excluding Oil & Gas) at our companies located in the emerging markets rose by 13% to €16,853 million, largely as a result of significantly higher sales volumes and prices. Measured by customer location, we increased sales (excluding Oil & Gas) in the emerging markets by 15% to €21,496 million. This brought sales to customers in emerging markets to around 35% of total sales (excluding Oil & Gas) in 2017. In the years ahead, we want to continue expanding this percentage based on past and future investments.

For more information on our goals, see page 26 onward



Sales³ in emerging markets



³ Percentage of BASF Group sales (excluding Oil & Gas) by location of customer

¹ Brunei, Indonesia, Malaysia, Myanmar, Cambodia, Laos, the Philippines, Singapore, Thailand, Vietnam

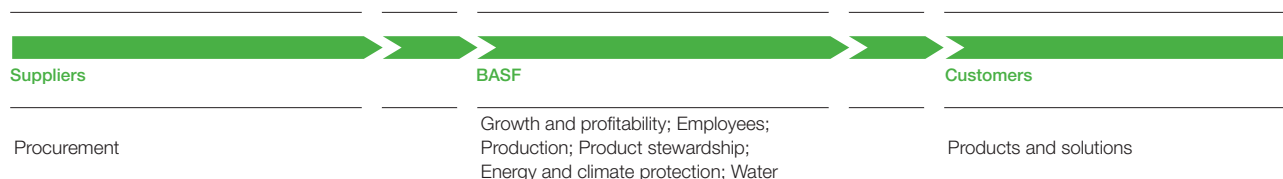
² Excluding additions to property, plant and equipment resulting from acquisitions, capitalized exploration, restoration obligations and IT investments

Goals

We carry out our corporate purpose, “We create chemistry for a sustainable future,” by pursuing ambitious goals along our entire value chain. In this way, we aim to achieve profitable growth and take on social and environmental responsibility.

We are focusing on issues where we as a company can make a significant contribution.

Goal areas along the value chain



Procurement

	2020 Goal	Status at end of 2017	More on
Assessment of sustainability performance of relevant suppliers; ¹ development of action plans where improvement is necessary	70%	56%	Page 93

¹ Our suppliers are evaluated based on risk due to the size and scale of our supplier portfolio. We define relevant suppliers as those showing an elevated sustainability risk potential as identified by our risk matrices and our purchasers' assessments. We also use further sources of information to identify relevant suppliers such as evaluations from Together for Sustainability (TfS), a joint initiative of chemical companies for sustainable supply chains.

Growth and profitability

As determined in 2015, our aim for the years ahead is, on average, to grow sales slightly faster and EBITDA considerably faster than global chemical production (excluding pharmaceuticals; 2017: 3.5%; average change since 2015: 3.5%), and to earn a significant premium on our cost of capital. Moreover, we strive for a high level of free cash flow each year, either raising or at least maintaining the dividend at the prior-year level.

 For more information on our results of operations in 2017, see pages 51 to 55

For more information on our financial position, see pages 57 to 59

	2017	Change since 2016	Average change since 2015
Sales	€64.5 billion	12.0%	3.7% ²
EBITDA	€12.7 billion	20.9%	13.1% ²
Dividends per share paid out	€3.00	€0.10	
Premium on cost of capital	€2.7 billion		
Free cash flow	€4.8 billion		

² Baseline 2015: excluding the gas trading and storage business transferred to Gazprom

Employees

	2021 Goal	Status at end of 2017	More on
Proportion of women in leadership positions with disciplinary responsibility	22–24%	20.5%	Page 45
Long-term goals			
International representation among senior executives ³	Increase in proportion of non-German senior executives (baseline 2003: 30%)	38.9%	Page 45
Senior executives with international experience	Proportion of senior executives with international experience over 80%	84.6%	Page 45
Employee development	Systematic, global employee development as shared responsibility of employees and leaders based on relevant processes and tools	Project implemented worldwide	Page 44

³ The term “senior executives” refers to leadership levels 1 to 4, whereby level 1 denotes the Board of Executive Directors. In addition, individual employees can attain senior executive status by virtue of special expertise.

Production

	2025 Goals	Status at end of 2017	More on
Reduction of worldwide lost-time injury rate per one million working hours	≤0.5	1.4	Page 98
Reduction of worldwide process safety incidents per one million working hours	≤0.5	2.0	Page 99
	Annual goal		
Health Performance Index	>0.9	0.97	Page 100

Product stewardship

	2020 Goal	Status at end of 2017	More on
Risk assessment of products that we sell in quantities of more than one metric ton per year worldwide	>99%	76.2%	Page 101

Energy and climate protection

	2020 Goal	Status at end of 2017	More on
Coverage of our primary energy demand by introducing certified energy management systems (ISO 50001) at all relevant sites ⁴	90%	54.3%	Page 105
Reduction of greenhouse gas emissions per metric ton of sales product (excluding Oil & Gas, baseline 2002)	(40%)	(35.5%)	Page 105

⁴ The selection of relevant sites is determined by the amount of primary energy used and local energy prices.

Water

	2025 Goals	Status at end of 2017	More on
Introduction of sustainable water management at all production sites in water stress areas and at all Verbund sites (excluding Oil & Gas)	100%	45.2%	Page 108

Products and solutions

	2020 Goal	Status at end of 2017	More on
Increase the proportion of sales generated by products that make a particular contribution to sustainable development (Accelerator products)	28%	27.3%	Page 32

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 significant premium on our cost of capital. To ensure BASF's long-term success, we encourage and support all employees in thinking and acting entrepreneurially in line with 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

■ Performance and management indicator

Income from operations (EBIT) after cost of capital is a key performance and management indicator for the BASF Group, 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 EBIT exceeds cost of capital, we earn a premium on our cost of capital and exceed the return expected by our shareholders.

For more information on the development of this key performance indicator, see the Results of Operations on page 53

Calculating EBIT after cost of capital

■ Cost of capital determined using cost of capital percentage and cost of capital basis

To calculate EBIT after cost of capital, we take the BASF Group's EBIT and deduct the EBIT of activities recognized under Other – not allocated to the segments – and subtract the cost of capital of the BASF Group from the resulting figure. **Cost of capital** is determined by applying the cost of capital percentage before taxes to the value of the cost of capital basis at each month-end. Monthly cost of capital is then added up over the course of the year.

The **cost of capital percentage** is determined using the weighted cost of capital from equity and borrowing costs (weighted average cost of capital, WACC). To calculate a pre-tax figure similar to EBIT, it is adjusted using the projected tax rate for the BASF Group for the business year. In addition, the projected net expense of Other is already provided for by an adjustment to the cost of capital percentage. 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.

The **cost of capital basis** consists of the operating assets of the segments plus the customer and supplier financing not

included there. Operating assets comprise the current and noncurrent asset items used by the operating divisions.¹

Value-based management throughout the company

■ Exercising a value-oriented mindset in day-to-day business by every employee

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 indicator is **EBIT after cost of capital**. By contrast, the functional units' contribution to value is assessed on the basis of effectiveness and efficiency.

All this forms a consistent system of value drivers and key indicators for the individual units and levels 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. **Special items** arise from the integration of acquired businesses, restructuring measures, impairments, gains or losses resulting from divestitures and sales of shareholdings, and other expenses and income that arise outside of ordinary business activities. Adjusting for special items makes EBIT before special items an especially suitable figure for illustrating development over time. In addition to EBIT before special items, we also report on **sales** as a further 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 business area 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.

For more information on the development of these performance indicators, see the Results of Operations on page 51 onward

¹ These include fixed assets, intangible assets, investments accounted for using the equity method, inventories, trade accounts receivable, other receivables and other assets generated by core business activities as well as any assets of disposal groups.

Integration of sustainability

Sustainability is an integral part of our corporate strategy. Using the various tools of our sustainability management, we carry out our company purpose: “We create chemistry for a sustainable future.” We incorporate sustainability into our business. This is how we seize business opportunities and minimize risks along the value chain.

Strategy

- Ensuring long-term economic success
- Taking advantage of business opportunities and minimizing risks

We aim to add value in the long term for our company, the environment and society. Sustainability is at the core of what we do, a driver for growth as well as an element of our risk management. That is why we incorporate aspects of sustainability into our decision-making processes and have defined clear responsibilities in our organization. This is how we position our company for long-term economic success.

We have created structures to promote sustainable, entrepreneurial actions all the way from strategy to implementation. The Corporate Sustainability Board is BASF's central steering committee for sustainable development. It is composed of the heads of our business, corporate and functional units, and regions. A member of the Board of Executive Directors serves as chair. We have also established an external, independent Stakeholder Advisory Council. Here, international experts from academia and society contribute their perspectives to discussions with BASF's Board of Executive Directors, helping us expand our strengths and identify our potential for improvement.

Through our constant dialog with stakeholders, our internal analysis methods and our many years of experience, we are continuously refining our understanding of significant topics and trends as well as potential opportunities and risks along our value chain.

For example, we have defined sustainability focus areas within our corporate strategy. These formulate the commitments with which BASF positions itself in the market and how it aims to meet the growing challenges along the value chain:

- We source responsibly
- We produce safely for people and the environment
- We produce efficiently
- We value people and treat them with respect
- We drive sustainable products and solutions

Relevant topics resulting from these commitments – such as supply chain responsibility, responsible production, resource efficiency, energy and climate protection, water, product stewardship, employment and employability, and portfolio management – form the focal points of our reporting. We also

integrate these topics into our long-term steering processes to ensure societal acceptance and take advantage of business opportunities.

For more information on the organization of our sustainability management, see basf.com/sustainabilitymanagement
For more information on our materiality analysis, see basf.com/materiality

For more information on our financial and sustainability goals, see page 26 onward

Societal acceptance

- Constant dialog with our key stakeholders
- Global requirements for community advisory panels
- Social commitment

Sustainability management helps to minimize risks. This supports our long-term economic success and ensures societal acceptance of our business activities. We aim to reduce potential risks in the areas of environment, safety and security, health protection, product stewardship, compliance, and labor and social standards by setting ourselves globally uniform requirements. These often go beyond local legal requirements. Internal monitoring systems and grievance mechanisms enable us to check compliance with these standards: they include, for example, questionnaires, audits and compliance hotlines. All employees, managers and Board members are required to abide by our global Code of Conduct, which defines a mandatory framework for our business activities.

Our investment decisions for property, plant and equipment and financial assets also involve sustainability criteria. Our decision-making is supported by expert appraisals that assess economic implications as well as potential effects on the environment, human rights or local communities.

Our stakeholders include customers, employees, suppliers and shareholders, as well as representatives from academia, industry, politics, society and the media. Parts of our business activities, such as the use of new technologies, are frequently viewed by some stakeholders with a critical eye. In order to increase societal acceptance for our business activities, we take on these questions, assess our business activities in terms of their sustainability, and communicate this transparently. Such dialogs help us to even better understand society's expectations of us and which measures we need to pursue in order to establish and maintain trust and build partnerships.

We use a custom model to identify key stakeholders and involve them more effectively. When selecting our stakeholders, we assess factors such as their topic-specific expertise and willingness to engage in constructive dialog, for instance. We draw on the competence of global initiatives and networks, and contribute our own expertise.

That is why we are involved in worldwide initiatives with various stakeholder groups, such as the U.N. Global Compact. BASF's Chairman of the Board of Executive Directors is a member of the United Nations Global Compact Board. As a member of the U.N. Global Compact LEAD initiative, we support the implementation of the Agenda 2030 and its Sustainable Development Goals. BASF is also active in local Global Compact networks.

We once again met with the Stakeholder Advisory Council in 2017 to discuss important aspects of sustainability. The main topics were strengthening sustainability in the corporate strategy and challenges in the supply chain. We received and implemented recommendations for our thematic focus areas. For example, we initiated a lighthouse project on the circular economy that is analyzing to what extent waste streams can be used as raw materials. In 2017, BASF joined the Ellen MacArthur Foundation's circular economy initiatives to drive forward existing approaches.

Our lobbying and political communications are conducted in accordance with transparent guidelines and our publicly stated positions. BASF does not financially support political parties. In the United States, employees at BASF Corporation have exercised their right to establish a Political Action Committee (PAC). The BASF Corporation Employee PAC is a voluntary, federally registered employee association founded in 1998. It collects donations for political purposes and independently decides how these are used, in accordance with U.S. law.

We have a particular responsibility toward our production sites' neighbors. With the established community advisory panels, we promote open exchange between citizens and our site management, and strengthen trust in our activities. In 2017, we updated our globally binding requirements for community advisory panels at our sites. These minimum requirements are oriented toward the grievance mechanisms outlined in the U.N. Guiding Principles for Business and Human Rights. We keep track of their implementation through the existing global databank of the Responsible Care Management System.

As a founding member of the U.N. Global Compact, we support the implementation of the United Nations' Sustainable Development Goals with our social commitment around the world. We promote social, educational, cultural, academic and sports projects as part of our social engagement strategy. The main aim of these projects is to have a lasting impact on society and offer learning opportunities for participating cooperation partners and BASF.

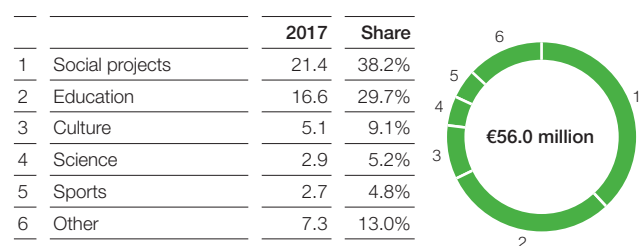
As a responsible neighbor, BASF strives to create a livable community for our sites' neighbors, employees and their families. To achieve this, BASF supports projects that reach out to as many people as possible and have long-term impact. One example is the Connected to Care program, where employees around the world form teams to carry out social projects together with nonprofit organizations. Employees can suggest their own ideas or get involved in BASF initiatives.

We also aim to create long-term value for BASF and society with new business models and cross-industry partnerships. Our company-wide Starting Ventures program provides access to growing low-income markets. This helps people with precarious livelihoods to improve their income-earning opportunities and their quality of life. The program also strengthens our contribution to reaching the U.N. Sustainable Development Goals. In one project in Kenya and Tanzania, for example, local food supply and quality of life are improved by fortifying flour with micronutrients such as vitamin A. This reduces health risks for the population. To take advantage of these opportunities for the people there, BASF draws on an established network of local mills, nonprofit organizations and government authorities.

In the area of international development work, we support the BASF Stiftung, an independent nonprofit organization, through donations to its projects with various U.N. and non-governmental organizations. In 2017, BASF supported various activities by the U.N. Refugee Agency (UNHCR) to give children in Kenyan refugee camps access to education with its annual year-end donation campaign to the BASF Stiftung. BASF doubled all donations by employees of German and African Group companies, bringing the total amount benefiting the refugee children in Kenya to €642,703. This total donation was again doubled to €1,285,405 by the German arm of the U.N. refugee agency.

The BASF Group spent a total of €56.0 million supporting projects in 2017; we donated 57% of this amount (2016: €47.0 million, of which 49.6% were donations).

BASF Group donations, sponsorship and own projects in 2017
(million €)



For more information on stakeholder dialog, see basf.com/en/dialog

For more information on the Stakeholder Advisory Council, see basf.com/en/stakeholder-advisory-council

For more information on our guidelines for responsible lobbying, see basf.com/guidelines_political_communication

For more information on Starting Ventures, see basf.com/en/starting-ventures

For more information on our production standards, see page 98 onward

For more information on standards in our supply chain, see page 93 onward

For more information on compliance and our Code of Conduct, see page 135 onward

Responsibility for human rights

■ Implementation of grievance mechanisms at production sites evaluated

BASF acknowledges its responsibility to respect human rights. In our own business activities, our aim is to prevent human rights abuses. As a participant in numerous global value chains, we are dependent on partners and demand that they likewise respect human rights and the associated standards. We offer to help our partners in their efforts to meet their human rights responsibilities.

We integrate human rights criteria into our business activities as standard: due diligence processes in investment, acquisition and divestiture projects, in product assessments along the product lifecycle, in supplier evaluation processes, in training for security personnel at our sites, as well as in systems to monitor labor and social standards.

Employees and third parties can report suspected or actual violations of laws or company guidelines to our compliance hotline. The hotline received 193 human rights-related complaints in 2017. All complaints received are reviewed and forwarded to the relevant departments for in-depth investigation. If justified, suitable measures are taken to address the issue.

We also documented the implementation of our minimum standards on grievance mechanisms as part of the community advisory panels at all production sites worldwide in 2017. These are based on the U.N. Guiding Principles on Business and Human Rights. Building on this, in 2018 we aim to ensure the uniform application of these standards at sites with an established local grievance mechanism.

BASF is part of the Global Business Initiative on Human Rights (GBI). This group of globally operating companies from various sectors aims to ensure implementation of the U.N. Guiding Principles on Business and Human Rights. In 2017, we again consulted with representatives of civil society at an international and national level on an ongoing basis, which provided valuable input for our measures.

For more information on our human rights position, see basf.com/humanrights and pages 47 and 135

For more information on labor and social standards, see page 47 onward

For more information on our production standards, see page 98 onward

For more information on standards in our supply chain, see page 93 onward

For more information on compliance, see page 135 onward

Measuring value added by sustainability and harnessing business opportunities

■ Value to Society: method for assessing economic, environmental and social impact of business activities along the value chain

We take advantage of business opportunities by offering our customers innovative products and solutions that contribute to sustainable development. We ensure that sustainability criteria are integrated into our business units' development and implementation of strategies, research projects and innovation processes. For example, we analyze sustainability-related market trends in customer industries to systematically exploit new business opportunities.

We want to measure the value proposition of our actions along the entire value chain, aware that our business activities are connected to both positive and negative impacts on the environment and society. We strive to increase our positive contribution to society and minimize the negative effects of our business activities.

In order to achieve this, we need to understand how our actions impact society and the environment. We already have many years of experience evaluating our products and processes using methods such as eco-efficiency analyses, the Sustainable Solution Steering® portfolio analysis, or BASF's corporate carbon footprint.

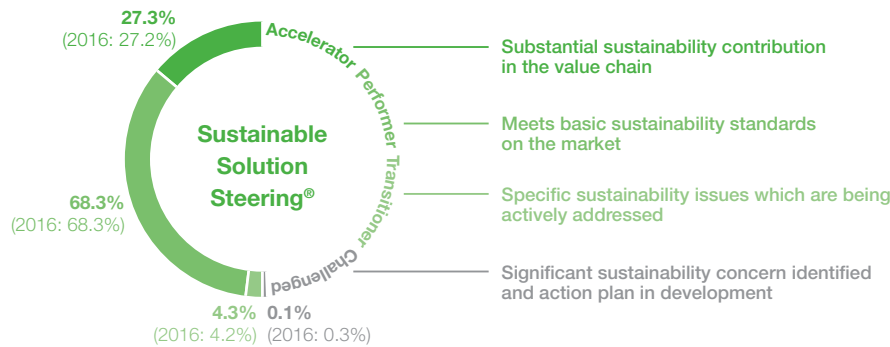
Building on this, BASF has developed a method with external experts to perform a monetary assessment of the economic, ecological, and social impacts of its business activities along the value chain – the Value to Society approach. It enables a direct comparison between financial and nonfinancial effects on society, along with how these interact.

This transparency supports the integrated character of our actions, contributing to BASF's long-term success. The results of these assessments are helpful in our discussions with stakeholders, in internal progress measurements, and in decision-making processes.

We contribute our approach and expertise to current debates on the monetary value of the economic, environmental and social impact of business decisions. We share our experience in networks and are involved in the corresponding standardization processes within the International Organization for Standardization (ISO).

Among other initiatives, BASF has participated in the Coalition for Inclusive Capitalism's Embankment Project since 2017. In the project, leading global companies and investors are working on a common understanding of how companies can create value over the long term. The initiative aims to strengthen trust in business and in this way, generate long-term corporate value.

Sustainable Solution Steering®: How BASF's products contribute to sustainability



As well as measuring the impacts of our operations, our business activities are guided by sustainability considerations.

For more information on this method and the results of Value to Society, see basf.com/en/value-to-society

For more information on our sustainability instruments, see basf.com/en/measurement-methods and page 95

Portfolio management based on sustainability performance

■ Sustainable Solution Steering® method to manage our product portfolio

A significant lever for the steering of our product portfolio, based on the sustainability performance of our products, is the Sustainable Solution Steering® method.

By the end of the 2017 business year, BASF had conducted sustainability assessments and ratings for 97.5% of its entire relevant portfolio¹ of more than 60,000 specific product applications – which account for €58.4 billion in sales. We consider the products' application in various markets and industries. Because of increasing sustainability requirements on the market, we regularly conduct reassessments of existing product categories as well as of the relevant portfolio.

2020 Goal

Increase proportion of sales generated by Accelerator products

to **28%**

Accelerator products make a particular contribution to sustainability in the value chain. That is why we want to increase the proportion of sales from Accelerator products to 28% by 2020.

Transitioners are products with specific sustainability challenges that are being actively tackled. We are developing plans of action for all products classified as challenged, even in the case of portfolio revisions and product reassessments. These action plans include research projects, reformulations or even replacing one product with an alternative product. At the end of 2017, action plans had been created for 100% of challenged products.

We played a leading role in the development of a cross-industry framework for portfolio sustainability assessments published by the World Business Council for Sustainable Development (WBCSD) in November 2017, contributing our many years of expertise in the application of this method.

For more information on Sustainable Solution Steering®, see basf.com/en/sustainable-solution-steering

Nonfinancial statement (NFS) in accordance with sections 315b and 315c of the German Commercial Code (HGB)

In order to meet the new reporting requirements of the CSR Directive Implementation Act, we conducted an additional internal analysis based on the materiality criteria defined by the legislation in 2017. Findings of a systematic survey already conducted internally were used to analyze the effects of sustainability topics along the value chain on BASF's business. We were able to derive BASF's impact along the value chain on the nonfinancial matters defined by the legislation based on the results of the Value to Society method. The nonfinancial statement (NFS) in accordance with sections 315b and 315c of the German Commercial Code is integrated into the Management's Report.

The NFS disclosures can be found in the relevant sections of the Management's Report and have been prepared in accordance with the new Global Reporting Initiative Standards ("Comprehensive" application option) and the reporting requirements of the U.N. Global Compact.

¹ Not included in the portfolio are primarily the sales reported under Other (see page 90 for more information on the composition of Other) or not allocated to the operating business (such as licences).

Both the NFS disclosures and our sustainability reporting based on the GRI standards have undergone an audit with limited assurance by our auditor.¹ The table below indicates the sections and subsections in which the individual NFS disclosures can be found.

 For more information on nonfinancial disclosures, see page 19

 An assurance report on the substantive audit of the nonfinancial statement can be found online at basf.com/nfs-audit

An assurance report on the sustainability information in the BASF Report 2017 can be found online at basf.com/sustainability_information



Nonfinancial statement (NFS) disclosures in the relevant chapters of the integrated report

NFS disclosure	Topics	Concepts
Business model	The BASF Group	Page 20–22
Environmental matters	Process safety	Page 27 (goals) Pages 97 and 99 (goals, measures, results)
	Emergency response and corporate security	Pages 97 and 100 (goals, measures, results)
	Product stewardship	Page 27 (goals) Pages 97 and 101–102 (goals, measures, results)
	Transportation and storage	Pages 97 and 103 (goals, measures, results)
	Energy and climate protection	Page 27 (goals) Pages 97 and 104–107 (goals, measures, results)
	Water	Page 27 (goals) Pages 97 and 108–109 (goals, measures, results)
	Emissions to air	Pages 97 and 110 (goals, measures, results)
	Management of waste and contaminated sites	Pages 97 and 110 (goals, measures, results)
	Portfolio management	Page 27 (goals) Page 32 (goals, measures, results)
	Suppliers	Page 26 (goals) Pages 93–94 (goals, measures, results)
Employee-related matters	Occupational safety	Page 27 (goals) Pages 97, 98–99 (goals, measures, results)
	Health protection	Page 27 (goals) Pages 97 and 100 (goals, measures, results)
	Competition for talent	Page 43 (goals, measures, results)
	What we expect from our leaders	Page 44 (goals, measures, results)
	Learning and development	Page 26 (goals) Page 44 (goals, measures, results)
	Inclusion of diversity	Page 26 (goals) Page 45 (goals, measures, results)
	Compensation and benefits	Page 46 (goals, measures, results)
	Employees participate in the company's success	Page 46 (goals, measures, results)
	Dialog with employee representatives	Page 47 (goals, measures, results)
	Global labor and social standards	Page 47 (goals, measures, results)
	Suppliers	Page 26 (goals) Pages 93–94 (goals, measures, results)
Social matters	Societal acceptance	Pages 29–30 (goals, measures, results)
Respect for human rights	Responsibility for human rights	Page 31 (goals, measures, results)
	Global labor and social standards	Page 47 (goals, measures, results)
	Suppliers	Page 26 (goals) Pages 93–94 (goals, measures, results)
Anti-corruption and bribery matters	Compliance	Pages 135–136 (goals, measures, results)
	Suppliers	Page 26 (goals) Pages 93–94 (goals, measures, results)

¹ Key:

 The content of this paragraph (symbol at the end of the paragraph) or section (symbol below the section) is not part of the statutory audit of the annual financial statements but has undergone a separate audit with limited assurance by our external auditor.

 If the symbol is underlined, it is relevant to the entire section.