



We create chemistry

Analyst Conference Call Full Year 2023

Speech

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The spoken word applies.

Martin Brudermüller

Good morning, ladies and gentlemen,

Dirk Elvermann and I would like to welcome you to our Analyst Conference Call. On January 19, BASF released preliminary figures for the full year 2023. Today, we will provide you with further details.

[Slide 3: Global chemical production grew by 1.7% in the full year 2023 and by 6.9% in Q4 2023, driven by strong growth in China]

Let's start with the development of chemical production by region. The orange bar in the middle shows the growth for the full year 2023. Based on the available data, global chemical production grew by 1.7 percent in 2023 on account of growth in China. In 2023, chemical production in China increased considerably compared with the COVID-related low baseline of the prior year. The development there was driven by recovering domestic demand and exports but was associated with low sales prices.

All other regions recorded a decline. In Europe and in Asia excluding China, chemical production decreased substantially due to lower demand resulting from high inflation, frontloading of durable goods consumption during the COVID years as well as structurally higher natural gas prices. In 2023, natural gas prices in Europe were still around double the average between 2019 and 2021 and five times higher than the Henry Hub quotation. In North America, chemical production declined slightly compared with 2022 in an environment of weak domestic demand from industries and end consumers.

In Q4 2023, global chemical production rose by 6.9 percent. This was a considerable increase, mainly stemming from strong contributions from China. However, North America, Europe and Asia excluding China also grew slightly compared with the very weak prior-year quarter.

[Slide 4: In Q4 2023, BASF Group's sales volumes were almost stable; excluding precious metals, volumes increased slightly]

We now move on to BASF's performance in the fourth quarter.

Overall, BASF Group sales declined by 18 percent to around 16 billion euros in Q4 2023. This was mainly due to lower prices, which decreased across all segments because of subdued demand and in line with lower raw materials prices. Currency headwinds also had a negative impact on sales.

Sales volumes, however, remained almost stable. Excluding precious metals, BASF's sales volumes increased by 2.6 percent compared with the prior-year quarter. This confirms the bottoming-out of the volume decline, which we had predicted in our analyst conference calls in the second half of 2023.

EBIT before special items declined by 81 million euros and amounted to 292 million euros in Q4 2023. Higher earnings in the Industrial Solutions, Nutrition & Care, Surface Technologies and Materials segments could only partially compensate for lower contributions from Agricultural Solutions, Chemicals and Other.

[Slide 5: Solid performance in all regions in difficult 2023 environment, except in Ludwigshafen]

Today, I would like to additionally comment on our earnings performance by region. In 2023, in an extremely difficult market environment with low demand, EBIT before special items declined by double-digit percentages in all regions. However, our teams delivered a positive earnings contribution in absolute terms in all significant countries – with the exception of Germany. Results in Germany suffered due to substantially negative earnings at our largest production site in Ludwigshafen. On the one hand, this situation demonstrates the high competitiveness and health of BASF Group

under challenging conditions at the global level. On the other hand, the negative earnings at our Ludwigshafen site show the need for further decisive actions here to enhance competitiveness.

[Slide 6: Further program with additional annual cost savings of €1 billion in Ludwigshafen by the end of 2026]

At BASF, we have a track record of taking immediate action when we recognize developments that will have a lasting impact on our cost competitiveness. In October 2022, BASF was one of the first chemical companies to initiate a significant cost savings program to address the deteriorating competitiveness in Europe and Germany in particular. This was done mainly in view of the significant increases in electricity and natural gas prices. Consequently, in February 2023, we launched a set of measures to save costs in non-production areas in Europe and to adapt production structures at the Ludwigshafen site. As confirmed in our Q3 2023 reporting, total annual cost savings from all measures announced to date are expected to reach 1.1 billion euros by the end of 2026. At the end of 2023, we already achieved an annual cost reduction run rate of around 0.6 billion euros from these measures. One-time costs amounted to around 0.4 billion euros in 2023, which explains the limited P&L impact so far.

In the course of 2023, earnings at our largest production site in Ludwigshafen deteriorated further in an extremely weak market environment. There are two main reasons for this:

- First, the temporary low-demand environment, which is affecting the volume development in both our upstream and our downstream businesses.
- And second, higher production costs due to structurally higher energy prices, which predominantly burden our upstream businesses.

The Board of Executive Directors is fully aware of the significant restructuring, cost reductions and efficiency improvements that our BASF team has implemented over the recent years, especially in Ludwigshafen. However, we must also acknowledge that the framework conditions continue to be challenging, particularly for the upstream businesses in Germany. And these conditions are not expected to improve any time soon because they have become structural.

To restore and defend our international competitiveness, we must rigorously address these new market realities. Therefore, we have decided to introduce additional measures to adapt the cost structures at our Ludwigshafen site.

We aim to reduce costs annually by a further 1 billion euros by the end of 2026. The program will generate cost savings in both production as well as non-production areas. It will include further reducing fixed costs by driving efficiency in company structures, adapting production capacities to market needs and significantly trimming variable costs by redesigning processes. The situation is serious, so we are explicitly not ruling out any measures. The program will also lead to further job cuts. As usual, we will involve employee representatives regarding the various measures that will be further detailed in the coming months.

The measures already announced in October 2022 and February 2023 will achieve another 0.5 billion euros in annual cost savings by the end of 2026. The total one-time costs for these measures as well as the further program are expected to be up to 1.8 billion euros.

Besides the required cost reductions, we will do everything possible to increase the utilization rates of our competitive assets to bring them back to normal levels. In doing so, we aim to generate additional contribution margins to return to solid earnings at the

Ludwigshafen site. This applies particularly to our upstream assets in the Chemicals and Materials segments, where plants require constantly high utilization rates of 80 to 90 percent to achieve industry-typical earnings. Currently, we are operating with utilization rates considerably below normal levels at the Ludwigshafen site.

The low level of global market demand we are experiencing at the moment will, however, not continue over the longer term. Sooner or later, customers will increase their orders again, and markets will normalize. We at BASF will be ready to serve the increasing demand from our customers, and earnings contributions will improve accordingly. Historic data shows that, even under price pressure, such a step-up in utilization rates will quickly lead to an increase in contribution margins. The chemical industry will be the first to benefit from reviving demand since we supply materials to the manufacturing industries at the beginning of almost all value chains.

In parallel to the short-term program announced today, Markus Kamieth and the new Board team will update the longer-term positioning of the Ludwigshafen site. This will reflect both the regulatory framework and the changed market realities in Europe and Germany. The target picture will give a clear strategic direction for the structural development and will set ambitious profitability targets. The Board will provide details in the second half of 2024.

What is undisputed is that the Board team stays strongly committed to the Ludwigshafen site. We want to develop Ludwigshafen into the leading low-CO₂-emission chemical production site with high profitability and sustainability. We will focus Ludwigshafen on supplying the European market to remain the partner of choice for our customers. To achieve this, it is essential that we implement the program consistently and as quickly as possible. At the same time,

we are systematically driving forward our business in those regions of the world that are growing more dynamically and offer attractive conditions for investments.

[Slide 7: Lower Scope 1 and Scope 2 emissions in 2023; new target for Scope 3.1 emissions announced in December 2023]

Now let's return to our reporting and take a look at BASF Group's CO₂ emissions.

In 2023, Scope 1 and Scope 2 emissions declined by 5 million metric tons to 16.9 million metric tons compared with the baseline 2018. Compared with 2022, the decline amounted to 1.5 million metric tons. A large part of the reduction is due to ongoing weak demand and the fact that we have shut down some energy-intensive plants in Ludwigshafen as announced last year. Further measures will be introduced to counterbalance a rise in Scope 1 and 2 emissions, which is likely when demand recovers and when we start up further plants at our new Verbund site in Zhanjiang as of 2025.

The share of electricity from renewable sources increased slightly compared with 2022 and amounted to 20 percent in 2023. In addition, our operational excellence measures to increase energy and process efficiency contributed to the overall decline in CO₂ emissions.

Specific Scope 3.1 emissions amounted to 1.61 kilograms of CO₂ per kilogram of raw material purchased in 2023, compared with 1.58 kilograms in 2022. This increase was due to the decline in production and the associated reduction in the use of raw materials produced in Europe.

With that, I hand over to Dirk for more financial information.

Dirk Elvermann**[Slide 8: BASF Group 2023: Key financial figures]**

Thank you, Martin. Good morning, ladies and gentlemen. I will now provide you with further financial details for the full year 2023 compared with 2022.

EBITDA before special items decreased by 29 percent and amounted to 7.7 billion euros. EBIT before special items declined by 45 percent to 3.8 billion euros. I will touch on the development at segment level on the next slide.

Net income improved by 852 million euros to 225 million euros in 2023. The prior-year figure included non-cash-effective impairments on Russia-related assets of Wintershall Dea in the amount of 6.5 billion euros.

BASF's cash flows from operating activities increased by 5 percent and amounted to 8.1 billion euros in 2023. This increase mainly resulted from changes in net working capital, which led to a cash inflow of 1.8 billion euros, compared with a cash outflow of 1.3 billion euros in 2022. Reduced inventories alone resulted in a cash release of 1.9 billion euros, while in the prior year, inventory build-up of 2.0 billion euros had tied up cash. This reflects our strict discipline in inventory management in 2023.

Free cash flow decreased by 618 million euros to 2.7 billion euros. This was achieved despite the fact that payments for property, plant and equipment and intangible assets were around 1 billion euros higher.

At year-end 2023, the equity ratio of 47.3 percent almost matched the figure of 48.4 percent as of year-end 2022. The very solid equity ratio

and strong cash performance are proof of BASF's continued financial strength, even in challenging times.

[Slide 9: In Q4 2023, EBIT before special items declined due to lower contributions from Agricultural Solutions, Chemicals and Other]

This slide illustrates the development of EBIT before special items in the segments in the fourth quarter as well as in the full year. For detailed explanations of the full-year 2023 earnings development by segment, please refer to the BASF Report 2023 published this morning. For details about the segment development in the fourth quarter, please refer to the Factsheet published on the IR website this morning.

Let me provide additional information on the major impairments in EBIT in the following. In 2023, special items amounted to minus 1.6 billion euros. Of this amount, around 0.4 billion euros resulted from restructuring measures, in particular in connection with the cost savings program focusing on Europe, the adjustments to production structures at the Verbund site in Ludwigshafen and the carve-out of the BASF Environmental Catalyst and Metal Solutions unit. However, the largest part, amounting to 1.1 billion euros, was attributable to non-cash-effective impairments. These mainly related to the Surface Technologies, Agricultural Solutions and Materials segments.

In the Surface Technologies segment, the impairment charges were primarily related to our precursor production plant for cathode active materials in Harjavalta, Finland. The lengthy permit objection process and the uncertainty regarding its outcome resulted in an asset impairment. In the Agricultural Solutions segment, impairments were incurred in conjunction with production facilities in Europe. In the Materials segment, we recognized impairments related to an intangible asset acquired from Solvay that provides access to

a production technology for a precursor in the polyamide value chain. Due to recent market developments, this asset is no longer perceived as economically superior.

[Slide 10: Strong cash flow generation in Q4 2023]

I will now continue with our cash flow development, focusing on our performance in the fourth quarter of 2023.

Cash flows from operating activities decreased by 5 percent to 4.3 billion euros. Changes in net working capital led to a cash inflow of 3.2 billion euros, compared with a cash inflow of 2.5 billion euros in the prior-year quarter. Lower inventories resulted in a cash release of 990 million euros, compared with a cash release of 461 million euros in Q4 2022. Our focus on inventory management therefore paid off.

Compared with the prior-year quarter, payments made for property, plant and equipment and intangible assets rose by 160 million euros to 2.0 billion euros. The increase was mainly attributable to the construction of our new Verbund site in South China. That is why our free cash flow decreased by 368 million euros compared with Q4 2022 but still reached 2.2 billion euros.

[Slide 11: Strong balance sheet]

Let's now turn to our balance sheet at the end of December 2023 compared with year-end 2022.

Total assets declined by 7.1 billion euros and amounted to 77.4 billion euros, mainly due to our strong focus on cash management and working capital management in particular. The decline was driven by lower current assets, largely on account of reduced inventories, lower other receivables and miscellaneous assets and lower trade accounts receivable. Overall, current assets

were reduced by 6.0 billion euros. Noncurrent assets declined by 1.1 billion euros.

As of December 31, 2023, net debt was almost stable and amounted to 16.6 billion euros compared with 16.3 billion at year-end 2022.

[Slide 12: Continued strict management of capital expenditures]

I will now give you further insights into capital expenditures.

BASF's corporate strategy is based on organic growth. Therefore, capex and R&D expenses are the foundation for our future business. However, we are responding flexibly to the changes in the market environment. We continue to be confronted with a significant imbalance in supply and demand in several value chains, structurally higher energy prices in Europe and overall subdued market demand. We will therefore further strengthen our focus on capital discipline across the entire portfolio.

For the BASF Group, we plan capital expenditures of 19.5 billion euros between 2024 and 2027, of which 6.8 billion euros relate to our growth projects – the new Verbund site in Zhanjiang, China, and the expansion of the battery materials business. The total capex for this current planning period compares with 24.5 billion euros for the prior planning period from 2023 to 2026. You will have noticed that we shortened our capex planning period from 5 to 4 years, mainly because forecast accuracy is higher in this slightly shorter time frame.

In 2024, we plan total capital expenditures of 6.2 billion euros compared with 5.2 billion euros in 2023. Thereof, spending of 3.3 billion euros on property, plant and equipment is related to our growth projects in 2024. The capex peak for these growth projects is expected this year, so investments will decrease again in the following years.

As communicated during our Investor Update in December 2023, we will postpone non-critical projects in line with market demand. We are also tightening our belts somewhat with regard to our growth projects. At our Verbund site project in China, we will further leverage the favorable procurement environment. In our battery materials business, we will use flexibility in the scheduling and sequence of the investments and will also evaluate partnerships to optimize capex.

Between 2024 and 2027, we are planning investments totaling around 900 million euros in our transformation towards net zero. In BASF's net-zero transformation we will maintain the overall investment scope with a clear focus on CO₂ reduction, renewables and recycling. We will fund certain investments, such as wind farms, via project financing, which will require significantly less capex. In addition, we will strike the right balance between power purchase agreements and own investments in the production of green electricity.

[Slide 13: Key elements of the agreement signed by Harbour Energy and the shareholders of Wintershall Dea in December 2023]

I would now like to provide our view of the transaction between Harbour Energy plc (Harbour) and Wintershall Dea.

As you know, on December 21, 2023, BASF, LetterOne and Harbour signed a business combination agreement to transfer most of Wintershall Dea's E&P business to Harbour, namely the entire non-Russia-related E&P business. In exchange, at closing, BASF will receive a cash consideration of 1.56 billion U.S. dollars and a share in the enlarged Harbour of 39.6 percent.

Following the completion of the transaction and a six-month lock-up period, BASF will have the opportunity to gradually monetize its stake in Harbour, as the company is listed on the London Stock Exchange.

The agreed enterprise value for the Wintershall Dea assets amounts to 11.2 billion U.S. dollars. This amount includes the outstanding bonds of Wintershall Dea with a nominal value of around 4.9 billion U.S. dollars that will be transferred to Harbour at closing. There is an upside potential through a higher market valuation of the enlarged Harbour after closing. The transaction provides an attractive stepwise exit from the oil and gas business in line with BASF's financial and strategic requirements. However, we are not setting ourselves a specific deadline for selling all of our shares in Harbour.

Let me also explain in some more detail what will happen with the assets that are not part of the transaction. Wintershall Dea as the remaining company will hold all Russia-related assets. The purpose of the company will be to divest or liquidate the various Russia-related participations, to manage the claims associated with the Russia-related activities of Wintershall Dea, to right-size its organization following the completion of the transaction with Harbour, and to provide transitional services to Harbour, if requested. Furthermore, Wintershall Dea is continuing its preparations for a separate sale of its 50.02 percent stake in WIGA Transport Beteiligungs-GmbH & Co. KG, which is not part of the transaction with Harbour. The German federal government, which already holds the remaining shares in WIGA via SEFE, is our first point of contact here.

[Slide 14: Next steps regarding Wintershall Dea transaction]

Since there has been quite some speculation in the German media, let me comment on four main topics that have been voiced as a concern.

First, regulatory approvals: The review of the transaction by the relevant government bodies is in line with the standard procedure that the contracting parties initiate by submitting corresponding

applications. As stated in the BASF news release on December 21, 2023, the transaction with Harbour is subject to various regulatory approvals in several countries. In Germany, approval for foreign direct investments will also be required in accordance with the Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung*). We are confident that we will receive clearance in all cases. Completion of the transaction is targeted for the fourth quarter of 2024.

Second, Germany's energy supply security: Wintershall Dea's oil and gas production in Germany accounts for roughly 1 percent of German oil and gas consumption. In terms of securing Germany's energy supply, it is not decisive whether the E&P activities currently managed by Wintershall Dea are operated by a German or a British company in the future.

Third, CCS technology: The focus of Wintershall Dea is limited to the development of reservoirs for the permanent storage of CO₂. The activity is operated by a quite small international team, currently out of Norway, the Netherlands and Germany. The acquired licenses are all outside of Germany, namely in Denmark, Norway and the UK. Wintershall Dea is not involved in CO₂ capture and does not consider CO₂ transportation as a core business. BASF, on the other hand, is a leader in the technology for capturing CO₂ emissions as part of its global gas treatment business, which we are continuously developing. Our OASE[®] technologies are available globally, also in Germany. You might, however, be surprised to learn that geological CO₂ storage in Germany, whether onshore or offshore, is still not allowed under the existing German legal framework.

And fourth, the closure of the German headquarters of Wintershall Dea: The timing of the announcement was unfortunate but unavoidable for legal reasons resulting from the fact that BASF and

Harbour are both publicly listed companies. Wintershall Dea has state-of-the-art expertise in the oil and gas business. Therefore, all employees of the operating companies included in the transaction, around 1,200 employees, will be taken on by Harbour. Harbour also intends to provide offers to some employees from the current headquarters to join the combined company. The details will be agreed in the currently ongoing review prior to completion of the transaction.

I hope this helps to put things into perspective. Until closing, Wintershall Dea and Harbour will continue to operate as independent companies and will prepare the closing and the integration to the extent possible under the applicable legal framework conditions.

With that back to you, Martin.

Martin Brudermüller

Thank you, Dirk.

[Slide 15: Attractive shareholder return – also in challenging times]

Ladies and gentlemen,

As I have frequently mentioned, an attractive dividend is an important target for the BASF Board. This also holds true in challenging times. Therefore, we stick to our practice of increasing the dividend per share each year or keeping it stable.

We will thus propose a dividend of 3 euros and 40 cents per share to the Annual Shareholders' Meeting. Based on the year-end share price, this offers a high dividend yield of 7 percent. In total, we will pay out 3.0 billion euros to our shareholders. This amount is largely covered by the free cash flow of 2.7 billion euros generated in 2023.

Our strong balance sheet, high equity ratio and good credit ratings give us the necessary financial strength with regard to paying an attractive dividend.

[Slide 16: Outlook 2024 for BASF Group]

Now I will conclude with the outlook.

We expect the weakness in global economic momentum from 2023 to continue in 2024. The main reason for this will be the expected persistently high interest rates, which will continue to dampen growth in the United States and Europe. We expect that demand for industrial goods will normalize only gradually and that the share of goods in private consumption will rise again only slowly. For this reason, we only expect very moderate growth in most of our customer industries.

Recovery in China remains uncertain, particularly with regard to the real estate sector and the further development of the labor market. We do not expect any significant growth stimulus in the E.U. We anticipate a gradual slowdown in the United States, due to, among other things, high interest rates. The geopolitical situation remains critical against the backdrop of the wars in Ukraine and the Middle East and other geopolitical tensions, particularly between the United States and China. Global chemical production is nevertheless expected to grow faster in 2024, by 2.7 percent compared with 1.7 percent in 2023. This will be driven primarily by the expected growth in the Chinese chemical industry. Our planning assumes an average oil price of 80 U.S. dollars for a barrel of Brent crude and an exchange rate of 1.10 U.S. dollars per euro.

Based on these assumptions, the BASF Group's EBITDA before special items is expected to rise to between 8.0 billion and 8.6 billion euros in 2024. Volume and margin growth in all segments will contribute here. Higher fixed costs due to inflation, but also

in connection with the construction of our new Verbund site in China, will burden earnings.

We forecast the BASF Group's free cash flow to be between 0.1 billion and 0.6 billion euros. This is based on expected cash flows from operating activities of between 6.6 billion and 7.1 billion euros, minus expected payments made for intangible assets and property, plant and equipment in the amount of 6.5 billion euros. The high investment-related cash outflow is mainly due to investments in the new Verbund site in China.

In the context of our free cash flow forecast, please be reminded that BASF's cash flow is typically weak in Q1 and strengthens in the further course of the year. This is mainly due to the seasonality of our Agricultural Solutions business.

CO₂ emissions are expected to be between 16.7 million and 17.7 million metric tons in 2024. We anticipate additional emissions compared with the previous year from higher production volumes based on rising demand. We will counteract this increase with targeted emission-reduction measures.

Thank you, and now Dirk and I are glad to take your questions.