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Capital Market Update
– Presentation Ethylene Oxide (EO) Value Chain
Transcript Speech
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[Slide 2: Petrochemicals and Care Chemicals: Integral parts of BASF's core businesses and deeply rooted in the Verbund]

Thomas Kloster: We'll talk today about the EO value chain, which is a value chain that crosses several divisions.

We love to talk about core businesses. The EO value chain is hard core. The EO value chain crosses several segments of BASF. Today, the Chemicals and the Nutrition & Care segments are here to present our parts of that value chain.

In Petrochemicals, we are the heart of the Verbund. This is where many value chains in BASF start. We provide several key building blocks and petrochemicals to our downstream divisions, including Care Chemicals.

Mary Kurian: And along with our sister division, Care Chemicals is part of the Nutrition & Care segment. As Thomas mentioned, we are part of a key value chain. We play two roles: Internally, within the core, we convert large quantities of upstream raw materials into valuable products And the EO value chain is a prime example. We'll show you exactly what we mean by that.

In addition, both the Nutrition & Care businesses here are facing extremely attractive customer markets. We will talk about the attractiveness of these markets and the ability to combine value chain steering with differentiation to serve these markets.

[Slide 3: Chemicals / Nutrition & Care]

Thomas Kloster: The EO value chain is highly relevant to the core business as a whole, but especially to our two divisions and the two segments we are representing. You see here that our two segments account for more than 40% of the sales of BASF's core businesses. And within these two segments, the ethylene oxide value chain accounts for around 20% of sales.

So, it's one of our key value chains.

[Slide 4: BASF's Petrochemicals division: Who we are]

Thomas Kloster: Let's start with a brief overview of the Petrochemicals division. Similar to the PU presentation today, we have two roles: We supply our internal customers in BASF with cost-competitive petrochemicals, the building blocks for their businesses. But we also have a relevant merchant business. In our case, it is 70% external sales and 30% sales to internal customers. The external sales are either because we have leading market positions and serve attractive end-user markets, or because we need certain outlets for some petrochemicals in order to achieve economies of scale in all our assets and keep that leading cost position.

[Slide 5: BASF's Care Chemicals division: Who we are]

Mary Kurian: The Care Chemicals division primarily serves three market segments that are shown on this slide: Personal Care; Home Care and Industrial and Institutional Cleaning; and Industrial Formulators. So for this afternoon's discussion, we will focus on the Home Care and I&I and the Industrial Formulators business because these are the key outlets for the products that come out of the EO value chain.

And you can see that Care Chemicals is a leader globally when we look at these sectors, whether it's Personal Care, Home Care, or Industrial Formulators, where we enable applications in many industrial environments.

Several factors I want to point out on this slide, just coming back to the diversity of the products and the customers that we have in Care Chemicals. So, our ingredients from Care Chemicals span a whole spectrum, starting with UV filters and sunscreen and ranging to surfactants, laundry detergents, and even key ingredients, for example, in metal surface treatment or agrochemicals. So, you can see the diversity that we have within this division.

Also evident from the pictures here: We're very close to end consumers. When we look at our customer base, about 80% of our portfolio serves an end customer. This means there are two aspects to Care Chemicals, which we will highlight in this presentation: First and foremost, the importance of innovation. This is a huge differentiator. I think Martin provided some excellent examples from Performance Materials. And we will also try to show here: Innovation is a true differentiator and continues to help us maintain that portfolio quality in Care Chemicals.

Second, we play an even more fundamental role when we think of BASF's ambition to enable the green transformation of our customers. Being close to consumer-facing industries which are leading the transformation in terms of sustainability requirements. And we as Care Chemicals serve as the channel to market, also in terms of translating this customer pull into real products. And again, we will show you examples of what that means.

[Slide 6: We have invested in the ethylene oxide value chain in recent years to deliver earnings growth and balance our footprint]

Mary Kurian: We are well-invested for growth. This slide shows the footprint of the Petrochemicals and Care Chemicals value chain relative to EO.

A couple of things I'd like to point out: First and foremost, we have a good distribution. We are well-represented in all the important geographies in the world. Similar to what you saw in the first presentation: It supports our local-for-local strategy. More than 80-90% of our products serve the local market.

Both Thomas and I are excited about two things: First, we are sitting at the site of one of our most recent expansions that we are very proud of, and we have colleagues who are going to show us around. This will show you why we think we can compete. And then importantly, we look forward to the Zhanjiang Verbund site coming on-stream for the Petrochemicals and the Care Chemicals divisions. While it looks like a significant step-up, it just enables us to have better representation in the fastest-growing market in the world.

With this, I now hand over to Thomas, who's going to talk about the integration itself and why we believe that this is the competitive setup to win in each of these markets.

[Slide 7: BASF uses flex-feed crackers as a starting point for its value chains]

Thomas Kloster: I can build on the slide that Markus shared this morning about the different steps of the EO value chain. We will zoom in to the responsibility of Petrochemicals and Care Chemicals in a minute. We start with crackers, with mixed-feed crackers that we have in all regions. From them, we get the key building blocks: ethylene, propylene and butenes. And yes, isobutenes are highly valuable olefins, Markus. We can develop a lot of chemistry out of that.

As the Petrochemicals division, we really focus on the commodity part of the value chain, usually with a handful of products. But this tree – this chemistry – allows us to branch out into the 4,000 to 5,000 products that contain an EO molecule.

[Slide 8: Integrated ethylene oxide value chain enables growth in high-value products]

Thomas Kloster: One of the prime objectives is to support our downstream businesses, like the Care Chemicals division, with high-value products such as the alkoxyates shown here in green.

Here we show BASF's market share for the European markets on the different steps of the value chain. We are in ethylene not to be in ethylene, but to have access to cost-competitive ethylene here in Antwerp and also in Ludwigshafen. But we don't fight for a higher share in ethylene.

The value levers for this value chain are on the EO step, on the purified ethylene oxide step, as well as on high-value downstream products like the alkoxyates. Yes, we also supply commodities such as ethylene glycol in order to have economies of scale in all our assets. But our aim is to keep the highest market share in the high-value pockets of those value chains.

And even though we show you here the European shares, this ratio is pretty much the same around the globe. On the EO step, the market share is about three to four times the market share we have on the ethylene step, which is definitely the bigger commodity.

[Slide 9: Feedstock flexibility positions Antwerp steam cracker in the first quartile of the ethylene cost curve]

Thomas Kloster: Now let's dig deeper into the topic of cost competitiveness and share some facts and figures. This is our cash cost curve for ethylene. We're showing you our position in Antwerp. If I had given this presentation about six or seven years ago, our position would have been right in the middle. This was before we started a feed flex project and enabled our cracker here in Antwerp to also use propane as a feedstock. This also shows you what you can do in an existing asset footprint, based on changing dynamics in the feedstock market, to move back into the first quartile of that cash cost curve.

[Slide 10: Combined cost position of ethylene and ethylene oxide puts BASF in the leading cost position in Western Europe]

Thomas Kloster: As I have said, we are not in ethylene for the sake of being in ethylene. The most important cash cost curve for us today is the EO step. So we

now take the ethylene we get from Antwerp, plus our setup here with our economies of scale in Europe, where we have the leading technology and the highest integration in all the European assets. That clearly gives us the leading cost position on the EO step here in Western Europe. So we are also definitely competitive against imports, leaving aside the fact that EO is not a molecule that travels easily.

This chart also shows you: There are several players still producing EO in Europe, and we expect consolidation to happen and to continue.

[Slide 11: We secure our leading cost positions through operational excellence and continuous improvements]

Thomas Kloster: We are not leaning back on this cost position, because this is a race. Our competitors will try to imitate, will try to catch up. Therefore, it is a program for both of our divisions to continuously, year by year, look for opportunities to reduce energy consumption, increase yield and reduce waste. Here we show you here two examples that we have recently implemented in Antwerp and Ludwigshafen. These are pretty old, established assets, so year after year, we come up with ideas to save another €3 million here, another €4 million there. This type of continuous improvement is the current game, because it doesn't eat a lot of capex. And it immediately defends or re-establishes our leading cost position.

[Slide 12: Backward integration as key enabler for Care Chemicals to compete and differentiate in alkoxylation markets]

Mary Kurian: Indeed, this cost competitiveness coming from the backward integration is a fundamental factor for us and our success. In addition, Care Chemicals has other integration within the Verbund. So, when we talk about the EO value chain and the relevance for Care Chemicals, we are primarily focusing on the alkoxylation platform. Very simply described: We are taking the ethylene oxide and making new products using alcohols together with ethylene oxide.

We have capability not just in ethylene oxide, but also important integration on the alcohols side. This technology is very specific to certain types of alcohols, and hence gives us the ability to have differentiated asset bases. What you see here are the large-scale alkoxylation plants. We also have differentiated products that are produced in smaller assets. We have thousands of products going to thousands of customers. This is where we combine this cost competitiveness that is fundamental for us in our standard portfolio, and then build on that with the specialization that we bring, whether it's through technology or through innovation.

And so, within Care Chemicals, we have a large diversification. We have standard products, much like some of the remarks you heard in the earlier presentation, going all the way down the value chain to the super specialties. Our challenge and our focus is continuing to outpace the competition in the differentiated products.

[Slide 13: High-impact R&D enables Care Chemicals to meet market needs through differentiation]

Mary Kurian: We have some great examples that we would like to show you. First, it begins with our innovation process versus the competition, primarily driven by customers' requirements.

We have globally distributed capability, so we have R&D centers, application support and technical service in all the growing markets. We are very particular about being close to the customer because our solutions for specific industries need to be specialized and tailor-made for the region.

Our patent portfolio is healthy. We add about 100 patents per year, many of them also encompassing the applications area. When you look at the Vitality Index, particularly with our industry-leading innovation partnerships, we're looking at 35%, so a very high refresh rate of our new products generated in a five-year cycle.

One point I would like to make here is that, in addition to innovation and the cost competitiveness that we must bring in order to win, the regulatory aspect is extremely important because our products are close to consumers and used in applications that are in our homes or put on our bodies. Here, BASF has the capacity, expertise and capability not only in anticipating the innovation requirements to meet these regulatory trends, but also in working with our customers and industry associations on the advocacy efforts that are critical in terms of lifecycle management and portfolio development in this space.

[Slide 14: Key customers consistently value BASF as a partner to drive innovation and sustainability]

Mary Kurian: Of course, we like to say we are good. It's even better when our customers recognize us and honor us with industry-leading awards. One thing that I would reflect on is: It is not new that, in the past decade, we have always been at the top in terms of innovation awards. What has changed in the past five years is the importance of sustainability. So, when you talk to customers, it's about performance and sustainability, particularly when you look at the leading global brands that are represented on this slide, whether it's Procter & Gamble, Henkel or Unilever. It's always about performance and sustainability, and this is also reflected in the work that we do with our customers.

[Slide 15: In the words of a key global customer]

Mary Kurian: We definitely aim for more than just a traditional supplier relationship. We're extremely happy that one of our most important global customers also agrees. In Carsten's own words, we go beyond the traditional relationship, and we find ways to collaborate across the entire supply chain.

And here again, you see that combination of performance and sustainability, particularly pioneering some lighthouse projects in the industry, whether it's biomass balance or circularity of feedstocks. So it's great when we tell you this, but even better that our customers can give us a testimonial that's even more powerful.

[Slide 16: Care Chemicals holds leading positions across highly relevant alkoxylation product lines in attractive markets]

Mary Kurian: With that, let's look a little bit at the products. We won't go into the deep chemistry of it, but we're talking about the alkoxylation platform. We're happy to have the best position on EO in Europe in terms of cost competitiveness. We combine EO with different types of alcohols or amines and come up with a full portfolio of products, only some of which are represented here.

When Care Chemicals has a discussion with a customer, the customer often starts with the job to be done. There are four jobs to be done that are represented on this slide. So if you look at the left-hand side, the job to be done might be to remove the toughest stains from your laundry.

If you go to the second example, you might be a restaurant owner and you need 100 dishes cleaned in under 10 minutes with perfect cleanliness, so that your customer feels safe and comfortable eating in your restaurant.

Or you could be in the construction industry where you want to pour concrete, but you want to do it faster without sacrificing performance.

And last but not least, we have a pretty significant piece of business focused on the agro segment. And what do we do here? We offer surfactants and our applications knowledge to improve the efficacy of crop treatment systems, for example. So just a small cross-section of the exciting things we have going on in our portfolio.

[Slide 17: Innovation is a key value driver to address customer and market needs, building on the strong backbone of the value chain]

Mary Kurian: I talked about the Vitality Index and the importance of innovation. I want to say just a little bit more about two examples that are recent and also highly relevant for the product portfolio. On the left-hand side, you see the Sokalan[®] EcoBoost series. These are non-ionic surfactants. For every one of us who are consumers of laundry detergents, we know the push towards shorter wash cycles and energy-efficient machines. You want to do cold-water wash or low-temperature wash and you don't want to sacrifice performance, but you want biodegradable products. Sokalan[®] EcoBoost, launched in 2024, meets these requirements and is found in leading laundry detergents worldwide.

On the right-hand side is a critically important product. This is also to give you a sense: We know that we have the Zhanjiang Verbund site coming on stream. And we've not only done premarketing and relationship-building with our customers, we also innovate in new products that are highly relevant for that market.

Here we have the Plurafac[®] series of non-ionic surfactants. They are slated for introduction right at the same time as we bring this facility on stream next year.

Here you can see the industrial cleaning example. You want high performance, low foam. One thing I learned when I came to Care Chemicals was that foam was only to make you feel nice. The cleaning happens without the foam. So, if you are a restaurateur, you don't want the foam in your dishwashing liquids. Here again, the strategic launch that is timed with the Zhanjiang Verbund site is exciting for us.

[Slide 18: BASF is enabling the green transformation of its customer through multiple entry points into the Verbund]

Mary Kurian: What I hope I have shown you is the importance of the intersection of performance with sustainability. Here we believe we have another distinguishing factor that sets us way apart from our competitors. This is the ability to address what a customer wants. When we think about consumer industries, there is a push towards not just bio-based products, but low product carbon footprint. On the right-hand side, you see that our major customers have ambitious goals to reduce their CO₂ footprint and then approach their net-zero goals.

We truly believe there is a transition pathway, and part of that transition pathway is leveraging the strength of our interconnectedness to bring in feedstock flexibility.

Here I want to hand it over to Thomas to explain this a little better.

Thomas Kloster: To meet your customers' needs, whatever they ask you to deliver, it's up to us in the Petrochemicals division to find the lowest-cost option to make it work. We begin from an excellent starting point when we talk about greenhouse gas emissions. You see here the comparison of Antwerp to a European average and to a Chinese average. Our Zhanjiang Verbund site will be slightly below or slightly above Antwerp. There is a healthy competition between the two teams to see who can run their plant even more effectively. But this also underlines our ambition to enable our customers' green transformation in Europe, in Asia and all around the world.

Depending on what your customers need – Mary, is it more renewable carbon, is it more green energy, is it more low-PCF feedstock. There are opportunities in our machine park, in our assets, in the Verbund to source either at a bio-naphtha step or along the value chains. These are our opportunities to smartly decarbonize or reduce our carbon footprint and increase our green attributes without major investments.

I'm very happy, Mary, that you shared so many innovative examples. I can assure you: We have all the EO molecules you need, and we have the ability to divert our EO molecules to the most valuable pieces of our portfolio. That's the benefit and the opportunity of an integrated setup. Here, in the EO value chain, we even speak of a physical integration, the best setup at one place, on one site or an integration via pipeline.

[Slide 19: The EO value chain will play a key role in delivering on the segment targets for 2028]

Thomas Kloster: That brings us to our closing slide. We confirm our targets that we published about a year ago.

Even though that might surprise some, I can clearly say: If I compare where we stand today to where we stood one year ago, with regard to all the things we have in our own hands, I'm more comfortable and more confident of achieving that. For two reasons: Next Tuesday, we will announce the mechanical completion of all our assets in Zhanjiang. This is on time and below budget. We have already started up our first plant; that was in spec within 12 hours. We now come into the peak phase: Every week, we'll start up a new plant.

I hope you sense that we are extremely optimistic and extremely proud of what our teams have achieved to keep a project of that size on time and below budget. So, one key pillar of that Chemicals segment EBITDA increase is really on track.

And for the second part relating to the topic of the cost reduction and efficiency program – as Dirk also shared some examples today – I can clearly state for my division: We are much clearer now, from the ambition level that we had, how we will accomplish that. We have also communicated at several sites, in several teams, how we will implement that cost-saving program. With that, I'm also more confident today that we will achieve it and make it visible in the P&L.

Mary Kurian: Likewise – Thomas, thank you for that introduction and conclusion here. In the Nutrition & Care segment, along with our sister division, we are well-invested in growth. So, the focus for us is loading and growing from these assets. We showed you some glimpses of what we are doing already for Zhanjiang.

Our focus is on execution. We have addressed competitiveness topics. We're continuing to push on improving our competitiveness while also pulling innovation, progress and strength to differentiate as we keep moving forward.

We confirm here the increase in EBITDA before special items to between €800 million and €900 million by 2028.