



We create chemistry

**Speech for the**

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## **Annual Shareholders' Meeting**

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Chairman of the Board of Executive Directors of BASF SE

The spoken word applies.

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Dear BASF shareholders,

ladies and gentlemen,

Welcome to the BASF Annual Shareholders' Meeting. This is the 67th Annual Shareholders' Meeting and the first time that I am addressing you as Chairman of the Board of Executive Directors. I took on the role of CEO one year ago. I am very happy to report back to you today.

I have been working for BASF for 30 years – more than half my life. Back in 1988, I started out in the lab. As a young researcher, I was excited by chemistry. I still feel this excitement to this day. From the very start, I wanted to discover something new, to make products better, to drive innovations. Three decades later, I am just as enthusiastic about this. I can assure you: I am passionate about this company. I am passionate about BASF.

BASF is a strong company. We have a great team. We have passion. We try to find ever-better solutions for the future. Whether it is climate change, global nutrition or plastic waste – we find answers.

The entire BASF team wants BASF to maintain its position as the world's leading chemical company in the future. We are working together to achieve this. And today, I would like to tell you how we are going to do it.

My topics today are:

- First of all, a review. How was our year 2018? How have we started in 2019?
- I will then present to you our new BASF strategy.
- After that, I will talk about how we grow profitably while also assuming social responsibility.
- I will close off with our outlook for 2019.

Ladies and gentlemen,

2018 was not an easy year for us. Here are the key figures at a glance:

- We reported sales of €62.7 billion. This was a slight increase of 2% compared with the previous year.
- Our operating results – EBIT before special items – amounted to €6.4 billion. This was down by 17% compared with 2017.
- Free cash flow was €4.0 billion, compared with €4.8 billion in the previous year.

In a nutshell: We did not achieve the results we had targeted.

This was disappointing for us. The results were significantly below our expectations.

Why was that? We see three main reasons.

First: Two-thirds of the decline was attributable to our Chemicals segment. After soaring for 15 months, prices for isocyanates fell again sharply. Isocyanates are substances that can be used in applications such as construction, automobiles or furniture. We produce isocyanates at several sites worldwide. Furthermore, margins for our cracker products declined more sharply than expected in all regions.

Second: The weather. We have never wished more strongly for rain than we did in the summer of 2018. This was a new experience for us. We can do many things at BASF, but this was beyond our scope of influence.

As you know, the Rhine River caused us a great deal of trouble in the second half of the year. Here you can see what the Rhine looked like in the summer of 2018. Not enough water. And this lasted far too long. At times, inland shipping came to a standstill. Raw materials could no longer be transported to our Ludwigshafen site.

Did you know that in Ludwigshafen we receive around 40% of our raw materials via ship? It is impossible to completely make up for these volumes with trains or trucks. We were therefore forced to reduce capacity utilization at our plants. Furthermore, ground transport is far more expensive. The low water levels on the Rhine reduced our earnings by a total of €250 million.

Third: The global economy cooled noticeably in the second half of the year, especially in the markets where our most important customers are located. For example, in the automotive industry. These days, there are around 260 kilograms of chemicals in a mid-sized car. Many of these chemicals are supplied by BASF. For example, every second new vehicle has at least one coating layer from BASF. Worldwide.

Every car that does not get built means less business for us. In particular, our customers in China had lower demand. This is a consequence of the trade conflict between the United States and China. This conflict is leading to a slowdown in the global economy. It is creating major uncertainty in the markets.

All of these factors negatively impacted our earnings.

The geopolitical challenges and our unsatisfactory earnings also had a negative effect on our share price. It was €60.40 at the end of 2018. Compared with the closing price at the end of the previous year, this represents a decrease of 34%.

To put it plainly: We have much, much higher expectations. We can do much more. We know that.

In this difficult environment, our results also remained weak in the first quarter of 2019.

Earnings were below the level of the previous first quarter.

- In the first quarter of 2019, BASF Group sales rose by 3% year on year to €16.2 billion.

- Compared with the first quarter of 2018, there was a decline in income from operations (EBIT) before special items. It was down by €549 million to €1.7 billion.

This result was in line with our expectations. We had already stated this at the presentation of our 2019 outlook.

Ladies and gentlemen,

How are we addressing this?

The fact is: The global economic and political situation is not providing any tailwinds for us. We are a global company. More than 120,000 employees work in 90 countries. We have a presence on every continent. We produce at 361 sites for our customers. We are not immune to turbulent times. This is the reality.

But it is also a fact: In the long term, we have very good opportunities for growth. Global trends, such as a growing world population, new forms of mobility, and climate change, require creative solutions. Solutions based on chemistry. And BASF offers these.

One thing is crucial: We have to change, and change considerably, drawing on our own strength. In recent years, many of our businesses have no longer seen the growth we had envisioned for them. We must become faster, more effective and more customer-focused. Not to mention bolder and more aggressive.

With this in mind, we further developed our strategy in 2018. With this strategy, we want to fully utilize our strengths, experience and skills. With this strategy, we want to grow.

When developing the strategy in 2018, it was important to me that we take a hard, honest look at where we stand. That we express inconvenient truths. Our previous strategy was created in 2011. It was time to align BASF to the new realities.

It was also important to me that this strategy should not be drafted by the Board of Executive Directors sitting alone in a meeting room. Many people contributed, developed ideas, and – most importantly – told us where they encountered problems in their work. Our customers. The entire international leadership team. And, of course, our employees.

What does our new strategy look like?

Our strategy focuses on growth. We want BASF to grow profitably and sustainably. We invest where we see opportunities for growth. At the same time, we reduce costs wherever it makes sense.

Our aim is and will remain: We want to be the world's leading chemical company. But what does leading actually mean?

Leading in terms of size? In terms of sales? In terms of market capitalization?

We believe these are not enough. There is only one true benchmark: We want to be leading in the eyes of our customers.

You might say: Sure, it's always about the customer. And that's true, the customer is always the focus. But our surveys and analyses showed us we can and must become better. And that is what we are doing now. With our strategy, we are putting our customers at the heart of everything we do. Even more than before.

Ladies and gentlemen,

We want to be the world's leading chemical company. For our customers.

To this end, we identified six strategic action areas. BASF wants to be the leader in each of these areas, which I will present to you now.

**First: We want to be the most innovative company in the chemical industry.**

Our research and development is the core of BASF. Again and again, I am inspired by the creativity and ideas of our employees. We have a unique wealth of know-how, experience and resources. This has made BASF successful for 154 years.

We will continue to build on this innovative strength. We will focus even more intensely on sustainable solutions. Our goal is to increase our sales of products that make a substantial contribution to sustainability: from €15 billion in 2018 to €22 billion in 2025. To do this, we are developing new innovation strategies in our businesses.

Let me be clear: This is not about constantly increasing our research spending. It is about better innovation processes. Since January, many of our researchers have been working much closer to our customers. They collaborate closely with colleagues from marketing, production and sales. This enables us to recognize our customers' wishes even better and earlier. And to fulfill them more quickly.

Our **second** strategic priority relates to sustainability. At BASF, innovation and sustainability are inextricably linked.

**We want to be a leader in sustainability in our industry.**

Our purpose is: "We create chemistry for a sustainable future." We introduced it in 2011 and it will continue to apply in the future.

For us, sustainability means that our innovations must fulfill all three aspects: economic, environmental and social. This is very important to us. We will only be successful in the long term if we create value for society. We are convinced of this!

This also means BASF supports the global agreement on climate change, and thus all the steps for its effective and rapid implementation. We are making our contribution. That is why our strategy also contains non-financial goals in addition to our financial targets.

What are these non-financial goals?

We want to achieve CO<sub>2</sub>-neutral growth until 2030. Growth means increasing production volumes by around 50%. CO<sub>2</sub>-neutral means keeping our emissions at the 2018 level. This is very ambitious.

After all, we have already cut our emissions by half since 1990. Over the same period, we doubled our production. We thus reduced the emissions per metric ton of product sold by more than 70%. And we want to further reduce this figure.

What makes this difficult?

We have already tapped the greatest potential for reductions in our Verbund. We are now reaching the technical limits at a number of our plants. Therefore, we need new technologies. That means more climate protection AND future competitiveness.

We are working towards this with our Carbon Management Program. This includes a dedicated team of around 100 employees – 70 researchers and 30 experts from fields such as patent law and marketing. Together they are developing these new technologies, which we plan to test in pilot plants in a few years.

Innovation and sustainability. This requires digital technologies.



Now, our **third** priority:

**We want to be the pace-setter in the digital transformation.**

Digitalization opens up future options for us.

For example, in production. We are already working with digital technologies in our plants and we will continue to expand this. By 2022, 350 of our plants should be digitalized.

I travel around a lot in the company. I can tell very quickly when talking to our employees in production that they are receptive to the digital technologies. Many employees appreciate that they can get real-time mobile access to important information during plant operations. With tablets, they are better able to manage processes in the plants. This makes their work easier and safer.

Digitalization also strengthens our research. We have had our supercomputer Curiosity since 2017 and it has quickly proven its worth. It is the most powerful computer in the chemical industry worldwide. It can perform 1.75 quadrillion calculations per second. This is equivalent to the power of around 50,000 laptops. In one fell swoop, we increased our computing power tenfold. We are faster and more creative, and we can research more systematically.

Ladies and gentlemen,

This brings me to our **fourth** priority.

**We want to be the safest and most reliable plant operator in the industry.**

You may have read about it in the newspaper. Some of our plants were not able to produce as reliably in 2018 as we had planned. This is not up to our standards. This is not representative of BASF. We must change this.

We want to be the leading plant operator in the industry. Starting in 2019, we will therefore be investing €400 million annually in the optimization of our plants. This is more than ever before. And we also want to continue investing at this level in the coming years.

We want our plants to run safely and reliably. And we are hiring skilled workers to ensure this. In 2018, we hired around 550 experts in production, technology and digitalization in Ludwigshafen. Another 250 joined us in the first quarter of 2019 alone.

Innovation, sustainability, digitalization and operational excellence. As you can see, these areas are not silos. They complement each other.

We want to create more value. For our customers. And with the right portfolio. Which brings me to our **fifth** priority.

**We want to hold a top position in each of our businesses.**

To steer our portfolio more successfully, we introduced a new structure for our segments in January 2019. Instead of four, we now have six segments. In this way, we create more transparency.

And this makes it even easier for you, our shareholders, to compare our performance with that of our competitors. At the same time, we are taking a more systematic approach to steering our portfolio.

I would like to tell you about a few projects we worked on in 2018:

- In 2018 we completed the purchase of parts of Bayer's crop protection and seeds business. We are now the world's fourth-largest producer. We are in a strong position. And we are just as ambitious as our competitors. This business performed very well in the first quarter.
- In September 2018 we signed a transaction agreement with LetterOne to merge our oil and gas businesses. We closed this transaction on May 1. The joint venture is called Wintershall Dea. We have thus created the

leading independent oil and gas company in Europe. We are planning to publicly list the company via an IPO in the second half of 2020 – provided the market conditions are favorable.

- We merged our business with paper and water chemicals with the company Solenis. As of February 1, the businesses have been operating under the name Solenis. Here, two excellent teams are now working under one roof. They are stronger together. We regularly evaluate: Do our businesses have greater potential in a different constellation? This is clearly the case with Solenis.
- This also applies to our construction chemicals business and pigments business. We are investigating various options for our construction chemicals business. We want to divest our pigments business.

Dear shareholders,

The Verbund remains at the heart of our portfolio. We will continue to utilize all the advantages it offers. We are strengthening the Verbund. How are we doing that? For one thing, with investments in Asia.

And there, it is impossible to ignore China.

We want to be the worldwide leading company in the chemical industry, so we must also be present in the largest chemical market. Today, China already holds this title with a market share of over 40%. By 2030, nearly 50% of global chemical production will take place in China. To put this in perspective: Europe's share will be around 15% in 2030, compared with roughly 18% today. This means growth is occurring in China.

And we will participate in it. We are very well positioned. BASF has been active in China for more than 130 years. We take a long-term approach. In good times and difficult times, we have stood by our Chinese partners. That

is reliability. And this is one of the reasons why we have received approval to build a new Verbund site in China.

In Zhanjiang, in southern China. Without a Chinese partner. The first non-Chinese company to do so.

This is a huge, once-in-a-lifetime opportunity for us, and we are seizing it. We estimate the total investment to complete the project will be around \$10 billion by 2030.

And we also want to grow in India's dynamic chemical market.

In January we signed a memorandum of understanding with the Adani Group to evaluate a major investment in the acrylics value chain.

What is so special about this investment? For the first time, we want to operate a site entirely with renewable energy. This would be our first CO<sub>2</sub>-neutral site with a solar and wind farm. It is a project gaining a lot of attention far beyond the borders of India.

But allow me to ask the question: Why can something like this work in India and not in Germany?

With our Carbon Management Program, we are preparing for the future. With lower-emission technologies. With alternative sources of raw materials. This is our contribution to climate protection.

But it is not only up to us: Lawmakers have to support this as well. We expect them to provide the right policy framework to allow us to remain competitive. This means supporting technologies for the future. This means supplying large volumes of renewable electricity – and at competitive prices. In Germany and in Europe. This is the prerequisite for technological progress through innovation for more climate protection in the chemical industry.

Ladies and gentlemen,

BASF's success is built by its employees. They are key to the successful implementation of our strategy. And they are the focus of our **sixth and most** important priority.

**We want to be the best organization for our employees.**

An organization with more flexibility, customer orientation and personal responsibility. With fewer interfaces. With simpler processes. Everything focused on the needs of our customers.

This means extensive organizational changes. Since January, 14,000 of our employees are already working closer to customers. In research and development. In engineering and maintenance. In logistics and procurement. This is going well so far. Another 6,000 employees will follow this year.

Of course, we also know that not everyone will be entirely happy about this.

Our aim is to create a better working environment for all of our employees. To enable greater performance, to provide greater decision-making power, and to make work more fun and motivating. This will be our benchmark. More than 80% of our employees should feel that at BASF they can thrive and perform at their best. We accept this challenge.

Our values form the foundation of our work. We work together with creativity, openness, responsibility and entrepreneurial spirit. Our values guide our day-to-day actions in everything we do.

Ladies and gentlemen,

You can see that we are transforming BASF. This will require energy. It will not be easy to change established patterns. 2019 will be a year of transition to a new BASF. In doing so, we keep our eyes firmly on our goal: being the

world's leading company in the chemical industry. For our customers. To us, this means growing profitably while also taking on social responsibility. That is what BASF stands for.

We want to be a partner to society. Always there when there are challenges we can solve with chemistry.

How are we doing that? Let me give you two examples.

You have all seen the pictures. Plastic waste. In places where it absolutely does not belong. Plastic waste in oceans and rivers. We asked ourselves: How can we contribute to solving this problem?

We joined forces with other companies to form the Alliance to End Plastic Waste.

What is our objective? Together with our partners, we want to eliminate plastic waste in the environment.

And with innovations, we want to tap the value contained in plastic waste.

We are convinced that a global problem such as plastic waste cannot be solved by one company alone. It can only be overcome as a team effort. Another thing that is important to us: The initiative for this alliance did not come from a government or an association. It is companies – standing side by side – who say: We are tackling this problem together. The member companies, including BASF, have pledged a total of \$1 billion to the Alliance.

We have heard a lot of positive response from employees about the Alliance. They think it is “fantastic” that BASF is participating and is a strong driver of the Alliance. We're happy to hear this feedback.

We need a fact-based discussion about the topic of plastic. This is something we advocate for. There is no questioning plastic's role as a 21st century material. In many applications there are no better alternatives.

It is necessary to use the material responsibly. New opportunities for recycling are also needed.

We are working on this at BASF. On technologies to enable more plastics to be reutilized. One example is our “ChemCycling” project. The principle is simple. A process transforms waste plastic into “pyrolysis oil.” We use this oil as a feedstock in our Verbund. This project runs in our existing plants. Once again, the strengths of our Verbund become clear.

As a result, we consume fewer fossil resources. We create a materials loop for plastics. Together with customers we have developed the first pilot products, such as refrigerator drawers and food packaging. The feedback from our customers shows that we are on the right track.

We are contributing to getting the plastic waste problem under control.

At BASF, sustainability and innovation are inextricably linked. Also when it comes to mobility. You are all familiar with urban traffic jams and the heated issue of emissions. For cities to remain livable, some things will have to change. Ideas are needed. One of these ideas is electromobility.

Electromobility helps to reduce emissions – provided that the electricity comes from renewable sources.

Did you know that chemistry plays a leading role in electromobility? The battery is pure chemistry. It is like a small chemical reactor.

Our materials are already contained in the electric vehicles produced by various manufacturers. And we want more. We are determined to further advance electromobility.

What is our goal? Increasing range from 300 to 600 kilometers. With our materials, we want to double the range of a mid-sized car by 2025. This is ambitious.

But not only that. Our materials should be so powerful that the batteries will be half the size they are now, with a lifespan twice as long. And with a charging time of just 15 minutes.

To make this a reality, we must reach the next level of efficiency with the materials. What does this mean? We want to further improve the chemical structure and the production of cathode materials.

The cathode material accounts for approximately 70% of the material cost of a battery cell. This is a very important research area for us. Right now, it is the most dynamic and innovative market segment in the chemical industry. And the growth prospects are very good.

We are convinced that our innovations create value. For clean air, for lower energy consumption, and for resource conservation.

Later on, you can have a look for yourselves. In the foyer, we are showcasing some of our products and innovative approaches. We kindly invite you to visit this presentation.

Dear shareholders,

With our new strategy, we have set ourselves ambitious financial targets:

- We want to grow faster than global chemical production and grow profitably.
- We want to increase BASF's EBITDA before special items by 3-5% per year.
- We aim to achieve a return on capital employed (ROCE) above the cost of capital percentage every year.
- For you, our shareholders, we want to deliver above-average value and increase our dividend per share each year.



And this is a promise we want to keep. Even in challenging times. We stand by our ambitious dividend policy. We propose a €0.10 increase in the 2018 dividend to €3.20 per share. The BASF share thus offers a dividend yield of 5.3% based on the 2018 year-end share price. In total, we want to pay out €2.9 billion to you.

BASF's success is built by its employees. On behalf of the Board of Executive Directors, I would like to express our heartfelt thanks. For your incredible team performance. For your dedication. For the "extra mile" that many of you are going.

2019 will be a very demanding year. We anticipate a decline in global economic growth. Global chemical production will however likely grow as strongly as it did in 2018.

The challenges will not let up. But we have set ourselves on the right course with our strategy. We will make BASF faster, more effective and more customer-focused. So that BASF remains the leading chemical company. For our customers.

However, we don't want to be pre-occupied with ourselves for too long. We will already have implemented most of the strategy's measures by the end of the year.

2019 is a year of renewal. We will let go of some things we have become familiar with and fond of. Yet, we will maintain the right balance – between the new and the proven, between cost savings and investments.

If we fully utilize our potential, we as a company are unbeatable. We have proven this again and again. We are a strong team. We are passionate. We have experience. And ideas. And all this makes us a valued partner whenever there are problems that we can solve with chemistry.

Ladies and gentlemen,

We have the right strategy. We will emerge successfully from this year of transition in 2019. And we will then be in an excellent starting position for profitable and sustainable growth.

The BASF team is devoting all of its resources to make this happen.

I hope you will accompany us on this journey.

Thank you very much.