

April 29, 2021

# **Speech for the Annual Shareholders' Meeting 2021**

Dr. Martin Brudermüller

Chairman of the Board of Executive Directors of BASF SE

The spoken word applies.

Good morning shareholders,  
ladies and gentlemen,

I wish you a warm welcome to our virtual Annual Shareholders' Meeting!

One year ago I said I hoped that we would be able to meet again at Rosengarten Congress Center in 2021 for an Annual Shareholders' Meeting like the ones we have had before. Unfortunately, this is not yet possible. Nevertheless, like last year, we will provide you with comprehensive information about BASF – just in a digital format.

We have just heard from our employees. In the film, they talked about last year and how they experienced 2020 at BASF. I agree with them: We worked hard for our customers. We were able to keep up deliveries. Again and again, we creatively looked for solutions. And our BASF team demonstrated solidarity. With our “Helping Hands” initiative, we made our contribution to society.

There have also been some incredible accomplishments in science. Vaccines against the coronavirus were developed in record time. They are the crucial instrument for getting the pandemic under control. Production, distribution and the vaccination campaigns cannot come fast enough. Pragmatism and rolling up our sleeves are now more necessary than ever.

At our Ludwigshafen site, we have set up our own vaccination center. Starting on April 14, we began vaccinating our employees who are in priority group two. Our organization is running smoothly. We hope to be able to vaccinate our entire workforce soon. This will depend on the availability of vaccines. And, of course, we must follow the rules on priority groups, as established by the government of the state of Rhineland-Palatinate. Our facility helps ease the strain on regional and community vaccination centers. Once again, we are doing our part.

Science and technological progress are helping us in this crisis. As a society, we should learn something from this. We can become much more innovative!

With courage and good ideas, the challenges of our times can be overcome. I will come back to this topic later.

Here is what I want to talk about today:

- First, a look at our figures. What kind of year did BASF Group have in 2020? And how did we perform in the first quarter of 2021?
- Then I want to cover: How are we implementing our strategy? How are we actively advancing sustainability?
- One topic is particularly important to me: reducing CO<sub>2</sub> emissions. There is a lot of global momentum here. And the pace is quickening. We at BASF want to take on a leading role in our industry. With innovation and new technologies.
- And, finally, I will discuss our outlook: What do we expect this year for BASF? Our path is clearly focused on profitable and sustainable growth.

The pandemic caused the global economy to crash. The restrictions have been very challenging for almost all sectors. Borders were closed. Supply chains collapsed. In the first six months of 2020, production declined around the world. With one exception: The Chinese economy already started rebounding in the second quarter. In other regions, the recovery set in later. Beginning in the fall, production in the chemical industry started continuously increasing.

The pandemic left its mark on our 2020 financial results:

- We recorded sales of €59.1 billion. This nearly matched the level of the previous year.
- Our operating earnings – income from operations (EBIT) before special items – were €3.6 billion. This represented a decline of 23 percent.
- Our free cash flow amounted to €2.3 billion. In 2019, it was €3.7 billion.

These figures reflect a challenging year, which was shaped by uncertainties. Nobody could have predicted it.

Special items in EBIT totaled minus €3.8 billion, compared with minus €442 million in the previous year. The increase is primarily attributable to impairments, which we had to recognize especially in the Chemicals and Materials segments as well as in Surface Technologies. Earnings per share amounted to minus €1.15, compared with €9.17 in 2019. This significant decline can be explained by the impairments I just mentioned as well as the book gain in 2019 from the deconsolidation of the Wintershall businesses.

In nearly all segments, we reported lower operating earnings. The sole exception was the Industrial Solutions segment, where EBIT before special items reached the level of the previous year. By contrast, the Chemicals and Materials segments made significantly lower contributions to the results of the BASF Group. One main reason for this was a significant decline in orders from the automotive industry. Our most important customer industry was affected by lower demand, production stoppages and supply chain disruptions, primarily in the first half of the year.

Overall, we benefited from our broad portfolio. Fluctuations in individual business areas could be partially offset by other units.

Our business development in the fourth quarter was very pleasing. We were able to increase our sales volumes in all regions and nearly all segments. On the whole, we had a strong final quarter.

These tailwinds carried over into the first quarter. We had a strong start to 2021. We increased sales by €2.6 billion compared with the first quarter of 2020 to €19.4 billion. This was mainly attributable to higher prices and volumes. Compared with the prior-year quarter, EBIT before special items increased by 42 percent to reach €2.3 billion. This was primarily the result of considerably increased earnings contributions from the Materials and Chemicals segments. Earnings in the Surface Technologies segment also rose considerably thanks to the recovery in automotive production. In the first quarter, all regions contributed to the significant increase in the earnings of the BASF Group.

Dear shareholders,

For many of you, the dividend is a key criterion in choosing your investments, especially in a time of low interest rates. There is a demand for reliable securities as long-term financial investments. The BASF share is such an investment. For many years, it has been one of the most popular shares among private investors. This pleases us.

Despite the pandemic, we generated a solid cash flow in 2020. And BASF once again proved its resilience. A reliable dividend payment is a priority for the BASF Board of Executive Directors, even in difficult times. We are confidently looking to the future. We therefore propose to the Annual Shareholders' Meeting a dividend of €3.30 per share for the 2020 business year, the same as in the previous year.

In total, we plan to pay out €3 billion to you, our shareholders. Based on the year-end share price of €64.72, we offer a high dividend yield of 5.1 percent.

We want the BASF dividend to remain attractive for you in the future as well. We want to make this possible with a high cash flow based on operational strength. This is the core of our dividend policy.

I have been working for BASF for 33 years. During this time, we have faced some challenges, including the financial crisis of 2008 and 2009. Last year, however, overshadowed everything that came before. And, yet, our company has successfully navigated through the pandemic. I attribute this to our strong solidarity. This is something we can all be proud of.

I want to express my heartfelt thanks to all of our employees. They have done terrific work! And this is the reason why we are paying a bonus for the 2020 business year. Based on our results and the agreed rules, this was not required. We want this bonus to be an expression of our gratitude and our appreciation. I hope that you as our shareholders also find this appropriate.

Despite many challenges, we want to remain operationally strong and grow

profitably. What are we doing to achieve this?

**First: We remain fully committed to more customer focus.** This is a key element of our strategy. During the pandemic, many of our customers faced never-before-seen challenges. But they could rely on us. Because we were able to deliver our products to them. And they appreciated our efforts. In this way, we were able to strengthen relationships with many of our customers. This will help us to grow faster than the market.

**Second: We want to continuously improve.** Our aims are: lower costs, improved processes and greater competitiveness. Our excellence program delivered an EBITDA contribution of €1.4 billion last year. The associated costs amounted to €200 million. From the end of 2021, we want to achieve an annual EBITDA contribution of €2 billion. The associated one-off costs this year will be between €50 million and €150 million.

The realignment of our Global Business Services unit will also contribute to increasing efficiency: Annual costs will decline by €200 million as of 2023. Worldwide, we are streamlining internal services and responsibilities. And we are shifting activities to our existing Service Centers in Berlin, Kuala Lumpur in Malaysia and Montevideo in Uruguay. The new structure will lead to a reduction of 2,000 positions globally, including 600 in Ludwigshafen by the end of 2022.

**Third: We are focusing our investments on growth areas.** Our main focus areas are the expansion of our business in China and the battery materials market. We made a lot of progress here in 2020, despite the pandemic.

First, I want to talk about our business in China, specifically the construction of our new Verbund site in Zhanjiang. The city is located in Guangdong province in southern China, in the middle of the country's industrial heartland. We started construction here on May 30. The first plants will produce engineering plastics and thermoplastic polyurethane. This will enable us to serve the growing demand from our local customers, who come primarily from the automotive and electronics sectors. A broad BASF Verbund site will be built in stages. And it will be

100 percent owned and operated by BASF. With offerings for many of our customer industries.

You may be wondering: Why is BASF so active in China? There is a simple answer to this question: The country drives the global market for chemicals. Today, it accounts for more than 40 percent. By 2030, China's market share will grow to more than 50 percent. By then, almost 70 percent of global chemical growth will come from China. We want to participate in this growth. And that is why we are investing in Zhanjiang. We are planning to invest \$10 billion in this project by 2030. Zhanjiang will be our third-largest site, after Ludwigshafen and Antwerp.

Our second focus area is battery materials. We are investing in e-mobility. Demand for lithium-ion batteries is growing continuously. The trend is clearly heading in one direction: More and more automotive firms are transitioning to electric vehicles. The market is growing. We see good opportunities for BASF here.

Our cathode materials are crucial for the performance of batteries. But not only that: Other key aspects are affordability, safety and sustainability. All this is only possible with innovative materials.

We have been operating production plants for battery materials in the United States since 2012 and in Japan since 2015. Now we are expanding our activities to Europe. We will produce precursors in Harjavalta, Finland. We will then use these to produce the finished cathode materials in Schwarzheide, Germany. Construction of our plants is proceeding according to schedule. We want to be finished next year. One thing is already clear: We will then have a strong position in Europe.

Automotive production is important for the European economy. The European Commission is therefore supporting these investments. Establishing a value chain for batteries has been recognized as an Important Project of Common European Interest. Because such an important technology should also come from Europe. I think we can all agree on that.

And that brings me to my **fourth** point, our portfolio: **We are focusing our portfolio on profitable growth.** We accomplished quite a lot in this area last year.

In January 2020, we acquired Solvay's polyamide business. The involved businesses have been successfully integrated. They are part of our Performance Materials and Monomers divisions.

We completed the sale of our construction chemicals activities. Since the end of September, the business has been owned by a subsidiary of Lone Star.

The sale of our pigments business to DIC requires some more time. We anticipate being able to close this deal in the second quarter.

And, finally, Wintershall Dea: The integration has been successfully completed. The new structure offers the expected advantages. The planned IPO depends on market conditions.

Dear shareholders,

And now I come to a very important topic – for us, and for me personally: climate protection. The coronavirus pandemic has thrown many things off course. But, thankfully, not the efforts to combat climate change. Around the world, this challenge is a priority for policymakers and society. Europe has taken on a very ambitious leadership role.

The European Commission has presented its Green Deal. One of its several objectives is reducing CO<sub>2</sub> emissions in the EU to zero by 2050. This would make Europe the first climate-neutral continent. This is an ambitious goal.

This once-in-a-century project will affect us all. It is about much more than protecting the climate. It is about the circular economy, biodiversity and agriculture. Also it is about digitalization and sustainable finance. For the chemical industry and our customer industries, it will also mean a tightening of the rules governing the approval of products on the European market.

The Green Deal is like a master plan for a more sustainable life. How will we in Europe produce and consume in the future? How will we live? There will be many changes. To do this while maintaining our competitiveness, we need intelligent and supportive solutions. And we need joint responses from policymakers, business and society.

The European Commission also says: The goals of the Green Deal cannot be achieved without the chemical industry. I can only agree with that. Chemistry is part of the solution. Because we offer innovations for a more sustainable life. Just think about the battery materials I mentioned earlier and modern catalysts. Or materials to insulate buildings. Or high-performance materials for wind turbines. Our products contribute to greater sustainability.

But we are not just part of the solution with our products. Chemical production is very energy-intensive and associated with significant CO<sub>2</sub> emissions. Our contribution to a successful Green Deal must therefore also include an additional, meaningful reduction in CO<sub>2</sub> emissions.

This poses an enormous technological challenge for our industry. The good news is that BASF has a plan for this. And we have been working on the implementation for some time.

One month ago, we presented our ambitious CO<sub>2</sub> goals to the public: By 2050, we want to make BASF climate-neutral. And even more importantly: What can we achieve already by 2030?

By 2030, we want to reduce our CO<sub>2</sub> emissions by 25 percent compared with 2018 levels. At the same time, we expect considerable production growth during this period.

This means that by 2030 we will reduce our global CO<sub>2</sub> emissions by 60 percent compared with 1990 levels. We will thus exceed the E.U. target. And comply with the Paris Climate Agreement. BASF will therefore be a frontrunner in the chemical industry.

We need to pick up the pace. Climate change requires decisive action from all of us. Our good news is: We have made great technological progress. We can reduce our emissions faster than we previously expected. That is why we have committed to these two new targets.

We already know that they will be very challenging for us. After all, we have already reduced our CO<sub>2</sub> emissions by half since 1990, while doubling our production. During this time, we have done a lot to improve energy efficiency. We have continuously refined our plants and processes. This potential is now exhausted. We are reaching the technical limits.

That is why we need completely new technologies and processes. We are working on these and have bundled our activities in our Carbon Management.

But it is also a fact that chemistry requires energy. Vast amounts of energy. Right now, this mainly comes from fossil fuels. A climate-neutral chemical industry will only be possible with a sufficient supply of renewable energy. Or, more specifically: sufficient electricity from renewable sources.

We are talking here about the electrification of the chemical industry. Our electricity demand will increase dramatically. Consider as well all the other energy-intensive industries and electric mobility. Then it becomes clear: A massive expansion of renewable energies across Europe is necessary.

Offshore wind parks play a key role in this. They can supply the electricity volumes for industry. And at attractive prices.

Germany must become competitive in terms of the prices for renewable energies. Currently, we are not. Electricity tax, renewable energy levies, grid fees and other charges are driving costs unnecessarily high. Our international competitors have an advantage here. We need electricity prices to be less than €0.05 per kilowatt hour. This is equal to the cost of production.

We need an electricity market without public subsidies and without surcharges. With an electricity price of less than €0.05, we will be able to both pay for the transformation of our industry and remain competitive on the global stage.

What else is important? We need to finally see some progress in grid expansion. In Germany and in Europe. Our expectation is: Policymakers quickly forge ahead with this expansion and reduce unnecessary cost burdens. And we – the industry – will invest in new capacities for renewable energy and new technologies for electrification.

We need to connect climate, energy and industrial policy. This will secure jobs and prosperity in a sustainable way. This is essential for public acceptance of climate protection.

You are probably asking yourselves: What will BASF do with all of this electricity? Let me give you two examples from our Carbon Management program. The first example is hydrogen.

We produce large volumes of hydrogen. In Ludwigshafen alone, more than 250,000 metric tons per year. This production causes significant CO<sub>2</sub> emissions: around 10 metric tons of CO<sub>2</sub> per ton of hydrogen.

How can hydrogen be produced with fewer emissions? To do this, there are two possible sources: water or methane. The latter is better known as natural gas.

If the molecules are split using electricity from renewable sources, it is possible to produce hydrogen with zero emissions in both cases. Politicians are vigorously promoting the development of water electrolysis. Our experts are additionally developing methane pyrolysis. It has one major advantage: It requires only one-fifth as much electricity as water electrolysis. This is an important argument; especially as long as renewable energy is in short supply. Moreover, this process can deliver hydrogen at significantly lower costs. We have just started up a pilot plant. This shows how important technology openness is.

My second example is the electrification of our steam crackers. We use these to produce basic chemicals. These plants have giant furnaces, where the chemical reaction takes place at temperatures of 850 degrees Celsius. To heat the furnaces, we have been using natural gas. This emits a lot of CO<sub>2</sub>. In Ludwigshafen alone, the figure is 1 million metric tons of CO<sub>2</sub> per year. We want to change this: with electrically heated furnaces.

We want to replace natural gas with electricity from renewable sources. Then the process can be carried out without CO<sub>2</sub> emissions in normal operations. This is not easy to do. Together with our partners SABIC and Linde, we have developed a technology. And we want to use it to retrofit one furnace at our cracker in Ludwigshafen. This will be a first step. After this, we will investigate commercial application.

As you can see: For us, sustainability and innovation are inextricably linked. Our approximately 10,000 employees in research and development are paving the way here. Around the globe, they are working on new solutions. At BASF, they can rely on the largest platform for innovations in the chemical industry.

You are surely asking yourselves: How will BASF remain profitable while investing more in climate protection?

You know our Accelerator products. These are products that make a substantial contribution to sustainability compared to competitors. These products have higher growth rates and higher profitability.

We therefore want to increase our sales with these products. Our target is €22 billion in 2025. To put this in perspective: Our Accelerator sales were €16.7 billion in 2020.

Accelerators also have a significantly smaller carbon footprint compared to the industry average. They will drive our future growth. We are therefore well on track.

More and more often, environmental awareness is influencing purchasing decisions. This is also true for our customers. Customers are increasingly asking us to reduce the carbon footprints of BASF products for them.

We are therefore providing transparency about the CO<sub>2</sub> emissions of our products. We are the first company in the chemical industry worldwide to present our customers with a carbon footprint for all of our 45,000 sales products.

To do so, we have developed our own digital solution. We can use it to determine the total values of CO<sub>2</sub> emissions for our products. The value includes all emissions – from cradle to gate. We thus combine sustainability and digitalization in an innovative offering. This, in turn, helps our customers with their own carbon footprints.

But consumers also need to be willing to pay more for products with smaller carbon footprints. After all, industry must invest in new processes and plants. And the operating costs for new CO<sub>2</sub>-free technologies are higher.

But the demand is there – in all customer industries. Over time, consumers will increasingly purchase CO<sub>2</sub>-reduced products and pay more for them. We are already seeing this with food and its sugar content. Also here, it all started with transparency about the ingredients.

Step by step, we are reducing the carbon footprint of our products. In doing so, we are closely working together with our customers. Responding to their plans and expectations. We are doing this in a number of ways.

Our Circular Economy Program also makes a contribution. With this program, we decouple economic growth from resource consumption. We thus conserve the limited resources on our planet and use them efficiently. In some ways, we have been doing this for a long time: In our Verbund, we re-utilize by-products and waste. But we can become even better. In the long term, we are striving towards a carbon-neutral circular economy.

By 2025, we plan to transform 250,000 metric tons of recycled and waste-based raw materials into new products each year. By 2030, we want to increase our sales generated by solutions for the circular economy to €17 billion. This would be double today's level.

Dear shareholders,

We support the objectives of the Green Deal. It can be a major opportunity for Europe. And for our industry. The right conditions will be decisive, however. In this area, the United States and China are putting their focus on funding and supportive measures. This is how they are effectively promoting the transformation of industry.

We are concerned about some of the developments in Europe. Europe already has the most comprehensive chemicals policy worldwide. We must not abandon established principles and regulations. This would have enormous consequences. For us, as the fourth-largest industry in Europe. And for many of our customers along the entire value chain. Not to mention for many products. Products which play an essential role in making the Green Deal a success.

I would like to stress once more: We need a new spirit of cooperation between policymakers, business and industry and society. We need to be open to new things and boldly tackle challenges. We need support for new technologies. And more renewable energy at competitive prices. With this kind of fundamental approach, we will achieve the ambitious climate protection goals while also maintaining competitiveness, which enables growth for future prosperity. For the future of Europe, this combination would be ideal.

To finish up, let us turn our attention to the year 2021. What do we expect?

We expect the global economy to recover from its slump. It is forecast to grow by 5.0 percent compared with the previous year. Industry is also expected to grow again compared with 2020. We expect a significant uptick in the automotive industry, for example.

We likewise anticipate 5.0 percent growth in global chemical production. This will be considerably higher than the level of the prior year.

However, there is still significant uncertainty. The pandemic is not yet over. Our forecast takes this into account.

Since global economic activity has recovered more strongly than we previously forecast, we have raised our sales and earnings outlook published in February. For the year 2021, we now expect sales of between €68 billion and €71 billion. And we anticipate EBIT before special items of between €5.0 billion and €5.8 billion.

Overall, we are in a good position. Together with our customers, we want to grow profitably and sustainably in 2021. We look confidently to the future.

And to close off, let me also take a look into the past: BASF's founder Friedrich Engelhorn would have turned 200 years old on July 17 this year. He was a courageous entrepreneur. A visionary full of energy and ideas.

Friedrich Engelhorn overcame the challenges of his time. He was firmly committed to innovation. And today, this is also how we approach the future. On our journey, we will take inspiration from his virtues.

Dear shareholders,

I said it one year ago and I will express the same hope today: I look forward to seeing you again at Rosengarten Congress Center.

Thank you for your support and your trust.