

BASF Annual Press Conference for the year 2021

News Release

P140/22e
February 25, 2022

BASF Group:

BASF achieves strong earnings growth in full year 2021

Presentations by

Dr. Martin Brudermüller, Chairman of the Board of Executive Directors, and
Dr. Hans-Ulrich Engel, Chief Financial Officer of BASF SE

The spoken word applies.

Good morning, ladies and gentlemen,

It is hard to go back to business as usual the day after Russia attacked Ukraine. Yesterday marks the end of peace in Europe. It is a bitter day for all of us. A short time ago, no one would have thought it possible. We are dismayed by the attack and are very concerned about further developments. And we are all thinking at this moment of the people in Ukraine who have to fear for their lives and their future.

Nevertheless, Hans Engel and I would like to welcome you to our Annual Press Conference for the full year 2021. Especially in a situation like this, we would have liked to meet with you personally here in Ludwigshafen today. You know how important direct contact with you is to us. I very much hope that a press conference in person will soon be possible again without any restrictions. In a Europe that has found its way back to peace.

[Slide 2: BASF achieves strong earnings growth in full year 2021; EBIT before special items reaches €7.8 billion]

Compared with 2020, EBIT before special items more than doubled in 2021 and amounted to €7.8 billion. This is an increase of 67 percent compared with the pre-pandemic level in 2019. BASF's positive earnings development was mainly driven by the Chemicals and Materials segments. The Surface Technologies and Industrial Solutions segments also contributed considerably to the strong recovery.

We increased sales prices by 25 percent and volumes by 11 percent. All segments achieved price and volume growth in 2021.

Cash flows from operating activities improved by 34 percent and amounted to €7.2 billion, as compared to €5.4 billion in 2020. Free cash flow increased by €1.4 billion to €3.7 billion in 2021.

Our automotive-related businesses continued to be negatively impacted by the semiconductor shortage. According to current data, global automotive production reached around 76 million units in 2021, and thus increased only slightly compared with the very low level of the previous year. For 2022, the data and information service IHS Markit expects 84 million vehicles. We assume that the semiconductor shortage will persist, at least in the first half of 2022. We therefore expect just 82 million units to be produced and are less optimistic than IHS for the full year.

Throughout 2021, and particularly in the fourth quarter, higher raw materials prices and increased energy and logistics costs burdened the earnings development in all segments. Consequently, we will implement further substantial price increases in the coming months to pass on the significantly higher costs and improve our margins in the downstream businesses. The established pricing procedures in these businesses lead to a delay in passing on costs.

[Slide 3: Global chemical production increased by 6.1% in the full year 2021]

Let's now turn to the macroeconomic environment. According to the currently available data, global growth in the chemical industry was 6.1 percent in 2021.

The strongest growth in chemical production was achieved in China, the world's largest chemical market, with a full-year expansion of 7.7 percent. Here, however, growth slowed at a high level during the course of the year. Electricity cuts had a negative effect on production, particularly in the third and fourth quarters.

Growth in Asia excluding China reached 6.2 percent in 2021.

Chemical production growth in the European Union was extraordinarily high at 6 percent. A contributing factor was the low basis in the previous year. In addition, the European chemical industry benefited from the fact that availability of global production capacities for basic chemicals was limited.

In the United States, significant petrochemical capacities were temporarily unavailable. After the cold spell in the first quarter, production on the U.S. Gulf Coast was also negatively impacted in the summer by hurricanes Ida and Nicholas. In total, chemical production in North America grew by only 1.7 percent in 2021.

[Slide 4: BASF Group: Volume growth of 10.6% in the full year 2021 – outgrowing global chemical production by 4.5 percentage points]

On this slide you can see BASF's volume growth by region compared with the prior year. With an increase in volumes of 10.6 percent in 2021, BASF Group's growth was 4.5 percentage points above global chemical production.

Let's now look at the volume development in the regions: With 14.4 percent, our volume growth was most pronounced in Asia excluding Greater China. In North America, sales volumes grew by 10.6 percent and in Europe by 10.1 percent.

In Greater China, we increased volumes by 8.7 percent compared with an already very strong prior year. Volume development in the fourth quarter of 2021 was burdened in particular by lower demand for mobile emissions catalysts. This was a result of overall lower automotive production due to the semiconductor shortage. The electricity cuts for energy-intensive industries had only a minor impact on BASF's operations in China.

[Slide 5: BASF Group with strong full-year sales and earnings development]

Ladies and gentlemen,

Let's now look at our sales and earnings development by segment in 2021. Hans Engel will comment later on the specific development in the fourth quarter.

At BASF Group level, sales increased by 33 percent to €78.6 billion due to considerably higher prices and volumes in all segments. Currency effects had a slightly negative effect and were mainly related to the U.S. dollar.

BASF Group's EBIT before special items reached €7.8 billion – an increase of 118 percent compared with 2020. All segments, with the exception of Nutrition & Care and Agricultural Solutions, increased EBIT before special items in 2021. The rise in earnings was driven in particular by the Chemicals and the Materials segments.

For detailed explanations of the 2021 earnings development by segment, please refer to the BASF Report 2021 published this morning.

[Slide 6: BASF Group 2021: Financial targets achieved across the board; progress in achieving nonfinancial targets]

Let's now look at our financial and nonfinancial targets:

We achieved all our financial targets in 2021. And we have taken important steps to deliver on our mid-term CO₂ emission target.

As mentioned before, our sales volumes growth was well above global chemical production.

EBITDA before special items increased from €7.4 billion to €11.3 billion. This was a rise of 53 percent.

Our 2021 return on capital employed (ROCE) of 13.5 percent was considerably above the cost of capital rate of 9 percent.

For 2021, we will propose a dividend of €3.40 per share to the Annual Shareholders' Meeting, thus delivering on our progressive dividend policy.

We want to reduce our absolute CO₂ emissions by 25 percent by 2030 compared with the baseline 2018. In 2021, our CO₂ emissions amounted to 20.2 million metric tons – a decrease from the 20.8 million metric tons emitted in 2020. This is remarkable given the strong growth in volumes.

We also set a target of €22 billion in sales with Accelerator products by 2025. These are products that make a substantial sustainability contribution in the value chain. We achieved this sales target much earlier than planned: In 2021, we generated sales of €24.1 billion with Accelerator products compared with €16.7 billion in 2020. We will therefore adjust this portfolio steering target in the course of 2022.

[Slide 7: Attractive shareholder return – clear commitment to progressive dividend policy]

Ladies and gentlemen,

Creating value for our shareholders is a top priority for us. This is why we aim to increase the dividend per share every year based on a strong free cash flow.

At this year's Annual Shareholders' Meeting, the Board of Executive Directors and the Supervisory Board will propose to pay a dividend of €3.40 per share, an increase of 10 cents. In total, we would pay out €3.1 billion based on the number of shares at the end of the year. This amount is more than covered by our free cash flow in 2021. With our dividend proposal, the BASF share offers an attractive dividend yield of 5.5 percent based on the share price at the end of 2021.

Since we have already received several inquiries, I would like to provide a short update about this year's Annual Shareholders' Meeting: The Board of Executive Directors and the Supervisory Board have decided to hold a virtual Annual Shareholders' Meeting on April 29. The pandemic and the expected number of participants will not yet permit a physical meeting in 2022. The invitation with detailed information will be published in mid-March.

Now I would like to hand over to Hans Engel.

[Hans-Ulrich Engel]

Good morning, ladies and gentlemen.

[Slide 8: Recent portfolio measures: Acquisitions and divestitures]

I would like to start with a brief overview of BASF's most relevant portfolio measures:

In August 2021, BASF and Shanshan formed BASF Shanshan Battery Materials. BASF owns a majority stake of 51 percent in this company. With the completion of the transaction, we have reached a significant milestone in executing our strategic roadmap to build up a global battery materials value chain, equipped with an industry-leading annual CAM capacity of 160 kilotons by 2022.

In June 2021, we closed the divestiture of our global pigments business to the fine chemical company DIC. The purchase price on a cash and debt-free basis amounted to €1.15 billion.

In November 2021, BASF and Clayton, Dubilier & Rice sold Solenis to Platinum Equity. With the divestiture of our 49 percent share in Solenis, we benefited from the value creation that was achieved by combining Solenis and BASF's paper wet-end and water chemicals business in 2019. Our share in the purchase price amounted to €1.1 billion. The disposal gain of €589 million is reported as a special item below EBIT, in net income from shareholdings.

In June 2021, we announced the postponement of the IPO of Wintershall Dea. Strategically, and in line with the original agreement with LetterOne, we remain fully committed to achieving an IPO of Wintershall Dea. As you have probably read, representatives of LetterOne have now questioned this objective. Given the significant strategic relevance of the IPO for BASF and our stakeholders, we will use all available means to protect our rights and interests, including legal remedies and the right to unilaterally pursue an IPO in 2023.

In 2021, Wintershall Dea generated an EBITDAX of €3.8 billion, an increase of 133 percent compared with 2020. EBITDAX is a common indicator for financial performance in the oil and gas industry, defined as earnings before interest and taxes, depreciation, amortization and exploration expenses. Wintershall Dea's free cash flow improved considerably from €159 million in 2020 to €2.1 billion in 2021.

[Slide 9: Excellence Program successfully completed: €2.1 billion annual EBITDA contribution achieved by end of 2021]

Today I can also give you a final update on our Excellence Program.

We concluded the program within budget and on time and exceeded the targeted annual EBITDA contribution, reaching €2.1 billion by the end of 2021. The associated costs amounted to around €140 million in 2021.

On top of this Excellence Program, we have implemented specific efficiency programs in our service units and operating divisions. For example, the realignment of our Global Business Services unit will result in savings of more than €200 million per year from 2023 onwards. We expect savings of a similar magnitude from efficiency and optimization measures in our Global Digital Services unit from 2023 onwards. Furthermore, the operating divisions are continuing to drive forward their unit-specific efficiency programs.

[Slide 10: BASF Group: Financial figures Q4 2021 and full year 2021]

Ladies and gentlemen,

I will now take a more detailed look at the financial figures of BASF Group in the fourth quarter of 2021 compared with the prior-year quarter:

Overall, the fourth quarter was characterized by higher raw materials prices and logistics costs as well as a steep increase in energy costs, particularly in December. Some of these increases can only be passed on to our customers with a certain time lag.

I will start with sales, which increased by 24 percent to €19.8 billion. Despite the comparison with the strong prior-year quarter, BASF was able to increase volumes in all segments except for Materials in the fourth quarter of 2021.

EBITDA before special items increased by around €100 million to reach €2.2 billion. EBITDA amounted to €2.3 billion, compared with €2.0 billion in the fourth quarter of 2020.

EBIT before special items came in at €1.2 billion, compared with €1.1 billion in the fourth quarter of 2020.

Special items in EBIT amounted to plus €1 million, compared with minus €181 million in the fourth quarter of 2020.

EBIT came in at €1.2 billion in the fourth quarter of 2021, compared with €932 million in the same quarter of the previous year.

Net income amounted to €898 million, compared with €1.1 billion in the prior-year quarter.

Cash flows from operating activities increased by €1.2 billion to €3.3 billion in the fourth quarter of 2021. Free cash flow came in at €1.8 billion, an increase of 84 percent compared with the fourth quarter of 2020.

[Slide 11: BASF Group: Sales considerably higher than in Q4 2020, EBIT before special items with solid growth despite headwinds from higher costs]

Here you see the sales and earnings development by segment in the fourth quarter of 2021. Compared with the prior-year quarter, BASF Group increased sales from €15.9 billion to €19.8 billion. Considerably higher prices and slightly higher volumes as well as positive currency effects were the main drivers for this. Currency effects were primarily related to the U.S. dollar and the renminbi. All segments contributed to the sales increase in the fourth quarter.

EBIT before special items increased by 10 percent to €1.2 billion in the fourth quarter of 2021. Considerably higher earnings in the Chemicals segment and in Other compensated for lower contributions from the remaining segments.

[Slide 12: Natural gas prices in Europe further increased in Q4 2021]

Ladies and gentlemen,

I will now give you an update on the impact of the natural gas price development in Europe. Natural gas prices further increased in the final quarter of the year, reaching an all-time high in December. For our European sites, the additional costs due to higher natural gas prices in 2021 amounted to around €1.5 billion. The fourth quarter of 2021 alone accounted for €0.8 billion of this amount. The earnings of our operating divisions were directly burdened by these cost increases compared with the previous year.

[Slide 13: BASF Group: Strong cash flow and free cash flow development]

Now we come to our cash flow development in the full year 2021.

Cash flows from operating activities amounted to €7.2 billion, compared with €5.4 billion in the previous year. The considerable increase was primarily due to the improvement in net income.

Cash flows from investing activities totaled minus €2.6 billion in 2021, after minus €1.9 billion in the previous year. Payments received for divestitures and the disposal of the shareholding in Solenis in 2021 were below the figure from the disposal of the construction chemicals business in the previous year.

Cash flows from financing activities amounted to minus €6.5 billion. In addition to the payment of dividends in the amount of €3.3 billion, financial and similar liabilities were reduced by €3.1 billion.

Free cash flow amounted to €3.7 billion in 2021, after €2.3 billion in the previous year.

[Slide 14: Solid balance sheet]

Turning to our balance sheet at the end of 2021 compared with year-end 2020:

Total assets increased by €7.1 billion to €87.4 billion. Noncurrent assets amounted to €52.3 billion, an increase of €1.9 billion, mainly due to additions to property, plant and equipment and currency effects. Current assets increased by €5.2 billion to €35.1 billion. This was primarily due to higher inventories as a result of higher raw materials prices and higher accounts receivable because of the increase in sales.

Net debt decreased to €14.4 billion at the end of 2021. Equity amounted to €42.1 billion on December 31, 2021, representing an increase of €7.7 billion compared with year-end 2020. This was driven by the considerably higher net income and other comprehensive income.

The equity ratio was 48.2 percent compared with 42.8 percent at the end of 2020.

[Slide 15: BASF Group: High capex discipline in ongoing business to support investments in growth projects]

Ladies and gentlemen,

And now to our investment budget: Between 2022 and 2026, we plan capital expenditures of €25.6 billion. Capex in the next five years will thus be higher than in the prior planning period from 2021 to 2025, when our budget was €22.9 billion. The main reasons for this are our two major growth projects: the new Verbund site in Zhanjiang and our battery materials activities. These two projects are key to drive BASF's future growth and the reason why the share of capital expenditures in the region Asia Pacific is rising to 45 percent of the BASF Group's capex between 2022 and 2026. The share in Europe is budgeted to reach 37 percent and the share in North America 15 percent.

Investments in BASF's ongoing business remain stable at an average level of €2.6 billion per year. We will be very disciplined with the investments required to maintain and grow our businesses. This will enable us to fund the growth projects with an average of also roughly €2.6 billion per year. Capex for our growth projects will peak in 2024.

For 2022, we plan total capital expenditures of €4.6 billion compared with 3.4 billion in 2021.

[Slide 16: Use of cash – clear focus on long-term shareholder value]

We set clear priorities regarding the use of cash. BASF's corporate strategy is based on organic growth. Our annual budget for research and development activities amounts to around €2.1 billion.

We are committed to increasing our dividend per share every year. Our solid balance sheet and strong free cash flow support this progressive dividend policy. We strive to strengthen BASF's portfolio through smaller, bolt-on acquisitions and further focus the portfolio with continued pruning measures.

Ladies and gentlemen,

We believe the BASF share is undervalued. On January 4, 2022, we therefore resolved on a share buyback program – our first since 2008.

[Slide 17: First share buyback program since 2008 – to create additional value for shareholders]

This program amounts to up to €3 billion. We started it on January 11, 2022, and it will be concluded by December 31, 2023 at the latest, subject to a renewed authorization to repurchase own shares by this year's Annual Shareholders' Meeting. The repurchased shares will be canceled, reducing the share capital accordingly.

As of February 23, we had already bought back 6.2 million shares for a total amount of €415 million. This illustrates that the program is being swiftly executed.

And now I will hand back to Martin Brudermüller for the outlook.

[Martin Brudermüller]

[Slide 18: Outlook 2022 for BASF Group]

Ladies and gentlemen,

We have started the current year strongly with January 2022 figures exceeding those of the prior-year month. The strong demand continued in February.

From today's point of view, we are positive about the development of the global economy. We expect global economic growth of 3.8 percent to be somewhat more moderate in 2022 following the very strong recovery in 2021. As order backlogs in industry are high, we expect global industrial production to grow by 3.8 percent and chemical production by 3.5 percent. We anticipate an average oil price of \$75 for a barrel of Brent crude and an exchange rate of \$1.15 per euro.

Based on these assumptions, we are forecasting sales of between €74 billion and €77 billion for 2022. The BASF Group's EBIT before special items is expected to be between €6.6 billion and €7.2 billion. The return on capital employed (ROCE) should be between 11.4 percent and 12.6 percent.

We expect our CO₂ emissions to be between 19.6 million metric tons and 20.6 million metric tons in 2022. No forecast has been made for Accelerator sales as we have already achieved our target and plan to update our portfolio steering target in the course of 2022. Our forecast takes into account uncertainty resulting in particular from the effects of ongoing supply chain disruptions, the further course of

the coronavirus pandemic and the development of energy prices. The war in Ukraine could significantly influence growth and global economic development. The possible effect cannot be reliably predicted at this time.

[Slide 19: Focus areas for 2022]

To conclude, I would like to highlight our focus areas for 2022:

We will concentrate on improving the performance of our downstream businesses. We will especially focus on further price increases in our downstream businesses to compensate for higher raw material and energy prices and to restore our margins. Furthermore, we will work on maintaining the strong margins in our upstream businesses for as long as possible.

To support the future profitable growth of BASF, we will continue to focus our efforts on our two major growth projects: the Zhanjiang Verbund site and our battery materials activities.

We will remain disciplined regarding investments and costs and concentrate on effective project execution across our organization. And finally, we will continue to vigorously prepare BASF's business model for a low-carbon and circular economy.

Hans Engel and I now look forward to taking your questions.