

April 27, 2023

Speech for the Annual Shareholders' Meeting 2023

Dr. Martin Brudermüller

Chairman of the Board of Executive Directors of BASF SE

The spoken word applies.

Dear shareholders,
ladies and gentlemen,

Determined, courageous and grounded. A hands-on team. One that does not get blown off course, even if there are strong headwinds. A team that stands behind the transformation to climate neutrality. This is what makes us *BASF*.

I would like to welcome you to the BASF Annual Shareholders' Meeting – here in person in Mannheim and on your screens.

Welcome!

We are very happy to see you! After three years of virtual Annual Shareholders' Meetings, we are back in the Rosengarten. We are pleased to be speaking directly to you rather than just to a camera. We really appreciate the interaction with you.

Ladies and gentlemen,

You know me – and you know that I address issues directly and openly. So let me start off by saying:

These are turbulent times for BASF.

The chemical industry, especially in Europe and Germany, is facing major challenges. The issues are, unfortunately, known to us all: A terrible war in the middle of Europe. With immense human suffering.

Russia's war of aggression against Ukraine also has considerable economic consequences: drastic increases in energy and raw material prices, high inflation and rising interest rates. These factors have also led to weakening consumer demand.

We are in a difficult economic environment with many geopolitical tensions. This is causing major uncertainty in the markets.

On top of this, there is the global transformation to climate neutrality and a circular economy.

The task of a century!

The EU Green Deal is particularly challenging. Nowhere else in the world do we find such intensive, wide-ranging and limiting regulations as in Europe.

As the leading global chemical company, we are not immune to all of this. Many of these issues also affect BASF. That is why our share price declined sharply after the outbreak of war. Yesterday, it was just 50 euros and 15 cents. Way too low. This is beyond unsatisfactory.

You are probably concerned about your BASF. But you don't have to be.

Because we are tackling the challenges decisively and systematically. Just as we have always done at BASF.

This is also not the first time for us: In the more than 158-year history of BASF, we have been able to pivot repeatedly. We knuckle down and keep a clear focus on the future. Just think about the changes in the feedstock used to make our products: Beginning with coal tar in the 19th century as a starting material for dyes. Then coal and oil and, since the 1980s, natural gas. And now we are moving towards renewable raw materials and renewable energy for a climate-neutral future.

Shaping change is part of who we are at BASF.

And we will succeed again this time.

In this difficult situation, our task as the Board of Executive Directors is to keep the company on track. To not lose sight of the big picture in the short term. Our priorities remain unchanged: to make BASF climate-neutral and grow profitably. We are passionate in our efforts. As members of the Board of Executive Directors, we also have a responsibility to take a position, to explain and to tirelessly promote the interests of BASF.

This is what I care about. And this is what I have done. For example, in spring of last year, when there were calls for Germany to quickly introduce an embargo on natural gas from Russia. It was important to add industry's viewpoint to the debate. And not rush headlong into an embargo. Every single additional month was used to make Germany less dependent on Russian natural gas.

Natural gas is our most important source of energy. And it is also an important feedstock for many of our products. In 2021, we were the largest industrial consumer of natural gas in Germany, accounting for nearly 4 percent. That is as much as Switzerland consumes!

When natural gas from Russia had to be substituted almost overnight with other supply sources, it caused major upset on the energy markets. Energy prices in Europe reached unprecedented heights. For BASF, this meant significant additional costs: around €3.2 billion globally in 2022.

Our main worry was that the Ludwigshafen site would not receive enough natural gas. There is still a possibility of gas shortages, particularly in the coming winter. In April 2022, if gas supplies had fallen to less than 50 percent of 2021 levels, we would have been forced to idle the entire site. We therefore worked flat out to make BASF less dependent on natural gas. Around the clock, our teams were looking for solutions. And this hard work paid off.

Today, we would be able to operate our largest site even if we received only around 30 percent of the natural gas volumes. And as of this fall, in extreme cases, we could make do with only around 10 percent. We can do this by not fully utilizing plants that consume a lot of natural gas. And by partially switching our power plants over to oil. We therefore no longer need to worry about a complete shutdown of the site. This is another incredible achievement by the BASF team!

Another topic we are staying on top of is our investment in Wintershall Dea. Long before the war, we had already decided to exit the oil and gas business. And we stand by this decision. But with Russia's attack on Ukraine, the market conditions for this exit have changed completely.

Through Wintershall Dea, we are involved in joint ventures in Russia that produce oil and natural gas. However, the Russian government has now de facto expropriated Wintershall Dea in Russia. We had to recognize a €6.5 billion impairment on the value of our shareholding in Wintershall Dea last year. This led to negative net income for the BASF Group. It was very bitter.

However, it now opens up a path forward for us. We are working very hard on various options for an exit. An IPO for Wintershall Dea remains our preferred alternative. A sale to investors would be another possibility. The exit will not take place immediately. It will require many approvals – from public authorities and joint venture partners. But we are very optimistic that we will be able to execute this in the foreseeable future.

Ladies and gentlemen,

2022 was a year of highs and lows for BASF. Let's take a look at our financial figures.

We turned in a robust performance in this difficult environment.

We had a very strong start with our best-ever first-half results! Followed by the weakest operating second half since 2008.

- Our sales rose by 11 percent to €87.3 billion.
- Our EBIT before special items amounted to €6.9 billion. This was below the prior-year level, but within our forecast range.
- Our Agricultural Solutions and Nutrition & Care segments performed particularly well. Here, we significantly increased EBIT before special items. In the Chemicals and Materials segments, we recorded a significant decline in earnings, but we had expected that. Earnings rose considerably in the Surface Technologies segment and slightly in the Industrial Solutions segment. We had expected a slight decline in earnings in both segments.
- Our free cash flow amounted to more than €3.3 billion.
- And we earned a premium on our cost of capital again.

What do these financial figures mean for your dividend?

The Board of Executive Directors and the Supervisory Board propose a dividend of €3.40 per share for the 2022 business year. This equates to a high dividend yield of 7.3 percent based on the year-end share price of €46.39. In total, the dividend payout will be €3 billion. This amount is more than covered by our free cash flow.

A payout of this size is therefore entirely justifiable. Despite the negative net income, as that was the result of non-cash-effective impairments.

Let's take a look at our key figures in the first quarter of 2023.

We achieved:

- sales of €20 billion
- and EBIT before special items of €1.9 billion.

As expected, these figures are significantly below the strong sales and earnings numbers in the prior-year quarter.

Dear shareholders,

We are experiencing strong headwinds at the moment. And there are realities that we must face today.

One such reality is the development of the global chemical market.

In the year 2000, the regions Europe, North and South America and Asia Pacific each accounted for roughly one-third of the global chemical market. By 2030, Europe's share will shrink to 17 percent and that of North and South America will decline to 13 percent. Asia Pacific will then account for around 70 percent of the global chemical market. While the Western markets are barely growing, Asia is expected to experience average growth of 3.7 percent per year.

Comparing these figures with BASF's regional footprint, you can clearly see: In light of these market expectations, we must expand our business in Asia Pacific. We need a more balanced regional structure. For Europe in particular, this is a painful reality.

I would like to explain to you today how we are tackling this. **We have set ourselves five priorities.** They are an integral part of our strategy. With them, we are laying the foundation for profitable and sustainable growth.

Our first priority is: We are strengthening our competitiveness and resilience in Europe and Germany.

We are increasingly worried about our home market. Profitability is no longer anywhere near where it should be. Last year, we booked negative earnings of around €130 million in Germany.

Of course, natural gas prices in Europe had a major influence here.

But they were not the only factor!

Europe's competitiveness has been suffering for years from weak market growth. Not to mention excessive regulation. Companies are increasingly drowning in red tape. And it is getting worse and worse. As a result, costs are rising.

By contrast, policymakers in other regions of the world are taking steps to bolster industry. The United States has adopted a pragmatic program with its Inflation Reduction Act. This combines economic growth with incentives for the green transformation. It makes CO₂-neutral production a money-earning business model. This should serve as a role model for Europe.

Europe, too, needs more pragmatism! So that we as a region do not get left behind. And speaking of that, we are concerned about the direction Europe is taking. The European Commission is relying on the effect of detailed and all-encompassing regulations. There are already 14,000 pages associated with the Green Deal that are relevant for the chemical industry! I want to make it very clear: We clearly support the objectives of the Green Deal. But in the way it is being implemented, it barely enables international competitiveness. Ultimately, this helps nobody.

So, our competitiveness in Europe is being challenged. And that is why we are quickly and decisively taking countermeasures. We are doing this with two packages of measures.

First: We are streamlining our non-production structures with a focus on Europe and Germany. From the end of 2024, we want to save more than €500 million annually in this way.

Second: We are adapting our production, especially in Ludwigshafen. We are closing a few basic chemical plants that are especially energy-intensive. This includes one of our two ammonia plants.

With higher energy costs in Germany in the long term, these plants are no longer competitive. Also, because excess capacities have arisen in other regions with lower costs.

These are painful steps. Particularly for the teams who have put their hearts into operating these plants for years.

These closures also mean reducing positions. We are doing this as we always do at BASF – in a socially responsible way and in dialog with employee representatives. We want to retain many of the affected employees and their wealth of experience at BASF. We need these skilled workers. Because many BASF employees will be retiring in the coming years.

Dear shareholders,

These measures will make our largest site in Ludwigshafen – which is now in its 159th year – fit for the future once again. Our Verbund is and will remain robust.

That is why we also continue to invest in upgrading our plants and in the transformation of the Verbund. In Ludwigshafen alone, we have planned around €2 billion per year for this in the long term.

Our vision for Ludwigshafen is crystal clear: We want Ludwigshafen to become *the* model site for climate-neutral chemical production in Europe. This is where we produce the broadest portfolio of products. The enormous Verbund offers numerous opportunities for us to incorporate and test out new technologies in existing structures. The proximity to our R&D is a decisive advantage here. That is why many of our first steps to transform the Verbund are being taken in Ludwigshafen.

As a globally active company, having a strong regional portfolio is the only way to offset weakness in one region with strong contributions from other regions.

And that brings me to **our second priority: We are investing in growth markets.**

I have just laid out the facts: Asia, and primarily China, is *the* growth market for the chemical industry.

China accounts for around half of the chemical industry's global sales. At BASF, however, we only generate less than 15 percent of our total sales in China.

We want to continue our highly profitable growth in China. And that is why we are investing. We are expanding our Verbund site in Nanjing. And we are building a new Verbund site in Zhanjiang in southern China. Around €10 billion will be invested by 2030. From the very beginning, we planned the site as a pioneering example of sustainability. Our goal: 100 percent green electricity from day one. This makes us a trailblazer in the global chemical industry!

These investments are important for BASF. A strong foothold in growth markets can offset a lack of growth in Europe. And it enables us to finance our investments in a climate-neutral future worldwide.

We are asked time and again: Is BASF making itself too dependent on China? Are we ignoring the geopolitical risks?

I can understand that you ask these questions. Following intense and responsible deliberations, our answer is: No. We have thoroughly analyzed the opportunities and risks of our investments in China. We did this, of course, in consultation with external experts as well.

Our conclusion is that we believe the opportunities for BASF significantly outweigh the risks. When conducting business in China, we act in accordance with our global guidelines. Respect for human rights, for example, is firmly anchored in our corporate values. These serve as our compass worldwide. For everything we do – also in China.

Does this mean that BASF is withdrawing from Europe?

Absolutely not! Europe is the birthplace of BASF.

Our maxim is: We produce where our customers are.

We produce in China for China. And we have important customers in all other markets worldwide. Therefore, we want and have to be strong in *all* key markets. For example, we are investing around \$1 billion to expand our MDI capacities at our site in Geismar, Louisiana. MDI is an important precursor for foams, plastics and coatings.

And we see strong potential for this product in North America. This is our largest investment to date in North America. I was there a few weeks ago. I was impressed by the team's know-how and strong motivation. They demonstrate our strengths as a global company.

At many other sites around the world, we are also pursuing further investment projects.

Ladies and gentlemen,

To grow in the long term, we also need the right products. And that brings me to the **third priority: We are driving innovations for a sustainable future.**

With around €2.3 billion in research and development costs, we are the largest researching chemical company in the world.

I always get excited by the fact that tiny molecules can help overcome enormous challenges. Whether we are talking about e-mobility, modern wind farms and solar panels, or feeding the world's population – these all require our research and our innovations.

In all of our businesses, we are constantly refining our product portfolio in collaboration with our customers towards sustainability.

This leads to, for example, new ingredients for detergents. They are easy on clothes and have strong cleaning power, even at very low temperatures. A double win for sustainability: Clothing lasts longer. And you need less energy to wash it.

At the same time, we are also developing new business areas. Our biggest plans are in the field of cathode active materials. This material is contained in batteries for electric vehicles. It decides how far, how safely and at what price you can drive an EV.

Batteries are small chemical reactors. Without them, there would be no electric vehicles driving on the roads. The market for battery materials is the world's largest growth market in the chemical industry. And we are one of the few global producers for battery materials with production sites in Europe, the United States and Asia. We are expanding this position.

This requires experts. And we are the experts.

Not only do we have a leading position in the new high-nickel cathode active materials, we are also investing in process research.

And we are advancing the recycling of battery materials. Recovering the expensive metals lithium, nickel and cobalt will ultimately be a crucial factor in the profitability of this business. We are currently building the first recycling plant at our Schwarzheide site. And that is where our first BASF plant for cathode active materials in Europe will soon be starting operations.

There is enormous demand in Europe, yet supply is still limited. With these investments, we are conserving resources and closing material loops for sustainable mobility.

At BASF, we thus combine growth with climate protection at our customers.

Nevertheless, we are fully aware: The chemical industry causes very high CO₂ emissions and requires large volumes of fossil feedstock. That is why we are going one step further.

We are trailblazers in climate-neutral production. This is our fourth priority.

We have set ourselves ambitious goals. By 2050, we want to become climate-neutral worldwide. We want to strengthen the circular economy and shift our raw material base from fossil to renewable materials.

In the transition to climate neutrality, we have no time to lose. This is a matter close to my heart. I want us to do our part: to leave behind a livable world for future generations.

And I am very happy – and proud – that the BASF team is wholeheartedly committed to this. Our sustainability mission is a driver for our teams every day. And they have developed incredible plans and ideas!

For example, our researchers are working on how we can use microorganisms and enzymes to produce our products. These white biotechnology processes require less energy and raw materials. And they are often based on renewable raw materials. We can thus reduce the carbon footprint of our products.

The successful transformation to climate-neutral chemical production will require a whole host of such processes and new technologies. We are therefore pursuing many pilot projects. And one of them is the world's first electrically operated steam cracker furnace.

These pictures show the ground-breaking ceremony in Ludwigshafen last September. A historic moment for us!

Why are we investing in this technology?

Because it will enable us to almost entirely avoid the significant CO₂ emissions from our large steam crackers. The crackers are the heart of our chemical production in the Verbund. At the beginning of the value chains, they are the starting point for thousands of our products. Until now, we have been heating them with natural gas. Now we want to do this with our new electrical heating concept using green electricity.

This is a good example of how the green transformation can succeed. But it entails major technological challenges. For this reason, we are pursuing this project in an alliance with SABIC and Linde. Two great partners. Together, we are a strong team, firmly determined to advance innovations for a climate-neutral future.

And the government is supporting us, too. We are pleased that the German Ministry for Economic Affairs and Climate Action is providing funding for our project.

Ladies and gentlemen,

This is what the future of the chemical industry looks like!

I am convinced: We must make a determined effort to mitigate climate change. At BASF, we have the courage to do this. We are going off the beaten track. We are forging new paths. Not all ideas will pan out. But we must try new things to achieve a climate-neutral future.

But courage must also be rewarded! It is illusionary to believe that decarbonizing our society can happen without additional costs. If that were true, we would already be CO₂ neutral. The necessary investments in plants and technologies must generate profits – or else they will not happen.

And our society's ambitions will remain just dreams!

I will also tell you very openly: These are major investments. And, as of today, largely without a viable business model. This means we are not yet earning money with them. But we are doing it anyway. Because these are the technologies of the future for the chemical industry. We have to expedite them today, so we can scale them later.

We are convinced: There will be a profitable market for them in the future.

Nearly all of our new technologies have one thing in common: They require enormous amounts of electricity from renewable sources.

We have therefore developed a strategy to source green electricity. We are signing long-term supply contracts for renewable energy. And we are investing as an industrial partner in projects, such as Vattenfall's offshore wind farm Hollandse Kust Zuid.

It is an impressive project! With 140 turbines along the Dutch coast of the North Sea, it will be the world's largest wind farm. And built entirely without subsidies! Construction is nearing completion. And now the North Sea winds are blowing for BASF, too. We are already supplying this offshore wind energy to our site in Antwerp as well as other sites.

In addition to wind energy, we are also investing in solar energy. For example, in Schwarzheide. This site has been transformed and modernized several times since German reunification. What was once a coalfield is now home to a solar park that we helped to build. It is symbolic for the transformation of the entire region.

On the whole, our energy supply is already much greener than many might think. We are already supplying zero-emission electricity to more than 100 BASF sites worldwide. Either partially or wholly with hydro, solar or wind power.

We want to make even faster progress with the transformation of our energy supply.

But the bitter reality is: There are not enough wind and solar energy farms that we can invest in.

In Germany in particular, there has been a lack of projects and infrastructure. Compared to the increasingly ambitious goals, capacity expansion is proceeding much too slowly.

Another reality is: We are dependent on the expansion of public infrastructure for electricity grids. And here too: Progress is far too slow. Policymakers must ensure the pace picks up significantly. It is no help to us if increasingly ambitious targets are announced and then nothing is done. What would help is speeding up processes, as was seen with Germany's new LNG terminals.

Dear shareholders,

Transformation and profitable growth go hand-in-hand at BASF. They are two sides of the same coin.

And that brings me to **our fifth priority: We are a pioneer when it comes to low-CO₂ and CO₂-free products for our customers.**

BASF is the world's largest chemical company. But we want to be more than just large and profitable. We also want to be a leader when it comes to climate neutrality. We will accomplish this only with products with a net-zero CO₂ footprint. Because our customers need these products to lower their own CO₂ emissions. We are firmly convinced: This is the future of chemistry!

And our customers confirm this, too. They ask us: "When can I get your product with zero carbon footprint?"

We calculate the carbon footprint for all of our approximately 45,000 sales products worldwide. We are already offering some products with a lower CO₂ footprint or even net-zero CO₂.

We expect that market demand for CO₂-free products will outstrip supply in 2030. The companies that can offer these products in sufficient quantities will come out on top.

And that is what we at BASF want to do! Particularly in Europe, this means growing faster than the market and gaining market share.

What else is crucial for success? We are lobbying policymakers for the right regulatory instruments. Moreover, we are agreeing on individual strategies with our customers and suppliers to reduce emissions.

Our teams are extremely committed and very creative in their efforts to give BASF a competitive advantage here!

Let me give you one example of what I'm talking about.

Take an athletic shoe. We all have at least one pair of them at home. *This* shoe contains our innovative material Infinergy. It is a high-performance plastic from BASF that is used in running shoe soles because of its good cushioning properties. Initially, this was associated with around half a kilogram of CO₂ emissions per shoe sole. Now, we have already reduced this carbon footprint by half.

In the future, it will approach zero.

How are we doing this?

By replacing electricity generated from natural gas with green electricity.

Instead of fossil feedstock, we are using renewable, waste-based or recycled raw materials. For example, palm oil, castor oil, or pyrolysis oil made from plastic waste.

And with the mass balance method, we can allocate certain volumes of these CO₂-reduced components to our products. We can therefore configure the CO₂ footprint to match the customer's wishes.

This is just the beginning of a new generation of products. And we have the innovative strength to make this happen!

The speed at which this development takes off will depend on our customers. Whether they are prepared to pay for it. And ultimately, it will also depend on you as consumers, ladies and gentlemen. Because climate protection requires an economic foundation. Otherwise, it will not succeed.

But we are certain: Emission-free products are the way of the future!

And BASF wants to be at the forefront. We will thus strengthen our position as the world's leading chemical company.

Ladies and gentlemen,

Our responsibility does not end at our factory gates. Corporate responsibility also always means sharing responsibility for society. To do this, a company needs orientation.

This is found in our corporate purpose:

“We create chemistry for a sustainable future.”

This means we align our company with the three pillars of sustainability: the balance between the economy, the environment and society.

We are making every effort to achieve a successful transformation. And we are making good progress at BASF. But viable and promising compromises and agreements are also needed: between society, policymakers and industry.

We engage in dialog to explain what works and what doesn't. I am doing this, for example, as the current president of Cefic, the European chemical industry association. Together with political parties, unions, NGOs and the European Commission, we agreed on a roadmap for the chemical industry towards the EU Green Deal goals. This was a major effort. And while this plan is certainly not perfect, it serves as our compass towards our goal: a European chemical industry that is competitive and a leader in the global race towards innovative solutions.

Ladies and gentlemen,

We are convinced: Global challenges can only be overcome by joining forces. We believe in and advocate for this: openly, cooperatively and constructively.

And this brings me to the conclusion of my speech.

By joining forces, we are also working on the future of BASF. We are investing to grow sustainably and profitably:

in growth markets,

in emission-free technologies

and in a new generation of CO₂-free products.

In doing so, we are the pioneer in our industry! This is how we create long-term value – for you, dear shareholders – for society and for the environment.

BASF's success is built by its employees. They are a determined, creative and entrepreneurial team.

From the bottom of my heart, I want to thank the team for your performance! For your dedication. For going the extra mile. Let's use this team spirit to tackle the challenges of the future. I believe in you and I'm counting on you. I thank you all very much!

I would also like to express my thanks to our Vice Chairman and Chief Financial Officer. After 35 years at BASF, Hans-Ulrich Engel is retiring from the Board of Executive Directors today.

Hans, over all these years, you have been a wonderful and reliable colleague and friend. You have – as you say yourself – always relentlessly looked reality in the eye and made the best out of it for BASF.

I want to thank you sincerely for the trusting and close collaboration over our many years of working together!

We wish you and your family all the best.

Dear shareholders,

As you saw in the film at the beginning of my speech: At BASF, we are strong, highly motivated and grounded. We know what needs to be done and where the problems lie. We are sticking to our path and tackling things together. With our eyes firmly on BASF's future. And today I explained to you how we are successfully shaping this future.

We are glad that you are accompanying us. Thank you for your trust in BASF.