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Speech

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Presentations by

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The spoken word applies.

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Good afternoon, ladies and gentlemen,

Dirk Elvermann and I are very pleased to welcome you here in Ludwigshafen! The times have not become any easier since we last met. The war in Ukraine continues and another war is raging in the Middle East after the Hamas attack on Israel. People in Germany are concerned about the rise of the far-right and are taking to the streets to demonstrate. We are also concerned about this. BASF is a globally active company. We have employees from very diverse backgrounds and cultures working together. There is no room for xenophobia and intolerance at BASF. And I have to say: It is worrying that we must stress this again in this day and age!

Ladies and gentlemen,

We are very glad you have joined us today.

On January 19, BASF released preliminary figures for the full year 2023. Today, we will provide you with further details.

[Chart 2: Global chemical production grew by 1.7% in the full year 2023 and by 6.9% in Q4 2023, driven by strong growth in China]

I would like to begin with a look at the development of chemical production by region. The orange bar in the middle shows the growth for the full year 2023. Based on the available data, global chemical production grew by 1.7 percent in 2023 on account of growth in China. In 2023, chemical production in China increased considerably compared with the COVID-related low baseline of the prior year. The development there was driven by a broad recovery in domestic demand and exports but was associated with low sales prices.

All other regions recorded a decline. In Europe and in Asia excluding China, chemical production decreased substantially. This was due to lower demand resulting from high inflation, frontloading of durable goods consumption during the COVID years as well as structurally higher natural gas prices. In 2023, natural gas prices in Europe were still around double the average between 2019 and 2021 and five times higher than the Henry Hub quotation. In North America, chemical production declined slightly compared with 2022 in an environment of weak domestic demand from industries and end consumers.

In the fourth quarter of 2023, global chemical production rose by 6.9 percent. This was a considerable increase, mainly stemming from strong contributions from

China. However, North America, Europe and Asia excluding China also grew slightly compared with the very weak prior-year quarter.

[Chart 3: In Q4 2023, BASF Group's sales volumes were almost stable; excluding precious metals, volumes increased slightly]

Let us now look at BASF's performance in the fourth quarter.

Overall, BASF Group sales in the fourth quarter of 2023 declined by 18 percent to around €16 billion. This was mainly due to lower prices, which decreased across all segments because of subdued demand and in line with lower raw materials prices. Currency headwinds also had a negative impact on sales.

Sales volumes, however, remained almost stable. Excluding precious metals, BASF's sales volumes increased by 2.6 percent compared with the prior-year quarter. This confirms the bottoming-out of the volume decline, which we had predicted in the second half of 2023.

EBIT before special items declined by €81 million and amounted to €292 million in the fourth quarter of 2023. Higher earnings in the Industrial Solutions, Nutrition & Care, Surface Technologies and Materials segments could only partially compensate for lower contributions from Agricultural Solutions, Chemicals and Other.

[Chart 4: Solid performance in all regions in difficult 2023 environment, except in Ludwigshafen]

Today, I would like to briefly comment on our earnings performance by region. In 2023, in an extremely difficult market environment with low demand, EBIT before special items declined by double-digit percentages in all regions. In absolute terms, however, our teams delivered a positive earnings contribution in all significant countries – with the exception of Germany. Results in Germany suffered due to substantially negative earnings at BASF SE. On the one hand, this situation demonstrates the high competitiveness and health of BASF Group under challenging conditions at the global level. On the other hand, the negative earnings at our largest production site in Ludwigshafen show the urgent need for further decisive and profound actions here to enhance competitiveness.

[Chart 5: Further program with additional annual cost savings of €1 billion in Ludwigshafen by the end of 2026]

Ladies and gentlemen,

At BASF, we have a track record of taking immediate action when we recognize developments that will have a lasting impact on our cost competitiveness. In October 2022, BASF was one of the first chemical companies to initiate a significant cost savings program to address the deteriorating competitiveness in Europe and Germany in particular. This was done mainly in view of the significant increases in electricity and natural gas prices. As a next step, one year ago, in February 2023, we launched a set of measures to save costs in non-production areas in Europe and to adapt production structures at the Ludwigshafen site. As confirmed in our third quarter 2023 reporting, total annual cost savings from all measures announced to date are expected to reach €1.1 billion by the end of 2026. At the end of 2023, we already achieved an annual cost reduction run rate of around €0.6 billion from these measures. One-time costs amounted to around €0.4 billion in 2023, which explains why the positive impact of these savings has not yet been more visible in our earnings situation.

In the course of 2023, earnings at our largest production site in Ludwigshafen deteriorated further in an extremely weak market environment. There are two main reasons for this:

- First, the temporary low-demand environment, which is affecting the volume development in both our upstream and our downstream businesses.
- And second, higher production costs due to structurally higher energy prices, which predominantly burden our upstream businesses.

The Board of Executive Directors is fully aware of what our BASF team has achieved in recent years, especially in Ludwigshafen. They have already implemented significant restructuring and measures to reduce costs and improve efficiency. However, we must also acknowledge that the framework conditions continue to be challenging, particularly for the upstream businesses in Germany. And, unfortunately, these conditions are not likely to improve any time soon – because they have become structural!

Ladies and gentlemen,

To restore and defend our international competitiveness, we must rigorously address these new market realities. Therefore, we have decided to introduce additional measures to adapt the cost structures at our Ludwigshafen site.

We aim to reduce costs annually by a further €1 billion by the end of 2026. The program will generate sustainable cost savings in both production as well as non-production areas. It will include further reductions in fixed costs by driving efficiency in company structures, adapting production capacities to market needs and significantly trimming variable costs by redesigning processes and when awarding external service contracts.

The situation is serious, so we are explicitly not ruling out any measures. Unfortunately, the further program will also lead to additional job cuts. We will communicate the scope and structure at a later date. The details are currently being worked out. As usual, we will closely involve employee representatives in this process.

The measures already announced in October 2022 and February 2023 will achieve another €500 million in annual cost savings by the end of 2026. The total one-time costs for these measures as well as the additional program are expected to be up to €1.8 billion.

Besides the required cost reductions I just mentioned, we will do everything possible to significantly increase the utilization rates of our competitive assets again. To return to solid earnings at the Ludwigshafen site, we need to generate additional contribution margins from normal levels of plant utilization. This applies particularly to our upstream assets in the Chemicals and Materials segments, where plants require constantly high utilization rates of 80 to 90 percent to achieve industry-typical earnings. Currently, however, we are operating with utilization rates considerably below normal levels at the Ludwigshafen site.

The low level of global market demand we are experiencing at the moment will, however, not continue over the longer term. Sooner or later, customers will increase their orders again and markets will normalize. We at BASF will be ready to serve the increasing demand from our customers, and earnings contributions will improve accordingly. Historic data shows that, even under price pressure, such a step-up in utilization rates will quickly lead to an increase in contribution margins. The chemical industry will be the first to benefit from reviving demand since we supply our products to the manufacturing industries at the beginning of almost all value chains.

In parallel to this short-term program announced today, Markus Kamieth and the new Board team will update the target picture and longer-term positioning of the Ludwigshafen site. This will reflect both the regulatory framework and the changed market realities in Europe and Germany. The target picture will give a clear strategic direction for the structural development and will set ambitious profitability targets. Detailed information will be provided by the Board in the second half of 2024.

Ladies and gentlemen,

The Board team will remain strongly committed to the Ludwigshafen site. We want to develop Ludwigshafen into the leading low-CO_2-emission chemical production site with high profitability and sustainability. We will focus Ludwigshafen on supplying the European market to remain the partner of choice for our customers. To achieve this, it is essential that we implement the program consistently and as quickly as possible. At the same time, we are systematically driving forward our business in those regions of the world that are growing more dynamically and offer attractive conditions for investments.

[Chart 6: Lower Scope 1 and Scope 2 emissions in 2023; new target for Scope 3.1 emissions announced in December 2023]

Now let's take a look at BASF Group's CO_2 emissions.

In 2023, Scope 1 and Scope 2 emissions declined by 5 million metric tons to 16.9 million metric tons compared with the baseline 2018. Compared with 2022, the decline amounted to 1.5 million metric tons. A large part of the reduction, however, is due to ongoing weak demand and the fact that we have shut down some energy-intensive plants in Ludwigshafen as announced last year. Further measures will be introduced to counterbalance a rise in Scope 1 and 2 emissions, which is likely when demand recovers and when we start up further plants at our new Verbund site in Zhanjiang as of 2025.

The share of electricity from renewable sources increased slightly compared with 2022 and amounted to 20 percent in 2023. In addition, our measures to increase energy and process efficiency contributed to the overall decline in CO_2 emissions.

Specific Scope 3.1 emissions amounted to 1.61 kilograms of CO_2 per kilogram of raw material purchased in 2023, compared with 1.58 kilograms in 2022. This increase was due to the decline in production and the associated reduction in the use of raw materials produced in Europe.

With that, I hand over to Dirk Elvermann for more financial information.

[Dirk Elvermann]

[Chart 7: BASF Group 2023: Key financial figures]

Thank you, Martin. Good afternoon, ladies and gentlemen. I will now provide you with further financial details for the full year 2023 compared with 2022.

EBITDA before special items decreased by 29 percent and amounted to €7.7 billion. EBIT before special items declined by 45 percent to €3.8 billion. Net income improved by €852 million to €225 million in 2023. The prior-year figure included non-cash-effective impairments on Russia-related assets of Wintershall Dea in the amount of €6.5 billion.

BASF's cash flows from operating activities increased by 5 percent in 2023 and amounted to €8.1 billion. This increase mainly resulted from changes in net working capital, which led to a cash inflow of €1.8 billion compared with a cash outflow of €1.3 billion in 2022. Reduced inventories alone resulted in a cash release of €1.9 billion, while in the prior year, inventory build-up of €2.0 billion had tied up cash. This reflects our strict discipline in inventory management and strong team performance in 2023.

Free cash flow decreased by €618 million to €2.7 billion. At year-end 2023, the equity ratio of 47.3 percent almost matched the figure of 48.4 percent as of year-end 2022. The very solid equity ratio and strong cash performance are proof of BASF's continued financial strength, even in challenging times.

[Chart 8: Strong cash flow generation in Q4 2023]

Ladies and gentlemen,

Let's now look at the details of our cash flow development, focusing on our performance in the fourth quarter of 2023.

Cash flows from operating activities decreased by 5 percent to €4.3 billion. Changes in net working capital led to a cash inflow of €3.2 billion. This compared with a cash inflow of €2.5 billion in the prior-year quarter. Lower inventories resulted in a cash release of €990 million, compared with a cash release of €461 million in the fourth quarter of 2022. Our unwavering focus on inventory management therefore paid off.

Compared with the prior-year quarter, payments made for property, plant and equipment and intangible assets rose by €160 million to €2.0 billion. The increase was mainly attributable to the construction of our new Verbund site in China. That is why our free cash flow decreased by €368 million compared with the fourth quarter of 2022 but still reached €2.2 billion.

[Chart 9: Strong balance sheet]

Let's now turn to our balance sheet at the end of December 2023 compared with year-end 2022. Total assets declined by €7.1 billion and amounted to €77.4 billion. This was mainly due to our strong focus on cash management and working capital management in particular. The decline was driven by lower current assets. Overall, current assets were reduced by €6.0 billion. Noncurrent assets declined by €1.1 billion.

As of December 31, 2023, net debt was almost stable and amounted to €16.6 billion compared with €16.3 billion at year-end 2022.

[Chart 10: Continued strict management of capital expenditures]

I will now give you a few insights into our capital expenditures.

BASF's corporate strategy is based on organic growth. Therefore, capex and R&D expenses are the foundation for our future business. However, we are responding flexibly to the changes in the market environment. We continue to be confronted with a significant imbalance in supply and demand in several value chains, structurally higher energy prices in Europe and overall subdued market demand. We will therefore further strengthen our focus on capital discipline across the entire portfolio.

For the BASF Group, we plan capital expenditures of €19.5 billion between 2024 and 2027. Of this amount, €6.8 billion relate to our growth projects: the new Verbund site in Zhanjiang, China, and the expansion of the battery materials business. The total capex for the 2024 to 2027 planning period compares with €24.5 billion for the prior planning period from 2023 to 2026. You will have noticed that we shortened our capex planning period from five to four years, mainly to increase forecast accuracy.

In 2024, we plan total capital expenditures of €6.2 billion compared with €5.2 billion in 2023. Of this amount, spending of €3.3 billion on property, plant and equipment is related to our growth projects in 2024. The capex peak for these growth projects is expected this year, so investments will decrease again in the following years.

As communicated in December 2023, we will postpone non-critical capex investments in line with market demand. We are also tightening our belts somewhat with regard to our growth projects. At our Verbund site project in China, we will further leverage the favorable procurement environment to achieve additional savings. In our battery materials business, we will use flexibility in the scheduling and sequence of the investments and we will also evaluate partnerships to optimize capex.

Between 2024 and 2027, we are planning investments totaling around €900 million in our transformation towards net zero. In doing so, we will maintain the overall investment scope with a clear focus on CO_2 reduction, renewables and recycling. We will fund certain investments, such as wind farms, via project financing, which will require significantly less capex. In addition, we will strike the right balance between power purchase agreements and our own investments in the production of green electricity.

[Chart 11: Key elements of the agreement signed by Harbour Energy and the shareholders of Wintershall Dea in December 2023]

Ladies and gentlemen,

I would now like to present our view of the transaction between Harbour Energy and Wintershall Dea. As you know, the shareholders in Wintershall Dea signed an agreement with Harbour to transfer most of Wintershall Dea’s E&P business to Harbour, namely the entire non-Russia-related E&P business. In exchange, upon the closing of the transaction, BASF will receive a cash consideration of $1.56 billion and a share in the enlarged Harbour of 39.6 percent.

Following the completion of the transaction and a six-month lock-up period, we will have the opportunity to gradually monetize our stake in Harbour, as the company is listed on the London Stock Exchange. The agreed enterprise value for the Wintershall Dea assets amounts to $11.2 billion. This amount includes the outstanding bonds of Wintershall Dea with a nominal value of around $4.9 billion that will be transferred to Harbour at closing. There is an upside potential through a higher market valuation of the enlarged Harbour after the closing of the transaction with Wintershall Dea. The transaction offers an attractive solution for a stepwise exit from the oil and gas business in line with BASF's financial and strategic requirements. However, we are not setting ourselves a specific deadline for selling all of our shares in Harbour.

Of course, there is also the question of what will happen with the assets that are not part of the transaction. Wintershall Dea as the remaining company will hold all Russia-related assets. The purpose of the company will be to divest or liquidate the various Russia-related participations, to manage the claims associated with the Russia-related activities of Wintershall Dea, to right-size its organization following the completion of the transaction and to provide transitional services to Harbour, if requested. Furthermore, Wintershall Dea is continuing its preparations for a separate sale of its 50.02 percent stake in WIGA Transport Beteiligungs-GmbH & Co. KG, which is not part of the transaction with Harbour. The German federal government, which already holds the remaining shares in WIGA via SEFE, is our first point of contact here.

[Chart 12: Next steps regarding Wintershall Dea transaction]

Since there has been some speculation, I would like to comment on four main concerns that have been voiced about the transaction with Harbour:

First, regulatory approvals. The review of the transaction by the relevant government bodies is a standard procedure that the contracting parties initiate by submitting corresponding applications. As stated from the beginning, this transaction is subject to various regulatory approvals in several countries. In Germany, approval for foreign direct investments will also be required in accordance with the Foreign Trade and Payments Ordinance ("Außenwirtschaftsverordnung"). We are confident that we will receive clearance in all cases. Completion of the transaction is targeted for the fourth quarter of 2024.

Second, Germany's energy supply security. Wintershall Dea's oil and gas production in Germany accounts for roughly 1 percent of German oil and gas consumption. In terms of securing Germany's energy supply, it is therefore not decisive whether the E&P activities currently managed by Wintershall Dea are operated by a German or a British company in the future.

Third, CCS technology. The focus of Wintershall Dea is limited to the development of reservoirs for the permanent storage of CO_2. The activity is operated by a quite small international team, currently out of Norway, the Netherlands and Germany. The acquired licenses are all outside of Germany, namely in Denmark, Norway and the United Kingdom. Wintershall Dea is not involved in CO_2 capture and does not consider CO_2 transportation as a core business. BASF, on the other hand, is a leader in the technology for capturing CO_2 emissions as part of its global gas treatment business. We continuously develop this business and will also do so after the transaction with Harbour. Our OASE® technologies are available globally, including in Germany. The discussions arising in the context of our planned divestment are surprising, however, since geological CO_2 storage in Germany – whether onshore or offshore – is still not allowed under the existing German legal framework.

And fourth, the closure of the German headquarters of Wintershall Dea. The timing of the announcement was unfortunate but unavoidable since BASF and Harbour are both publicly listed companies and subject to strict rules on stock market disclosures. By the way, all of the approximately 1,200 employees at the operating companies included in the transaction will be taken on by Harbour; most of them are employed in Germany or Norway. Harbour also intends to provide offers to some employees from the current headquarters to join the combined company.

I hope this helps to put things into perspective. Until closing, Wintershall Dea and Harbour will continue to operate as independent companies and will prepare the closing and the integration.

I now hand back over to Martin Brudermüller.

[Martin Brudermüller]

[Chart 13: Attractive shareholder return – also in challenging times]

Ladies and gentlemen,

As you know, paying our shareholders an attractive dividend is an important target for the BASF Board. This also holds true in challenging times. Therefore, we stick to our practice of increasing the dividend per share each year or keeping it stable. We will propose a dividend of €3.40 per share to the Annual Shareholders' Meeting. Based on the year-end share price, this offers a high dividend yield of 7 percent. In total, we will pay out €3.0 billion to our shareholders. This amount is largely covered by the free cash flow of €2.7 billion generated in 2023. Our strong balance sheet, high equity ratio and good credit ratings give us the necessary financial strength to pay an attractive dividend once again for the year 2023.

[Slide 14: Outlook 2024 for BASF Group]

Now we come to the outlook.

We expect the weakness in global economic momentum from 2023 to continue in 2024. The main reason for this will be the expected persistently high interest rates, which will continue to dampen growth in the United States and Europe. We expect that demand for industrial goods will normalize only gradually and that the share of goods in private consumption will rise again only slowly. For this reason, we expect very moderate growth in most of our customer industries.

Recovery in China remains uncertain, particularly with regard to the real estate sector and the development of the labor market. We do not expect any significant growth stimulus in the European Union. We anticipate a gradual slowdown in the United States, due to, among other things, high interest rates. The geopolitical situation remains critical against the backdrop of the wars in Ukraine and the Middle East. We also do not expect any easing of the geopolitical tension between the United States and China.

Global chemical production is nevertheless expected to grow faster in 2024, by 2.7 percent. This will be driven primarily by the expected growth in the Chinese chemical industry. Our planning assumes an average oil price of $80 for a barrel of Brent crude and an exchange rate of $1.10 per euro.

Based on these assumptions, BASF Group's EBITDA before special items is expected to rise to between €8.0 billion and €8.6 billion in 2024. Volume and margin growth in all segments will contribute here. Higher fixed costs due to inflation, but also in connection with the construction of our new Verbund site in China, will burden earnings.

We forecast BASF Group's free cash flow to be between €0.1 billion and €0.6 billion. This is based on expected cash flows from operating activities of between €6.6 billion and €7.1 billion, minus expected payments for intangible assets and property, plant and equipment in the amount of €6.5 billion. The high investment-related cash outflow is mainly due to investments in the new Verbund site in China.

In the context of our free cash flow forecast, we would like to point out that BASF's cash flow is typically weak in the first quarter and strengthens over the course of the year. This is mainly due to the seasonality of our Agricultural Solutions business.

CO_2 emissions in 2024 are expected to be between 16.7 million and 17.7 million metric tons. We anticipate additional emissions compared with the previous year from higher production volumes based on rising demand. We will counteract this increase with targeted emission-reduction measures.

Ladies and gentlemen,

Before we get to your questions, I would like to briefly discuss our decision to exit our two joint ventures in Korla, China. Independent of the latest information about our joint venture partner Markor, in the fourth quarter of 2023 we had already initiated the process of selling our shares in the two joint venture companies. This decision was driven by the high competitive pressure in the BDO value chain, which is characterized by global overcapacities. With our company-wide focus on reducing our product carbon footprint worldwide, we want to shift away from coal-based BDO and polytetrahydrofuran with very energy-intensive production in Korla. The allegations that have been leveled against our joint venture partner are inconsistent with BASF's values. We are therefore accelerating this divestment process and intend to complete it quickly. However, I would like to stress very clearly that there is absolutely no indication that employees of the two joint ventures in Korla were involved in human rights violations.

Thank you for your interest. Dirk Elvermann and I are now glad to take your questions.