2019 was not only a year of transition for BASF as we had expected, it also turned out to be a very challenging year due to the market conditions. In this adverse environment, the BASF team implemented our corporate strategy with determination and passion. That is a great achievement! Many customers tell us they are beginning to notice a new BASF.

Contrary to our expectations at the beginning of the year, the economic climate weakened further in 2019. Trade conflicts, political uncertainties and considerably lower demand from key customer industries – especially the automotive industry – weighed on our businesses. For the commodities in the Chemicals and Materials segments, especially cracker products and isocyanates, the price declines were significantly steeper than forecast. In July, we therefore had to lower our earnings guidance. That was bitter. Overall, we were thus unable to reach the financial targets we had communicated at the beginning of the year. Consequently, we are not satisfied with our results.

Nevertheless, in this challenging environment, we leveraged our strengths. In all of our consumer-oriented segments – Industrial Solutions, Surface Technologies, Nutrition & Care and Agricultural Solutions – we increased our results year on year despite the difficult conditions.

We tackled the areas that are within our control. We continued to rapidly reshape our portfolio and are making swift progress with the implementation of our excellence program. We realigned our organization and streamlined our administration. We have simplified processes and procedures and transformed ourselves into a more agile and customer-centric company.

With our strategy we are on the right path: Our customers are experiencing a new BASF. Together with them, we want to better exploit growth opportunities and intensify collaboration. In doing so, we are guided by our purpose: “We create chemistry for a sustainable future.” For the major challenges facing society, such as climate change, the circular economy and new mobility, we offer innovative solutions.

We have further optimized our portfolio. In mid-2019, we completed the integration of the businesses acquired from Bayer. We can now offer farmers worldwide a combined portfolio of agricultural solutions ranging from seeds, traits and crop protection to digital offerings. Our global polyamide business was expanded with the acquisition of businesses from Solvay and strengthened through backwards integration into the key raw material adipodinitrile (ADN). At the beginning of 2019, following approval from all regulatory authorities, we completed the transfer of our paper and water chemicals business to Solenis. At the end of April, together with LetterOne we merged the oil and gas businesses of Wintershall and DEA into the new company Wintershall Dea. We signed a

Dear shareholder,

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contract in August to divest our global pigments business to the Japanese company DIC. At the end of the year, we reached an agreement with a subsidiary of the global private equity firm Lone Star on the sale of our construction chemicals business. We have therefore implemented or initiated all of our planned portfolio measures in 2019.

We are setting a course for long-term profitable growth. Our focus will be on investments in China and on battery materials. By 2030, around two-thirds of growth in global chemical production will come from China. The country will then account for approximately 50% of the global market. We are already profitable in China and growing faster than the market. Between 2015 and 2019, annual chemical production increased globally by 3% and in China by 5%. We were able to increase our sales volumes in China by 7% per year. And at the same time, we increased our EBITDA – earnings before interest, taxes, depreciation and amortization – by 30% annually to more than €1 billion. With our investment of around $10 billion in a fully integrated Verbund site in Zhanjiang in Guangdong province, we will expand our leading position as a western chemical company in the world’s most important chemical market. Construction began in 2019 and the first plants are to start operations in 2022.

Our second growth focus is electromobility. E-mobility is creating a new major market for battery materials, which is growing at a double-digit rate. Cathode materials account for as much as 70% of the material costs of a battery cell. BASF is already an established supplier. With our investments in Harjavalta, Finland, and Schwarzheide, Germany, we are the first company to lay the foundation for a European battery materials value chain. For these projects, we are receiving government funding as part of the Important Project of Common European Interest (IPCEI) relating to electromobility. With the startup of production in Finland and Germany, BASF will be the only company producing battery materials in Asia, North America and Europe. We want to achieve above-average growth in this market.

To master global challenges, our society needs innovations based on chemistry more than ever before. At BASF, innovation and sustainability are inextricably linked. Many of our innovations contribute to achieving the United Nations Sustainable Development Goals. These goals provide us with a framework for sustainable development at the economic, environmental and social levels. We want to continue to significantly increase our sales and earnings with new and improved products – especially with Accelerator products, which make a particular contribution to sustainability in the value chain compared to competing products. By the year 2025, we want them to generate €22 billion in sales. In 2019, our sales of Accelerator products rose by 5% to €15 billion. Prominent examples of Accelerators are our battery materials for electromobility, automotive catalysts and materials for thermal insulation of buildings. They make a decisive contribution to reducing or avoiding CO2 emissions all the way through to the end user.

Climate protection and the circular economy are important topics in politics and society. We must all contribute to lowering CO2 emissions. BASF acknowledges this, which is why we have also set ourselves a clear target in our strategy: We want to grow CO2-neutrally until 2030. This is ambitious. This makes us a pioneer in our industry and we are making good progress with measures and innovations in our Carbon Management program. With novel technologies and alternative feedstock sources, we want to shape a lower-emission future. Another contributor is our ChemCycling™ project. In the future, we want to use plastic waste as a raw material in our production. Our own initiatives will thus strengthen the circular economy. As a founding member of the Alliance to End Plastic Waste, we cooperate with more than 40 other companies throughout the value chain to put plastic waste to good use. The Alliance will invest $1.5 billion within five years to develop and implement solutions for this global problem.

With its “Green Deal,” the new European Commission is pursuing ambitious climate targets. Everyone must join forces to realize these. To this end, we are developing innovative technologies, such as the electrification of chemical plants.
However, implementing these economically will require significant changes in the policy framework. This is the only way industry will be able to remain competitive during this transformation. In particular, we need better funding for future technologies and a more competitive and secure energy supply in Germany and Europe. Moreover, we require large volumes of renewable electricity on an industrial scale at internationally comparable prices.

BASF's successes are generated by our employees. For their skilled and passionate contributions, I thank them wholeheartedly on behalf of the entire Board of Executive Directors. It is our goal that more than 80% of our employees say they feel that at BASF they can thrive and perform at their best. In our 2019 global employee survey, 79% of participants agreed with the statement. In light of the ongoing change processes, this is a very pleasing result. Another positive aspect is the development of women in leadership positions within the BASF Group. Originally, we wanted to increase the share of women in such roles worldwide to 22 to 24% by 2021. We achieved this goal at the end of 2019 with a rate of 23%. We have therefore set ourselves a new target. By 2030, we want to increase the proportion of women in leadership positions to 30%. We want to engage more women in the leadership team at BASF and utilize their potential.

We stand by our dividend policy to increase the dividend per share each year. In 2019, we again generated a strong free cash flow. We will therefore propose to the Annual Shareholders’ Meeting on April 30, 2020, that the dividend be increased by 10 euro cents to €3.30 per share. The BASF share therefore once more offers a high dividend yield of 4.9%. For many of you, the dividend is a key criterion for your investment decision. This is true now more than ever in this time of low interest rates, when shareholders are looking for reliable assets for long-term investments. The BASF share is this kind of asset.

BASF will have to continue to compete in a volatile economic environment. For 2020, we also expect a high level of economic uncertainty. The coronavirus is contributing to this. Global economic growth will likely be even slower than in 2019. We expect growth in global chemical production to be significantly below the 2019 level. We cannot influence global macroeconomic and geopolitical developments, but one thing is clear: Our team will do everything it can to achieve the best possible results for 2020. We want to increase our sales to a level between €60 billion and €63 billion. We expect BASF Group’s income from operations before special items to be between €4.2 billion and €4.8 billion. Our return on capital employed (ROCE) will therefore be between 6.7% and 7.7%. Even in this environment, we will continue to drive growth. We expect positive effects in particular from our ongoing Excellence Program, which we will accelerate compared to our original timeline.

I am optimistic that BASF will gain in strength in 2020 despite the economic headwinds. Because we have the passion and the expertise to be the partner of choice for our customers. For us, it is about creating sustainable value.

I thank you for your trust and for accompanying us on this journey.

Yours,

Martin Brudermüller