The coronavirus pandemic was the defining event of the year 2020 and caused the sharpest decline in global GDP in the post-war period. The health, social and economic consequences were felt by people all over the world. For industry, and therefore for BASF too, the restrictions associated with the pandemic posed an enormous challenge.

We reacted quickly and decisively to the crisis. Our crisis teams coordinated the necessary measures at our sites and used the strengths of our Verbund. We were thus able to flexibly adapt our production to the needs of our customers, safeguard the health of our employees and ensure reliable deliveries. In this exceptional year, the BASF team demonstrated remarkable solidarity and flexibility and worked tirelessly to find tailor-made solutions for our customers – whether working from home or in the plants. I want to thank all employees for their great work!

In 2020, there was demand for raw materials and products for the pharmaceutical and cleaning industries in particular. With our “Helping Hands” initiative, we provided assistance from the very beginning of the pandemic. At many BASF sites, we produced hand sanitizer and disinfectants and distributed these for free to hospitals and other institutions. In addition, we purchased and donated more than 100 million protective masks.

The coronavirus pandemic plunged the global economy into a deep recession. In the first half of 2020, production around the world plummeted in record time. The transportation, energy, consumer goods, construction industries saw the steepest drops. BASF was especially affected by the downturn in the automotive sector. Our most important customer industry was hit by collapsing demand, production stoppages and supply chain disruptions.

For the full year 2020, we achieved sales of €59.1 billion and EBIT before special items of €3.6 billion. While we had communicated a significantly more positive outlook when we published the BASF Report 2019 on February 28, 2020, we had to withdraw this guidance on April 29, 2020. The indicators had shifted markedly. But at the time, it was impossible to reliably estimate the duration and further spread of the coronavirus pandemic or the future measures to contain it. On October 9, 2020, we gave a new outlook: Sales of €57 billion to €58 billion in 2020 as well as EBIT before special items of between €3.0 billion and €3.3 billion. Ultimately, a strong fourth quarter enabled us to exceed these forecasts. Thanks to this year-end rally, our full-year sales almost matched the level of the previous year, while EBIT before special items was 23% lower.
Special items in EBIT totaled –€3.8 billion, compared with –€442 million in the previous year. The increase in special items was primarily attributable to the impairments we had to recognize in all segments in the third quarter as a result of the effects of the coronavirus pandemic. Cash flows from operating activities amounted to €5.4 billion, down 27.6% compared with the previous year. Free cash flow amounted to €2.3 billion, after €3.7 billion in 2019.

The development of the BASF share price reflected the overall macroeconomic development. After significant downturns caused by the pandemic in the first half of 2020, BASF’s share price recovered and stabilized over the second half of the year. The closing price of €64.72 was, however, still 3.9% below the level at the end of the previous year. Assuming that dividends were reinvested, BASF’s share performance rose by 2.3% in 2020.

The exceptionally strong adverse economic impacts of the coronavirus pandemic also had a negative effect on the development of BASF Group’s free cash flow. Nevertheless, we will propose to the Annual Shareholders’ Meeting a dividend of €3.30 per share, a payment of €3.0 billion to shareholders for the 2020 business year. This reflects the high importance we place in a reliable dividend even in difficult times.

We continued to drive forward our Excellence Program. Overall, we are well on track to achieve the targeted €2 billion annual EBITDA contribution by the end of 2021. We were not quite able to achieve an accelerated implementation of all contributions – from increases in sales and from cost savings – in this difficult environment. But we reacted quickly here, and focused even more on efficiency improvements.

The dividend proposal reflects the high importance we place in a reliable dividend even in difficult times.

Despite the challenging global effects of the pandemic, we cannot neglect fundamental long-term challenges such as climate protection. For BASF, climate protection is a key responsibility and a crucial component of our strategy. We want to contribute to a world that offers a future with enhanced quality of life for everyone. We are therefore working closely with our customers and partners to develop even better solutions.

The Asia Pacific region, especially China, is the key growth driver of global chemical production. Over the next 10 years, more than two-thirds of global growth in the chemical industry will take place in China. This trend became more pronounced in 2020 with China’s rapid economic recovery. With our new, fully integrated Verbund site, we want to further expand our leading position as a western chemical company in the world’s most important chemical market.

We also made progress with the further development of our portfolio in 2020. At the end of January, we completed the acquisition of Solvay’s integrated polyamide 6.6 business for €1.3 billion. This acquisition broadens our polyamide capabilities with innovative products and enhances our access to the most important precursor as well as to growth markets in Asia and North and South America. At the end of September, we closed the divestiture of our construction chemicals business to an affiliate of the global private equity firm Lone Star. Given the challenging environment, this was an outstanding team accomplishment. The purchase price on a cash and debt-free basis was €3.17 billion. We expect to close the sale of BASF’s pigments business to the Japanese fine chemicals company DIC in the first half of 2021, subject to the pending approval of the U.S. competition authorities.

Despite the challenging global effects of the pandemic, we cannot neglect challenges such as climate protection.
and waste into new products and energy. In many areas of the chemical industry, however, the use of resources can be further improved.

With our Circular Economy Program, we have therefore set ourselves ambitious targets: BASF has committed to transforming 250,000 metric tons of recycled and waste-based raw materials into new products each year as of 2025. And we want to increase our sales generated with solutions for the circular economy to €17 billion by 2030 – this represents a doubling of the current figure.

In parallel, we are working on our energy transformation towards carbon neutrality. This will decisively influence our future profitability and competitiveness. The European Union, with its Green Deal, has set the ambitious target of climate neutrality by 2050. With its strategy, BASF has taken a clear position. For us, reducing CO₂ emissions is immensely important. We have therefore committed to climate-neutral growth until 2030. This means that we will further reduce our specific CO₂ emissions per kilogram of product sold, by an average of one-third. To reduce CO₂ emissions even further, we need the right political framework on the one hand and groundbreaking technologies on the other. These technologies are being developed in our comprehensive Carbon Management Program.

One important example is our steam crackers. They are currently powered by natural gas. In the future, we want to operate them with electricity from renewable sources. For a world-scale cracker, this could mean an annual reduction of 1 million metric tons of CO₂. However, to implement this we need very large volumes of electricity from renewable energies – and at internationally competitive prices. This, in turn, requires a long-term, integrated climate and industry policy with supportive framework conditions at the national and international levels.

To create transparency, by the end of 2021, we will be the first chemical company worldwide to provide our customers with a product carbon footprint for all of our 45,000 sales products. With our proprietary digital solution, we will be able to determine the overall CO₂ values for our products. This product carbon footprint will be reported as CO₂ units per metric ton of sales product and include all emissions until the product leaves the factory gate for delivery to the customer. In this way, we combine sustainability and digitalization into a highly innovative offering for our customers.

Innovations have made BASF the leading chemical company. I am convinced that our that our innovative power will continue to be an important success factor for profitable development in the future. Carbon management and the circular economy are important growth drivers across all industries. With tailor-made solutions, we help our customers to further improve their sustainability profile and that of their products – all the way to carbon neutrality. Innovations therefore fuel BASF’s sustainable growth. And this depends on excellent R&D – which is exactly what we have at BASF.

The coronavirus vaccination campaigns worldwide make me optimistic about 2021, but there are still many uncertainties. It will take time for the global economy to return to pre-pandemic levels. And there is no shortage of new challenges. We will ensure that our customers are always the central focus of all our activities. Together with our customers, the BASF team works passionately to create long-term, profitable growth. I appreciate your support as we pursue this goal and thank you for your trust in BASF.

Yours,

Martin Brudermüller