



Dear shareholder,

I am very happy to have my first opportunity as Chairman of the Board of Executive Directors of BASF SE and BASF's Chief Technology Officer to present to you our annual report. I feel grateful and motivated to take on these new responsibilities, since I have loved working for this company for the past three decades. We have answers to the challenges facing society, whether it be climate change, urbanization or mobility. Every day I get to see how great our team is and how passionate they are about innovations based on chemistry. Our ambition is clear: We want BASF to remain the world's leading company in the chemical industry. We want to be the first choice of our customers and impress them again and again.

Taking a look at our 2018 financial figures, it is evident that we did not reach our earnings targets. We reported sales of €62.7 billion in 2018. This represents an

increase of 2% compared to the previous year. Our EBIT before special items declined to €6.4 billion, down by 17% compared with 2017. Cash flows from operating activities amounted to €7.9 billion, down 10% year on year, while free cash flow was €4.0 billion, compared with €4.8 billion in the prior year.

What are the reasons for this? Two-thirds of the earnings decline in 2018 can be attributed to the Chemicals segment. Prices for isocyanates fell sharply and cracker margins were lower than expected in all regions. In the second half of the year, low water levels on the Rhine River posed a particular challenge for us. At the Ludwigshafen site, at times we were unable to receive any deliveries of raw materials via inland waterways. Consequently, we were forced to reduce capacity utilization at our plants. This alone reduced our earnings by around €250 million.

Moreover, we noticed a significant cooling in our key markets, especially the automotive industry, in the second half of the year. In addition, demand from our customers in China decreased considerably. The trade conflict between the United States and China was a factor in this slowdown.

Looking to the stock market, it is clear that the BASF share price was negatively impacted by the considerable year-on-year decline in earnings as well as the unfavorable macroeconomic and geopolitical developments. At the end of 2018, our share price was €60.40. Compared with the closing price at the end of the previous year, this represents a decrease of 34%.

We are not satisfied with our business performance in 2018 or with our share price development. We know that we can do more.

However, market conditions will not get any easier for us in 2019. Political and economic risks have grown. The geopolitical tensions and trade conflicts, especially between the United States and China, will continue. We therefore anticipate a slight decline in global economic growth. Global chemical production will however likely grow about as strongly as it did in 2018.

How do we respond to this? Last year, we already began working intensely on making BASF fit for the future. As part of this, in 2018 we further developed our strategy,

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which we presented in November. The measures we have identified will also put us in a good position to face stronger headwinds.

Our strategy focuses on growth: We want to grow profitably and sustainably. We invest where we see opportunities for growth. At the same time, we will continue to rigorously reduce costs wherever it makes sense. In everything that we do, we are guided by these questions: How can we create more value for our customers, for society and thus for our shareholders? How can we better meet the expectations of our customers?

We are driven by our purpose: We create chemistry for a sustainable future. We are convinced that we will only be successful in the long term if we create value for society and our innovations address all three dimensions of sustainability: the economic, environmental and social aspects. This is why we have also set ourselves nonfinancial targets in addition to our financial targets.

Sustainability is very important to us. We are therefore aiming for CO₂-neutral growth until 2030, keeping our greenhouse gas emissions flat at the 2018 level. This is very ambitious since we have already reduced our absolute emissions by half since 1990 while our production volume has doubled over the same period. Most of the potential for optimization has already been exploited. We are therefore developing new lower-carbon technologies as part of our Carbon Management Program.

Another BASF target is to generate sales of around €22 billion with Accelerator products by 2025. These are innovative products that make a decisive contribution to sustainability in the value chain. As part of our commitment to sustainability, we are involved in the U.N. Global Compact and we support the U.N. Sustainable Development Goals (SDGs). BASF is a founding member of the Responsible Cobalt Initiative and the World Economic Forum's Global Battery Alliance. In these initiatives, launched in 2017, companies and international organizations such as the OECD and UNICEF are joining forces to tackle the challenges in the battery materials supply chain.

With our ChemCycling project, we want to take plastic waste which cannot be mechanically recycled and use it as a feedstock. This will reduce our consumption of

fossil resources. We strive to be a pioneer in sustainability in the chemical industry. After all, sustainability is also a key growth area for BASF, where we want to systematically utilize our opportunities.

In our new strategy, we have identified additional priorities: operational excellence, digitalization, innovation, portfolio management and employees. In each of these action areas we want to raise the bar and be the pacesetter in our industry. BASF is known for the safe and reliable operation of chemical plants. Through operational excellence, we want to become even stronger and be a leading plant operator. To achieve this, we are investing €400 million per year – more than ever before – to optimize our plants. Furthermore, we plan to digitalize 350 production facilities by 2022. We are accelerating BASF's digital transformation and strengthening our digital competencies. This means we will become faster, more efficient and more effective. This is our vision of internal collaboration aimed at benefiting our customers. With simpler and more flexible processes and more agile structures, we will be even better able to meet our customers' expectations. To accomplish this, we will also be making some organizational changes. This means that many employees from the central units will move to the divisions to work even closer to our customers.

As a scientist, again and again I am inspired by the creativity and ideas of our employees. We have a unique wealth of skills, innovative strength and resources that have made BASF the world's leading chemical company. Nevertheless, we want to improve even more and increase our sales of innovations. This includes work on breakthrough innovations, the development of new innovation strategies and structures that bring our employees in research and development closer to our markets and customers.

We are also further developing our portfolio with innovations as well as investments and, where appropriate and necessary, with targeted acquisitions and divestitures. Our aim is to position each of our businesses so that it can successfully hold its own against the competition. For example, in 2018 we completed the purchase of significant parts of Bayer's crop protection and seed business. We are now the world's fourth-largest producer of crop protection products and seeds – and we are just as good and ambitious as our competitors. This transaction has given us new capacity for innovation and economies of scale.

"Our new strategy capitalizes on the advantages of our Verbund and we will make the Verbund even stronger."

The Verbund remains at the heart of our portfolio. Our new strategy will continue to utilize the advantages the Verbund offers and we will make it even stronger. Our investments in our future will therefore focus primarily on our own plants in growth markets. With our major investment project in the southern Chinese province of Guangdong, we plan to build a new BASF Verbund site in the world's largest chemical market. We signed an agreement with the provincial government at the beginning of 2019. We estimate a total investment of around \$10 billion to complete the project, which will be wholly owned by BASF.

In January 2019, we signed a memorandum of understanding with India's Adani Group regarding a major investment in the acrylics value chain in India. This would not only expand our footprint in a fast-growing market. The production facility at Mundra port would also be our first CO₂-neutral site, operated with 100% renewable energy.

What financial targets have we set for ourselves in our new strategy? We want to grow profitably and faster than the market. We are targeting an increase in BASF's EBITDA before special items of 3% to 5% annually and a return on capital employed (ROCE) well above the cost of capital percentage every year. For our shareholders, we want to deliver above-average value compared with the chemical industry and increase our dividend per share each year.

"We have the right strategy, the skills and the passion necessary to make BASF fit for the future."

We stand by our ambitious dividend policy and propose to the Annual Shareholders' Meeting that the dividend for the 2018 business year be raised by €0.10 to €3.20 per share. The BASF share would thus offer a dividend yield of 5.3% based on the 2018 year-end share price. In total, we plan to pay out €2.9 billion to our shareholders.

BASF's success is the result of its employees and their outstanding efforts and commitment to the company. For this excellent team performance and dedication to BASF, I want to thank all employees on behalf of the Board of Executive Directors.

2019 will be an exceptionally demanding year of transformation – economically, politically and strategically. It will be a year in which we make BASF more agile, flexible and customer-focused with our strategy. At the same time, we will maintain a balance: We will introduce structural changes and keep what works, we will achieve cost savings and invest in the future. We want to implement our internal changes by the end of 2019. This will require focus, energy and strength – and these are all things we have.

We have the right strategy, the skills and the passion necessary to make BASF fit for the future. And that is why I am optimistic.

I am certain that BASF will remain the leading global company in this industry. The entire team at BASF is working together to ensure this. This is our ambition. Dear shareholders, I am glad that you are accompanying us on this journey.

Yours,

Martin Brudermüller