

The BASF Group

At BASF, we create chemistry for a sustainable future. We combine economic success with environmental protection and social responsibility. The approximately 122,000 employees in the BASF Group work on contributing to the success of our customers in nearly all sectors and almost every country in the world. Until December 31, 2018, our portfolio was arranged into four segments: Chemicals, Performance Products, Functional Materials & Solutions and Agricultural Solutions.¹ Since January 1, 2019, BASF's activities have been grouped into six segments: Chemicals, Materials, Industrial Solutions, Surface Technologies, Nutrition & Care and Agricultural Solutions.

Intelligent Verbund concept

Production, technology, market, digitalization

In 90+ countries

employees contribute to our success and that of our customers worldwide

New organization

since January 1, 2019

Closer to customers

by embedding business-critical parts of the functional units into the divisions

Organization of the BASF Group until December 31, 2018

- Twelve divisions grouped into four segments
- Regional divisions, functional units and corporate and research units support our business

Until December 31, 2018, our 12 divisions¹ were grouped into four segments based on their business models: Chemicals, Performance Products, Functional Materials & Solutions and Agricultural Solutions. On September 27, 2018, BASF and LetterOne signed a definitive agreement to merge their oil and gas businesses in a joint venture. The new joint venture will operate under the name Wintershall DEA. Since the agreement was signed, we have no longer reported on BASF's oil and gas business as a separate Oil & Gas segment. Until closing, its earnings will be presented as a separate item, income after taxes from discontinued operations. Closing of the transaction is expected in the first half of 2019, subject to the approvals of merger control and foreign investment authorities as well as mining authorities and the German Federal Network Agency. In the Agricultural Solutions segment, we renamed the division from Crop

Protection to Agricultural Solutions after the acquisition of significant businesses from Bayer was closed in August 2018, especially for seeds.

Our divisions bear operational responsibility and are organized according to sectors or products. They manage our 54 global and regional business units and develop strategies for the 86 strategic business units.¹

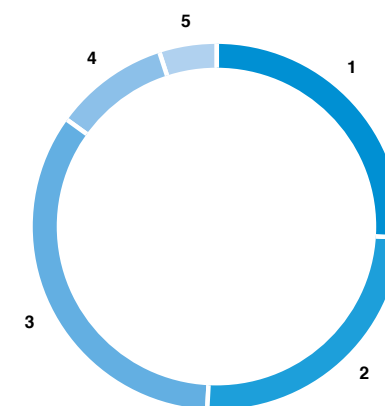
Our regional units are responsible for optimizing local infrastructure, and contribute to tapping our market potential. For financial reporting purposes, we organize the regional divisions into four regions: Europe; North America; Asia Pacific; South America, Africa, Middle East.

Seven functional units and eight corporate units support the BASF Group's business activities. The functional and corporate units provide services in areas such as finance, human resources, engineering and site management, environmental protection, health and

BASF structure until December 31, 2018¹

Percentage of total sales in 2018

1	Chemicals	– Petrochemicals – Monomers – Intermediates	26%
2	Performance Products	– Dispersions & Pigments – Care Chemicals – Nutrition & Health – Performance Chemicals	25%
3	Functional Materials & Solutions	– Catalysts – Construction Chemicals – Coatings – Performance Materials	34%
4	Agricultural Solutions	– Agricultural Solutions	10%
5	Other		5%



¹ Excluding the oil and gas activities presented as discontinued operations

safety, investor relations, and communications. Our global research units safeguard our innovative capacity and competitiveness.

Business processes such as the procurement of raw materials and services, production and transport to customers are the shared responsibility of the divisions and the functional units.

[For more information on the products and services offered by the segments, see from pages 61, 68, 75 and 81 onward](#)

[For more information on the effects of the agreement with LetterOne, see page 86](#)

New organization of the BASF Group as of January 1, 2019

As of January 1, 2019, we have twelve divisions grouped into six segments as follows:

- **Chemicals:** Petrochemicals and Intermediates
- **Materials:** Performance Materials and Monomers
- **Industrial Solutions:** Dispersions & Pigments and Performance Chemicals
- **Surface Technologies:** Catalysts, Coatings and Construction Chemicals
- **Nutrition & Care:** Care Chemicals and Nutrition & Health
- **Agricultural Solutions:** Agricultural Solutions

We are considering the possibility of merging our construction chemicals business with a strong partner, as well as the option of divesting this business. The outcome of this review is open. The Construction Chemicals division will be reported under the Surface Technologies segment until signing of a transaction agreement.

BASF's new segment structure will allow a more differentiated steering of our businesses according to their market-specific competitive environment. It will increase transparency regarding the results of our segments and divisions and highlight the importance of the Verbund and value chains to our business success. BASF aims to clearly position its businesses against their relevant competitors and establish a high-performance organization to enable BASF to be successful in an increasingly competitive market environment.

The **Chemicals** segment will remain the cornerstone of our Verbund structure. It supplies the other segments with basic chemicals and intermediates, contributing to the organic growth of our key value chains. Alongside internal accounts, our customers include the chemical and plastics industries. We aim to increase our competitiveness through technological leadership and operational excellence.

The **Materials** segment's portfolio comprises advanced materials and their precursors for new applications and systems. These include isocyanates and polyamides as well as inorganic basic products and specialties for the plastics and plastics processing industries. We aim to grow organically through differentiation via specific technological expertise, industry know-how and customer proximity to maximize value in the isocyanate and polyamide value chains.

The **Industrial Solutions** segment develops and markets ingredients and additives for industrial applications such as polymer dispersions, pigments, resins, electronic materials, antioxidants and admixtures. We aim to drive organic growth in key industries such as automotive, plastics or electronics and expand our position in value-enhancing ingredients and solutions by leveraging our comprehensive industry expertise and application know-how.

The **Surface Technologies** segment comprises our businesses that offer chemical solutions on and for surfaces. Its portfolio includes coatings, rust protection products, catalysts and battery materials for the automotive and chemical industries. The aim is to drive organic growth by leveraging our portfolio of technologies and know-how, and to establish BASF as a leading and innovative provider of battery materials as well.

In the **Nutrition & Care** segment, we strive to expand our position as a leading provider of nutrition and care ingredients for consumer products in the area of nutrition, home and personal care. Customers include food and feed producers as well as the pharmaceutical,

cosmetics, detergent and cleaner industries. We aim to enhance and broaden our product and technology portfolio. Our goal is to drive organic growth by focusing on emerging markets, new business models and sustainability trends in consumer markets, supported by targeted acquisitions.

The **Agricultural Solutions** segment aims to further strengthen our market position as an integrated provider of crop protection products and seeds. Its portfolio comprises fungicides, herbicides, insecticides and biological crop protection products, as well as seeds and seed treatment products. We also offer farmers digital solutions combined with practical advice. Our main focus is on innovation-driven organic growth, targeted portfolio expansion as well as leveraging synergies from the acquired businesses.

In addition to the new segment structure, the composition of a number of divisions will also change. The propylene oxide and propylene glycol business will be transferred from the Petrochemicals division to the Monomers division. The superabsorbents business will be allocated to the Petrochemicals division rather than the Care Chemicals division in the future. The styrene, polystyrene and styrene-based foams business, which previously mainly fell under the Performance Materials division and a small part under Other, will be bundled in the Petrochemicals division.

In addition, BASF will embed business-critical parts of its functional units – such as engineering services, procurement and logistics – into the divisions to bring its employees closer to its customers and improve customer-specific agility. We will create leaner structures in our functional units, research and development and in governance functions.

[For more information on the new segment structure as of January 1, 2019, see the Notes to the Consolidated Financial Statements from page 211 onward](#)

Sites and Verbund

- Six Verbund sites with intelligent plant networking
- 355 additional production sites worldwide

BASF has companies in more than 90 countries. We operate six Verbund sites and 355 additional production sites worldwide. Our Verbund site in Ludwigshafen, Germany, is the world's largest chemical complex owned by a single company that was developed as an integrated network. This was where the Verbund principle

was originally established and continuously optimized before being implemented at additional sites.

The Verbund system is one of BASF's great strengths. We add value by using our resources efficiently. The Production Verbund intelligently links production units and their energy supply so that, for example, the waste heat of one plant provides energy to others. Furthermore, one facility's by-products can serve as feedstock elsewhere. This not only saves us raw materials and energy, it also avoids emissions, lowers logistics costs and leverages synergies.

We also make use of the intelligent Verbund principle for more than production, applying it for technologies, the market and digitalization as well. Expert knowledge is pooled in our global research platforms.

[For more information on the Verbund concept, see basf.com/en/verbund](http://basf.com/en/verbund)

BASF sites



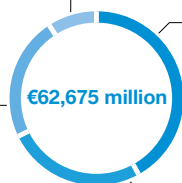
BASF sales by region 2018

Location of customer

South America, Africa, Middle East 9%

42% Europe

Asia Pacific 23%



26% North America

€62,675 million

Procurement and sales markets

- Over 90,000 customers; broad customer portfolio
- More than 70,000 suppliers

BASF supplies products and services to over 90,000 customers¹ from various sectors in almost every country in the world. Our customer portfolio ranges from major global customers and medium-sized businesses to end consumers.

We work with over 70,000 Tier 1 suppliers from different sectors worldwide. They supply us with important raw materials, chemicals, investment goods and consumables, and perform a range of services. Some of our most important raw materials are naphtha, natural gas, methanol, ammonia and benzene.

[For more information on customers, see page 116; for more information on suppliers, see page 90 onward](#)

BASF sales by industry 2018

Direct customers

>20%

Chemicals and plastics

10–20%

Consumer goods | Transportation

5–10%

Agriculture | Construction | Energy and resources

<5%

Health and nutrition | Electronics

Business and competitive environment

BASF's global presence means that it operates in the context of local, regional and global developments and is bound by various conditions. These include:

- Global economic environment
- Legal and political requirements (such as European Union regulations)
- International trade agreements
- Industry standards
- Environmental agreements (such as the E.U. Emissions Trading System)
- Social aspects (such as the U.N. Universal Declaration of Human Rights)

BASF holds one of the top three market positions in around 75% of the business areas in which it is active. Our most important global competitors include Arkema, Clariant, Covestro, DowDuPont, DSM, Evonik, Formosa Plastics, Huntsman, Lanxess, SABIC, Sinopec, Solvay, Wanhua and many hundreds of local and regional competitors. We expect competitors from Asia and the Middle East in particular to gain increasing significance in the years ahead.

Corporate legal structure

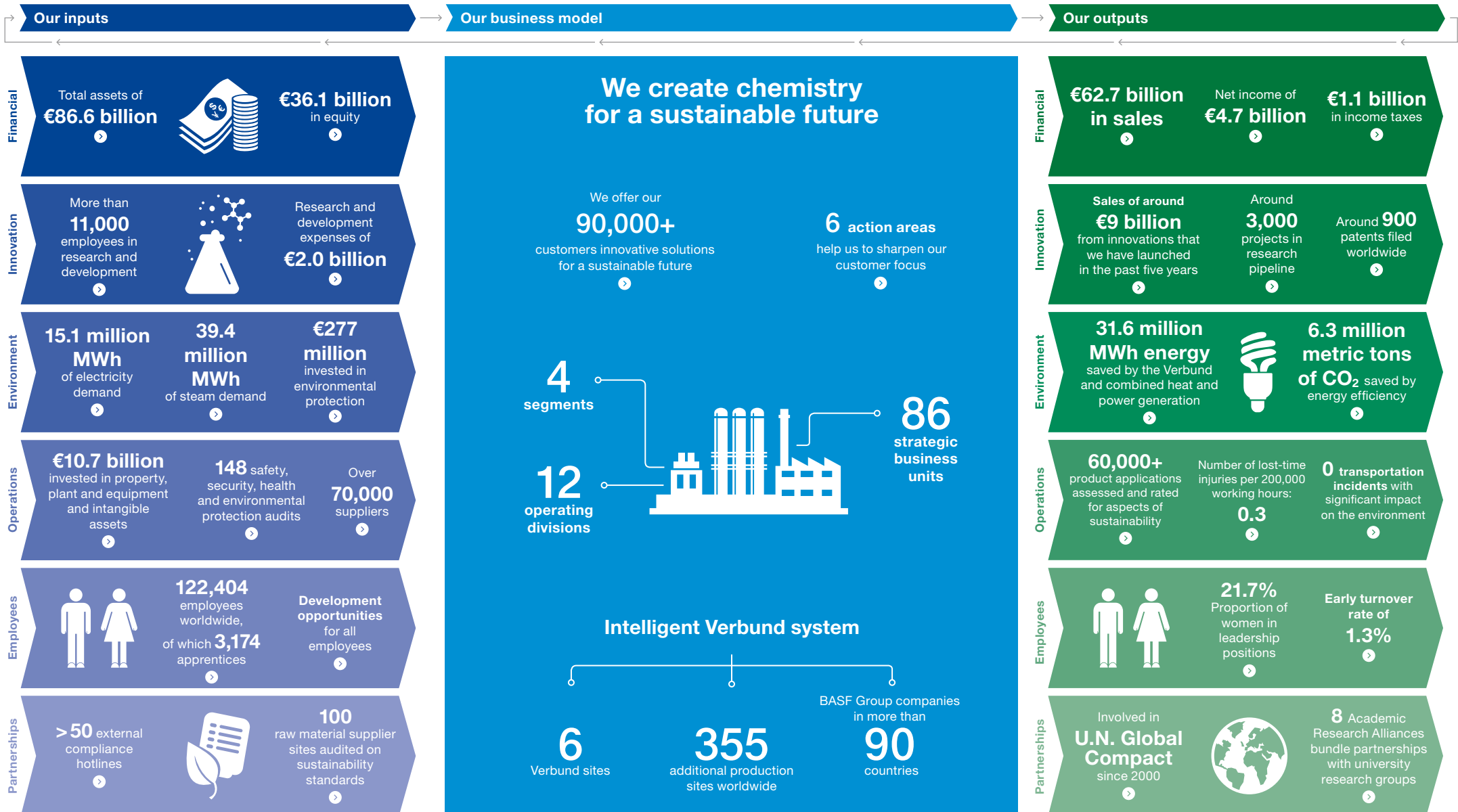
As the publicly traded parent company, BASF SE takes a central position: Directly or indirectly, it holds the shares in the companies belonging to the BASF Group, and is also the largest operating company. The majority of Group companies cover a broad spectrum of our business. In the BASF Group Consolidated Financial Statements, 323 companies including BASF SE are fully consolidated. We consolidate eight joint operations on a proportional basis, and account for 35 companies using the equity method.

[For more information, see the Notes to the Consolidated Financial Statements from page 202 onward](#)

¹ The method used to calculate customers in the previous year has been adjusted to "sold-to" parties of our consolidated companies. The updated figure for 2017 is over 80,000 customers.

How We Create Value

The overview provides examples of how we create value for our company, the environment and society. It is modeled on the framework of the International Integrated Reporting Council (IIRC).¹

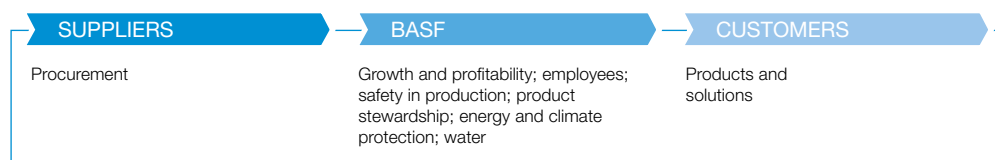


¹ The figures in this graphic have been audited within the scope of the relevant sections of the Management's Report in which they appear.

Goal Achievement in 2018

We carry out our corporate purpose, "We create chemistry for a sustainable future," by pursuing ambitious goals along our entire value chain. In this way, we aim to achieve profitable growth and take on social and environmental responsibility. This also helps to achieve the United Nations' Sustainable Development Goals (SDGs).¹ We are focusing on issues where we as a company can make a significant contribution, such as sustainable consumption and production, climate protection or fighting hunger.

Goal areas along the value chain



Procurement

	2020 goal	Status at end of 2018	SDGs	More on
Assessment of sustainability performance of relevant suppliers ² ; development of action plans where improvement is necessary	70%	60%	SDG 8, 12, 16, 17	Page 90

² Our suppliers are evaluated based on risk due to the size and scale of our supplier portfolio. We define relevant suppliers as Tier 1 suppliers showing an elevated sustainability risk potential as identified by our risk matrices and our purchasers' assessments. We also use further sources of information to identify relevant suppliers such as evaluations from Together for Sustainability (TfS), a joint initiative of chemical companies for sustainable supply chains.

¹ Sustainable Development Goals (SDGs): SDG 1 – No poverty, SDG 2 – Zero hunger, SDG 3 – Good health and well-being, SDG 4 – Quality education, SDG 5 – Gender equality, SDG 6 – Clean water and sanitation, SDG 7 – Affordable and clean energy, SDG 8 – Decent work and economic growth, SDG 9 – Industry, innovation and infrastructure, SDG 10 – Reduced inequalities, SDG 11 – Sustainable cities and communities, SDG 12 – Responsible consumption and production, SDG 13 – Climate action, SDG 14 – Life below water, SDG 15 – Life on land, SDG 16 – Peace, justice and strong institutions, SDG 17 – Partnerships for the goals

[For more information on the SDGs, see sustainabledevelopment.un.org](https://www.un.org/sustainabledevelopment/)

Growth and profitability

As determined in 2015, our aim was, on average, to grow sales slightly faster and EBITDA considerably faster than global chemical production (excluding pharmaceuticals; 2018: 2.7%; average change since 2015: 3.3%), and to earn a significant premium on our cost of capital. Another goal was to achieve a high level of free cash flow each year, either raising or at least maintaining the dividend at the prior-year level.

[For more information on our results of operations in 2018, see pages 46 to 50](#)

[For more information on our financial position in 2018, see pages 53 to 56](#)

[For a definition of "slight" and "considerable," see Actual Development Compared with Outlook for 2018 on page 57](#)

	2018	Change since 2017	Average change since 2015 ³
Sales ³	€62.7 billion	2.4%	3.3%
EBITDA ³	€9.2 billion	(14.9%)	3.8%
Dividends per share paid out	€3.10	€0.10	
Premium on cost of capital	€0.8 billion		
Free cash flow	€4.0 billion		

³ The average change was calculated using the changes in the non-adjusted figures from 2015 to 2017 and the change in the adjusted figures from 2018 to 2017. This gives an approximate average change on a comparable basis in each case. However, the figures does not take into account the structural decline in sales and EBITDA due to the classification of the oil and gas business as a discontinued operation.

⁴ Baseline 2015: excluding the gas trading and storage business transferred to Gazprom

Employees

	2021 goal	Status at end of 2018	SDGs	More on
Proportion of women in leadership positions with disciplinary responsibility	22–24%	21.7%	SDG 5, 16	Page 112
Long-term goals				
International representation among senior executives ⁵	Increase in proportion of non-German senior executives (baseline 2003: 30%)	40.4%		Page 112
Senior executives with international experience	Proportion of senior executives with international experience over 80%	85.4%		Page 112

⁵ The term "senior executives" refers to leadership levels 1 to 4, whereby level 1 denotes the Board of Executive Directors. In addition, individual employees can attain senior executive status by virtue of special expertise.

Safety in production

	2025 goal	Status at end of 2018	SDGs	More on
Reduction of worldwide lost-time injury rate per 200,000 working hours	≤0.1	0.3	SDG 3, 8	Page 96
Reduction of worldwide process safety incidents per 200,000 working hours	≤0.1	0.3	SDG 3, 12, 15	Page 97
Annual goal				
Health Performance Index	>0.9	0.96	SDG 3, 8	Page 98

Product stewardship

	2020 goal	Status at end of 2018	SDGs	More on
Risk assessment of products that we sell in quantities of more than one metric ton per year worldwide	>99%	91%	SDG 3, 12	Page 100

Energy and climate protection

	2020 goal	Status at end of 2018	SDGs	More on
Coverage of our primary energy demand by certified energy management systems (ISO 50001) at all relevant sites ¹	90%	73.0%	SDG 7, 12, 13, 14, 15	Page 105
Reduction of greenhouse gas emissions per metric ton of sales product (excluding the oil and gas business, baseline 2002)	(40%)	(34.2%)	SDG 12, 13, 14, 15	Page 104

¹ The selection of relevant sites is determined by the amount of primary energy used and local energy prices; figures relate to BASF operations including the discontinued oil and gas business.

Water

	2025 goal	Status at end of 2018	SDGs	More on
Introduction of sustainable water management at all production sites in water stress areas and at all Verbund sites (excluding the oil and gas business)	100%	50.0%	SDG 3, 6, 12, 14, 15	Page 108

³ Brunei, Indonesia, Malaysia, Myanmar, Cambodia, Laos, the Philippines, Singapore, Thailand, Vietnam

Products and solutions

	2020 goal	Status at end of 2018	SDGs	More on
Increase the proportion of sales generated by products that make a substantial contribution to sustainable development (Accelerator products)	28%	27.7%	SDG 3, 8, 9, 12, 13	Page 37

Business expansion in emerging markets

Sales² in emerging markets



■ Emerging markets ■ Industrialized countries

² Percentage of BASF Group sales by location of customer

Overall, growth in the emerging markets declined slightly in 2018. We define the emerging markets as Greater China, the ASEAN countries,³ India, Pakistan and Bangladesh; Central and South America; eastern Europe; the Middle East, Turkey and Africa. Momentum eased slightly in eastern Europe. The eastern E.U. countries continued to post dynamic growth, albeit slower than in the previous year. Russia's output rose faster than in the previous year, buoyed by the comparatively high oil price and strong growth in the construction sector. In the emerging markets of Asia, which account for over 60% of the gross domestic product (GDP) of all emerging economies, growth declined slightly. The Chinese economy noticeably cooled, while India and Thailand saw stronger increases in economic output compared with the previous year. In South America, the economy darkened significantly as Argentina fell back into recession. Brazil continued its moderate recovery despite political uncertainty ahead of the presidential elections and production outages caused by strikes in the spring. Although growth slowed significantly in Turkey, the Middle East as a whole only recorded a slight decline. The oil-producing states benefited from rising oil prices. Growth remained more or less stable in Africa, too. The weaker trend in South Africa was offset by a marked upturn in Nigeria.

Compared with 2017, sales at our companies located in emerging markets rose by 2% to €17,144 million, largely as a result of higher sales prices and volumes. Measured by location of customer, we increased sales in the emerging markets by 1% to €21,799 million. This brought sales to customers in emerging markets to around 35% of total sales in 2018.