BASF's business developed extremely well in 2021. Growth and earnings were considerably higher than expected at the beginning of the year. The Board of Executive Directors decisively seized the opportunities that arose, strengthened BASF's overall competitiveness and laid important groundwork for the future. They did so in an exceptionally challenging environment, including a sharp rise in raw materials and energy prices, strained conditions in many international supply chains, and problems with production and volumes in the automotive industry, which is particularly important for BASF. In addition, political tensions have increased and global economic activity has become even more demanding overall. Most of these factors will continue to challenge us in 2022.

The Board of Executive Directors has enhanced and refined the portfolio and driven forward important investments for profitable growth. Above all, it defined ambitious targets to further reduce CO2 emissions at an early stage and presented a package of measures aimed at increasing sustainability in the BASF Group. The underlying conditions vital to this, such as the European Green Deal and upcoming regulation of the chemical industry in the E.U., are currently difficult to assess and were the subject of in-depth discussion.

The Supervisory Board expressly supports this approach and is following it closely, both in an advisory capacity and through regular and critical monitoring. It would like to thank the Board of Executive Directors and all employees worldwide for their dedication, extraordinary work and outstanding results in the 2021 business year.

We will drive forward change in the Supervisory Board, too. Anke Schäferkordt, Franz Fehrenbach, Denise Schellemans, Waldemar Helber and Roland Strasser will resign from the Supervisory Board on conclusion of the Annual Shareholders’ Meeting on April 29, 2022. As a result, its composition will once again change quite significantly compared with the start of the current term of office in 2019.

Unfortunately, the new shareholder representatives will again not be able to be elected at a physical Annual Shareholders’ Meeting in 2022. The Supervisory Board deeply regrets this, as it believes that it is the ideal place to discuss BASF’s development with you. However, after intensive consultation, the Supervisory Board concurred with the Board of Executive Directors’ assessment that, from today’s perspective, it will not be possible to hold a physical Annual Shareholders’ Meeting in a responsible manner at the end of April this year given the current situation.

Monitoring and consultation in an ongoing dialog with the Board of Executive Directors

In 2021, the Supervisory Board of BASF SE exercised its duties as required by law and the Statutes with the utmost care. It regularly monitored the management of the Board of Executive Directors and provided advice on the company’s strategic development and important individual measures, about which the Supervisory Board was regularly and thoroughly informed by the Board of Executive Directors. This occurred both during and outside of the meetings of the Supervisory Board and its committees in the form of written and oral reports on, for example, all of the major financial key performance indicators (KPIs) of the BASF Group and its segments, the economic situation in the main sales and procurement markets, and on deviations in business developments from original plans. Furthermore, the Supervisory Board tackled fundamental questions of corporate planning, including financial, investment, sales volumes and personnel planning, as well as measures for designing the future of research and
Regular topics of discussion were occupational and process safety and matters relating to sustainability, the environmental and social impact of the company’s activities and the challenges of climate change for the future development of BASF’s business. The Supervisory Board discussed in detail the reports from the Board of Executive Directors, and also deliberated on prospects for the company and its individual business areas with the Board of Executive Directors. It was convinced of the lawfulness, expediency and propriety of the Board of Executive Director’s company leadership.

The Chairman of the Supervisory Board and the Chairman of the Board of Executive Directors were also in regular contact outside of Supervisory Board meetings. The Chairman of the Supervisory Board was always promptly and comprehensively informed of current developments and significant individual issues. The Supervisory Board was involved at an early stage in decisions of major importance. The Supervisory Board passed resolutions on all of those individual measures taken by the Board of Executive Directors which by law or the Statutes required the approval of the Supervisory Board.

The Supervisory Board held five meetings in the 2021 business year, each of which was attended by all members. The meetings were held in person with most Supervisory Board members physically present. Only at the meeting prior to the virtual Annual Shareholders’ Meeting did the majority of members also participate virtually. The members of the Supervisory Board elected by shareholders and those elected by the employees prepared for the meetings in separate preliminary discussions in each case, which were also attended by members of the Board of Executive Directors.

All members of the Board of Executive Directors attended the Supervisory Board meetings unless it was deemed appropriate that the Supervisory Board discuss individual topics – such as personnel matters relating to the Board of Executive Directors – without them being present. In addition, each Supervisory Board meeting includes an agenda item that provides an opportunity for discussion without the Board of Executive Directors (executive session).

Supervisory Board meetings

A significant component of all Supervisory Board meetings was the Board of Executive Directors’ reports on the current business situation with detailed information on sales and earnings development, as well as on opportunities and risks for business development, the status of important investment projects (current and planned), operational excellence, important aspects of economic, environmental and social sustainability, developments on the capital markets, significant managerial measures taken by the Board of Executive Directors, and innovation projects.

In all meetings held in 2021, the Supervisory Board also discussed the progress of major investments and ongoing portfolio projects. Discussions focused on:

- The development of the joint venture Wintershall Dea created by the merger of the oil and gas businesses of BASF and LetterOne
- The investment in a joint venture with Shanshan to produce battery materials in China
- The progress and opportunities and risks of the investment project to establish a new Verbund site in southern China
- The progress and completion of the sale of the pigments business

Important topics addressed by the Supervisory Board, which were discussed with the Board of Executive Directors at all meetings, were the effects, challenges and opportunities of climate change and, in particular, the European Green Deal and the resulting changes in the regulatory environment. The Supervisory Board is convinced that the successful management of the necessary, fundamental transformation process, which affects all stages of the value chain, is key to BASF’s future and long-term success, not least with regard to society’s and investors’ likely expectations. These topics were also the main focus of the Supervisory Board’s strategy meeting in October 2021.

At its meeting on February 24, 2021, the Supervisory Board reviewed and approved the Consolidated Financial Statements, Management’s Report and the proposal for the appropriation of profit for the 2020 business year as presented by the Board of Executive Directors. It also discussed the agenda for the Annual Shareholders’ Meeting on April 29, 2021, and adopted its proposals for resolutions. Since, due to the continuing effects of the coronavirus pandemic, the Supervisory Board considered it impossible to hold a physical meeting, it agreed to again hold the Annual Shareholders’ Meeting as a virtual event without the physical presence of shareholders.

Other topics discussed at the meeting were business conditions and development as well as opportunities and risks for BASF’s business in China, the world’s largest
chemical market, the project to construct a new Verbund site in southern China, and current business developments, opportunities and challenges in the Petrochemicals division.

The Supervisory Board met on April 28, 2021, one day before the virtual Annual Shareholders’ Meeting, primarily to prepare for the Annual Shareholders’ Meeting. Another topic was the shareholding in the Wintershall Dea joint venture.

The main agenda items at the meeting on July 22, 2021, were BASF’s leadership development and personnel concept, the development and management of pension obligations, the development of the Global Business Services unit, and market opportunities and risks in connection with the European Green Deal.

At the strategy meeting on October 21/22, 2021, the Board of Executive Directors and the Supervisory Board discussed at length the status of implementation of the corporate strategy with a particular focus on growth, strengthening profitability and portfolio development, as well as key aspects of BASF’s strategic development. These included:

- The development of research and development activities
- E-mobility and the transformation of the automotive industry as factors influencing the development of the BASF Group
- Market prospects and growth opportunities in China as the largest regional market for chemical products; growth projects such as the Verbund site in southern China and the further expansion of the battery materials business
- Climate change and the European Green Deal and their effects on BASF, as well as the resulting development paths, opportunities and risks
- The status, development and prospects of selected BASF business areas

At its meeting on December 16, 2021, the Supervisory Board discussed and approved the Board of Executive Directors’ operational and financial planning, including the investment budget for 2022, and, as in previous years, authorized the Board of Executive Directors to procure the necessary financing in 2022 within a set limit. In addition, the Supervisory Board discussed the Board of Executive Directors’ recommendation that, given the uncertainty surrounding the further development of the coronavirus pandemic and potential restrictions, the Annual Shareholders’ Meeting on April 29, 2022, is also held as a virtual event. The Supervisory Board agreed to this following extensive deliberation and consideration of the resulting, unavoidable restrictions of shareholder rights compared with a physical meeting.

Compensation and composition of the Board of Executive Directors

In several meetings over the 2021 business year, the Supervisory Board discussed and passed resolutions on the compensation of the Board of Executive Directors. Matters relating to the composition of the Board of Executive Directors did not arise in 2021.

At its meeting on February 24, 2021, the Supervisory Board deliberated and agreed on the 2021 targets for the Board of Executive Directors based on the preparations of the Personnel Committee. It also discussed and resolved on the final performance factors for the Board of Executive Directors’ short-term and long-term incentives for 2020. At its meeting on December 16, 2021, the Supervisory Board evaluated, based on the discussions and the corresponding recommendation of the Personnel Committee, the Board of Executive Directors’ performance in 2021 and set the performance factor for the short-term incentive 2021 and the strategic performance factors for the deferral compensation components for 2018–2021 and 2019–2022. The Chairman of the Supervisory Board abstained from the resolution on the factor for the performance bonus for 2018–2021 as this affected him personally.

For more information on the compensation of the Board of Executive Directors and the Supervisory Board, see the Compensation Report, which has been made publicly available on the company’s website at basf.com/compensationreport

Committees

The Supervisory Board of BASF SE has four committees: 1. the committee for personnel matters of the Board of Executive Directors and the granting of loans in accordance with section 89(4) of the German Stock Corporation Act (Personnel Committee); 2. the Audit Committee; 3. the Nomination Committee; and 4. the Strategy Committee. Following each Committee meeting, the chairs of the Committees reported in detail about the meetings and the activities of the Committees at the subsequent meeting of the Supervisory Board.

For information on the composition of the committees and the tasks assigned to them by the Supervisory Board, see the Corporate Governance Report from page 164 onward
The Personnel Committee met three times during the reporting period. All committee members attended all meetings. At its meeting on February 24, 2021, the Personnel Committee discussed the targets for the Board of Executive Directors for the 2021 business year and the 2020 Compensation Report. At its meeting on July 21, 2021, the Personnel Committee addressed the status of leadership development at the top levels of management below the Board of Executive Directors and long-term succession planning for the Board of Executive Directors. At its meeting on December 16, 2021, the Personnel Committee discussed the appropriateness of the compensation of the Board of Executive Directors, the assessment of the Board’s performance in 2021 and a proposal for the performance-related variable compensation of the Board of Executive Directors.

The Audit Committee met five times during the reporting period. All committee members attended all meetings. The Audit Committee is responsible for all the tasks listed in section 107(3) sentence 2 of the German Stock Corporation Act (AktG) and the recommendations of the German Corporate Governance Code. The Audit Committee is also responsible for monitoring the internal process for identifying related party transactions and adopting resolutions to approve related party transactions.

At the meeting on February 22, 2022, the auditor reported in detail on its audits of BASF SE’s Separate and Consolidated Financial Statements for the 2021 business year, including the corresponding management’s reports, and discussed the results of its audit with the Audit Committee. The committee’s audit also included the Nonfinancial Statements of BASF SE and the BASF Group, as well as the Compensation Report of BASF SE in accordance with section 162 AktG, which had been audited by the external auditor. In preparation for the audit of the Nonfinancial Statements, the Audit Committee had, following a corresponding resolution by the Supervisory Board, additionally engaged KPMG to perform a limited assurance and issue an assurance report on it. KPMG also reported in detail on the focus, the procedure and the key findings of this audit.

At the meeting on July 21, 2021, the Audit Committee engaged KPMG AG Wirtschaftsprüfungsgesellschaft – the auditor elected by the Annual Shareholders’ Meeting on April 29, 2021 – with the audit for the 2021 reporting year and auditing fees were agreed upon. The focus areas and scope of the annual audit were discussed and defined together with the auditor. The Audit Committee excluded in principle the engagement of the auditor to perform any services outside of the audit of the annual financial statements, including beyond prevailing legal limitations. For certain nonaudit services, the Audit Committee authorized the Board of Executive Directors to engage KPMG for such services to a very limited extent, or granted approval in individual cases. At the meeting on December 15, 2021, the auditors responsible reported on the status of the annual audit, as well as the focus areas of the audit and the most important individual items. The Audit Committee also addressed the effects of the German Financial Market Integrity Strengthening Act on appointing KPMG as an auditor in the future. Due to the change in the rules on auditor rotation, it is now possible to last appoint KPMG for the 2023 business year.

Other important agenda items included providing guidance to the Board of Executive Directors on accounting issues, the control system established by the Board of Executive Directors, and follow-up assessments of acquisition and investment projects. At its meeting on April 27, 2021, the Audit Committee addressed risk management in the BASF Group and the organization of internal environmental, health and safety audits. Its meetings on July 21, 2021, and December 15, 2021, focused on internal auditing and compliance, respectively. In these meetings, the head of the Corporate Audit department and the head of the Corporate Compliance unit reported to the Audit Committee and answered its questions. In all meetings, the Audit Committee also received information on the development of risks from litigation.

The Nomination Committee is responsible for preparing candidate proposals for the Supervisory Board members to be elected by the Annual Shareholders’ Meeting. The Nomination Committee is guided by the objectives for the composition of the Supervisory Board adopted by the Supervisory Board as well as the competence profile and diversity concept for the Supervisory Board resolved at the meeting on December 21, 2017. The Nomination Committee met twice in 2021. Both meetings were attended by all committee members. Items discussed at the meetings were the current competence profile and diversity concept for the Supervisory Board, the selection of candidates to succeed Franz Fehrenbach and Anke Schäferkordt, who had announced at an early stage that they would resign from the Supervisory Board on conclusion of the Annual Shareholders’ Meeting 2022. In 2022, they will have been members of BASF’s Supervisory Board for 14 and 12 years, respectively, meaning that both will no longer be independent within the meaning of the criteria of the German Corporate Governance Code and the criteria for the independence of Supervisory Board members set by the Supervisory Board. The committee identified successor candidates in a structured process and with external support, and evaluated them according to set criteria. Based on the recommendation of the Nomination Committee, the Supervisory Board resolved on December 16, 2021, to propose Alessandra Genco, Chief Financial Officer of Leonardo SpA, and Prof. Dr. Stefan Asenkerschbaumer, Deputy Chairman of the Board of Management and Chief Financial Officer of Robert Bosch GmbH until
December 31, 2021, for election to the Supervisory Board at the Annual Shareholders’ Meeting on April 29, 2022.

The Strategy Committee, which was established to discuss strategic options for the further development of the BASF Group, did not meet in 2021.

Corporate governance and Declaration of Conformity

The Supervisory Board places great value on ensuring good corporate governance: In 2021, it was therefore once again intensely occupied with the corporate governance standards practiced in the company and the implementation of the recommendations and suggestions of the German Corporate Governance Code in the current version dated December 16, 2019.

In accordance with the recommendations of the German Corporate Governance Code and the Guiding principles for the dialog between investors and German supervisory boards, the Chairman of the Supervisory Board again sought dialog with investors where appropriate in 2021.

Special onboarding events are held for new members of the Supervisory Board to familiarize them with the basics of corporate governance at BASF, the organization and internal structures of the BASF Group, and the composition of its businesses. Above and beyond this, the company also supports the members of the Supervisory Board with training for their activities on the Supervisory Board, whether through external offerings such as topic-specific seminars or internal information offerings such as site and plant visits.

At its meeting of December 16, 2021, the Supervisory Board approved the joint Declaration of Conformity by the Supervisory Board and the Board of Executive Directors in accordance with section 161 of the German Stock Corporation Act (AktG). BASF complies with all recommendations of the German Corporate Governance Code in the version dated December 16, 2019. The Corporate Governance Report provides extensive information on the BASF Group's corporate governance.

The full Declaration of Conformity is rendered on page 184 and is available to shareholders on the company website at basf.com/en/corporategovernance

Independence and efficiency review

An important aspect of good corporate governance is the independence of Supervisory Board members and their freedom from conflicts of interest. The Supervisory Board based the assessment of the independence of its members on the recommendations of the German Corporate Governance Code and the additional criteria for assessing the independence of Supervisory Board members contained in the Rules of Procedure of the Supervisory Board, which were revised in the Supervisory Board meeting on December 19, 2019. The criteria used to assess independence are presented in the Corporate Governance Report on page 166. According to the Supervisory Board's assessment, on the basis of these criteria, five of the six shareholder representatives and four of the six employee representatives – 9 of the 12 members of the Supervisory Board in total – are considered to be independent as of the end of 2021. All three non-independent Supervisory Board members were classified as such due to the length of their membership on the Supervisory Board, which exceeds 12 years in each case. Franz Fehrenbach and Denise Schellmanns, two of the members to be classified as non-independent, will leave the Supervisory Board on conclusion of the Annual Shareholders’ Meeting on April 29, 2022; this increases the number of independent members to 11 of 12 members. Above and beyond this, however, the Supervisory Board does not see any indications that the Supervisory Board role is not performed completely independently. In cases where Supervisory Board members hold supervisory or management positions at companies with which BASF has business relations, we see no impairment of their independence. The scope of these businesses is marginal and furthermore takes place under conditions similar to those of a third party.

The Supervisory Board reviews the efficiency of its activities every year in the form of a self-assessment. To this end, the Chairman of the Supervisory Board conducted a written survey of all Supervisory Board members in the fourth quarter of 2021 on the basis of a detailed questionnaire covering the entire range of relevant Supervisory Board topics. These included, in particular, the preparation and conduct of Supervisory Board meetings, the content and topics of the meetings, cooperation within the Supervisory Board, and cooperation with the Board of Executive Directors and the auditor. The results of these dialogs, including suggestions to further improve the Supervisory Board’s work, were presented by the Chairman of the Supervisory Board at the Supervisory Board meeting on December 16, 2021, and thoroughly discussed by the members of the Supervisory Board. Overall, its members again rated the Supervisory Board’s activity as efficient.
Independent of the efficiency review of the Supervisory Board, the Audit Committee also conducted a self-assessment of its activities in 2021 based on individual discussions between the chair of the Audit Committee and all members of the Audit Committee. Material subjects were the organization and content of meetings, meeting documents and reports, participants and quality of discussion at meetings, and the implementation of the recommendations of the 2020 efficiency review. The Audit Committee discussed the results of the questionnaire and detailed suggestions at its meeting on December 15, 2021. On this basis, the members judged the Audit Committee’s work to be efficient and appropriate.

Separate and Consolidated Financial Statements; Compensation Report

KPMG AG Wirtschaftsprüfungsgesellschaft, the auditor elected by the Annual Shareholders’ Meeting for the 2021 reporting year, has audited the Financial Statements of BASF SE and the BASF Group Consolidated Financial Statements, which were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, and the additional requirements that must be applied in accordance with section 315e(1) of the German Commercial Code (HGB), including the Management’s Report and the accounting records from which they were prepared, and have approved them free of qualification. Furthermore, the auditor certified that the Board of Executive Directors had taken the measures incumbent on it under section 91(2) of the German Stock Corporation Act (AktG) in an appropriate manner. In particular, it had instituted an appropriate early risk detection system that fulfilled the requirements of the company and is applicable for the early identification of developments that could pose a risk to the continued existence of the BASF Group. The results of the audit as well as the procedure and material findings of the audit of the financial statements are presented in the Auditor’s Report.

Beyond the statutory audit of the Financial Statements, KPMG also conducted, on behalf of the Supervisory Board, a limited assurance of the Nonfinancial Statements (NFSs) for BASF SE and the BASF Group, which are integral parts of the respective management’s reports. On the basis of its audit, KPMG did not raise any objections to reporting and the satisfaction of the relevant statutory requirements. Above and beyond the statutory requirements, the auditor also conducted a limited assurance of the Compensation Report that is to be prepared by the Board of Executive Directors and Supervisory Board in accordance with section 162 AktG.

The auditor’s reports were sent in a timely manner to every member of the Supervisory Board. The auditor attended the accounts review meeting of the Audit Committee on February 22, 2022, as well as the accounts meeting of the Supervisory Board on February 23, 2022, and reported on the procedure and material findings of its audit, including the key audit matters described in the Auditor’s Report. The auditor also provided the Supervisory Board with detailed explanations of the reports on the day before the accounts meeting.

The Audit Committee reviewed the Financial Statements, the Management’s Report and the Compensation Report at its meeting on February 22, 2022, including the reports prepared by the auditor and the key audit matters specified in the Auditor’s Report, and discussed them in detail with the auditor. The chair of the Audit Committee gave a detailed account of the preliminary review at the Supervisory Board meeting on February 23, 2022. On this basis, the Supervisory Board examined the Financial Statements and Management’s Report of BASF SE for 2021, the proposal by the Board of Executive Directors for the appropriation of profit, and the Consolidated Financial Statements and Management’s Report for 2021. The results of the preliminary review by the Audit Committee and the results of the Supervisory Board’s own examination fully concur with those of the audit. The Supervisory Board sees no grounds for objection to the management or the reports submitted.

At its accounts meeting on February 23, 2022, the Supervisory Board approved the Financial Statements of BASF SE and the Consolidated Financial Statements of the BASF Group prepared by the Board of Executive Directors, making the 2021 Financial Statements final. The Supervisory Board concurred with the proposal of the Board of Executive Directors regarding the appropriation of profit and the payment of a dividend of €3.40 per share.

Also at the meeting on February 23, 2022, the Supervisory Board discussed with the Board of Executive Directors the joint Compensation Report of the Board of Executive Directors and the Supervisory Board in accordance with section 162 AktG and approved it.
Composition of the Supervisory Board

Liming Chen, the Supervisory Board member appointed by the Ludwigshafen am Rhein local court (Amtsgericht) effective October 8, 2020, was elected to the Supervisory Board as a shareholder representative by the Annual Shareholders’ Meeting on April 29, 2021, and was thus confirmed as a member of the Supervisory Board with a term of office until the end of the current Supervisory Board period in 2024.

In addition, the Supervisory Board members Anke Schäferkordt and Franz Fehrenbach announced in 2021 that they will resign from the Supervisory Board on conclusion of the Annual Shareholders’ Meeting on April 29, 2022. In light of this, the Supervisory Board selected Alessandra Genco and Prof. Dr. Stefan Asenkerschbaumer as candidates to succeed them on the Supervisory Board based on a selection process managed by the Nomination Committee. Details of the two candidates proposed for election will be published in the invitation to the Annual Shareholders’ Meeting and made available on the company’s website at basf.com/annualmeeting.

According to the Supervisory Board’s assessment, the current and proposed future composition of the Supervisory Board meet in full the objectives with respect to its competence profile and diversity concept.

Ludwigshafen, February 23, 2022

The Supervisory Board

Dr. Kurt Bock
Chairman of the Supervisory Board