# Management's Report

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Overview

The Management’s Report comprises the chapter of the same name on pages 16 to 160, as well as the disclosures required by takeover law and the Declaration of Corporate Governance, which are presented in the Corporate Governance chapter. The Nonfinancial Statement (NFS) is integrated into the Management’s Report.

Nonfinancial Statement (NFS) in accordance with sections 315b and 315c of the German Commercial Code (HGB)

The NFS disclosures can be found in the relevant sections of the Management’s Report and have been prepared in accordance with the appropriate frameworks: the Global Reporting Initiative Standards (“Comprehensive” application option) and the reporting requirements of the U.N. Global Compact.

The table on the following page shows the sections and subsections in which the individual disclosures can be found. In addition to a description of the business model, the NFS includes disclosures on the following matters, to the extent that they are required to understand the development and performance of the business, the Group’s position and the impact of business development on the following matters:

- Environmental matters
- Employee-related matters
- Social matters
- Respect for human rights
- Anti-corruption and bribery matters

In accordance with the E.U. Taxonomy Regulation and the supplementary delegated acts, the NFS includes, for the first time, the share of the Group’s taxonomy-eligible sales, investments (including acquisitions) and operating expenses for the 2021 business year relating to the environmental objectives of “climate change mitigation” and “adaptation to climate change.”

Within the scope of the annual audit, KPMG checked pursuant to section 317(2) sentence 4 HGB that the NFS was presented in accordance with the statutory requirements. KPMG also conducted a limited assurance of the NFS. An assurance statement of the limited assurance can be found online at basf.com/nfs-audit-2021. The assurance was conducted in accordance with ISAE 3000 (Assurance Engagements other than Audits or Reviews of Historical Financial Information) and ISAE 3410 (Assurance Engagements on Greenhouse Gas Statements), the relevant international assurance standards for sustainability reporting.

Disclosures required by takeover law in accordance with section 315a HGB

The disclosures required by takeover law in accordance with section 315a of the German Commercial Code (HGB) can be found in the Corporate Governance chapter starting on page 161. They form part of the Management’s Report, which is audited as part of the annual audit.

Consolidated Declaration of Corporate Governance in accordance with section 315d HGB in connection with section 289f HGB

The Consolidated Declaration of Corporate Governance in accordance with section 315d HGB in connection with section 289f HGB can be found in the Corporate Governance chapter from page 185 onward and is a component of the Management’s Report. It comprises the Corporate Governance Report including the description of the diversity concept for the composition of the Board of Executive Directors and the Supervisory Board (excluding the disclosures required by takeover law in accordance with section 315a HGB), compliance reporting and the Declaration of Conformity pursuant to section 161 of the German Stock Corporation Act. Pursuant to section 317(2) sentence 6 HGB, the auditor checked that the disclosures according to section 315d HGB were made.

Compensation Report

The Compensation Report is no longer a component of the Management’s Report. The Compensation Report in accordance with section 162 of the German Stock Corporation Act (AktG) and the assurance statement of the substantive and formal audit issued by the auditor have been made publicly available on the BASF website at basf.com/compensationreport.

Content and structure of the Management’s Report

An overview of the segments’ business models is provided in a separate chapter. Material investments and portfolio measures by our segments have also been integrated into the chapter of the same name. This improves the clarity of the information on our segments.

Recommendations of the Task Force on Climate-related Financial Disclosures

BASF supports the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Disclosures recommended by the TCFD are presented in a number of places throughout this report. The table on page 19 shows the sections and subsections in which the relevant information can be found. The table is divided into four key areas in line with the TCFD recommendations: governance, strategy, risk management, and metrics and targets.
## Nonfinancial Statement (NFS) disclosures in the relevant chapters of the integrated report

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* Refers to the Supervisory Board
  b Refers to the Board of Executive Directors and senior executives
e Climate-related risks are identified, assessed and managed as part of the general risk management process.
BASF Group

At BASF, we create chemistry for a sustainable future. We combine economic success with environmental protection and social responsibility. Around 111,000 employees contribute to the success of our customers in nearly all sectors and almost every country in the world. Our portfolio is divided into the Chemicals, Materials, Industrial Solutions, Surface Technologies, Nutrition & Care and Agricultural Solutions segments.

Sites and Verbund

BASF has companies in 90 countries. We operate six Verbund sites and 232 additional production sites worldwide. Our Verbund site in Ludwigshafen, Germany, is the world’s largest integrated chemical complex owned by a single company. The Verbund concept was developed and optimized here and later applied to other sites around the world. Construction of the first plants continued at our planned new smart Verbund site in Zhanjiang, China.

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 feedstocks 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 Verbund principle for more than production, applying it for technologies, the market and digitalization as well. Expert knowledge is pooled in our global research.

For more information on the Verbund concept, see basf.com/en/verbund

The BASF Group’s segments in 2021

Chemicals
The Chemicals segment consists of the Petrochemicals and Intermediates divisions. The segment supplies BASF’s other segments and third-party customers with basic chemicals and intermediates.
- Share of sales: 17%
- R&D expenses: €97 million
- Investments including acquisitions1: €1,157 million

Materials
The Materials segment is composed of the Performance Materials and Monomers divisions. The segment offers advanced materials and their precursors for the plastics and plastics processing industries.
- Share of sales: 19%
- R&D expenses: €193 million
- Investments including acquisitions1: €709 million

Industrial Solutions
The Industrial Solutions segment consists of the Dispersions & Resins and the Performance Chemicals divisions. The segment develops and markets ingredients and additives for industrial applications.
- Share of sales: 11%
- R&D expenses: €175 million
- Investments including acquisitions1: €361 million

Surface Technologies
The Surface Technologies segment comprises the Catalysts and Coatings divisions. The segment offers chemical solutions for surfaces such as battery materials and automotive coatings.
- Share of sales: 29%
- R&D expenses: €296 million
- Investments including acquisitions1: €1,469 million

Nutrition & Care
The Nutrition & Care segment comprises the Care Chemicals division and the Nutrition & Health division. The segment produces ingredients and solutions for consumer applications such as nutrition and personal care.
- Share of sales: 8%
- R&D expenses: €172 million
- Investments including acquisitions1: €654 million

Agricultural Solutions
The Agricultural Solutions segment is an integrated provider of seeds, crop protection and digital technologies and solutions.
- Share of sales: 11%
- R&D expenses: €904 million
- Investments including acquisitions1: €347 million

1 Additions to property, plant and equipment and intangible assets
Organization of the BASF Group

We take a differentiated approach to steering our businesses according to market-specific requirements and the competitive environment. We provide a high level of transparency around the results of our segments and show the importance of the Verbund and value chains to our business success. BASF aims to differentiate its businesses from their competitors and establish a high-performance organization to enable BASF to be successful in an increasingly competitive market environment.

The operating divisions, the service units, the regions and the corporate center form the cornerstones of the BASF organization, in line with the corporate strategy. As part of the implementation of our strategy, we streamlined our administration, sharpened the roles of services and regions, and simplified procedures and processes. The organizational realignment created the conditions for greater customer proximity, increased competitiveness and profitable growth.

The divisions bear strategic and operational responsibility here and are organized according to sectors or products. They manage the 50 global and regional business units and develop strategies for 75 strategic business units.

The regional and country units represent BASF locally and support the growth of business units with local proximity to customers. For financial reporting purposes, we organize the regional divisions into four regions: Europe, North America, Asia Pacific, and South America, Africa and Middle East.

Our research is currently divided into three global divisions: Process Research & Chemical Engineering, Advanced Materials & Systems Research and Bioscience Research. To strengthen our innovation capabilities, we will reorganize our global research activities in 2022 and align them even more closely with the needs of our customers. To this end, we will integrate downstream research into the divisions and bundle activities with broad relevance in a research unit. This unit will continue to be globally positioned with research centers in Europe, North America and Asia Pacific.

Five service units provide competitive services for the operating divisions and sites: Global Engineering Services, Global Digital Services, Global Procurement, European Site & Verbund Management, Global Business Services (finance, human resources, environmental protection, health and safety, intellectual property, communications, procurement, supply chain and inhouse consulting services).

Following the bundling of services and resources and the implementation of a wide-ranging digitalization strategy, the number of employees in the Global Business Services unit worldwide will decline by up to 2,000 by the end of 2022 compared with baseline 2019. From 2023 onward, the division expects to achieve annual cost savings of over €200 million.

The Corporate Center supports the Board of Executive Directors in steering the company as a whole. These include central tasks from the following areas: strategy, finance and controlling, compliance and law, tax, environmental protection, health and safety, human resources, communications, investor relations and internal audit.

Our Excellence Program aimed to contribute €2 billion to EBITDA annually until the end of 2021 onward compared with baseline 2018. We met this target in 2021. As planned, this was partly due to the reduction of more than 6,000 positions worldwide until the end of 2021. This decrease resulted from the organizational simplification and from efficiency gains in administration, the service units and the operating divisions.
The map shows the production sites and research and development sites of the BASF Group according to the scope of consolidation for this report. Sites not shown on the map include office and warehouse locations as well as sites of companies outside the scope of consolidation.
Procurement and sales markets

BASF supplies products and services to around 90,000 customers\(^1\) from various sectors in almost every country in the world. Our customer portfolio ranges from major global customers and small and medium-sized enterprises to end consumers.

We work with over 70,000 Tier 1 suppliers\(^2\) worldwide. They supply us with important raw materials, chemicals, investment goods and consumables, and perform a range of services. Important raw materials (based on volume) include naphtha, liquid gas, natural gas, benzene and caustic soda.

Corporate legal structure

As the publicly listed parent company of the BASF Group, BASF SE takes a central position: Directly or indirectly, it holds the shares in the companies belonging to the BASF Group, and is also one of the largest operating companies. The majority of Group companies cover a broad spectrum of our business. In the BASF Group Consolidated Financial Statements, 258 companies including BASF SE are fully consolidated. We consolidate nine joint operations on a proportional basis and account for 27 companies using the equity method.

Business and competitive environment

BASF’s global presence means that it operates in the context of local, regional and global developments and a wide range of 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 80% of the business areas in which it is active. Our most important global competitors include Arkema, Bayer, Clariant, Corteva, Covestro, Dow, Dupont, DSM, Evonik, Huntsman, Lanxess, SABIC, Sinopec, Solvay, Sumitomo Chemical, Syngenta, Wanhua and many hundreds of local and regional competitors. We expect competitors from Asia and the Middle East in particular to continue to grow in significance in the years ahead.

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\(^1\) The number of customers refers to all external companies (sold-to parties) that had contracts with the BASF Group in the business year concerned under which sales were generated.

\(^2\) BASF considers all direct suppliers of the BASF Group in the business year concerned as Tier 1 suppliers. These are suppliers that provide us with raw materials, investment goods, consumables and services. Suppliers can be natural persons, companies or legal persons under public law.
How We Create Value

The following overview provides examples of how we create value for our stakeholders. It is modeled on the framework of the International Integrated Reporting Council (IIRC). The content of the graphic has been audited within the scope of the relevant sections of the Management's Report in which they appear.

**Inputs**

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<th>Operations</th>
<th>Environment</th>
<th>Employees</th>
<th>Partnerships</th>
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<tbody>
<tr>
<td>€87.4 billion Total assets</td>
<td>~10,000 R&amp;D employees</td>
<td>€3.4 billion Capex</td>
<td>1.3 million metric tons Renewable raw materials</td>
<td>111,047 Employees around the world</td>
<td>~280 Research collaborations</td>
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<tr>
<td>48.2% Equity ratio</td>
<td>~60 million MWh Electricity and steam demand</td>
<td>1,695 million m³ Total water usage</td>
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**Business model**

- **Corporate purpose**: We create chemistry for a sustainable future
- **Our targets**: Profitable growth, Effective climate protection, Product portfolio geared to innovation and sustainability, Responsible procurement, Resource-efficient and safe production, Employee engagement and diversity
- **How we operate**: Our customers are at the core of our strategy, Sustainability and innovation is at the center of everything we do and a driver for growth and value, Safety is always our number one priority, BASF’s Verbund structure is the backbone of our efficient and reliable production, Our six segments are aligned with value chains and address customer needs with differentiated solutions and business strategies, We have a global, customer-focused presence, Effective corporate governance ensures responsible conduct, We value our stakeholders and treat them with respect.
Outcomes

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<td>€78.6 billion Sales</td>
<td>~820 New patents</td>
<td>~45,000 Sales</td>
<td>47.0% Share of waste</td>
<td>25.6% Women</td>
<td>787 Suppliers</td>
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<tr>
<td>~7.8 billion EBIT before items</td>
<td></td>
<td></td>
<td>recycled or thermally recovered</td>
<td>in leadership positions</td>
<td>screened through Together for Sustainability</td>
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<td>Sales products</td>
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<td>7.3 million metric tons</td>
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<td>78.5% Water demand recirculated</td>
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<td>CO2 avoided by the Verbund and combined heat and power generation</td>
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<td>€24.1 billion Accelerator sales</td>
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<td>€7.8 billion</td>
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<td>€24.1 billion Accelerator sales</td>
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<td>€7.8 billion</td>
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Outcomes¹

Economic

We make positive contributions by
- Driving forward growth, progress and value creation
- Strengthening our customers’ competitiveness and innovative strength
- Accelerating the digital transformation of the industry
- Offering our investors an attractive dividend yield

Potential negative impacts
- Weaker growth stimulus due to the coronavirus pandemic, the ongoing trade conflict between the United States and China, and an escalation of geopolitical conflicts
- A weaker share performance

Environmental

We make positive contributions by creating products that
- Contribute to climate protection
- Conserve resources, avoid waste and strengthen circularity
- Pave the way for climate-friendly mobility
- Are environmentally friendly and safe to use

Negative impacts
- The emission of CO2 and other gases that affect the climate
- Resource consumption and non-recyclable waste
- Potential misuse or spillage of products

Our countermeasures
- Disciplined implementation of our corporate strategy
- Active portfolio management
- Systematic cost management
- Optimizing the cost of capital

Social

We make positive contributions because we
- Offer products that improve people’s quality of life
- Provide attractive jobs and promote diversity
- Pay taxes and competitive wages and salaries
- Promote integration and help overcome social challenges

Potential negative impacts
- Risk of violation of labor, environmental and social standards in the production of the raw materials we procure
- Lower demand for employees in some areas

Our countermeasures
- Careful selection, evaluation and development of suppliers
- Projects to improve sustainability in the supply chains
- Compliance Program and Code of Conduct
- Employee training program

Impact

We achieve long-term business success by creating value for our shareholders, our company, the environment and society (see page 47 and basf.com/en/value-to-society)

¹ The outcomes category shows examples of positive contributions as well as negative impacts and the measures we take to mitigate them.
Our Strategy

Chemistry is our passion. As an industry leader, we want to be the most attractive partner for challenges that can be solved with chemistry. That is why our customers are at the center of everything we do. We want to grow profitably and at the same time, create value for society and the environment. We help to change the world for the better with our expertise, our innovative and entrepreneurial spirit, and the power of our Verbund integration. This is our goal, embedded in our corporate purpose: We create chemistry for a sustainable future.

The world is changing at a rapid pace – more and more urgently than ever, solutions are needed for a more sustainable future. Chemistry plays a key role here. In almost all areas of life, it can help overcome pressing global challenges with innovative products and technologies – from climate change and using resources more sparingly to feeding the world’s population. This belief is expressed in our corporate purpose and is what motivates us day in and day out: We create chemistry for a sustainable future.

Our corporate purpose

We create chemistry for a sustainable future

Our mission and motivation is to grow profitably and make a positive contribution to society and the environment. For example, BASF’s solutions contribute to climate protection and help to prevent or recycle waste, produce healthy and affordable food, and enable climate-smart mobility.

At the same time, as an energy and resource-intensive company, we are facing what is probably the biggest transformation in our over 150-year history: The shift toward a carbon-neutral and circular economy and the associated landmarks such as the European Green Deal demand from us new concepts and approaches – for the way we produce, for our raw material base and for our energy supply.

We also see these disruptive changes as an opportunity. As the world’s largest chemical company, we want to lead the way and actively and responsibly shape the change. That is why we are gradually switching our energy and raw material supplies to renewable sources. We are strengthening our Verbund structure as the basis for resource-efficient, safe and reliable production. We are developing pioneering low-carbon production processes for our products. We are accelerating our innovation processes and deepening cooperation with partners to develop high-performance products that also require fewer resources and have a lower carbon footprint. We are harnessing the many opportunities of digitalization. We are systematically aligning our portfolio with growth areas and future technologies, and are integrating sustainability into our value chains even more strongly. We create a working environment in which our employees can thrive and contribute to BASF’s long-term success. This is how we live our corporate purpose.

For more information on our strategic action areas, see page 28 onward.

Good to know

Net Zero Accelerator

The new Net Zero Accelerator unit started work on January 1, 2022. It bundles the extensive cross-company activities with which we want to achieve our ambitious climate protection targets. The unit will initially have around 80 employees and report directly to the Chairman of the Board of Executive Directors. It will focus on accelerating and implementing projects relating to low-CO₂ production technologies, circular economy and renewable energies – driving forward BASF’s transformation to a climate-neutral company. In parallel, our operating divisions will continue to work on divisional-specific carbon reduction projects.

For more information on climate neutrality, see pages 27 and 126 to 132.
In focus:

Our Journey to Climate Neutrality

Climate change is the greatest challenge of the 21st century. Swift and resolute action is needed to ensure that the targets agreed in the Paris Climate Agreement can be achieved. We stand by this responsibility. In many areas, products and innovations based on chemistry are the key to a climate-neutral future. At the same time, we are working intensively to significantly reduce the carbon footprint of our production and thus of our products.

Our target: net zero emissions by 2050. We have set ourselves an ambitious milestone on this path. By 2030, we want to reduce the greenhouse gas emissions from our production sites and our energy purchases by 25% compared with 2018 – while growing production volumes. This corresponds to a decrease of around 60% compared with 1990. We are intensely pursuing our climate protection targets with investments of up to €4 billion by 2030. Our focus here is on five strategic levers: We are increasingly meeting our energy needs from renewable sources (gray-to-green lever). We are increasingly relying on energy recovery to produce steam (power-to-steam lever). We are working to further improve the energy and process efficiency of our plants (continuous opex lever). We are increasingly replacing fossil resources with bio-based raw materials (bio-based feedstocks lever). And together with partners, we are pioneering nearly carbon-free production processes, especially for emission-intensive basic chemicals (new technologies lever).

We want to play an active and responsible role in shaping the transition toward a climate-neutral society. This calls for new ways of thinking and working together. And it needs a political and regulatory environment that promotes innovation in climate protection, makes it possible to develop new, climate-smart processes that are competitive internationally and, above all, resolutely drives forward the expansion of renewable energies – including through the appropriate land use designations, rapid planning and approval procedures and the swift expansion of grid infrastructure.

One thing is clear: The transformation will require significantly more energy from renewable sources. Initial estimates suggest that at the Ludwigshafen site in Germany alone, we would need to roughly triple or quadruple our current electricity use (2021: 6.0 TWh) to fully implement new, low-carbon electricity-based production processes. To meet this demand, we are investing in our own power assets, especially for wind power, and are increasingly buying green electricity on the market (make & buy approach).

Also critical to success are prices for renewable energy. Substituting fossil fuels is only economically feasible at production costs of 4 to 5 cents/kWh. Consequently, there is an urgent need to expand supply and reduce the levies and fees on electricity prices. In addition, globally comparable carbon pricing – or at least at G20 level – is needed to ensure that climate-friendly processes are competitive internationally.

For more information on energy and climate protection, see page 126 onward
For more information on raw materials, see page 112 onward

Our global climate protection targets

-25%
Reduction in our greenhouse gas emissions by 2030 compared with 2018 (Scope 1 and 2)

Net zero
Greenhouse gas emissions by 2050 (Scope 1 and 2)
Our customers are our number one priority and are at the heart of our strategy. We want to be their most attractive partner for challenges that can be solved with chemistry. BASF supplies products and services to around 90,000 customers from almost all sectors and countries around the world. Our customer portfolio ranges from major global customers and small and medium-sized enterprises to end consumers. Our comprehensive product portfolio means that we are active in many value chains and value creation networks. We use various business strategies, which we adapt to the needs of individual industries and markets. These range from cost leadership in basic chemicals to tailored system solutions for specific customer applications.

### Innovation

Innovation is the bedrock of our success. BASF is a leader in the chemical industry with around 10,000 employees in research and development and R&D spending of around €2.2 billion. We are expanding this position by strengthening specific research activities, for example in battery materials, polymer technologies, catalyst processes or biotechnological methods. In addition, we are bringing research and development even closer together, incorporating our customers’ requirements into our innovation processes even earlier and more intensively, and expanding cooperation with customers, universities, research institutions and other partners. To further strengthen our innovation power, we will reorganize our global research activities in 2022 and bundle them in a global research unit based in Ludwigshafen, Germany.

Our innovation pipeline is geared to sustainability – especially climate protection and the circular economy. This lays the foundation for future growth: We are working intensively on fundamental innovations for products, processes and business models, for example in the chemical recycling of plastics, battery and catalyst technologies, low-carbon production of basic chemicals, and digital.

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1 The number of customers refers to all external companies (sold-to parties) that had contracts with the BASF Group in the business year concerned under which sales were generated.
BASF Report 2021
Management’s Report – Our Strategic Action Areas

more environmentally friendly agriculture. At the same time, we are driving forward product improvements in all business units that offer our customers sustainability and competitive advantages, such as in lightweight construction and surface solutions for the automotive industry, bio-based and biodegradable active ingredients for the cosmetics, detergent and cleaner industries, and energy-efficient building materials.

1 For more information on innovation, see page 49 onward

[Sustainability]

We believe that the economy, environment and society are inextri-
cably linked and interrelated. We want to create value in all three areas with our products, solutions and technologies. We pledged our commitment to sustainability in 1994 and since then, have systematically aligned our activities with the principles of sustain-
ability. We want to further strengthen our position as a thought leader in sustainability. We see sustainability as an integral part of our strategy as well as our targets, steering processes and business models. This establishes us as a responsible and attractive partner supporting our customers, opens up new growth areas and secures the long-term success of our company. Our approach covers the entire value chain – from responsible procurement and safety and resource efficiency in production to sustainable solutions for our customers.

Since 1990, we have almost halved our carbon emissions while simultaneously doubling sales product volumes. By 2030, we want to reduce our absolute CO₂ emissions by 25% compared with 2018 and will invest up to €4 billion to this end. By 2050, we aim to achieve net zero emissions from our production sites and our energy purchases. We are pursuing ambitious climate protection targets with our carbon management. This comprises five strategic levers that we are systematically driving forward to reduce our greenhouse gas emissions (see page 27). To increase the share of renewables in our energy supply, for instance, we entered into pioneering cooperation agreements in 2021. For example, we hold a share in the Hollandse Kust Zuid offshore wind farm, which Vattenfall expects to commission in 2023. Together with RWE, we are developing a project concept for an offshore wind farm in the North Sea. In addition, we have signed long-term purchase agreements for renewable energy with suppliers such as Ørsted and Engie.

Another focus is our product portfolio. We already met our 2025 target of generating Accelerator sales of €22 billion in 2021. In the future, we want to align our product portfolio even more strongly with climate protection, carbon neutrality and circularity in order to meet the growing sustainability demands in our markets with innovative solutions. Consequently, we will update our product portfolio steering target in 2022.

We want to leverage the diverse growth potential of digitalization and seize the associated opportunities to the benefit of our customers. To achieve this, we promote digital skills among our employees, cooperate with partners and make digital technologies and ways of working an integral part of our business. For example, we had introduced augmented reality solutions at 340 plants worldwide as of the end of 2021. We plan to implement these at more than 80 other plants by the end of 2022.

Digitalizing our plants and systematically analyzing data enables us to further automate processes and in this way, increase the capacity, availability and efficiency of our plants, for example with predictive maintenance. Linking data from different sources and using artificial intelligence for smart data analysis opens up numerous opportuni-
ties for us to manage our business more efficiently and improve our processes, for example in logistics.

The combination of products, services and digital offerings also opens up new business models and advantages for our customers, such as in agriculture or 3D printing. In addition, digitalization enables us to further strengthen our innovative power. BASF has one of the most powerful supercomputers in the chemical industry – Quriosity. It can be used to significantly accelerate complex computational processes such as the simulation of molecules, enabling new chemical products to be developed more quickly, for example. At the same time, we are already working on groundbreaking technologies such as quantum computing, including as a founding

1 In March 2021, we replaced our previous target of CO₂-neutral growth until 2030 (baseline 2018: 21.9 million metric tons of CO₂e) with a new, more ambitious climate protection target to reduce absolute CO₂ emissions by 25% compared with 2018 (new target: 16.4 million metric tons of CO₂e).
We are expanding our **battery materials business** with further investments and strategic partnerships and are developing innovative recycling concepts, in particular to supply the fast-growing global e-mobility market with sustainable solutions. We are currently building a precursor plant for cathode active materials¹ in Harjavalta, Finland, and a production plant for cathode materials² in Schwarzeheide, Germany. Both plants are scheduled for startup in 2022. In Schwarzeheide, we are also building a prototype plant for battery recycling, which is expected to start up in 2023.² We also reached another important milestone in the development of a global value chain for battery materials with the formation of BASF Shanshan Battery Materials Co., Ltd. in China at the end of August 2021. With production facilities in all key regions and a global capacity of 160 metric kilotons of cathode materials from 2022 onward, we are able to serve cell manufacturers and OEM customers in all relevant markets with tailored and sustainable solutions. We also entered into a number of cooperative agreements in 2021, including with battery cell manufacturers such as CATL and SVOLT and automotive manufacturers such as Porsche. The aim is to jointly drive forward the development of innovative cathode materials and recycling technologies.

The Asian market will play a key role in our future growth. With a share of more than 45%, **China** is already the world’s largest chemical market and will be an even stronger driver of growth in global chemical production in the future. Our strong innovation, production and sales base in Asia, and in particular in China, enables us to respond to the needs of our customers in a differentiated way. To further strengthen our position in this dynamic growth market, we plan to build a second Verbund site in China, in Zhanjiang in the southern Chinese province of Guangdong. Construction on the first plants continued as planned in 2021. They are scheduled for startup in 2022. We will also expand the Verbund site we operate together with Sinopec in Nanjing, China, by 2023. This investment includes new production plants for selected products in the Petrochemicals and Intermediates divisions.

**Employees**

Our employees are key to BASF’s success. That is why we believe that it is important to have an inspiring working environment that fosters and develops employees’ individual talents and enables them and their teams to perform at their best. We are pursuing three action areas to make our high-performance organization even more so: empowerment, differentiation and simplification. At the same time, we encourage and promote a leadership culture that empowers our employees to respond to customer needs quickly and efficiently with a solution orientation. We value diversity in people, opinions and experience as being crucial to creativity and innovation.

We embrace bold ideas, help our employees to implement them and learn from setbacks. It is founded on an open feedback and leadership culture based on mutual trust, respect and dedication to top performance.

¹ For more information on digitalization in production, see page 119 onward
² For more information on material investments and portfolio measures, see page 38 onward
³ For more information on employees, see page 97 onward
Our Values and Global Standards

How we act is critical to the successful implementation of our strategy and how our stakeholders perceive us. This is what our four corporate values represent: creative, open, responsible, entrepreneurial (CORE). They are binding for all employees worldwide. Together with our Code of Conduct and our global standards and guidelines, they provide the framework for responsible conduct.

Our CORE values define how we want to work together – as a team, with our customers and our partners.

Creative: We make great products and solutions for our customers. This is why we embrace bold ideas and give them space to grow. We act with optimism and inspire one another.

Open: We value diversity, in people, opinions and experience. This is why we foster feedback based on honesty, respect and mutual trust. We learn from setbacks.

Responsible: We value the health and safety of people above all else. We make sustainability part of every decision. We are committed to strict compliance and environmental standards.

Entrepreneurial: We focus on our customers, as individuals and as a company. We seize opportunities and think ahead. We take ownership and embrace personal accountability.

Our standards fulfill and in some cases, exceed existing laws and regulations and take internationally recognized principles into account. We respect and promote:

- The Responsible Care® Global Charter
- The German Corporate Governance Code
- The 10 principles of the U.N. Global Compact
- The Universal Declaration of Human Rights and the two U.N. Human Rights Covenants
- The core labor standards of the ILO and the Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (MNE Declaration)
- The OECD Guidelines for Multinational Enterprises
- The Responsible Care® Global Charter
- The German Corporate Governance Code
- The 10 principles of the U.N. Global Compact
- The Universal Declaration of Human Rights and the two U.N. Human Rights Covenants
- The core labor standards of the ILO and the Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (MNE Declaration)
- The OECD Guidelines for Multinational Enterprises

Good to know

CORE Leadership Values

Leaders have a special responsibility for our success, especially in challenging and changing times. Good leadership provides support and is vital to our employees' motivation and performance. That is why we have derived specific leadership skills from each CORE corporate value – our CORE Leadership Values. They serve as guiding principles and describe our expectations of leadership behavior – such as living optimism, inspiring teams, promoting diversity and making even difficult decisions.

We support our leaders at every stage of their careers in fulfilling their responsibilities and acting as role models. One component of this is the CORE Leadership Upskilling program launched in 2021. It comprises a range of virtual training modules and learning resources that encourage self-reflection and provide opportunities for global dialog.

For more information on what we expect from our leaders, see page 98
The transition to a climate-neutral society is the greatest challenge of the coming decades. Many of our products and technologies are key to this transformation. For example, we are developing innovative battery materials, lightweight materials, and additives for climate-smart mobility. Catalysts and other emission control technologies from BASF reduce emissions in many applications. Materials from BASF make buildings more energy efficient and generating power from wind and solar energy possible. We help farmers reduce carbon emissions with our integrated offering of seeds, crop protection and digital solutions. We are continuously expanding our portfolio of climate protection products. At the same time, we are working hard to significantly reduce the carbon footprint of our production and our products in our carbon management.

Population growth and rising prosperity will increase demand for food, household and personal care products, drugs, clothing and much more. At the same time, consumer behavior is changing. Sustainability aspects are playing an increasingly important role in our value chains. Our innovative solutions for agriculture enable higher yields from the same land area, contributing to a food supply that meets diverse economic, environmental and social requirements. We offer food and feed manufacturers and customers in the pharmaceutical, cosmetics, detergents and cleaners industries a product portfolio focused on sustainability, which we are continually expanding with bio-based and biodegradable solutions.

Growing resource scarcity means that resources and materials must be used responsibly. We develop and market innovative technologies and products in a wide variety of areas to keep recyclable materials in circulation for as long as possible. Going forward, we will align our business models, products and processes even more strongly with the circular economy. For example, we are driving forward the chemical recycling of plastics and improving mechanical recycling with new products and technologies. Other action areas include the use of renewable and recycled raw materials and the recovery of metals from spent batteries and catalytic converters.

Digitalization and connectivity offer many opportunities to optimize our processes; maintenance work can be planned in advance, innovation processes accelerated or logistics concepts and customer relationships improved. In addition, new business models are opening up, for example in agriculture or with products for the electronics and semiconductor industries.

In the emerging countries of Asia and South America, we have an innovation, production and sales base that has grown over several decades. We are strengthening this position with further investments.
Business Models of the Segments

Markets and consumer behavior are moving faster than ever, presenting our customers from a variety of industries and regions with a wide range of challenges. These include managing limited natural resources amid rising demand and the trend toward sustainable products. Our segments' business models help to solve these challenges and show how we implement our corporate strategy in practical terms.

Chemicals

The Chemicals segment is at the heart of the Verbund. It reliably supplies BASF’s other segments with chemicals to produce higher value-added products. It also markets high-quality basic chemicals and intermediates to customers in downstream industries. In this way, the Chemicals segment makes a significant contribution to BASF’s organic growth.

We create value through process and product innovation and invest in research and development to implement new, sustainable technologies and make our existing technologies even more efficient. Technological leadership, operational excellence and a clear focus on individual value chains are among our most important competitive advantages. We concentrate on the critical success factors of the traditional chemicals business: leveraging economies of scale and the advantages of our Verbund, high asset reliability, continuous optimization of access to raw materials, lean and energy efficient processes, and reliable, cost-effective logistics. We continuously improve our value chains and are expanding our market position – especially in Asia – with investments and collaborations in growth markets.

Furthermore, we are constantly improving our global production structures and aligning these with regional market requirements. For example, we closed a production plant for butanediol in Kuantan, Malaysia, in 2021. We also plan to expand our 2-ethylhexanoic acid plant there, which is scheduled for startup in 2024.

Materials

The Materials segment develops new plastics applications, high-performance materials, systems and digital solutions. Our product portfolio is unique in the industry. We aim to grow mainly organically by differentiating ourselves from our competitors with our systems-oriented application expertise and industry knowledge, and creating maximum value in our isocyanate and polyamide value chains. Our advanced material simulation capabilities are a unique selling proposition in the industry and enable us to operate close to our customers.

Additional differentiators are our products that contribute to the circular economy and our more sustainable production processes. BASF is active in substantial parts of plastic value chains, from monomers to polymers and their formulated specialties. Combined with our specific technology knowledge, this offers us the unique ability to shape and close cycles ourselves. One concrete example is our pilot projects for recycling used mattresses: Based on a wet chemical process developed by BASF, precursors recovered from old mattresses can be used to produce new mattress-sized blocks of flexible polyurethane foam. Other examples include our ChemCycling™ project, biomass balanced products and certified
compostable bioplastics. This also enables us to meet growing customer needs in all key markets.

**Tailor-made service and product offerings** enable us to continuously expand the range of applications in our portfolio. We operate close to our customers with our global production network.

**Industrial Solutions**

The Industrial Solutions segment markets and develops ingredients and additives for industrial applications. These include fuel and lubricant solutions, ingredients for paints and coatings, electronic materials and plastic additives. We concentrate on research and development and invest in the creation of innovations with the aim of enabling **more efficient resource use**. This is why we develop more sustainable products and processes, for example, in polymer dispersions, resins and plastic additives, and enable our customers to contribute to sustainability through their applications and processes. Other focus areas are efficient production setups, backward integration in our Production Verbund’s value chains, capacity management, and technology and cost leadership.

Our global presence enables us to operate close to our customers and their industries. As a reliable partner, we offer high-quality products at good value. We work on new solutions together with our customers and strive for long-term partnerships that create **profitable growth opportunities** for both parties. To achieve this, we draw on our innovative strength and our many years of experience and in-depth industry expertise. Through our in-depth application knowledge and technological innovations, we strengthen customer relationships in key industries such as the automotive, plastics and electronics industries.

**Surface Technologies**

In the Surface Technologies segment, our focus is on the protection, modification and development of surfaces. We develop innovative products and technologies in close collaboration with our customers from the catalysts, coatings and battery materials sectors. We also offer precious and base metal as well as surface treatment services. Our aim is to drive growth by leveraging our portfolio of technologies to find the best solution for our customers in terms of functionality and cost. This in turn helps our customers to drive forward innovation in their industries and contribute to sustainable development.

Key growth drivers for us are the **positive medium-term development** of the automotive market, especially in Asia, the trend toward sustainable, low-emission mobility, and the associated rise in demand for **battery materials for electromobility**. Together with our customers, we are developing customized, more sustainable solutions in these growth areas for battery materials, emission control, recycling and functional coatings. Our specialties and system solutions in these areas enable customers to stand out from their competition.

The above trends mean that the automotive industry is currently undergoing a fundamental transformation. As one of the largest chemicals suppliers to this industry, we will, as announced in December 2021, further strengthen our focus on battery materials and recycling and pursue an ambitious growth plan. We will also establish a new entity (BASF Automotive Catalysts and Recycling) within the Catalysts division for mobile emissions catalysts, automotive catalysts recycling and associated precious metal services. The carve-out process started in January 2022. The new organizational structure will prepare the business for the upcoming changes in the internal combustion engine market and allow for future strategic options.

**Nutrition & Care**

In the Nutrition & Care segment, we strive to expand our position as a leading provider of nutrition and care ingredients for consumer applications. We aim to enhance our capabilities in areas such as biotechnology and broaden our portfolio with **bio-based and biodegradable products**. In this connection, BASF has entered into partnerships to further strengthen its position in the bio-based surfactants and actives market. One example is the technology cooperation with Holiferm Ltd, Manchester, United Kingdom. The focus here is on the development of fermentatively accessible glycolipids for home and personal care and industrial formulator applications.

Our enzymes business enables us to pursue a targeted, accelerated marketing strategy and expand our portfolio for natural and biotechnological products. Furthermore, we are investing in natural and biological substances. BASF’s biopharma business supports the biopharmaceutical industry by supplying the raw materials used to produce biological drugs.

In addition, acquisitions complement our focus on emerging markets, new business models and sustainability trends in consumer markets. **Future growth in our markets** will be driven by trends like growing consumer awareness and the resulting demand for sustainable product solutions, natural and organic ingredients and their traceability. Moreover, the shift toward individualization and local production supports new players and business models. Digitalization, a focused technology and product portfolio, and close cooperation with our customers is crucial to meeting these dynamic market requirements both now and in the future.

**Agricultural Solutions**

Farming is fundamental given that by 2050, the world’s population is expected to increase by two billion people. In the Agricultural Solutions segment, we believe that the way forward for agriculture is to find the right balance and create value for the environment, society and business. While the demand for food, feed, fiber and energy is growing, natural resources are limited. **Agriculture** is a key enabler in providing enough healthy, affordable food and responding to changing consumer behavior while reducing the impact on the environment.

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1 Source: U.N. World Population Prospects 2019
As one of the world's leading agricultural solutions companies, we are committed to making a positive impact on sustainable agriculture and food systems. Our innovation-driven strategy for agriculture focuses on selected crops and their appropriate cultivation systems in specific regions. We integrate sustainability criteria into all business and portfolio decisions. In doing so, we help farmers achieve better yield – yield that is produced in ways that are recognized as valuable by society, are kind to the planet and enable farmers to produce economically.

We leverage our expertise in research and development and our deep understanding of the way individual growers manage their farms to provide offers across technologies. These include novel solutions for seeds, traits, crop protection and digital products, which we link intelligently. This enables us to offer farmers solutions tailored to their region and crop systems to safeguard yields, mitigate risks and fulfill societal requirements.
Targets and Target Achievement 2021

Business success tomorrow means creating value for the environment, society and business. That is why we have set ourselves ambitious targets along our entire value chain. We report transparently on our target achievement so that our stakeholders can track our progress. In order to grow profitably, we want to grow sales volumes faster than global chemical production, further increase our profitability, achieve a return on capital employed (ROCE) considerably above the cost of capital percentage and increase the dividend per share every year based on a strong free cash flow.

We also pursue broad sustainability targets. In this context, we significantly raised our CO₂ reduction target in 2021.¹ We want to strengthen the sustainability focus of our product portfolio and will update our portfolio steering targets in 2022.² We also strive to strengthen the sustainability of our supply chains and use resources responsibly. We want to further improve safety in production. In addition, we aim to promote diversity within the company and create a working environment in which our employees feel that they can thrive and perform at their best.

The objective of these targets is to steer our business into a sustainable future, and at the same time, contribute to the implementation of the United Nations’ Sustainable Development Goals (SDGs). We are focusing on issues where we as a company can make a significant contribution, such as climate protection, sustainable consumption and production, and fighting hunger.

¹ For more information on financial indicators, see page 52 onward
² For more information on sustainability along the value chain, see page 96 onward

**Profitable growth**

- **Achieve a return on capital employed (ROCE)** considerably above the cost of capital percentage every year

- **Grow sales volumes** faster than global chemical production every year

- **Increase EBITDA before special items** by 3%–5% per year

- **Increase the dividend per share** every year based on a strong free cash flow

**Effective climate protection**

- **Reduce our absolute CO₂ emissions** by 25% by 2030

**Sustainable product portfolio**

- **Achieve €22 billion in Accelerator sales** by 2025²
**Responsible procurement**

- **2021 status**: 85%  
  **2025 target**: 90%

  SDG

- **2021 status**: 74%  
  **2025 target**: 80%

  SDG

**Limited assurance**

Cover 90% of our relevant spend with **sustainability evaluations** by 2025

Have 80% of our suppliers improve their **sustainability performance** upon re-evaluation

**Resource efficiency and safe production**

- **2021 status**: 0.3  
  **2025 target**: <0.1

  SDG

- **2021 status**: 0.3  
  **2025 target**: <0.1

  SDG

**Limited assurance**

Reduce worldwide **process safety incidents** per 200,000 working hours to ≤0.1 by 2025

Reduce the worldwide **lost-time injury rate** per 200,000 working hours to ≤0.1 by 2025

Introduce **sustainable water management** at our production sites in water stress areas and at our Verbund sites by 2030

**Employee engagement and diversity**

- **2021 status**: 25.6%  
  **2030 target**: 30%

  SDG

- **2021 status**: 82%  
  **2021 target**: >80%

  SDG

**Limited assurance**

Increase the proportion of **women in leadership positions** with disciplinary responsibility to 30% by 2030

More than 80% of our employees feel that at BASF, they can thrive and perform at their best

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1 We regularly calculate the employee engagement level. The most recent survey was conducted in 2020. The next survey is planned for spring 2022.
Material Investments and Portfolio Measures

In addition to innovations, investments make a decisive contribution toward achieving our ambitious growth and climate protection goals. We use targeted acquisitions to supplement our organic growth. Our focus is on innovation-driven growth areas and sustainable technologies.

**At a glance**

€3.4 billion
Capex\(^1\) in 2021

€25.6 billion
Capex planned for 2022 to 2026

By investing in our plants, we create the conditions for the profitable growth we strive for and continuously improve the efficiency of existing production processes. Investments in new technologies and in the transformation of our energy supply will help to achieve our growth targets and our ambitious climate targets. For the period from 2022 to 2026, we are planning capital expenditures (capex\(^1\)) totaling €25.6 billion, including €12.9 billion for our major growth projects\(^2\).

With a world market share of over 45%, China is already the largest chemical market and will drive growth in global chemical production to an even greater extent in the future. We expect China’s share to increase to over 50% by 2030. To further strengthen our position in Asia, we plan to build a new integrated Verbund site in Zhanjiang in the southern Chinese province of Guangdong. The first plants started construction in 2020, and we made further progress on these in 2021. They are scheduled for startup in 2022. We will also expand the Verbund site we operate together with Sinopec in Nanjing, China, by 2023.

In addition, we are refining our portfolio through acquisitions that promise above-average profitable growth as part of the BASF Verbund to help reach a relevant market position. A key consideration is that these are innovation-driven or offer a technological differentiation, and make new, sustainable business models possible. Investments and acquisitions alike are prepared by interdisciplinary teams and assessed using various criteria. In this way, we ensure that economic, environmental and social concerns are included in strategic decision-making.

**Investments and acquisitions 2021**

<table>
<thead>
<tr>
<th>Million €</th>
<th>Investments</th>
<th>Acquisitions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible assets</td>
<td>78</td>
<td>992</td>
<td>470</td>
</tr>
<tr>
<td>of which goodwill</td>
<td>–</td>
<td>254</td>
<td>254</td>
</tr>
<tr>
<td>Property, plant and equipment(^a)</td>
<td>4,078</td>
<td>332</td>
<td>4,410</td>
</tr>
<tr>
<td>Total</td>
<td>4,156</td>
<td>725</td>
<td>4,881</td>
</tr>
</tbody>
</table>

\(^a\) Including restoration obligations, IT investments and right-of-use assets arising from leases

**Investments in the segments and regions**


**Additions to property, plant and equipment\(^{a}\) by segment in 2021**

- **28%** Chemicals
- **17%** Materials
- **9%** Agricultural Solutions
- **18%** Industrial Solutions
- **16%** Nutrition & Care
- **8%** Others (infrastructure, R&D)

**Additions to property, plant and equipment\(^{a}\) by region in 2021**

- **53%** Europe
- **21%** North America
- **24%** Asia Pacific
- **2%** South America, Africa, Middle East

\(^{a}\) Including restoration obligations, IT investments and right-of-use assets arising from leases

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\(^1\) Additions to property, plant and equipment excluding acquisitions, restoration obligations, IT investments and right-of-use assets arising from leases

\(^2\) Major growth projects are the construction of our future Verbund site in Zhanjiang, China, as well as our battery materials activities.
### Overview of material investments

<table>
<thead>
<tr>
<th>Segment</th>
<th>Location</th>
<th>Project</th>
<th>Start-up</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Chemicals</strong></td>
<td></td>
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<tr>
<td></td>
<td>Antwerp, Belgium</td>
<td>Capacity expansion: ethylene oxide plant</td>
<td>2022</td>
</tr>
<tr>
<td></td>
<td>Kuantan, Malaysia</td>
<td>Capacity expansion: 2-ethylhexanoic acid planta</td>
<td>2024</td>
</tr>
<tr>
<td></td>
<td>Nanjing, China</td>
<td>Capacity expansion: tertiary butylamine plant</td>
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<td>Capacity expansion: propionic aldehyde, propionic acid, purified ethylene oxide, ethanolamines and ethylenamines, and build a new tert-butyl acrylate plant.</td>
<td>2023</td>
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<td>Zhanjiang, China</td>
<td>Construction: neopentyl glycol plant</td>
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<td>Jiaxing, China</td>
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<td>Capacity expansion: light stabilizers (Tinuvin® NOR® 356)</td>
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<td>Chennai, India</td>
<td>Capacity expansion: plant for mobile emissions catalysts</td>
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<td>Pinghu, China</td>
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<td>Schwarzheide, Germany</td>
<td>Construction: cathode active materials plant</td>
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<td>Beaumont, Texas</td>
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<td></td>
<td>Sparks, Georgia</td>
<td>New facility for seed treatment formulations</td>
<td>2021</td>
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</tbody>
</table>

*a* Operated by a fully consolidated joint venture with Petronas Chemicals Group Berhad  
*b* Operated by a joint venture with Sinopec  
*c* This project was relocated from Kaohsiung, Taiwan, to Jinshan, China.
new plant will increase BASF’s annual HMD production capacity to 260,000 metric tons. Production is expected to start in 2024.

**Industrial Solutions**

In the Industrial Solutions segment, we are increasing global production capacity for the antioxidant Irganox® 1010 through a project to expand production at the site in Jurong, Singapore. With the completion of the project in 2022, BASF aims to better serve the growing demand from customers in Asia, Europe, the Middle East and Africa. In addition, we increased production capacity for the antioxidant Irganox® 1520L by 20% at the site in Pontecchio Marconi, Italy, in the first quarter of 2021.

To meet the increasing demand for high-quality dispersions solutions in the growing ASEAN, Australian and New Zealand markets, we have doubled the production capacity for acrylics dispersions in Pasir Gudang, Malaysia. The additional capacities started up in the first quarter of 2021. We are currently building our third electronic-grade sulfuric acid plant in Jiaxing, China. This investment will more than double BASF’s existing sulfuric acid production capacity in the country to serve the rapidly growing semiconductor industry. The site expansion is scheduled for completion in 2023.

**Surface Technologies**

We aim to expand our position as a leading and innovative provider of battery materials and benefit from the strong growth in this market segment. A global, customer-focused production network for battery materials is crucial here. Construction of our new production plant for cathode materials in Schwarzheide, Germany, continued as planned in 2021. The new plant will use precursors from the production facility under construction in Harjavalta, Finland. The two plants are scheduled for startup in 2022 and will produce cathode active materials for around 20 gigawatt hours of cell capacity per year. With these investments in Finland and Germany, BASF aims to become the first cathode active materials supplier with local production capacities in what are currently the main markets: China, Japan, North America and Europe.

In addition, BASF announced in 2021 that it will build a battery recycling prototype plant in Schwarzeheide, Germany. Startup is planned for 2023. The prototype plant will allow for the development of operating procedures and optimization of technology to deliver superior returns of lithium, nickel, cobalt and manganese from end-of-life lithium-ion batteries.

**Nutrition & Care**

In Ludwigshafen, Germany, we started up the expanded vitamin A production facilities for the Nutrition & Care segment in July 2021. We also invested in the expansion of alkoxylate capacities at the Verbund site in Antwerp, Belgium.

By mid-2022, BASF will increase its capacities for methane sulfonic acid by around 65% in response to growing cross-industry demand, strengthening its position as a leading global producer. To this end, we are investing in the construction of a new methane sulfonic acid plant at the Ludwigshafen site in Germany. Methane sulfonic acid is an organic acid used in numerous applications ranging from chemical and biofuel synthesis to industrial cleaning and metal surface treatment in the electronics industry.

**Agricultural Solutions**

The investment in a formulation hub for crop protection products in Singapore will, from 2022 onward, ensure that multiple formulation technologies are produced in close proximity to farmers in Asia Pacific. We also invested in the expansion of our production site in Sparks, Georgia, establishing a new formulation plant for seed treatment products, which came into operation in 2021. At the Nunhem site in the Netherlands, we continued the expansion of our breeding facilities for vegetable seeds with a state-of-the-art tomato greenhouse, which has been available since 2021. Further investments were made in the modernization of site infrastructure in North America. To meet continuing high demand for our innovative solutions in the future, between 2022 and 2026, we will invest more than €950 million in developing and expanding our infrastructure, including state-of-the-art R&D facilities, and in our production and formulation capacities for active ingredients as well as for seed solutions.

**New Verbund site in Zhanjiang**

Based on its goal of net zero emissions by 2050, BASF has made further progress toward reducing its carbon footprint. In June 2021, we signed a purchase agreement for renewable electricity with China Resources Power, Hong Kong, China, under the new Guangdong renewable energy trading rules in China. This will enable us to run the first plants at BASF’s new Verbund site in Zhanjiang entirely on renewable energy. The new plants are scheduled for startup in late 2022. This is a significant step toward transforming our energy supply in China.

For more information on our segments, see page 72 onward.

New Verbund site in Zhanjiang

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Acquisitions

On August 31, 2021, BASF and Shanshan announced the formation of BASF Shanshan Battery Materials Co., Ltd. The newly formed entity is majority-owned by BASF (BASF 51%; Shanshan 49%). It has four sites in Hunan and Ningxia, China, with more than 1,600 employees. BASF Shanshan Battery Materials Co., Ltd. will focus primarily on the rapidly growing electric vehicle (EV) market while serving global consumer electronic and energy storage market segments. The business is a part of the Catalysts division.

Following approval of the relevant authorities, we completed the purchase of 49.5% of Vattenfall’s Hollandse Kust Zuid wind farm on September 1, 2021.1 The purchase price was €0.3 billion. Wind farm construction began in July 2021. Once fully operational in 2023, the wind farm will be the largest commercial offshore wind farm in the world. This wind farm does not receive any subsidies for the power produced. On December 6, 2021, BASF and Allianz Capital Partners announced that they had reached an agreement on the purchase of a 25.2% interest by Allianz Capital Partners in the wind farm for €1.177 billion. The transaction affected the Nutrition & Health and Care Chemicals divisions.

On June 30, 2021, we closed the divestiture of our global pigments business to the Japanese fine chemical company DIC, Tokyo, Japan. The business transfer agreement, which affected around 2,500 employees, was signed on August 29, 2019. The purchase price on a cash and debt-free basis was €1.15 billion. The Dispersions & Pigments division was renamed Dispersions & Resins following the transaction closing.

On November 9, 2021, BASF and Clayton, Dubilier & Rice sold their shares in Solenis to Platinum Equity, a private equity company based in Beverly Hills, California. With over 5,200 employees, Solenis serves customers in water-intensive industries by helping them solve complex water treatment and process improvement challenges. BASF held a 49% share in Solenis after transferring its shares in Solenis to Platinum Equity, a private equity company based in Beverly Hills, California. With over 5,200 employees, Solenis serves customers in water-intensive industries by helping them solve complex water treatment and process improvement challenges. BASF held a 49% share in Solenis after transferring its shares in Solenis to Platinum Equity. The purchase price attributable to BASF was €1.1 billion.

On November 30, 2021, we completed the sale of the precision microchemicals business to Entegris. The transaction included fixed assets and inventories. The purchase price amounted to $90 million. The precision microchemicals business was part of the Surface Treatment business unit of BASF’s Coatings division, operating under the Chemetall brand.

Divestitures

On May 31, 2021, BASF completed the sale of its production site in Kankakee, Illinois, to a subsidiary of One Rock Capital Partners, LLC. The agreement also includes the vegetable-oil-based sterols and natural vitamin E business as well as the anionic surfactants and esters produced at the Kankakee site. The purchase price was €177 million. The transaction affected the Nutrition & Health and Care Chemicals divisions.

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Agreed transactions

On November 18, 2021, BASF and KaMin LLC / CADAM S.A. (KaMin) signed an agreement to sell BASF’s kaolin minerals business to KaMin, a global performance minerals company headquartered in Macon, Georgia. Currently, the kaolin minerals business is part of BASF’s Performance Chemicals division and has approximately 440 employees in North America, Europe and Asia. The divestiture comprises the production hub with sites in Daveville, Todcville, Edgar, Gordon and related mines, reserves and mills in Toomsboro and Sandersville in Georgia. The refinery catalysts operations located at the same site are not part of the divestiture. Pending approval by the relevant authorities, closing of the transaction is expected in the second half of 2022.

On December 6, 2021, BASF and Allianz Capital Partners, on behalf of Allianz Insurance Companies (Allianz), announced that they had reached an agreement on the purchase of 25.2% of the Hollandse Kust Zuid (HKZ) wind farm by Allianz. This follows a transaction between Vattenfall and BASF under which BASF acquired 49.5% of HKZ from Vattenfall on September 1, 2021. BASF will continue to receive most of the power produced by its originally acquired share of 49.5% of HKZ under a long-term fixed-price corporate power purchasing agreement. The transaction is expected to close in the first quarter of 2022, subject to the approval of the relevant merger control authorities.

On December 28, 2021, BASF reached an agreement to divest its production site in Quincy, Florida, and the associated attapulgite business to Clariant for a purchase price of $60 million. The Quincy facility employs around 75 employees and manufactures clay-based mineral products used in a variety of industrial applications. The transaction affects the Dispersion & Resins division and is expected to close in the summer of 2022, subject to the approval of the relevant antitrust authorities.

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1 The transaction is not reported as an acquisition in the Notes to the Consolidated Financial Statements as according to IFRS 3, it does not fall within the scope of IFRS 3.
Our financial targets follow a steering concept that is aligned with our values. The return on capital employed (ROCE) is used as the key target and management indicator for the BASF Group. As stated in our strategic goals, we aim to achieve a ROCE considerably above the cost of capital percentage every year. With ROCE, the same logic and data is used for our value-based management, external communication with the capital markets and variable compensation. This means we use the same yardstick for internal management, employee incentivization and our shareholders’ expectations.

As part of our corporate strategy and the sustainability targets derived from this, we have also used CO₂ emissions and Accelerator sales as the most important nonfinancial key performance indicators since the 2020 business year. Two targets are based on these indicators: sustainability-oriented portfolio management with our Sustainable Solution Steering method and reducing absolute CO₂ emissions. We reached our Accelerator sales target in 2021, earlier than planned. Consequently, we will adjust our portfolio steering target over the course of 2022.

Calculating ROCE and cost of capital

ROCE is calculated as the EBIT of the segments as a percentage of the average cost of capital basis.

To calculate the EBIT of the segments, we take the BASF Group’s EBIT and deduct the EBIT of activities recognized under Other, which are not allocated to the divisions.

The cost of capital basis is calculated using the month-end figures and consists of the operating assets of the segments. These comprise the current and noncurrent asset items of the segments, including tangible and intangible fixed assets, integral investments accounted for using the equity method, inventories, trade accounts receivable, other receivables and other assets generated by core business activities and, where appropriate, the assets of disposal groups. The cost of capital basis also includes customer and supplier financing.

We have integrated the cost of capital percentage into our ROCE target as a comparative figure. This is determined using the weighted cost of capital from equity and borrowing costs (weighted average cost of capital, WACC). To calculate a pre-tax figure similar to EBIT, the cost of capital is adjusted using the projected tax rate for the BASF Group for the business year. In addition, the projected net expense of Other is already provided for by an adjustment to the cost of capital percentage. The cost of equity is ascertained using the capital asset pricing model. Borrowing costs are determined based on the financing costs of the BASF Group. The cost of capital percentage for 2022 is 9% (2021: 9%).

Calculation of CO₂ emissions

We calculate our absolute CO₂ emissions on the basis of greenhouse gas emissions, which are the sum of direct emissions from production processes and the generation of steam and electricity (Scope 1), as well as indirect emissions from the purchase of energy (Scope 2). Direct emissions from the generation of energy for third parties are not considered here. Relevant emissions include other greenhouse gases according to the Greenhouse Gas Protocol, which are converted into CO₂ equivalents.

We set ourselves even more ambitious targets with our roadmap to climate neutrality, which we presented in March 2021: Compared with the 2018 baseline, we want to reduce greenhouse gas emissions by 25% by 2030.¹ We aim to achieve net zero emissions (Scope 1 and Scope 2) by 2050.

¹ For more information on CO₂ emissions and our climate protection targets, see page 126 onward

¹ In March 2021, we replaced our previous target of CO₂-neutral growth until 2030 (baseline 2018: 21.9 million metric tons of CO₂e) with a new, more ambitious climate protection target to reduce absolute CO₂ emissions by 25% compared with 2018 (new target: 16.4 million metric tons of CO₂e).
Calculation of Accelerator sales\(^1\)

Accelerator sales refer to sales generated by the BASF Group from products in our strategic portfolio to third parties in the business year concerned. Accelerator products make a substantial sustainability contribution in the value chain. In line with our corporate strategy, we set ourselves the global target of achieving €22 billion in Accelerator sales by 2025. This target was already achieved in 2021. Consequently, we will adjust our portfolio steering target over the course of 2022.

For more information on sustainability-oriented portfolio management, see page 141 onward.

Value-based management throughout the company

An important part of our value management is the target agreement process, which aligns individual employee targets with BASF’s targets. The most important financial performance indicator in the operating units is ROCE. The other units’ contribution to value is also assessed according to effectiveness and efficiency on the basis of quality and cost targets. To assess this, we use metrics such as BASF’s internal service score in the service units.

In addition to ROCE as the BASF Group’s most important financial key performance indicator, we use EBIT before special items and capex (capital expenditure) as key performance indicators that have a direct impact on ROCE and as such, support its management.

- **EBIT before special items** is used to steer profitability at Group and segment level. This is calculated by adjusting the EBIT reported in the Consolidated Financial Statements for special items, making it especially suitable for assessing economic development over time. **Special items** arise from the integration of acquired businesses, from restructuring measures, certain impairments, gains or losses resulting from divestitures and sales of shareholdings, and other expenses and income that arise outside of ordinary business activities.

- **Capital expenditures** (capex) are used to manage capital employed in the BASF Group. These comprise additions to property, plant and equipment excluding additions from acquisitions, IT investments, restoration obligations and right-of-use assets arising from leases. Capex is not just relevant to ROCE management, but also supports our long-term goal of increasing our dividend each year based on a strong free cash flow.

Furthermore, we comment on and forecast sales at Group and segment level in our financial reporting as a significant driver for EBIT before special items and thus ROCE.

For more information on the development of these indicators, see Results of Operations from page 56 onward.

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1 The definition of the relevant portfolio and further information can be found in the Sustainable Solution Steering manual at basf.com/en/sustainable-solution-steering
The concept of conserving resources, recycling and feeding waste back into the system is not new for BASF. As early as 1865, it underpinned the foundation of our company: At that time, Friedrich Engelhorn pursued the idea of producing synthetic dyes from coal tar – a waste product – and organizing production efficiently in an integrated Verbund structure. We are still committed to this tradition today and are aligning our actions more strongly than ever with circularity. The chemical industry is doubly important for the transition to a circular economy. Firstly because many value chains start here. And secondly because many products and technologies based on chemistry help to close loops. That is why both aspects – switching to renewable raw materials and innovations for more circularity – are core elements of our Circular Economy Program.

For example, we already use bio-based and renewable raw materials in our production (see page 113). To further reduce the resource and carbon footprints of our products and solutions, we will align our raw material base even more strongly toward recycled and renewable raw materials. For instance, we aim to process 250,000 metric tons of recycled and waste-based raw materials in our production plants annually from 2025. Together with partners, we are analyzing waste streams and raw material sources to find the best solution and develop suitable, innovative processes (see page 115). This is the case, for example, in the chemical recycling of used tires and different types of plastics, where we can feed recovered raw materials such as pyrolysis oil or monomers back into our Verbund structure at different points. Another example is the recovery of valuable metals from spent batteries and catalytic converters.

In addition, we are developing innovative products and technologies in many areas that will increase the service life of materials or their recyclability and compostability. One example is additives for the mechanical recycling of plastics. A Group-wide co-funding program supports our employees in developing new business models for the circular economy – from the initial idea to market launch. Our target: By 2030, we want to double our sales of solutions for the circular economy to €17 billion. These are products that are based on alternative raw materials, that close material loops or increase the resource efficiency and durability of products.

For more information on recycled raw materials, see page 115 onward.
For more information on sustainable solutions and the circular economy, see page 141 onward.

Our circular economy targets

<table>
<thead>
<tr>
<th>250,000 metric tons</th>
<th>€17 billion</th>
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<tr>
<td>Recycled and waste-based raw materials processed every year from 2025</td>
<td>Sales of solutions for the circular economy by 2030</td>
</tr>
</tbody>
</table>
We implement our corporate purpose – We create chemistry for a sustainable future – by systematically incorporating sustainability into our strategy, our business, and into our assessment, steering and compensation systems. We secure our long-term success with products, solutions and technologies that create value added for the environment, society and the economy.

### Our Sustainability Concept

**Our strategic approach**

**At a glance**

- Sustainability aspects integrated into corporate steering
- Targets for climate protection, product portfolio, circular economy, procurement, safety and employees
- Strategic guidelines on stakeholder management and our societal engagement

Sustainability is at the core of what we do and a driver for growth and value. Analyzing our contributions to sustainability also enables us to manage risks effectively. We pursue a holistic sustainability approach that covers the entire value chain – from our suppliers and our own activities to our customers. We have formulated commitments for our conduct along the value chain and underpinned these with corresponding targets and measures (see page 36).

Based on our corporate strategy and the global targets derived from this, we steer the **sustainability targets** (reduce absolute CO₂ emissions¹ by 25% by 2030 compared with baseline 2018 and achieve €22 billion in Accelerator² sales by 2025) as most important key performance indicators. To this end, we have established the necessary steering mechanisms and control systems at Group level. Our global activities to reduce greenhouse gas emissions include using renewable energies for both electricity and steam production, using renewable raw materials, and ongoing measures to further increase energy and resource efficiency in our production (see page 126). We use the Sustainable Solution Steering method to improve the sustainability contributions of our product portfolio along the value chain (see page 141). To assess the sustainability performance of our products and identify solutions with a substantial sustainability contribution in the value chain, we regularly reassess our product portfolio. We already reached our 2025 sales target for Accelerator products in 2021. Consequently, we will update our product portfolio steering target over the course of 2022.

In addition to the climate protection and Accelerator sales targets, we have set ourselves further sustainability goals. A particular focus is the circular economy due to its strong connection to climate protection. We have defined further targets on water management, responsible procurement, engaged employees, women in leadership positions, occupational health and safety, and process safety.

We have also set up a project organization to achieve our climate protection targets. The new Net Zero Accelerator unit concentrates on implementing and accelerating projects on low-carbon production technologies, the circular economy and renewable energies.

As a co-founder of the U.N. Global Compact and a recognized LEAD company, we contribute to the implementation of the United Nations’ Agenda 2030. Our products, solutions and technologies help to achieve the U.N. **Sustainable Development Goals (SDGs)**, especially SDG 2 (Zero hunger), SDG 5 (Gender equality), SDG 6 (Clean water and sanitation), SDG 7 (Affordable and clean energy), SDG 8 (Decent work and economic growth), SDG 12 (Responsible consumption and production) and SDG 13 (Climate action). To prioritize these, internal experts assessed the impacts and positive contributions of our products, our corporate targets and strategic action areas. The Value to Society method is used to measure the contribution of our activities along the value chain. This assesses our positive and negative impacts on the environment, society and the economy (see page 47).

We identify key sustainability topics with our comprehensive **materiality analysis**. The graphic on page 46 shows how we assess relevant topics. Here, we take into account topics that we have an impact on, topics that have an impact on us, and topics that our stakeholders consider important to us. The topics identified based on these three dimensions of materiality are: climate and energy, health and safety / product stewardship, water, emissions to air and soil, resource efficiency and waste, biodiversity, human rights, employment and diversity.

¹ The target includes Scope 1 and Scope 2 emissions. Other greenhouse gases are converted into CO₂ equivalents in accordance with the Greenhouse Gas Protocol. In March 2021, we replaced our previous target of CO₂-neutral growth until 2030 (baseline 2018: 21.9 million metric tons of CO₂e) with a new, more ambitious climate protection target to reduce absolute CO₂ emissions by 25% compared with 2018 (new target: 16.4 million metric tons of CO₂e).

² Accelerator products make a substantial sustainability contribution in the value chain.
Our organizational and management structures

We are constantly working to broaden our contributions to key sustainability topics and reduce the negative impact of our business activities. Together with decentrally organized specialists, the Corporate Strategy & Sustainability unit in the Corporate Center is responsible for integrating sustainability into core business activities and decision-making processes. This unit’s tasks include the global steering of climate-related matters.

The new Net Zero Accelerator project organization has reported directly to the Chairman of the Board of Executive Directors since January 2022. It focuses on the further acceleration and implementation of existing and new projects to achieve CO₂ reduction targets at company level worldwide and drives them forward.

The Board of Executive Directors and the Supervisory Board are regularly briefed on the current status of individual sustainability topics. The Board of Executive Directors incorporates the results and recommendations from sustainability evaluations of business processes into its decisions, for example, on proposed investments and acquisitions. It makes decisions with strategic relevance for the Group and monitors the implementation of strategic plans and target achievement. The Corporate Sustainability Board, which is composed of heads of business and Corporate Center units and regions, supports the Board of Executive Directors on sustainability topics and discusses operational matters. A member of the Board of Executive Directors serves as chair.

We systematically evaluate sustainability criteria, including the effects of climate change, as an integral part of decisions on acquisitions and investments in property, plant and equipment or financial assets. In this way, we not only assess economic dimensions, but also the potential impacts on areas such as the environment, human rights or the local community. We evaluate both the potential impacts of our activities here as well as which effects we are exposed to.

Identifying and assessing sustainability topics

<table>
<thead>
<tr>
<th>Materiality dimension</th>
<th>BASF evaluation approach</th>
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<tbody>
<tr>
<td>Impact of BASF</td>
<td>Value to Society method:</td>
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<tr>
<td></td>
<td>– Monetization of positive and negative effects along the value chain</td>
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<td></td>
<td>– Topics with impacts that cannot be expressed in monetary terms included based on relevance for external stakeholders and on assessments of internal experts</td>
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<tr>
<td>Prioritization and grouping in internal workshops</td>
<td>Impact on BASF</td>
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<td></td>
<td>– Business units surveyed as part of strategy development</td>
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<td>– Positive and negative effects of individual sustainability trends on the businesses analyzed based on meta-study</td>
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<tr>
<td>Relevance for our stakeholders</td>
<td>– Big data analysis based on external publications</td>
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<td></td>
<td>– Results complemented and confirmed by surveys and interviews with external experts</td>
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1 Our stakeholders also confirmed the materiality of the nonfinancial topics that the Value to Society method identified as having an impact along the value chain.
2 Quantitative thresholds for defining material topics have not been set due to the complexity of the assessment methods used for each dimension of materiality. The final list of topics is based on an expert comparison of the results of all the assessment approaches described.

In 2018, we established our Sustainable Finance Roundtable, which discusses topics related to sustainable finance. Here, experts from departments such as Finance, Corporate Strategy, Investor Relations and Communications discuss upcoming new legal requirements. The interdisciplinary group analyzes the steadily growing requirements, assesses the impact on BASF and drives forward the necessary change processes as well as the concrete implementation of measures. In a U.N. Global Compact task force, we are developing recommendations on how the SDGs should be considered in financial decisions and in interactions with investors.
Measuring sustainable value added

We are aware that our business activities can have both positive and negative impacts on the environment and society. We aim to increase our positive contributions and minimize the negative impacts of our business activities. To achieve this, we need to understand how our actions and our products impact society and the environment.

We already have many years of experience in this area from evaluating our products and processes using methods such as Eco-Efficiency Analyses, the SEEbalance® Socio-Eco-Efficiency Analysis, our Sustainable Solution Steering portfolio analysis, BASF’s corporate carbon footprint or the calculation of Product Carbon Footprints.

We want to holistically capture the value we contribute to society along the value chain and make this transparent. However, there are still no uniform, global standards for measuring and reporting on companies’ overall impact that cover economic, environmental and social aspects of business activities along the value chain. This is why we developed the Value to Society method in 2013 together with external experts. We can use this methodological approach to compare the significance of financial and sustainability-related impacts of our business activities on society and show their interdependencies. The results illustrate the positive contributions and negative effects, both at BASF and in our value chains. Positive factors include taxes paid, wages, social benefits, employee training and our net income. Negative contributions include environmental impacts such as carbon emissions, land use and emissions to air, soil and water, as well as health and safety incidents. The positive impacts of our economic activities declined in 2020, primarily due to the economic conditions caused by the coronavirus pandemic, which led to lower economic value added. In addition, higher water consumption and increased land use in supplier and customer industries had a greater impact on the environment.

Overall, the Value to Society method helps us to continually monitor our progress. It complements existing concepts for assessing risks and business opportunities by providing a macro perspective and enables us to derive the necessary business steps.

We are a founding member of the value balancing alliance e.V. (VBA) and have contributed our knowledge and experience to this cross-industry initiative. We support the development of an accounting and reporting standard that makes the value companies provide to society transparent and comparable. The aim is to present the financial, ecological, and social impacts of business activities on the basis of a standardized framework. The VBA is supported by major auditing firms, the Organisation for Economic Co-operation and Development (OECD), leading universities and other partners. Together with the OECD and the Business for Inclusive Growth (B4IG) coalition, we are pushing to further expand the social indicators. Here, BASF leads the Impact Measurement working group together with partners. Through the VBA, we are involved in the E.U.’s Platform on Sustainable Finance. Together with the VBA and other partners, we supported the establishment of the International Sustainability Standard Board (ISSB), are involved in the work of the World Economic Forum (WEF) and are part of the G7 Impact Taskforce. Our Corporate Finance unit is also involved in the work of the European Financial Reporting Advisory Group’s (EFRAG) Project Task Force on European sustainability reporting standards.

The method developed by the VBA was enhanced and refined on the basis of feedback from the scientific community and member companies. Amendments include the addition of two social indicators and the calculation of downstream impacts, as well as revisions to financial indicators, for example. This enhanced method will again be piloted by all member companies and the results will be fed back to the VBA for further development.

Our stakeholder management

Our stakeholders include customers, employees, investors, suppliers, the communities surrounding our sites, and representatives from industry, academia, politics and society. Parts of our business activities, such as the use of certain new technologies or our environmental impacts, are often viewed by stakeholders with a critical eye. We take these questions seriously, initiate dialogs and participate in discussions. Such ongoing exchange with our stakeholders helps us to even better understand what matters to groups of society, what they expect of us and which measures we need to pursue in order to establish and maintain trust, build partnerships, and increase societal acceptance for and the sustainability of our business activities. In doing so, we want to harness potential for mutual value creation and strengthen societal acceptance of our business activities. For important topics, we systematically identify key stakeholders at an early stage to discuss critical questions with them. Relevant considerations here include their topic-specific expertise and willingness to engage in constructive dialog.

We established an external, independent Stakeholder Advisory Council (SAC) in 2013 and the Human Rights Advisory Council (HRAC) in 2020. In the SAC, which is led by the Chairman of the Board of Executive Directors, international experts from academia and society contribute their perspectives to discussions with BASF’s Board of Executive Directors. The HRAC is an advisory body comprising external human rights specialists and internal experts. This helps us to critically reflect on our positions and address potential for improvement.

1 The net income of BASF’s production presented in the Value to Society is calculated using the BASF Group’s net income, adjusted for the interest result, the other financial result and noncontrolling interests.
2 Value to Society results are calculated annually following the publication of the BASF Report. Accordingly, the statements on this in the BASF Report 2021 refer to the evaluation conducted for the 2020 business year.
Our political advocacy is conducted in accordance with transparent guidelines and our publicly stated positions. The same applies to our activities in associations. For instance, we again published an Industry Associations Review in 2021 comparing the energy and climate protection positions of BASF and the most important associations of which we are a member, with explanations on our approach.

BASF does not financially support political parties, for example through donations in cash or in kind. This is codified in a global guideline. In the United States, employees at BASF Corporation have exercised their right to establish a Political Action Committee (PAC). The BASF Corporation Employee PAC is an independent, federally registered employee association founded in 1998. It collects donations from employees for political purposes and independently decides how these are used, in accordance with U.S. law.

We have a particular responsibility toward our production sites’ neighbors. With the established community advisory panels, we promote open exchange between residents and our site management and strengthen trust in our activities. Our globally binding requirements for community advisory panels are based on the grievance mechanism standards in the United Nations’ Guiding Principles on Business and Human Rights. We keep track of their implementation through the existing global database of the Responsible Care Management System.

For more information on dialogue with our stakeholder groups, see page 106
For more information on our guidelines for responsible lobbying, see basf.com/guidelines_political_communication
For more information on the Industry Associations Review, see basf.com/corporategovernance
For more information on the Human Rights Advisory Council, see basf.com/human-rights-council
For more information on the Stakeholder Advisory Council, see basf.com/en/stakeholder-advisory-council

Our societal engagement approach

Through our societal engagement, we want to help disadvantaged groups tackle their specific challenges – whether through initiatives in our immediate communities or around the world in cooperation with global organizations. We want to foster societal cohesion by supporting and protecting health, skills and resources. We support projects that aim to have a lasting impact on specific target groups and offer learning opportunities for participating cooperation partners and BASF (see page 106).

In this way, societal engagement is an important part of the implementation of our sustainability strategy and our corporate social responsibility. Our societal engagement policy provides the guardrails for our activities in this area. It stipulates that all engagement measures worldwide must be conducted in line with our compliance policy, BASF’s strategy and our sustainability commitments.

For more information on our societal engagement, see page 106
Innovation has always been the key to BASF’s success. The knowledge and skills of our highly qualified employees is our most valuable resource here and the source of our innovative strength. We had approximately 10,000 employees involved in research and development worldwide in 2021.

Our research and development expenses amounted to €2,216 million in 2021 (2020: €2,086 million). Research and development activities in our operating divisions, which is mainly application and customer-related, accounted for 83% of this figure. Corporate research, in which we bundle cross-divisional and long-term topics, was responsible for 17% of these expenses.

Our innovation focus is on developing sustainable solutions for our customers. We ensure our long-term competitiveness by helping our customers reduce their carbon footprint, use resources more efficiently, or manufacture products in a more environmentally friendly way and to recycle them, to name a few examples.

In 2021, we generated sales of over €11 billion with products launched on the market in the past five years that stemmed from research and development activities. In the long term, we aim to continue significantly increasing sales and earnings with new and improved products – especially with products that make a substantial sustainability contribution in the value chain (see page 141).

Our central research is currently divided into three global divisions, run from Europe, Asia Pacific and North America: Process Research & Chemical Engineering (Ludwigshafen, Germany); Advanced Materials & Systems Research (Shanghai, China); and Bioscience Research (Research Triangle Park, North Carolina).

We have already brought our research and development units closer together over the past few years. We will reorganize our global research activities in 2022 to further strengthen our innovation performance and respond to our customers’ industry-specific requirements even better and more quickly going forward. Business and application-driven research units that are currently allocated to the three corporate research divisions will be integrated into the operating divisions, aligning them even more closely with the needs of our customers. The aim is to further shorten the time to market for new products and accelerate BASF’s organic growth. Research activities that are relevant to several operating divisions will be bundled in a central research division steered from Ludwigshafen, Germany. This unit will continue to be globally organized with research centers in Europe, North America and Asia Pacific. Together with the development units in our operating divisions, it forms the core of our global Know-How Verbund.

We will continue to use corporate funding to finance research of broad relevance to the BASF Group that goes beyond the industry-specific focus of the individual operating divisions.
We strengthen existing research focus areas and continually develop new key technologies that are of central significance for our operating divisions, such as polymer technologies, catalyst processes or biotechnological methods.

We promote creative and agile research approaches. We are driving forward the development of new business areas. For example, we are developing innovative coating technologies and materials that make innovative surfaces and functions possible. Functional films can be used to reduce the frictional resistance of surfaces or improve UV protection and weather resistance, for example. Our innovative solutions help our customers to achieve their sustainability goals.

As part of our Carbon Management R&D Program, we are carrying out intensive research into pioneering, low-carbon production processes for basic chemicals such as hydrogen (see page 132). This will enable us to offer our customers products with a lower carbon footprint in the future.

Our global research and development presence – and its effectiveness – is vital to our long-term success. This enables us to respond to the needs and requirements of the regional markets in a differentiated way and leverage growth potential.

The Ludwigshafen site in Germany is and will remain the largest in our Research Verbund. Investments there include a combined laboratory building for cleanroom and elemental analysis. The new building’s modern digitalization and automation solutions set new standards in safety and efficiency. It is scheduled to open in 2022. In addition, we will build a new Catalyst Development and Solids Processing Center in Ludwigshafen, Germany, by 2024 to bring process innovations and new chemical catalysts to market faster.

We want to continue advancing our research and development activities, especially in Asia. For instance, in 2021 we started the third expansion phase for the BASF Innovation Campus in Shanghai, China. With this expansion, BASF will strengthen its research and development capabilities for advanced materials and systems as well as for chemical engineering. Construction is expected to be completed by the end of 2022.

A strong presence outside Europe creates new opportunities for developing and expanding our relationships and scientific collaborations as well as for gaining access to talented employees. This strengthens our Research and Development Verbund and makes BASF an even more attractive partner and employer.

The number and quality of our patents also attest to our power of innovation and long-term competitiveness. In 2021, we filed around 820 new patents worldwide. The Patent Asset Index, a method that compares patent portfolios, once again ranked us among the leading companies in the chemical industry in 2021.

For more information on innovation, see basf.com/innovations

Global network
Our global network of top universities, research institutes and companies forms an important part of our Know-How Verbund. It gives us direct access to external scientific expertise, talented minds from various disciplines as well as new technologies – and helps us to quickly develop targeted, marketable innovations, strengthen our portfolio with creative new projects, and in this way, reach our growth targets.

Our eight academic research alliances bundle partnerships with several research groups in a region or with a specific research focus.

Eight Academic Research Alliances
Access to scientific expertise, talented minds and new technologies

The Northeast Research Alliance (NORA) and the California Research Alliance (CARA) are located in the United States. NORA focuses on materials science and biosciences, catalysis research, digitalization and cooperation with startups. Teams at the interdisciplinary CARA research center are working on new functional materials, formulations, digital methods, catalysis, chemical synthesis, and in engineering sciences and biosciences.

The Joint Research Network on Advanced Materials and Systems (JONAS) is active in Europe and concentrates on supramolecular chemistry, polymer chemistry and the incubation of sustainable technologies. We are working on innovative components and materials for electrochemical energy storage with the Karlsruhe Institute of Technology (KIT) at the Battery and Electrochemistry Laboratory (BELLA). At the joint Catalysis Research Laboratory (CaRLa), BASF is researching homogeneous catalysis in cooperation with the University of Heidelberg. BasCat is a joint laboratory operated by the UniCat cluster of excellence and BASF at the Technical University of Berlin, where new heterogenous catalysis concepts are being explored together with the Fritz Haber Institute of the Max Planck Society, also based in Berlin. The IL (Innovation Lab) in Heidelberg, Germany, focuses on functional printing, printed sensors and IoT (internet of things) applications.

At the Network for Asian Open Research (NAO) in the Asia Pacific region, research focuses on polymer and colloid chemistry, catalysis, machine learning and smart manufacturing.

The Academic Research Alliances are complemented by cooperative partnerships with around 280 universities and research institutes as well as collaborations with a large number of companies.

For more information on our collaboration initiatives, see basf.com/innovate-with-us

Employees in research and development
~10,000

For more information on innovation, see basf.com/innovations
Recycling industrial off-gases: Industrial off-gases are usually incinerated or thermally recovered. In both cases, CO₂ is emitted. To avoid this and to recycle the main components of the off-gases so they can be used in chemical production, BASF has been researching an innovative process, gas fermentation, with the U.S. startup LanzaTech since 2018. The interdisciplinary team achieved an important breakthrough in 2021: using special bacteria, they were able to produce n-octanol from carbon monoxide and hydrogen for the first time. The molecule is an alcohol and is used in cosmetics, for example. Normally, microorganisms cannot produce n-octanol, which is toxic to them. However, using biotechnological methods, LanzaTech was able to program the organisms to produce and tolerate n-octanol as part of a gas fermentation process. In parallel, BASF researchers developed a process that enables the continuous separation and purification of n-octanol. Following successful implementation in the laboratory, the team is now working on further process improvements. Integrating gas fermentation technology into the BASF Verbund could contribute to a carbon-neutral circular economy in the future.

Bio-based and biodegradable ingredients: Circular economy and sustainability are also playing an increasingly important role for our customers in the detergent and cleaner industry. That is why interdisciplinary teams at BASF have been working hard on the question of how to optimize cleaning performance and environmental compatibility. The focus here is on new ingredients that can be produced from renewable raw materials and biodegraded at the end of their productive life cycle. This calls for new approaches in research and development. We are developing a fundamental understanding of how biodegradation occurs under different conditions in joint projects with academic partners and closely coordinated laboratory and field research. The additional integration of new digital tools and faster screening and testing methods enables us to shorten our development times and develop high-performance, environmentally compatible ingredients – not only for cleaning purposes, but also for cosmetics and industrial applications such as agrochemicals.

Animal-free testing methods: The European Union wants to significantly improve the safety of chemical products. BASF supports this goal and has been actively working to make it a reality for many years. For example, in order to meet expanded requirements and additional testing obligations under the E.U.’s Chemicals Strategy for Sustainability in the future, we are developing innovative in vitro methods with our own laboratory team and together with partners. Among other things, they will help us to efficiently and reliably detect and evaluate potential hormonal effects of substances – even without animal testing. BASF has been researching alternative methods for many years and recently reached an important milestone: In 2021, the OECD approved the world’s first toxicology testing strategy without animal testing – a joint project between BASF and Givaudan (see page 123). It can be used to reliably predict whether a substance causes allergic reactions in the skin without animal testing. We make all methods developed by us and approved freely available to interested companies and authorities.
The global economy recovered more quickly in 2021 than had been expected at the beginning of the year. Many governments’ aid programs and rising vaccination rates were key contributing factors to the recovery. Nevertheless, the economic upturn was repeatedly hampered by measures to contain the pandemic and supply chain disruptions.

Global gross domestic product (GDP) grew by 5.8% year on year (2020: −3.4%). Industrial production expanded by 6.5% (2020: −3.0%). Global chemical production grew by 6.1% (2020: −0.1%). The average price for a barrel of Brent crude oil increased to $71 per barrel (2020: $42 per barrel).

GDP rates in 2021 were strongly influenced by base effects. China’s GDP grew at a double-digit rate in the first quarter year on year. In the second quarter, the United States and the European Union then recorded very high growth rates. Global growth slowed down, however, in the second half of the year. Bottlenecks in global supply chains increasingly limited industry growth. Added to this were the dampening effects of very high energy prices and a further sharp rise in infection rates in individual countries.

For the outlook on the economic environment in 2022, see page 146 onward.

1 All information relating to past years in this section can deviate from the previous year’s report due to statistical revisions. Where available, calendar-adjusted macroeconomic growth rates are reported. Figures for 2021 not yet available in full are estimated.
Gross domestic product
Real change compared with previous year

<table>
<thead>
<tr>
<th>Region</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>5.8%</td>
<td>-3.4%</td>
</tr>
<tr>
<td>E.U.¹</td>
<td>5.2%</td>
<td>-6.1%</td>
</tr>
<tr>
<td>United States</td>
<td>5.7%</td>
<td>-3.4%</td>
</tr>
<tr>
<td>Emerging markets of Asia²</td>
<td>7.3%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Japan</td>
<td>1.7%</td>
<td>-4.5%</td>
</tr>
<tr>
<td>South America</td>
<td>6.8%</td>
<td>-6.2%</td>
</tr>
</tbody>
</table>

Economic trends by region

In the European Union (E.U.), GDP grew by 5.2% (2020: -6.1%). At the beginning of the year, restrictions in stationary retail, hospitality, tourism, and the cultural and entertainment sectors negatively impacted economic recovery. In the course of the second quarter, the restrictions were successively relaxed as a result of falling infection rates. At the same time, the vaccination campaign, which got off to a slow start due to a shortage of vaccines, gained momentum. Due to base effects, GDP growth in the second quarter was in the double digits compared with the previous year. There was, however, also a significant upturn in the second and third quarters of 2021 compared with the first quarter, especially in European tourist destinations. In France (+7.0%), Italy (+6.4%) and Spain (+5.0%), GDP grew especially dynamically in 2021. By contrast, Germany was hit harder by bottlenecks in intermediate inputs for the investment goods and automotive industries. At 2.8%, Germany’s economy thus grew at a below-average rate in 2021. Despite lower vaccination rates and higher infection rates, growth in the eastern E.U. countries (+5.3%) was at a similar level to that in the western E.U. countries (+5.2%).

Despite the end of the Brexit transition period at the beginning of the year, the United Kingdom’s economy (2021: +7.5%) recovered substantially from its major slump in the previous year (2020: -9.4%). Rapidly rising vaccination rates, as well as the complete reopening of the U.K. economy from mid-July, contributed to this. However, the consequences of Brexit were felt over the course of the year, particularly due to the shortage of labor in logistics chains and skilled trades.

Russia’s GDP grew by 4.3% (2020: -2.9%). Increased oil and gas prices led to rising trade surpluses and bolstered growth, while high infection rates and lockdowns weighed on the economy.

Economic development in the United States was volatile. Government stimulus programs bolstered household demand considerably early in the year, which resulted in strong GDP growth in the first two quarters. However, due to the expiration of aid benefits and a further rise in infection rates coupled with increasing supply problems due to congestion in the country’s largest ports, growth in private consumption was more sluggish in the second half of the year. In total, GDP in the United States grew by 5.7% in 2021 (2020: -3.4%).

In the emerging markets of Asia, growth weakened significantly in the course of the year. China’s dynamic recovery that began in the previous year continued initially. However, mobility restrictions and selective lockdowns, even with only few occurrences of coronavirus infections, as well as more restrictive financing conditions in the construction sector, negatively affected domestic demand growth. In addition, energy was rationed. By contrast, export demand grew significantly. In total, the Chinese economy expanded by 8.1% (2020: 2.2%). Many other emerging markets in Asia, including India, Malaysia and Thailand, were forced to temporarily adopt restrictive measures to contain waves of infection. All in all, the region grew by 7.3% in 2021.

The economies of Japan and South Korea were also significantly impacted by the pandemic. Japan temporarily declared a state of emergency. Private consumption was thus only able to increase slightly. Although exports rose considerably, they were negatively affected by the decline in growth in China and supply bottlenecks in the automotive industry. Japan’s GDP only grew by 1.7% (2020: -4.5%), South Korea saw significantly higher growth of 4.0% (2020: -0.9%).

The South America region recorded a rapid economic recovery, supported by rising prices for agricultural goods and industrial raw materials. Domestic demand in some countries was, however, dampened by currency devaluations and rising inflation rates. Brazil was able to increase its GDP by 4.7% (2020: -4.2%), bolstered by a considerable rise in exports and investments as well as moderate growth in private consumption. Argentina’s economic output grew by a strong 9%, though the previous year’s decline had been significantly larger at nearly -10%. For the region as a whole, GDP rose by 6.8% in 2021, after a decline of approximately the same magnitude in the previous year.

Trends in key customer industries

Growth in industrial production was negatively impacted by supply difficulties in 2021. In many areas, existing orders could not be processed due to a lack of intermediate goods. Transport capacities, especially ship and container capacities in overseas trade, were not sufficient to meet the sharp rise in demand for industrial goods. Furthermore, manufacturing disruptions in Asia due to regional lockdowns were also a factor.

Global industrial production grew by 6.5% in 2021 (2020: -3.0%). The advanced economies saw somewhat lower growth of 5.3% overall than the emerging markets, which saw a rise of 7.4%. The largest contribution to global industrial production growth came from China (2021: +8.4%; 2020: +3.7%). Around 30% of global industrial value creation and almost 40% of its growth were generated there. In total, over 50% of global industrial growth came from Asia. The region’s production expanded by 7.5% in 2021 (2020: -0.1%).

1 In this chapter, “E.U.” refers to the E.U. 27.
2 We define the emerging markets of Asia as Greater China, the ASEAN countries (Brunei, Indonesia, Malaysia, Myanmar, Cambodia, Laos, the Philippines, Singapore, Thailand, Vietnam), India, Pakistan and Bangladesh.
In the E.U., industrial production also increased significantly by 6.6% (2020: –7.1%). After the sharp decline in the previous year, the United Kingdom saw growth of 8.3% (2020: –10.4%). By contrast, North America’s industrial growth was below average at 5.0% (2020: –4.8%). South America recorded an increase just above the global average (2021: 7.0%; 2020: –6.5%).

<table>
<thead>
<tr>
<th>Industry total</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry total</td>
<td>6.5%</td>
<td>–3.0%</td>
</tr>
<tr>
<td>Transportation</td>
<td>2.5%</td>
<td>–16.6%</td>
</tr>
<tr>
<td>Oil which: automotive industry</td>
<td>2.5%</td>
<td>–15.9%</td>
</tr>
<tr>
<td>Energy and resources</td>
<td>3.3%</td>
<td>–3.5%</td>
</tr>
<tr>
<td>Construction</td>
<td>3.9%</td>
<td>–1.1%</td>
</tr>
<tr>
<td>Consumer goods</td>
<td>9.0%</td>
<td>–2.7%</td>
</tr>
<tr>
<td>Electronics</td>
<td>12.0%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Health and nutrition</td>
<td>6.4%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>3.2%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

Global automotive production was particularly affected by supply problems with semiconductors. Although base effects ensured strong growth at the beginning of the year, the shortage in semiconductors worsened so significantly in the second half of the year that many automotive manufacturers had to respond by cutting production or even temporarily shutting down entire plants. As a result, automotive production grew only slightly overall by 2.5% in 2021 after contracting by 15.9% in the previous year. Production levels remained exceptionally low, with a total of around 76 million vehicles produced worldwide. Similarly low production volumes had last been recorded in the early 2010s. Moderate growth was achieved in Asia (+5.1%). The North American market stagnated (+0.1%). In the E.U., by contrast, production decreased by 6.2% in 2021, following a decline of nearly 25% in 2020. Of all the regions, South America achieved the highest growth rate; however, it saw the strongest decrease in the previous year (2021: +16.1%; 2020: –31.1%).

The **construction industry** expanded by around 4% (2020: –1.1%) despite a sharp rise in prices for scarce building materials. Growth was strongest in residential construction at almost 6%. Here, the rising demand for housing during the pandemic played a key role; furthermore, government transfers and persistently low interest rates strengthened the purchasing power of private households. Growth in residential construction was particularly high in the United States. Residential construction in Europe grew only slightly above the overall market average. In China, on the other hand, residential construction cooled significantly in the wake of the government’s efforts to limit real estate prices and debt. Commercial construction investments remained weak with growth of less than 3%. Growth in the less volatile infrastructure segment was also below average at around 3%.

After a decline of 2.7% in the previous year, **consumer goods** production grew by a total of 9.0%. High growth rates between around 9% and 13% were recorded in the furniture and textile industries as well as in the production of electrical appliances. Expansion in the care products sector was, by contrast, more modest at 4.3%. This industry had not contracted in the previous year and was therefore less able to benefit from base effects.

The **electronics sector** saw above-average growth of 12%. It benefited from the general trend toward digitalization and connectivity, as well as from demand for consumer electronics and electronic control of household appliances and motor vehicles. Growth was slowed by capacity bottlenecks in the production of computer chips.

Global demand for energy and industrial raw materials rose sharply in 2021. Production in the **energy and raw materials** sector, however, only increased by 3.3% (2020: –3.5%), which resulted in significant price increases. The **health and nutrition** sector achieved growth of 6.4%, which was above average for recent years due to 15% growth in the pharmaceuticals industry resulting from vaccine production. Production in the food industry grew by 3.7%, which, by contrast, was just slightly better than the long-term average.

Also above average, **agricultural production** grew by 3.2%, as the overall negative impact of extreme weather events on yields was minor relative to recent years and global demand for agricultural goods increased dynamically due to economic recovery. Growth was driven primarily by Asia (+5.3%). By contrast, production growth was only weak in South America (+1.2%) and even declined slightly in North America and Europe.

### Trends in the chemical industry

Global growth in the chemical industry was 6.1% in 2021, almost as high as growth for the industry as a whole, despite only a minimal decline in chemical production in the previous year unlike in many other industries. While the stronger performance in the previous year had mainly been due to extraordinary pandemic-related demand for disinfectants, cleaning agents and single-use plastics, as well as to the early recovery in China, in 2021, the global upswing in many consumer goods industries contributed to growth.

Chemical production in China, the world’s largest chemical market, saw especially strong expansion (7.7%). However, growth slowed at a high level during the course of the year. Electricity cuts had a negative effect on production, particularly in the third and fourth quarters. Growth in other emerging markets of Asia was also high at around 6.9%.

Chemical production growth in the European Union was also extraordinarily high at 6.0%. A contributing factor was the low basis in the previous year (2020: –2.1%). In addition, the European chemical industry benefited from the fact that availability of global production capacities for basic chemicals was intermittently limited. The Middle East (+6.2%) also recorded solid production growth.

By contrast, significant petrochemical capacities were temporarily unavailable in the United States, in particular. After the cold spell in the first quarter, production on the U.S. Gulf Coast was negatively impacted by hurricanes Ida and Nicholas as well. In total, production
in the United States thus only grew by 1.8% in 2021. Chemical production in South America increased by 4.6%.

### Chemical production (excluding pharmaceuticals)

<table>
<thead>
<tr>
<th>Real change compared with previous year</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>6.1%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>European Union</td>
<td>6.0%</td>
<td>-2.1%</td>
</tr>
<tr>
<td>United States</td>
<td>1.8%</td>
<td>-3.5%</td>
</tr>
<tr>
<td>Emerging markets of Asia</td>
<td>7.6%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Japan</td>
<td>3.7%</td>
<td>-12.7%</td>
</tr>
<tr>
<td>South America</td>
<td>4.6%</td>
<td>-0.6%</td>
</tr>
</tbody>
</table>

### Price trends for key commodities

Following the slump in 2020, raw materials prices rose sharply over the course of 2021. Global oil demand increased significantly again, but supply was only augmented modestly by OPEC+. As a result, the average price for reference Brent crude oil increased to $71 per barrel (2020: $42 per barrel). The price of oil fluctuated over the course of the year between around $55 per barrel in January and around $84 per barrel in October.

Over the course of the year, the average monthly price for the chemical raw material naphtha ranged between $501 per metric ton in January and $764 per metric ton in October. At $635 per metric ton, the annualized average price of naphtha in 2021 was significantly higher than in 2020 ($355 per metric ton).

High demand from Asia, cold weather and low storage levels in Western Europe, as well as a limited supply of liquid natural gas led to sharp increases in gas prices. At $16.02 per mmBtu, the average price of gas on the European spot market in particular was significantly higher than in 2020 ($3.17 per mmBtu). It rose from an average price of $6.29 per mmBtu in the first quarter to $7.29 per mmBtu in the fourth quarter. The average price of gas in the United States was $3.89 per mmBtu, likewise well above the prior-year level ($1.99 per mmBtu). Gas prices in China averaged around $6.72 per mmBtu nationally (2020: $6.29 per mmBtu), while the average price in the coastal provinces was $7.99 per mmBtu (2020: $7.48 per mmBtu).
Results of Operations

The global economy recovered much more strongly than we expected in 2021 following the severe slump in the previous year due to the effects of the coronavirus pandemic. Many governments’ aid programs and rising vaccination rates were key contributing factors to this. In this market environment, growth in global industrial production and in the global chemical industry (excluding pharmaceuticals) was also significantly above the prior-year level and the long-term average. BASF’s business also developed favorably: We considerably increased sales and earnings. \(^1\) Business reviews by segment can be found from page 69 onward

<table>
<thead>
<tr>
<th>Sales(^a, b)</th>
<th>Million €</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>78,598</td>
</tr>
<tr>
<td>2020</td>
<td>59,149</td>
</tr>
<tr>
<td>2019</td>
<td>59,316</td>
</tr>
<tr>
<td>2018</td>
<td>60,220</td>
</tr>
<tr>
<td>2017</td>
<td>61,223</td>
</tr>
</tbody>
</table>

\(^a\) Sales for 2018 were reduced by the share attributable to construction chemicals activities due to their presentation as discontinued operations. Figures for 2017 have not been restated.
\(^b\) Sales for 2017 were reduced by the share attributable to oil and gas activities due to their presentation as discontinued operations.

\(^1\) For more information on the development of Accelerator sales, see page 141 onward

\(^2\) For more information on the development of CO2 emissions, see page 127

<table>
<thead>
<tr>
<th>Factors influencing sales of the BASF Group</th>
<th>Change in million €</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volumes</td>
<td>6,279</td>
<td>10.6</td>
</tr>
<tr>
<td>Prices</td>
<td>14,673</td>
<td>24.8</td>
</tr>
<tr>
<td>Currencies</td>
<td>–1,439</td>
<td>–2.4</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>431</td>
<td>0.7</td>
</tr>
<tr>
<td>Diversities</td>
<td>–495</td>
<td>–0.8</td>
</tr>
<tr>
<td>Changes in the scope of consolidation</td>
<td>–1</td>
<td>0.0</td>
</tr>
<tr>
<td>Total change in sales</td>
<td>19,449</td>
<td>32.9</td>
</tr>
</tbody>
</table>

Income from operations (EBIT) before special items rose by €4,208 million to €7,768 million, largely due to considerably higher earnings in the Chemicals and Materials segments. Earnings development in the Chemicals segment was primarily driven by higher margins, higher sales volumes and an improvement in equity-accounted income. Earnings growth in the Materials segment was mainly attributable to higher margins in isocyanates and polyamides, as well as positive volume development. EBIT before special items also improved considerably in the Surface Technologies and Industrial Solutions segments, largely as a result of higher volumes. By contrast, the Nutrition & Care and Agricultural Solutions segments recorded considerably lower EBIT before special items. The decline in earnings in the Nutrition & Care segment was mainly attributable to lower margins on the back of higher raw materials and energy prices, as well as an increase in fixed costs. EBIT before special items was lower in the Agricultural Solutions segment, largely due to higher fixed costs, higher raw materials prices and logistics costs, and a low-margin product mix. The segment’s earnings were additionally weighed down by negative currency effects.

Special items in EBIT totaled €91 million in 2021, compared with –€3,751 million in the previous year, which was strongly impacted by impairments on property, plant and equipment and intangible assets in the total amount of around €2.9 billion. In 2021, restructuring measures gave rise to expenses of €99 million (2020: expenses of €952 million), mainly in the Agricultural Solutions and Materials segments and in Other. The release of provisions in connection with the restructuring of the Global Business Services unit had an offsetting effect. Integration costs amounted to €85 million (2020: integration costs of €157 million) and primarily related to the integration of the acquired BASF Shanshan companies and the polyamide business acquired from Solvay in 2020. Diversities, which also included the disposal of the global pigments business, gave rise to

At a glance

- Sales and EBIT before special items considerably above the prior-year level and the long-term average
- Considerable increase in ROCE to 13.5%
- Net income from shareholdings improves by €1,116 million
- Earnings per share of €6.01; adjusted earnings per share of €6.76

Sales rose by €19,449 million compared with the previous year to €78,598 million in 2021. This was mainly driven by higher prices and volumes in all segments. Price levels increased in the Chemicals, Surface Technologies and Materials segments in particular. Sales volumes grew primarily in the Surface Technologies and Materials segments. Currency effects, mainly relating to the U.S. dollar, had an offsetting effect. Sales performance was also weighed down by negative portfolio effects, especially in the Industrial Solutions segment following the divestiture of the global pigments business. This could only be partly offset by positive portfolio effects, mainly from the acquisition of a majority shareholding in BASF Shanshan Battery Materials Co., Ltd. in the Surface Technologies segment.
special income totaling €120 million, especially from the sale of our production site in Kankakee, Illinois, the Coatings division’s precision microchemicals business and our share in the condensate splitter in Port Arthur, Texas. Other items led to special charges in the total amount of €27 million.

For the definition of special items, see page 43

### Special items

<table>
<thead>
<tr>
<th>Million €</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restructuring measures</td>
<td>-99</td>
<td>-952</td>
</tr>
<tr>
<td>Integration costs</td>
<td>-85</td>
<td>-157</td>
</tr>
<tr>
<td>Divestitures</td>
<td>120</td>
<td>76</td>
</tr>
<tr>
<td>Other charges and income</td>
<td>-27</td>
<td>-2,566</td>
</tr>
<tr>
<td><strong>Total special items in EBIT</strong></td>
<td><strong>-91</strong></td>
<td><strong>-3,751</strong></td>
</tr>
</tbody>
</table>

At €7,677 million, EBIT for the BASF Group in 2021 was considerably above the previous year, which was impacted by high impairments. This figure includes income from integral companies accounted for using the equity method, which rose by €455 million to €675 million. This was mainly attributable to the business-related increase in the earnings contributed by BASF-YPC Company Ltd., Nanjing, China, which rose by €343 million.

<table>
<thead>
<tr>
<th>EBIT</th>
<th>Million €</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>7,677</td>
</tr>
<tr>
<td>2020</td>
<td>-191</td>
</tr>
</tbody>
</table>

For more information on net assets, see page 61 onward

---

**EBIT**

<table>
<thead>
<tr>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>7,587</td>
<td>5,974</td>
</tr>
</tbody>
</table>

**ROCE**

<table>
<thead>
<tr>
<th>Percentage</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>13.5</td>
<td>1.7</td>
<td></td>
</tr>
</tbody>
</table>

**Capital employed**

<table>
<thead>
<tr>
<th>Million €</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible assets</td>
<td>13,143</td>
<td>14,249</td>
</tr>
<tr>
<td>+ Property, plant and equipment</td>
<td>19,280</td>
<td>20,210</td>
</tr>
<tr>
<td>+ Integral investments accounted for using the equity method</td>
<td>1,682</td>
<td>1,395</td>
</tr>
<tr>
<td>+ Inventories</td>
<td>11,459</td>
<td>10,469</td>
</tr>
<tr>
<td>+ Accounts receivable, trade</td>
<td>11,588</td>
<td>9,379</td>
</tr>
<tr>
<td>+ Current and noncurrent other receivables and other assetsa</td>
<td>3,908</td>
<td>3,149</td>
</tr>
<tr>
<td>+ Assets of disposal groups</td>
<td>520</td>
<td>1,260</td>
</tr>
<tr>
<td><strong>Cost of capital basis of segments, average of month-end figures</strong></td>
<td><strong>61,579</strong></td>
<td><strong>60,111</strong></td>
</tr>
<tr>
<td>+ Deviation from cost of capital basis at closing rates as of December 31</td>
<td>2,688</td>
<td>-3,948</td>
</tr>
<tr>
<td>+ Assets not included in cost of capital</td>
<td>23,115</td>
<td>24,129</td>
</tr>
<tr>
<td><strong>Assets of the BASF Group as of December 31</strong></td>
<td><strong>87,383</strong></td>
<td><strong>80,292</strong></td>
</tr>
</tbody>
</table>

a Including customer/supplier financing and other adjustments

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For more information on the calculation of ROCE, see page 42

The calculation of EBIT as part of our statement of income is shown in the Consolidated Financial Statements on page 194

We use the indicator **return on capital employed (ROCE)**. ROCE was 13.5%, after 1.7% in the previous year. The increase in ROCE was primarily due to considerably higher EBIT.1

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1 For more information on the calculation of ROCE, see page 42

For the definition of special items, see page 43
Net income from shareholdings, financial result and income after taxes

Net income from shareholdings was above the prior-year figure, rising by €1,116 million to €207 million in 2021 (2020: –€909 million). The increase was mainly due to special income from the sale of our shares in Solenis (€589 million) as well as the improved earnings contribution from Wintershall Dea AG (–€344 million). This included impairments in the amount of €581 million, less than in the prior year.

The financial result amounted to –€436 million, compared with –€462 million in the previous year. The interest result improved by €59 million overall, due in part to lower interest expenses for financial indebtedness. The other financial result amounted to –€122 million after –€15 million in 2020, primarily driven by higher net expenses in connection with bonds in foreign currency and the corresponding hedging instruments. Lower write-downs on securities and loans, as well as a lower net interest expense from pension plans and similar obligations had an offsetting effect.

Income before income taxes amounted to €7,448 million in 2021, after –€1,562 million in 2020.

Income tax expenses were €1,430 million, after the negative pre-tax result had led to tax income of €91 million in the previous year.

Compared with 2020, income after taxes from continuing operations rose by €7,489 million to €6,018 million. Income after taxes from discontinued operations amounting to –€36 million resulted from purchase price adjustments for the divestiture of the construction chemicals business. The prior-year figure of €396 million included the book gain from the sale of the former Construction Chemicals division and its operating income after taxes until divestiture.

Income after taxes in the amount of €5,982 million (2020: –€1,075 million) included €5,523 million attributable to shareholders of BASF SE (2020: –€1,060 million). Noncontrolling interests amounted to €459 million, after –€15 million in the prior year. This mainly resulted from a higher earnings contribution from BASF TotalEnergies Petrochemicals LLC in Port Arthur, Texas, and a positive earnings contribution from BASF Petronas Chemicals Sdn. Bhd. Petaling Jaya, Malaysia, where earnings in the prior year had been impacted by impairments.

In 2021, earnings per share amounted to €6.01, compared with –€1.15 in the previous year.

For more information on the items in the statement of income, see the Notes to the Consolidated Financial Statements from page 231 onward.

For more information on the tax rate, see Note 12 to the Consolidated Financial Statements from page 200 onward.

Additional indicators for results of operations

We also use alternative performance measures (APMs) to steer the BASF Group. Investors, analysts and rating agencies use them to assess our performance. These are not defined by IFRS. As such, the methods of calculation can differ from those used by other companies. Alternative performance measures for the results of operations are EBIT before special items, EBITDA before special items, EBITDA, the EBITDA margin and adjusted earnings per share. Other APMs are net debt,¹ free cash flow² and capital expenditure (capex).²

Income from operations before depreciation, amortization and special items (EBITDA before special items) and income from operations before depreciation and amortization (EBITDA) are indicators that describe operational performance independent of age-related depreciation and amortization of assets and any impairment or reversal of impairment. Both figures are therefore particularly useful in cross-company comparisons. EBITDA before special items is also highly useful in making comparisons over time. The EBITDA margin is a relative indicator and is calculated as the ratio of EBITDA to sales revenue, enabling operational performance to be compared independent of the size of the underlying business.

EBITDA before special items rose by €3,913 million year on year to €11,348 million in 2021. At €11,355 million, EBITDA was €4,861 million above the prior-year figure. The EBITDA margin was 14.4% in 2021, compared with 11.0% in the previous year.

<table>
<thead>
<tr>
<th>EBITDA before special items</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBIT</td>
<td>7,677</td>
<td>–191</td>
</tr>
<tr>
<td>– Special items</td>
<td>–91</td>
<td>–3,751</td>
</tr>
<tr>
<td>EBIT before special items</td>
<td>7,768</td>
<td>3,560</td>
</tr>
<tr>
<td>+ Depreciation and amortization</td>
<td>3,534</td>
<td>3,805</td>
</tr>
<tr>
<td>+ Impairments and reversals of impairments on property, plant and equipment and intangible assets before special items</td>
<td>45</td>
<td>70</td>
</tr>
<tr>
<td>Depreciation, amortization, impairments and reversals of impairments on property, plant and equipment and intangible assets before special items</td>
<td>3,580</td>
<td>3,875</td>
</tr>
<tr>
<td>EBITDA before special items</td>
<td>11,348</td>
<td>7,435</td>
</tr>
</tbody>
</table>

¹ For more information on these indicators, see the Financial Position from page 63 onward.
² For more information on capex, see Our Steering Concept on page 43 and Material Investments and Portfolio Measures on page 38.
### EBITDA

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBIT</td>
<td>7,677</td>
<td>-191</td>
</tr>
<tr>
<td>+ Depreciation and amortization</td>
<td>3,534</td>
<td>3,805</td>
</tr>
<tr>
<td>+ Impairments and reversals of impairments on property, plant and equipment and intangible assets</td>
<td>144</td>
<td>2,880</td>
</tr>
<tr>
<td>Depreciation, amortization, impairments and reversals of impairments on property, plant and equipment and intangible assets</td>
<td>3,678</td>
<td>6,685</td>
</tr>
<tr>
<td>EBITDA</td>
<td>11,355</td>
<td>6,494</td>
</tr>
<tr>
<td>Sales revenue</td>
<td>78,598</td>
<td>59,149</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>% 14.4</td>
<td>11.0</td>
</tr>
</tbody>
</table>

Compared with earnings per share, **adjusted earnings per share** is firstly adjusted for special items. Amortization, impairment and reversal of impairment on intangible assets are then eliminated. Amortization of intangible assets primarily results from the purchase price allocation following acquisitions and is therefore of a temporary nature. The effects of these adjustments on income taxes and on noncontrolling interests are also considered. This makes adjusted earnings per share a suitable measure for making comparisons over time and predicting future profitability.

In 2021, adjusted earnings per share amounted to €6.76, compared with €3.21 in the previous year.

#### Adjusted earnings per share

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income after taxes</td>
<td>5,982</td>
<td>-1,075</td>
</tr>
<tr>
<td>– Special itemsa</td>
<td>-181</td>
<td>-4,606</td>
</tr>
<tr>
<td>+ Amortization, impairments and reversals of impairments on intangible assets</td>
<td>614</td>
<td>1,496</td>
</tr>
<tr>
<td>– Amortization, impairments and reversals of impairments on intangible assets contained in special items</td>
<td>0</td>
<td>819</td>
</tr>
<tr>
<td>– Adjustments to income taxes</td>
<td>116</td>
<td>958</td>
</tr>
<tr>
<td>– Adjustments to income after taxes from discontinued operations</td>
<td>-36</td>
<td>251</td>
</tr>
<tr>
<td>Adjusted income after taxes</td>
<td>6,695</td>
<td>2,999</td>
</tr>
<tr>
<td>– Adjusted noncontrolling interests</td>
<td>483</td>
<td>54</td>
</tr>
<tr>
<td>Adjusted net income</td>
<td>6,212</td>
<td>2,945</td>
</tr>
<tr>
<td>Weighted average number of outstanding shares (in thousands)</td>
<td>918,479</td>
<td>918,479</td>
</tr>
<tr>
<td>Adjusted earnings per share</td>
<td>€ 6.76</td>
<td>3.21</td>
</tr>
</tbody>
</table>

*a* Includes special items in net income from shareholdings of €90 million for 2021 and €855 million for 2020.

For more information on the earnings per share according to IFRS, see Note 6 to the Consolidated Financial Statements on page 220.
### Sales and earnings

<table>
<thead>
<tr>
<th>Million €</th>
<th>2021</th>
<th>2020</th>
<th>+/–</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>78,598</td>
<td>59,149</td>
<td>32.9%</td>
</tr>
<tr>
<td>Income from operations before depreciation, amortization and special items</td>
<td>11,348</td>
<td>7,435</td>
<td>52.6%</td>
</tr>
<tr>
<td>Income from operations before depreciation and amortization (EBITDA)</td>
<td>11,355</td>
<td>6,494</td>
<td>74.9%</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>14.4%</td>
<td>11.0%</td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortizationa</td>
<td>3,678</td>
<td>6,685</td>
<td>−45.0%</td>
</tr>
<tr>
<td>Income from operations (EBIT)</td>
<td>7,677</td>
<td>−191</td>
<td></td>
</tr>
<tr>
<td>Special items</td>
<td>–91</td>
<td>−3,751</td>
<td>97.6%</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>7,768</td>
<td>3,560</td>
<td>118.2%</td>
</tr>
<tr>
<td>Income after taxes from continuing operations</td>
<td>6,081</td>
<td>−1,471</td>
<td></td>
</tr>
<tr>
<td>Income after taxes from discontinued operations</td>
<td>−36</td>
<td>396</td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>5,523</td>
<td>−1,060</td>
<td></td>
</tr>
<tr>
<td>Earnings per share €</td>
<td>6.01</td>
<td>−1.15</td>
<td></td>
</tr>
<tr>
<td>Adjusted earnings per share €</td>
<td>6.76</td>
<td>3.21</td>
<td>110.6%</td>
</tr>
</tbody>
</table>

### Sales and earnings by quarter in 2021a

<table>
<thead>
<tr>
<th>Million €</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Full year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>19,400</td>
<td>19,753</td>
<td>19,669</td>
<td>19,776</td>
<td>78,598</td>
</tr>
<tr>
<td>Income from operations before depreciation, amortization and special items</td>
<td>3,181</td>
<td>3,217</td>
<td>2,771</td>
<td>2,179</td>
<td>11,348</td>
</tr>
<tr>
<td>Income from operations before depreciation and amortization (EBITDA)</td>
<td>3,176</td>
<td>3,199</td>
<td>2,729</td>
<td>2,250</td>
<td>11,355</td>
</tr>
<tr>
<td>Depreciation and amortizationb</td>
<td>865</td>
<td>883</td>
<td>907</td>
<td>1,023</td>
<td>3,678</td>
</tr>
<tr>
<td>Income from operations (EBIT)</td>
<td>2,311</td>
<td>2,316</td>
<td>1,822</td>
<td>1,227</td>
<td>7,677</td>
</tr>
<tr>
<td>Special items</td>
<td>−10</td>
<td>−39</td>
<td>−43</td>
<td>1</td>
<td>−91</td>
</tr>
<tr>
<td>EBIT before special items</td>
<td>2,321</td>
<td>2,355</td>
<td>1,865</td>
<td>1,227</td>
<td>7,768</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>2,247</td>
<td>2,189</td>
<td>1,777</td>
<td>1,235</td>
<td>7,448</td>
</tr>
<tr>
<td>Income after taxes from continuing operations</td>
<td>1,810</td>
<td>1,794</td>
<td>1,424</td>
<td>990</td>
<td>6,018</td>
</tr>
<tr>
<td>Income after taxes from discontinued operations</td>
<td>–</td>
<td>–</td>
<td>−43</td>
<td>7</td>
<td>−36</td>
</tr>
<tr>
<td>Net income</td>
<td>1,718</td>
<td>1,654</td>
<td>1,253</td>
<td>896</td>
<td>5,523</td>
</tr>
<tr>
<td>Earnings per share €</td>
<td>1.87</td>
<td>1.80</td>
<td>1.36</td>
<td>0.98</td>
<td>6.01</td>
</tr>
<tr>
<td>Adjusted earnings per share €</td>
<td>2.00</td>
<td>2.03</td>
<td>1.56</td>
<td>1.17</td>
<td>6.76</td>
</tr>
</tbody>
</table>

### Sales and earnings by quarter in 2020a

<table>
<thead>
<tr>
<th>Million €</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Full year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>16,753</td>
<td>12,680</td>
<td>13,811</td>
<td>15,905</td>
<td>59,149</td>
</tr>
<tr>
<td>Income from operations before depreciation, amortization and special items</td>
<td>2,579</td>
<td>1,229</td>
<td>1,542</td>
<td>2,085</td>
<td>7,435</td>
</tr>
<tr>
<td>Income from operations before depreciation and amortization (EBITDA)</td>
<td>2,428</td>
<td>1,070</td>
<td>1,044</td>
<td>1,952</td>
<td>6,494</td>
</tr>
<tr>
<td>Depreciation and amortizationb</td>
<td>972</td>
<td>1,011</td>
<td>3,682</td>
<td>1,020</td>
<td>6,685</td>
</tr>
<tr>
<td>Income from operations (EBIT)</td>
<td>1,456</td>
<td>59</td>
<td>−2,638</td>
<td>932</td>
<td>−191</td>
</tr>
<tr>
<td>Special items</td>
<td>−184</td>
<td>−167</td>
<td>−3,219</td>
<td>−181</td>
<td>−3,751</td>
</tr>
<tr>
<td>EBIT before special items</td>
<td>1,640</td>
<td>226</td>
<td>581</td>
<td>1,113</td>
<td>3,560</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>1,200</td>
<td>−923</td>
<td>−2,786</td>
<td>947</td>
<td>−1,562</td>
</tr>
<tr>
<td>Income after taxes from continuing operations</td>
<td>881</td>
<td>−888</td>
<td>−2,177</td>
<td>713</td>
<td>−1,471</td>
</tr>
<tr>
<td>Income after taxes from discontinued operations</td>
<td>22</td>
<td>14</td>
<td>13</td>
<td>347</td>
<td>396</td>
</tr>
<tr>
<td>Net income</td>
<td>885</td>
<td>−878</td>
<td>−2,122</td>
<td>1,055</td>
<td>−1,060</td>
</tr>
<tr>
<td>Earnings per share €</td>
<td>0.97</td>
<td>−0.96</td>
<td>−2.31</td>
<td>1.15</td>
<td>−1.15</td>
</tr>
<tr>
<td>Adjusted earnings per share €</td>
<td>1.26</td>
<td>0.25</td>
<td>0.60</td>
<td>1.10</td>
<td>3.21</td>
</tr>
</tbody>
</table>

---

a Depreciation and amortization of property, plant and equipment and intangible assets (including impairments and reversals of impairments)

b Quarterly results not audited
Net Assets

At a glance

- Increase in total assets to €87,383 million mainly due to higher current assets
- Intangible fixed assets and property, plant and equipment around €2.3 billion above the prior-year-end figure overall

Total assets amounted to €87,383 million as of December 31, 2021, €7,091 million above the prior-year level.

Noncurrent assets rose by €1,908 million to €52,332 million. This was mainly attributable to the €1,906 million increase in property, plant and equipment. Additions to property, plant and equipment amounted to €4,410 million and included €332 million in connection with the formation of BASF Shanshan Battery Materials Co., Ltd. Currency effects of €798 million also contributed to the increase. Depreciation amounted to €2,922 million. Intangible assets mounted to €13,499 million, €354 million above the prior year-end figure. The increase was due in particular to currency effects in the amount of €572 million. Additions to intangible assets totaled €470 million and included €392 million from the formation of BASF Shanshan Battery Materials, of which goodwill was €254 million. Amortization of €612 million had an offsetting effect.

For more information on the above transactions see page 41 of this Management’s Report and Note 3 to the Consolidated Financial Statements from page 207 onward.

<table>
<thead>
<tr>
<th>Assets</th>
<th>December 31, 2021</th>
<th>December 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Million €</td>
<td>%</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>13,499</td>
<td>15.4</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>21,553</td>
<td>24.7</td>
</tr>
<tr>
<td>Integral investments accounted for using the equity method</td>
<td>2,540</td>
<td>2.9</td>
</tr>
<tr>
<td>Non-integral investments accounted for using the equity method</td>
<td>9,843</td>
<td>11.3</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>575</td>
<td>0.7</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>2,600</td>
<td>3.0</td>
</tr>
<tr>
<td>Other receivables and miscellaneous assets</td>
<td>1,722</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>Noncurrent assets</strong></td>
<td><strong>52,332</strong></td>
<td><strong>59.9</strong></td>
</tr>
<tr>
<td>Inventories</td>
<td>13,868</td>
<td>15.9</td>
</tr>
<tr>
<td>Accounts receivable, trade</td>
<td>11,942</td>
<td>13.7</td>
</tr>
<tr>
<td>Other receivables and miscellaneous assets</td>
<td>5,568</td>
<td>6.4</td>
</tr>
<tr>
<td>Marketable securities</td>
<td>208</td>
<td>0.2</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>2,624</td>
<td>3.0</td>
</tr>
<tr>
<td>Assets of disposal groups</td>
<td>840</td>
<td>1.0</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td><strong>35,051</strong></td>
<td><strong>40.2</strong></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>87,383</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>
Noncurrent other receivables and miscellaneous assets amounted to €1,722 million, up €810 million from the prior-year level. This primarily resulted from higher defined benefit assets and derivatives with positive fair values.

Integral investments accounted for using the equity method rose by €662 million year on year to €2,540 million, mainly due to positive after-tax earnings at BASF YPC-Company Ltd., Nanjing, China, and positive currency effects.

The €1,031 million decline in the carrying amounts of non-integral shareholdings accounted for using the equity method compared with December 31, 2020, was largely attributable to dividend payments by and negative after-tax earnings at Wintershall Dea AG and to the disposal of the shareholding in Solenis.

Other financial assets decreased by €7 million compared with the prior year-end figure.

Deferred tax assets declined by €786 million, primarily as a result of lower pension provisions.

**Current assets** rose by €5,183 million to €35,051 million. This was driven by the €3,858 million increase in inventories compared with the prior year-end as a result of higher raw materials prices and the stronger business performance in 2021. The €2,476 million increase in trade accounts receivable was also mainly due to strong business development.

Other receivables and miscellaneous assets rose by €895 million, primarily due to higher tax refund claims and positive fair values of derivatives.

The €1,706 million decrease in cash and cash equivalents compared with the figure as of December 31, 2020, to €2,624 million had an offsetting effect.
Financial Position

Equity and liabilities

| Subscribed capital and capital reserves | 4,282 | 4.9 | 4,291 | 5.3 |
| Retained earnings | 40,365 | 46.2 | 37,911 | 47.2 |
| Other comprehensive income | -3,855 | -4.4 | -8,474 | -10.6 |
| Noncontrolling interests | 1,289 | 1.5 | 670 | 0.8 |
| **Equity** | **42,081** | **48.2** | **34,398** | **42.8** |
| Provisions for pensions and similar obligations | 6,160 | 7.0 | 8,566 | 10.7 |
| Deferred tax liabilities | 1,499 | 1.7 | 1,447 | 1.8 |
| Tax provisions | 415 | 0.5 | 587 | 0.7 |
| Other provisions | 1,782 | 2.0 | 1,484 | 1.8 |
| Financial indebtedness | 13,764 | 15.8 | 15,819 | 19.7 |
| Other liabilities | 1,600 | 1.8 | 1,711 | 2.1 |
| **Noncurrent liabilities** | **25,220** | **28.8** | **29,614** | **36.9** |
| Accounts payable, trade | 7,826 | 9.0 | 5,291 | 6.6 |
| Provisions | 3,935 | 4.5 | 2,825 | 3.5 |
| Tax liabilities | 1,161 | 1.3 | 988 | 1.2 |
| Financial indebtedness | 3,420 | 3.9 | 3,395 | 4.3 |
| Other liabilities | 3,679 | 4.2 | 3,440 | 4.3 |
| Liabilities of disposal groups | 61 | 0.1 | 341 | 0.4 |
| **Current liabilities** | **20,081** | **23.0** | **16,280** | **20.3** |
| **Total equity and liabilities** | **87,383** | **100.0** | **80,292** | **100.0**

At a glance

- **Equity ratio of 48.2% after 42.8% in previous year**
- **Net debt slightly reduced to €14,352 million**
- **Rated A by Standard & Poor's, Moody's and Fitch**
- **Cash flows from operating activities and free cash flow higher year on year**

Equity rose by €7,683 million compared with the previous year to €42,081 million. Retained earnings rose by €2,454 million, mainly because net income significantly exceeded the dividend payments of €3,031 million disbursed in the second quarter of 2021. Other comprehensive income increased equity by €4,619 million, primarily as a result of actuarial gains and currency effects.

The equity ratio improved from 42.8% to 48.2%.

Compared with the 2020 year-end, noncurrent liabilities declined by €4,394 million to €25,220 million. This was primarily attributable to the €2,406 million decrease in provisions for pensions and similar obligations, mainly as a result of higher interest rates in all relevant currency zones and returns on plan assets.

Furthermore, noncurrent financial indebtedness declined by €2,055 million. This was primarily due to the reclassification of three bonds with an aggregate carrying amount of €1,936 million and a loan in the amount of €240 million to current financial indebtedness. Exchange rates and interest had an offsetting effect.

Tax provisions declined by €172 million year on year to €415 million. By contrast, deferred tax liabilities were slightly above the prior year-end figure, at €1,499 million.
The €111 million decrease in other noncurrent liabilities largely resulted from lower negative fair values of derivatives.

Other provisions rose by €298 million, mainly due to higher environmental provisions.

At €20,081 million, current liabilities were €3,801 million above the figure as of December 31, 2020. This was primarily due to the €2,535 million increase in trade accounts payable, largely as a result of positive business development. In addition, current provisions rose by €1,110 million compared with the previous year, primarily from higher provisions for bonus payments and for rebates. Other liabilities increased by €239 million.

Current financial indebtedness was on a level with the prior year-end. This was attributable to the above-mentioned reclassification of three bonds and a loan in the aggregate amount of around €2.2 billion from noncurrent to current financial indebtedness. The reduction in commercial paper at BASF SE (around €1 billion) and the scheduled repayment of a eurobond (€1 billion) and a loan (€150 million) had an offsetting effect.

Tax liabilities rose by €173 million compared with the previous year.

Liabilities of disposal groups amounted to €61 million.

Net debt declined by €325 million compared with December 31, 2020, to €14,352 million.

### Off-balance sheet obligations

Off-balance sheet obligations mainly relate to long-term purchase obligations for raw materials. We also concluded long-term supply agreements for green power in 2021. In addition, obligations exist in connection with initiated or planned investment projects.

### Financing policy and credit ratings

Our financing policy aims to ensure our solvency at all times, limiting the risks associated with financing and optimizing our cost of capital. We preferably meet our external financing needs on the international capital markets.

We strive to maintain a solid A rating, which ensures unrestricted access to financial and capital markets. Our financing measures are aligned with our operational business planning as well as the company’s strategic direction and also ensure the financial flexibility to take advantage of strategic options.

### Maturities of financial indebtedness

<table>
<thead>
<tr>
<th>Year</th>
<th>Million €</th>
</tr>
</thead>
<tbody>
<tr>
<td>2022</td>
<td>3,420</td>
</tr>
<tr>
<td>2023</td>
<td>2,208</td>
</tr>
<tr>
<td>2024</td>
<td>1,280</td>
</tr>
<tr>
<td>2025</td>
<td>1,892</td>
</tr>
<tr>
<td>2026</td>
<td>1,177</td>
</tr>
<tr>
<td>2027 and beyond</td>
<td>7,207</td>
</tr>
</tbody>
</table>


We have solid financing. Corporate bonds form the basis of our medium to long-term debt financing. These are issued in euros and other currencies with different maturities as part of our €20 billion debt issuance program. The goal is to create a balanced maturity profile, diversify our financing and optimize our debt capital financing conditions.

For short-term financing, we use BASF SE’s global commercial paper program, which has an issuing volume of up to $12.5 billion. As of December 31, 2021, commercial paper with a carrying amount of €248 million was outstanding under this program. A firmly committed, syndicated credit line of €6 billion with a term until 2026 covers the repayment of outstanding commercial paper. It can also be used for general company purposes. The credit line, as well as a short-term credit line of €3 billion that expired in the second quarter of 2021, were not used at any point in 2021. Our external financing is therefore largely independent of short-term fluctuations in the credit markets.
BASF's most important financial contracts contain no side agreements with regard to specific financial ratios (financial covenants) or compliance with a specific rating (rating trigger).

To minimize risks and leverage internal optimization potential within the Group, we bundle the financing, financial investments and foreign currency hedging of BASF SE’s subsidiaries within the BASF Group where possible. Foreign currency risks are primarily hedged centrally using derivative financial instruments in the market.

Our interest rate management generally pursues the goal of reducing interest expenses for the BASF Group and limiting interest risks. Interest rate hedging transactions are therefore conducted with banks in order to turn selected liabilities to the capital market from fixed to variable interest rates or vice versa.

For more information on the financing tools and hedging instruments used, see Note 21 from page 251 onward and Note 26 from page 263 onward in the Notes to the Consolidated Financial Statements.
**Free cash flow**

<table>
<thead>
<tr>
<th>Million €</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td>7,245</td>
<td>5,413</td>
</tr>
<tr>
<td>– Payments made for property, plant and equipment and intangible assets</td>
<td>3,532</td>
<td>3,129</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>3,713</td>
<td>2,284</td>
</tr>
</tbody>
</table>

### Statement of cash flows

**Million €**

<table>
<thead>
<tr>
<th>Description</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>5,523</td>
<td>–1,060</td>
</tr>
<tr>
<td>Depreciation and amortization of property, plant and equipment and intangible assets</td>
<td>3,687</td>
<td>6,751</td>
</tr>
<tr>
<td>Changes in net working capital</td>
<td>–1,566</td>
<td>–400</td>
</tr>
<tr>
<td>Miscellaneous items</td>
<td>–398</td>
<td>122</td>
</tr>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td>7,245</td>
<td>5,413</td>
</tr>
<tr>
<td>Payments made for property, plant and equipment and intangible assets</td>
<td>–3,532</td>
<td>–3,129</td>
</tr>
<tr>
<td>Acquisitions/divestitures</td>
<td>430</td>
<td>1,280</td>
</tr>
<tr>
<td>Changes in financial assets and miscellaneous items</td>
<td>489</td>
<td>–55</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td>–2,622</td>
<td>–1,904</td>
</tr>
<tr>
<td>Capital increases/repayments and other equity transactions</td>
<td>–</td>
<td>3</td>
</tr>
<tr>
<td>Changes in financial and similar liabilities</td>
<td>–3,145</td>
<td>1,580</td>
</tr>
<tr>
<td>Dividends</td>
<td>–3,312</td>
<td>–3,139</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td>–6,457</td>
<td>–1,556</td>
</tr>
<tr>
<td>Cash-effective changes in cash and cash equivalents</td>
<td>–1,834</td>
<td>1,953</td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the period and other changes*</td>
<td>4,458</td>
<td>2,382</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at the end of the year</strong></td>
<td>2,624</td>
<td>4,335</td>
</tr>
</tbody>
</table>

*In 2021 and 2020, cash and cash equivalents presented in the statement of cash flows deviate from the figures in the balance sheet. For explanations and other disclosures on the statement of cash flows, see Note 27 to the Consolidated Financial Statements from page 277 onward.
Actual Development Compared With Outlook for 2021

Sales, earnings and ROCE forecast for the BASF Group

We increased sales to €78.6 billion in 2021, considerably above our forecast at the beginning of the year of sales growth to between €61 billion and €64 billion. Sales in the Surface Technologies, Chemicals, Industrial Solutions, Agricultural Solutions and Nutrition & Care segments rose more strongly than initially expected. This was driven primarily by significantly higher prices, especially in the Surface Technologies and Chemicals segments. We increased sales volumes as expected. Currency and portfolio effects had an offsetting impact, in line with our assumptions.

At €7.8 billion, EBIT before special items likewise significantly exceeded the forecast range of between €4.1 billion and €5.0 billion. The Industrial Solutions, Nutrition & Care and Agricultural Solutions segments in particular did not develop as expected. Industrial Solutions increased EBIT before special items considerably, contrary to the forecast of a slight decline. EBIT before special items in the Agricultural Solutions and Nutrition & Care segments declined considerably; in both segments, we had expected a slight improvement in earnings.

We considerably increased ROCE in almost all segments. ROCE increased only slightly in the Agricultural Solutions segment, while the Nutrition & Care segment saw a considerable decline. Overall, the degree of improvement exceeded our expectations: ROCE for the BASF Group amounted to 13.5%, considerably above the range we had forecast of between 8.0% and 9.2%.

We revised the outlook provided in February 2021 in April, July and October 2021. In October 2021, we projected sales of between €76 billion and €78 billion. We expected EBIT before special items of €7.5 billion to €8.0 billion. For ROCE, we forecast a range of 13.2% to 14.1%.

Acceleraor sales and CO₂ emissions forecast for the BASF Group

We increased Accelerator sales to €24.1 billion in 2021, considerably above the range forecast in February of between €18 billion and €19 billion. The range forecast in October – between €21.5 billion and €22.5 billion – was likewise exceeded. This was due to the BASF Group’s extremely positive business performance, which was also reflected in Accelerator sales. The decline caused by the divestiture of the global pigments business and the resulting outflow of Accelerator products only had a slight offsetting effect overall.

CO₂ emissions amounted to 20.2 million metric tons, slightly below the range we forecast in February of between 20.5 million metric tons and 21.5 million metric tons. BASF significantly increased production volumes in 2021 in response to stronger demand. To reduce the additional emissions resulting from this, we made procuring energy from renewable sources a focus. To this end, BASF converted energy supply agreements, acquired renewable energy certificates and signed long-term supply agreements for green power. A project to reduce nitrous oxide emissions in Ludwigshafen, Germany, was successfully implemented. Divestitures such as the disposal of the global pigments business led to a slight decline in emissions. In addition, emissions were significantly reduced by the lower capacity utilization of the ammonia plant due to the sharp rise in natural gas prices.
Capex forecast for the BASF Group

In 2021, we invested a total of €3.4 billion in capital expenditures (capex), excluding additions from acquisitions, IT investments, restoration obligations and right-of-use assets arising from leases. The figure forecast in February 2021 was €3.6 billion.

Sales, earnings and ROCE forecast for the segments

We considerably increased sales in the Chemicals segment in 2021, after only forecasting a slight increase in sales at the beginning of the year. Both divisions raised prices, significantly exceeding the price increases assumed in February as a result of extraordinary supply bottlenecks in the markets. We increased volumes as expected. The segment considerably increased EBIT before special items and ROCE, in line with the forecast.

The Materials segment recorded a considerable improvement in sales, EBIT before special items and ROCE as forecast.

Sales in the Industrial Solutions segment rose considerably in 2021, exceeding our expectations of a slight decline. This was largely driven by volume growth. Against our assumptions, this more than compensated for the negative effects from the divestiture of the global pigments business. The segment’s volume growth also led to considerably higher EBIT before special items, contrary to our forecast of a slight decline. ROCE was significantly above the prior-year level, as expected.

The Surface Technologies segment achieved significant sales growth, exceeding our forecast from February, in which we had assumed only a slight increase in sales. This primarily resulted from higher precious metal prices, which rose more strongly than expected. The significant recovery in EBIT before special items and ROCE materialized as expected.

Sales in the Nutrition & Care segment were considerably above the prior-year figure, exceeding our forecast of slight growth. This was mainly due to higher price levels, after we had assumed lower prices in February. We increased volumes in both divisions as expected. EBIT before special items declined significantly in 2021, falling short of our expectations of a slight increase. The decrease was attributable to lower earnings contributions from both divisions. This was mainly due to lower margins as a result of higher raw materials and energy prices as well as higher fixed costs, primarily from higher bonus provisions. ROCE also declined considerably in line with earnings development in the segment. Our forecast had assumed a considerable increase.

Sales in the Agricultural Solutions segment rose considerably, not just slightly as forecast. Higher sales volumes and prices exceeded negative currency effects to a greater extent than we had anticipated. Contrary to our forecast of a slight increase, EBIT before special items was considerably below the prior-year level. The positive sales development was unable to compensate for an increase in fixed costs, mainly from higher bonus provisions, higher raw materials prices and logistics costs, and a low-margin product mix. Based on the development of earnings, we were only able to increase ROCE slightly, against our assumption of a considerable increase.

We significantly improved sales and EBIT before special items in Other as forecast.

For more information on our forecast for 2022, see page 148 onward
For more information on investments, see page 38 onward
## Business Review by Segment

### Segment overview

<table>
<thead>
<tr>
<th>Segment</th>
<th>Sales 2021</th>
<th>Sales 2020</th>
<th>Income from operations before depreciation and amortization (EBITDA) 2021</th>
<th>Income from operations before depreciation and amortization (EBITDA) 2020</th>
<th>Income from operations (EBIT) before special items 2021</th>
<th>Income from operations (EBIT) before special items 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemicals</td>
<td>13,579</td>
<td>8,071</td>
<td>3,764</td>
<td>1,237</td>
<td>2,974</td>
<td>445</td>
</tr>
<tr>
<td>Materials</td>
<td>15,214</td>
<td>10,736</td>
<td>3,162</td>
<td>1,556</td>
<td>2,418</td>
<td>835</td>
</tr>
<tr>
<td>Industrial Solutions</td>
<td>8,876</td>
<td>7,644</td>
<td>1,344</td>
<td>1,099</td>
<td>1,006</td>
<td>822</td>
</tr>
<tr>
<td>Surface Technologies</td>
<td>22,659</td>
<td>16,659</td>
<td>1,243</td>
<td>900</td>
<td>800</td>
<td>484</td>
</tr>
<tr>
<td>Nutrition &amp; Care</td>
<td>6,442</td>
<td>6,019</td>
<td>967</td>
<td>1,152</td>
<td>497</td>
<td>773</td>
</tr>
<tr>
<td>Agricultural Solutions</td>
<td>8,162</td>
<td>7,660</td>
<td>1,358</td>
<td>1,582</td>
<td>715</td>
<td>970</td>
</tr>
<tr>
<td>Other</td>
<td>3,666</td>
<td>2,360</td>
<td>–484</td>
<td>–1,032</td>
<td>–643</td>
<td>–769</td>
</tr>
<tr>
<td>BASF Group</td>
<td>78,598</td>
<td>59,149</td>
<td>11,355</td>
<td>6,494</td>
<td>7,768</td>
<td>3,560</td>
</tr>
</tbody>
</table>

### Contributions to EBITDA by segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>Contributions to EBITDA 2021</th>
<th>Contributions to EBITDA 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemicals</td>
<td>11%</td>
<td>12%</td>
</tr>
<tr>
<td>Materials</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>Industrial Solutions</td>
<td>–4%</td>
<td>–4%</td>
</tr>
<tr>
<td>Surface Technologies</td>
<td>11%</td>
<td>12%</td>
</tr>
<tr>
<td>Nutrition &amp; Care</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Agricultural Solutions</td>
<td>12%</td>
<td>12%</td>
</tr>
<tr>
<td>Other</td>
<td>–4%</td>
<td>–4%</td>
</tr>
</tbody>
</table>

### Contributions to assets by segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>Contributions to assets 2021</th>
<th>Contributions to assets 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemicals</td>
<td>12%</td>
<td>13%</td>
</tr>
<tr>
<td>Materials</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>Industrial Solutions</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Surface Technologies</td>
<td>16%</td>
<td>16%</td>
</tr>
<tr>
<td>Nutrition &amp; Care</td>
<td>18%</td>
<td>18%</td>
</tr>
<tr>
<td>Agricultural Solutions</td>
<td>18%</td>
<td>18%</td>
</tr>
<tr>
<td>Other</td>
<td>26%</td>
<td>26%</td>
</tr>
</tbody>
</table>

---

*Additions to property, plant and equipment (of which from acquisitions: €332 million in 2021 and €559 million in 2020) and intangible assets (of which from acquisitions: €392 million in 2021 and €691 million in 2020)*
### Contributions to EBIT before special items by segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemicals</td>
<td>38%</td>
<td>38%</td>
<td>38%</td>
<td>38%</td>
</tr>
<tr>
<td>Materials</td>
<td>13%</td>
<td>13%</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>Industrial Solutions</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Surface Technologies</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Nutrition &amp; Care</td>
<td>9%</td>
<td>9%</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>Agricultural Solutions</td>
<td>-8%</td>
<td>-8%</td>
<td>-8%</td>
<td>-8%</td>
</tr>
<tr>
<td>Other</td>
<td>-8%</td>
<td>-8%</td>
<td>-8%</td>
<td>-8%</td>
</tr>
</tbody>
</table>

### Income from operations (EBIT) before special items

<table>
<thead>
<tr>
<th>Segment</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>BASF Group</td>
<td>2,321</td>
<td>1,640</td>
<td>2,355</td>
<td>226</td>
</tr>
</tbody>
</table>

### Contributions to total sales by segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemicals</td>
<td>17%</td>
<td>17%</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>Materials</td>
<td>19%</td>
<td>19%</td>
<td>19%</td>
<td>19%</td>
</tr>
<tr>
<td>Industrial Solutions</td>
<td>11%</td>
<td>11%</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Surface Technologies</td>
<td>29%</td>
<td>29%</td>
<td>29%</td>
<td>29%</td>
</tr>
<tr>
<td>Nutrition &amp; Care</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Agricultural Solutions</td>
<td>11%</td>
<td>11%</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>

### Sales

<table>
<thead>
<tr>
<th>Segment</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>BASF Group</td>
<td>19,400</td>
<td>16,753</td>
<td>19,753</td>
<td>12,680</td>
</tr>
</tbody>
</table>

### Income from operations (EBIT) before special items

<table>
<thead>
<tr>
<th>Segment</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>BASF Group</td>
<td>19,776</td>
<td>15,905</td>
<td>15,905</td>
<td>15,905</td>
</tr>
</tbody>
</table>
### Income from operations (EBIT)*

<table>
<thead>
<tr>
<th></th>
<th>Q1 2021</th>
<th>Q2 2021</th>
<th>Q3 2021</th>
<th>Q4 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemicals</td>
<td>605</td>
<td>170</td>
<td>981</td>
<td>–18</td>
</tr>
<tr>
<td>Materials</td>
<td>648</td>
<td>119</td>
<td>762</td>
<td>–102</td>
</tr>
<tr>
<td>Industrial Solutions</td>
<td>259</td>
<td>240</td>
<td>340</td>
<td>133</td>
</tr>
<tr>
<td>Surface Technologies</td>
<td>356</td>
<td>217</td>
<td>289</td>
<td>–176</td>
</tr>
<tr>
<td>Nutrition &amp; Care</td>
<td>215</td>
<td>244</td>
<td>194</td>
<td>255</td>
</tr>
<tr>
<td>Agricultural Solutions</td>
<td>804</td>
<td>787</td>
<td>35</td>
<td>95</td>
</tr>
<tr>
<td>BASF Group</td>
<td>2,311</td>
<td>1,456</td>
<td>2,316</td>
<td>59</td>
</tr>
</tbody>
</table>

*Quarterly results not audited

### Contributions to EBIT by segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>Q1 2021</th>
<th>Q2 2021</th>
<th>Q3 2021</th>
<th>Q4 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemicals</td>
<td>605</td>
<td>170</td>
<td>981</td>
<td>–18</td>
</tr>
<tr>
<td>Materials</td>
<td>648</td>
<td>119</td>
<td>762</td>
<td>–102</td>
</tr>
<tr>
<td>Industrial Solutions</td>
<td>259</td>
<td>240</td>
<td>340</td>
<td>133</td>
</tr>
<tr>
<td>Surface Technologies</td>
<td>356</td>
<td>217</td>
<td>289</td>
<td>–176</td>
</tr>
<tr>
<td>Nutrition &amp; Care</td>
<td>215</td>
<td>244</td>
<td>194</td>
<td>255</td>
</tr>
<tr>
<td>Agricultural Solutions</td>
<td>804</td>
<td>787</td>
<td>35</td>
<td>95</td>
</tr>
<tr>
<td>BASF Group</td>
<td>2,311</td>
<td>1,456</td>
<td>2,316</td>
<td>59</td>
</tr>
</tbody>
</table>

*Quarterly results not audited
The Chemicals segment consists of the Petrochemicals and Intermediates divisions. It supplies the other segments with basic chemicals and intermediates, contributing to the organic growth of our key value chains. Alongside internal transfers, our customers mainly come from the chemical and plastics industries. We aim to further expand our competitiveness through technological leadership and operational excellence.

For more information on the Chemicals segment’s business model, see page 33 onward.

Electrically heated steam cracker furnace

We have signed an agreement with SABIC and Linde to develop and pilot electrically heated steam cracker furnaces. Together, we developed concepts to replace the fossil fuels used in the heating process with renewable energy. We want to make a significant contribution to reducing carbon emissions in the chemical industry with this innovative and promising solution. If energy from renewable sources is used, the new technology has the potential to almost completely avoid CO₂ emissions.

Discover our carbon management at basf.com/carbon-management
Business review

At a glance

- Sales rise 68.2% to €13,579 million, mainly due to higher prices
- EBIT before special items improves by 568.3% to €2,974 million

At €13,579 million, sales to third parties in the Chemicals segment were €5,508 million above the prior-year figure in 2021. Both divisions contributed to the increase with considerable sales growth. The Petrochemicals division increased sales by €4,248 million to €9,674 million, while sales in the Intermediates division rose by €1,259 million to €3,904 million.

Factors influencing sales – Chemicals

<table>
<thead>
<tr>
<th></th>
<th>Chemicals</th>
<th>Petrochemicals</th>
<th>Intermediates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volumes</td>
<td>9.6%</td>
<td>10.5%</td>
<td>7.9%</td>
</tr>
<tr>
<td>Prices</td>
<td>61.2%</td>
<td>71.5%</td>
<td>40.2%</td>
</tr>
<tr>
<td>Portfolio</td>
<td>−0.7%</td>
<td>−1.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Currencies</td>
<td>−1.9%</td>
<td>−2.6%</td>
<td>−0.4%</td>
</tr>
<tr>
<td>Sales</td>
<td>68.2%</td>
<td>78.3%</td>
<td>47.6%</td>
</tr>
</tbody>
</table>

Sales performance was mainly driven by significantly higher price levels. This was largely due to strong demand alongside low product availability, mainly caused by extreme weather conditions such as Winter Storm Uri in North America, supply chain disruptions, as well as significantly higher feedstock and energy costs. As a result, the Petrochemicals division increased prices in all business areas, especially for steam cracker products, styrene monomers and along the entire propylene value chain. The Intermediates division raised prices in the butanediol and derivatives business in particular, as well as in the acids and polyalcohols business.

Sales growth was supported by a significant increase in volumes due to strong demand. Volumes in the Petrochemicals division grew mainly in steam cracker products and styrene monomers. The Intermediates division increased volumes primarily in the butanediol and derivatives business and in the acids and polyalcohols business. The amines business in Europe also posted significant volume growth. In the previous year, volume development was significantly weighed down by the impact of the coronavirus pandemic and the unplanned outage of the steam cracker in Port Arthur, Texas.

Sales growth was curbed by negative currency effects, mainly relating to the U.S. dollar.

Sales development was slightly dampened by portfolio effects in the Petrochemicals division from the disposal of our share in the condensate splitter in Port Arthur, Texas, to Total Petrochemicals & Refining USA, Inc.
Compared with 2020, income from operations (EBIT) before special items rose by €2,529 million to €2,974 million as a result of considerable earnings growth in both divisions. In both the Petrochemicals and Intermediates divisions, this was primarily attributable to significantly higher margins, higher sales volumes and improved income from investments accounted for using the equity method.

EBIT amounted to €2,997 million, an improvement of €3,189 million compared with the previous year. This included special income from the disposal of our share in the condensate splitter in the first quarter of 2021. In the previous year, special items were mainly impacted by impairments.

For the outlook for 2022, see page 148 onward.
<table>
<thead>
<tr>
<th>Product</th>
<th>Europe</th>
<th>North America</th>
<th>Asia Pacific</th>
<th>South America, Africa, Middle East</th>
<th>Annual capacity (metric tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acrylic acid</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>1,510,000</td>
</tr>
<tr>
<td>Alkylamines</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>250,000</td>
</tr>
<tr>
<td>Formic acid</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>305,000</td>
</tr>
<tr>
<td>Benzene</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>910,000</td>
</tr>
<tr>
<td>Butadiene</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>680,000</td>
</tr>
<tr>
<td>Butanediol equivalents</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>550,000</td>
</tr>
<tr>
<td>Ethanolamines and derivatives</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>440,000</td>
</tr>
<tr>
<td>Ethylene</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>3,480,000</td>
</tr>
<tr>
<td>Ethylene oxide</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>1,445,000</td>
</tr>
<tr>
<td>Neopentylglycol</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>255,000</td>
</tr>
<tr>
<td>Oxo-C4 alcohols (calculated as butyraldehyde)</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>1,625,000</td>
</tr>
<tr>
<td>PolyTHF®</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>350,000</td>
</tr>
<tr>
<td>Propionic acid</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>180,000</td>
</tr>
<tr>
<td>Propylene</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>2,630,000</td>
</tr>
<tr>
<td>Styropor®/Neopor®</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>545,000</td>
</tr>
<tr>
<td>Superabsorbents</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>565,000</td>
</tr>
<tr>
<td>Plasticizers</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>595,000</td>
</tr>
</tbody>
</table>

* All capacities are included at 100%, including plants belonging to joint operations and joint ventures.
**Materials**

The Materials segment comprises the Performance Materials and Monomers divisions. The segment's portfolio comprises advanced materials and their precursors for new applications and systems such as isocyanates, polyamides and inorganic basic products as well as specialties for the plastics and plastics processing industries. We aim to grow mainly organically, differentiate ourselves from our competitors through specific technology expertise, industry knowledge and customer proximity, and create maximum value in the isocyanate and polyamide value chains.

[For more information on the Materials segment's business model, see page 33 onward]

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**Sales**

€15,214 million  
2020: €10,736 million

**EBIT before special items**

€2,418 million  
2020: €835 million

---

Haptex®

Haptex® is a more environmentally friendly, water-soluble polyurethane solution used in the production of synthetic leather. Among other things, Haptex®'s solvent-free production process cuts greenhouse gas emissions by around 50%. It also reduces energy consumption by more than 20% per kilo of chemicals in synthetic leather production. Moreover, Haptex® offers a wide range of applications and meets the demand for products that are eco-conscious, durable and high quality. BASF expects to grow faster than the market for solvent-based products with Haptex®. The company aims to achieve annual growth of more than 50% with the product by 2025.

[Discover Haptex® at basf.com/haptex]
Business review

At a glance

- Sales growth of 41.7% to €15,214 million, mainly driven by higher prices
- EBIT before special items of €2,418 million; considerable increase as a result of higher earnings in both divisions

The Materials segment increased sales to third parties by €4,478 million year on year to €15,214 million in 2021. This was due to considerable sales growth in both divisions. The Monomers division increased sales by €2,821 million to €7,922 million. At €7,292 million, sales in the Performance Materials division were €1,657 million above the prior-year figure.

Factors influencing sales – Materials

Volumes | Performance Materials | Monomers
---|---|---
12.0% | 14.1% | 9.6%
Prices | 30.0% | 16.2% | 45.2%
Portfolio | 0.7% | 0.6% | 0.9%
Currencies | –0.9% | –1.5% | –0.3%
Sales | 41.7% | 29.4% | 55.3%

Sales growth was due mainly to significantly higher prices resulting from strong demand alongside low product availability and increased prices for raw materials. Production and supply chain disruptions associated with extreme weather conditions and raw material shortages negatively impacted product market availability. The Monomers division achieved higher prices primarily in isocyanates and polyamides, while the Performance Materials division raised price levels mainly in polyurethane systems and engineering plastics.

Volumes rose significantly as a result of strong demand and contributed to sales growth. The Performance Materials division recorded higher sales volumes in the transportation and consumer goods industries, especially in Asia Pacific and Europe. In the second half of 2021, volume development was however negatively impacted by the semiconductor shortage in the automotive market and the resulting production outages. Overall, sales volumes in the construction industry were slightly above the prior-year level. Higher volumes in Europe more than compensated for lower volumes in North America. The Monomers division increased volumes, especially of polyamide 6,6 following the slight recovery in automotive production in 2021 after the weak prior year due to the pandemic. Sales volumes of methylene diphenyl disocyanate (MDI) were also higher.

Portfolio effects from the acquisition of the integrated polyamide business from Solvay, which closed as of January 31, 2020, had a slightly positive impact on sales.

Currency effects, primarily relating to the U.S. dollar, had a slightly negative impact on sales development in both divisions.

Segment data – Materials

<table>
<thead>
<tr>
<th>Million €</th>
<th>2021</th>
<th>2020</th>
<th>+/-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales to third parties</td>
<td>15,214</td>
<td>10,736</td>
<td>41.7%</td>
</tr>
<tr>
<td>of which Performance Materials</td>
<td>7,292</td>
<td>5,635</td>
<td>29.4%</td>
</tr>
<tr>
<td>Monomers</td>
<td>7,922</td>
<td>5,101</td>
<td>55.3%</td>
</tr>
<tr>
<td>Intersegment transfers</td>
<td>1,250</td>
<td>720</td>
<td>73.6%</td>
</tr>
<tr>
<td>Sales including transfers</td>
<td>16,464</td>
<td>11,456</td>
<td>43.7%</td>
</tr>
<tr>
<td>Income from operations before depreciation, amortization and special items</td>
<td>3,208</td>
<td>1,714</td>
<td>87.2%</td>
</tr>
<tr>
<td>Income from operations before depreciation and amortization (EBITDA)</td>
<td>3,162</td>
<td>1,556</td>
<td>103.2%</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>20.8</td>
<td>14.5</td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>817</td>
<td>1,665</td>
<td>−50.9%</td>
</tr>
<tr>
<td>Income from operations (EBIT)</td>
<td>2,345</td>
<td>−109</td>
<td></td>
</tr>
<tr>
<td>Special items</td>
<td>−73</td>
<td>−944</td>
<td>92.3%</td>
</tr>
<tr>
<td>EBIT before special items</td>
<td>2,418</td>
<td>835</td>
<td>189.6%</td>
</tr>
<tr>
<td>Return on capital employed (ROCE)</td>
<td>22.8</td>
<td>−1.1</td>
<td></td>
</tr>
<tr>
<td>Assets</td>
<td>11,286</td>
<td>9,118</td>
<td>23.8%</td>
</tr>
<tr>
<td>Investments including acquisitions</td>
<td>709</td>
<td>1,957</td>
<td>−63.8%</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>193</td>
<td>182</td>
<td>6.1%</td>
</tr>
</tbody>
</table>

a Depreciation and amortization of property, plant and equipment and intangible assets (including impairments and reversals of impairments)
b Additions to property, plant and equipment and intangible assets
Materials – sales
By division

<table>
<thead>
<tr>
<th>Division</th>
<th>Europe</th>
<th>North America</th>
<th>Asia Pacific</th>
<th>South America, Africa, Middle East</th>
<th>Total (million €)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance Materials</td>
<td>36%</td>
<td>20%</td>
<td>39%</td>
<td>5%</td>
<td>7,292</td>
</tr>
<tr>
<td>Monomers</td>
<td>47%</td>
<td>19%</td>
<td>29%</td>
<td>5%</td>
<td>7,922</td>
</tr>
</tbody>
</table>

Income from operations (EBIT) before special items rose by €1,583 million compared with 2020 to €2,418 million. Both divisions considerably increased EBIT before special items. Earnings growth in the Monomers division was primarily due to higher margins in isocyanates and polyamides. In the Performance Materials division, EBIT before special items was above the prior-year level, mainly driven by positive volume development.

EBIT rose by €2,454 million year on year to €2,345 million. Special items amounted to –€73 million in 2021, after –€944 million in 2020. The special charges in the previous year were primarily attributable to impairments.

For the outlook for 2022, see page 148 onward.
Industrial Solutions

The Industrial Solutions segment consists of the Dispersions & Resins and the Performance Chemicals divisions. It develops and markets ingredients and additives for industrial applications, such as fuel and lubricant solutions, polymer dispersions, resins, electronic materials, antioxidants, light stabilizers, oilfield chemicals, and mineral processing and hydrometallurgical chemicals. We aim to grow organically in key industries such as automotive, plastics, electronics, and energy and resources, and expand our position by leveraging our comprehensive industry expertise and application know-how.

For more information on the Industrial Solutions segment’s business model, see page 33 onward.

Sales
€8,876 million
2020: €7,644 million

EBIT before special items
€1,006 million
2020: €822 million

acResin® for more sustainable self-adhesives

acResin® is a high-performance UV-curable hotmelt made of 100% acrylic. We want to play a key role in making the self-adhesives market more sustainable with this product, which is why we have steadily expanded the range of applications for acResin® and plan to continue to do so in the future. An eco-efficiency analysis certified by TÜV, an independent testing services provider, showed that compared with traditional solvent-based adhesives, acResin® enables a significant reduction in CO₂ emissions of around 60%. Due to the consistent rise in market demand and range of applications, BASF expects to continue to grow by around 8% annually with acResin® until 2026.

Discover acResin® at basf.com/acresin

For more information on the Industrial Solutions segment’s business model, see page 33 onward.
Business review

At a glance

- Sales of €8,876 million; considerable growth mainly driven by higher volumes and prices
- Considerable increase in EBIT before special items to €1,006 million

Sales to third parties in the Industrial Solutions segment rose by €1,232 million year on year to €8,876 million in 2021. This was attributable to considerably higher sales in both divisions. The Dispersions & Resins division increased sales by €812 million to €5,681 million. Sales in the Performance Chemicals division amounted to €3,195 million, €420 million above the prior-year figure.

Sales influences – Industrial Solutions

<table>
<thead>
<tr>
<th></th>
<th>Industrial Solutions</th>
<th>Dispersions &amp; Resins</th>
<th>Performance Chemicals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volumes</td>
<td>11.4%</td>
<td>11.4%</td>
<td>11.5%</td>
</tr>
<tr>
<td>Prices</td>
<td>11.2%</td>
<td>14.5%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Portfolio</td>
<td>−5.0%</td>
<td>−7.9%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Currencies</td>
<td>−1.5%</td>
<td>−1.3%</td>
<td>−1.8%</td>
</tr>
<tr>
<td>Sales</td>
<td>16.1%</td>
<td>16.7%</td>
<td>15.1%</td>
</tr>
</tbody>
</table>

The positive sales performance was attributable to higher volumes and prices in both divisions. The increase in sales volumes mainly resulted from the global economic recovery from the coronavirus pandemic. Volume growth in the Dispersions & Resins division was mainly driven by the dispersions business. The Performance Chemicals division recorded higher sales volumes in all business areas.

The higher price level was driven primarily by increased raw materials prices. Both divisions raised prices in almost all business areas and all regions.

Segment data – Industrial Solutions

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
<th>+/-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales to third parties</td>
<td>8,876</td>
<td>7,644</td>
<td>16.1%</td>
</tr>
<tr>
<td>of which Dispersions &amp; Resins</td>
<td>5,681</td>
<td>4,869</td>
<td>16.7%</td>
</tr>
<tr>
<td>Performance Chemicals</td>
<td>3,195</td>
<td>2,775</td>
<td>15.1%</td>
</tr>
<tr>
<td>Intersegment transfers</td>
<td>420</td>
<td>375</td>
<td>11.9%</td>
</tr>
<tr>
<td>Sales including transfers</td>
<td>9,296</td>
<td>8,019</td>
<td>15.9%</td>
</tr>
<tr>
<td>Income from operations before depreciation, amortization and special items</td>
<td>1,343</td>
<td>1,189</td>
<td>13.0%</td>
</tr>
<tr>
<td>Income from operations before depreciation and amortization (EBITDA)</td>
<td>1,344</td>
<td>1,099</td>
<td>22.3%</td>
</tr>
<tr>
<td>EBITDA margin %</td>
<td>15.1</td>
<td>14.4</td>
<td>−</td>
</tr>
<tr>
<td>Depreciation and amortization %</td>
<td>380</td>
<td>469</td>
<td>−19.0%</td>
</tr>
<tr>
<td>Income from operations (EBIT)</td>
<td>965</td>
<td>630</td>
<td>53.1%</td>
</tr>
<tr>
<td>Special items</td>
<td>−42</td>
<td>−192</td>
<td>78.4%</td>
</tr>
<tr>
<td>EBIT before special items</td>
<td>1,006</td>
<td>822</td>
<td>22.4%</td>
</tr>
<tr>
<td>Return on capital employed (ROCE) %</td>
<td>15.3</td>
<td>9.3</td>
<td>−</td>
</tr>
<tr>
<td>Assets</td>
<td>6,302</td>
<td>6,402</td>
<td>−1.6%</td>
</tr>
<tr>
<td>Investments including acquisitions a</td>
<td>361</td>
<td>331</td>
<td>9.1%</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>175</td>
<td>177</td>
<td>−1.1%</td>
</tr>
</tbody>
</table>

Portfolio effects in the Dispersions & Resins division following the disposal of the global pigments business as of June 30, 2021, had an offsetting impact.

Sales were also reduced by slightly negative currency effects in both divisions, mainly relating to the U.S. dollar.
Income from operations (EBIT) before special items rose considerably compared with 2020. This was attributable to considerably higher EBIT before special items in the Dispersions & Resins division, mainly as a result of volume growth.

By contrast, EBIT before special items declined slightly in the Performance Chemicals division. This was primarily due to the increase in fixed costs mainly from higher bonus provisions, lower margins due to higher raw materials prices, and negative currency effects. This could not be offset by the division’s positive volume performance.

At €965 million, EBIT was €335 million above the prior-year figure. Special items amounted to –€42 million in 2021 after –€192 million in 2020. Special charges in the previous year related mainly to the carve-out of the pigments business and impairments.

For the outlook for 2022, see page 148 onward

### Division sales by region

(Location of customer)

<table>
<thead>
<tr>
<th>Divisions</th>
<th>Europe</th>
<th>North America</th>
<th>Asia Pacific</th>
<th>South America, Africa, Middle East</th>
<th>Total (million €)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dispersions &amp; Resins</td>
<td>40%</td>
<td>24%</td>
<td>30%</td>
<td>6%</td>
<td>5,681</td>
</tr>
<tr>
<td>Performance Chemicals</td>
<td>40%</td>
<td>23%</td>
<td>27%</td>
<td>10%</td>
<td>3,195</td>
</tr>
</tbody>
</table>

### Division, products, applications

- **Dispersions & Resins**
  - Products: Polymer dispersions, resins, additives, electronic materials
  - Customer industries and applications: Coatings, construction, paper, printing and packaging, adhesives and electronics industries

- **Performance Chemicals**
  - Products: Antioxidants, light stabilizers and flame retardants for plastic applications
  - Customer industries and applications: Chemicals, plastics, consumer goods, automotive and transportation industries, as well as energy and resources
  - Additional products: Fuel and refinery additives, polyisobutene, brake fluids and engine coolants, lubricant additives and basestocks, components for metalworking fluids and compounded lubricants
  - Process chemicals for the extraction of oil, gas, metals and minerals; chemicals for enhanced oil recovery
  - Kaolin minerals

### Production capacities of selected products in the regions^a

<table>
<thead>
<tr>
<th>Product</th>
<th>Europe</th>
<th>North America</th>
<th>Asia Pacific</th>
<th>South America, Africa, Middle East</th>
<th>Annual capacity (metric tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acrylics dispersions</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>1,783,000</td>
</tr>
<tr>
<td>Formulation additives</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>67,000</td>
</tr>
<tr>
<td>Polyisobutene</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>265,000</td>
</tr>
</tbody>
</table>

^a All capacities are included at 100%, including plants belonging to joint operations and joint ventures.
Surface Technologies

The Surface Technologies segment comprises the Catalysts and Coatings divisions, which offer chemical solutions for surfaces. Its portfolio serves industries such as the automotive and chemical sectors and includes automotive OEM and refinish coatings, surface treatment, catalysts, battery materials, and precious and base metal services. We improve our customers’ applications and processes with tailored products, technologies and solutions, and support them through geographical proximity across all regions. The aim is to drive BASF’s growth by leveraging our portfolio of technologies and expanding our position as a leading and innovative provider of battery materials and surface coatings solutions.

For more information on the Surface Technologies segment’s business model, see page 33 onward

Sales
€22,659 million
2020: €16,659 million

EBIT before special items
€800 million
2020: €484 million
Business review

At a glance

- Sales growth of 36.0% to €22,659 million, mainly as a result of significantly higher precious metal prices
- EBIT before special items rises 65.3% to €800 million due to increase in the Catalysts division

Sales to third parties in the Surface Technologies segment rose by €6,000 million compared with the previous year to €22,659 million. Both divisions contributed to the increase. The Catalysts division recorded sales growth of €5,649 million to €19,219 million. The Coatings division increased sales by €351 million year on year to €3,440 million.

Factors influencing sales – Surface Technologies

<table>
<thead>
<tr>
<th></th>
<th>Surface Technologies</th>
<th>Catalysts</th>
<th>Coatings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volumes</td>
<td>12.2%</td>
<td>12.5%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Prices</td>
<td>25.3%</td>
<td>30.4%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Portfolio</td>
<td>2.1%</td>
<td>2.6%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Currencies</td>
<td>-3.6%</td>
<td>-3.9%</td>
<td>-2.4%</td>
</tr>
<tr>
<td>Sales</td>
<td>36.0%</td>
<td>41.6%</td>
<td>11.4%</td>
</tr>
</tbody>
</table>

Sales growth was driven by the strong increase in precious metal prices in the Catalysts division. This also led to considerably higher sales in precious metal trading, at €10,376 million (2020: €7,612 million). The Coatings division recorded slightly higher prices in all business areas.

Considerably higher sales volumes on the back of the global economic recovery from the coronavirus pandemic and following stronger demand also contributed to the positive sales development. Both divisions increased volumes in all business areas. Volume development in the segment was dampened by the ongoing shortage of semiconductors in the automotive market and production and supply chain disruptions.

Portfolio effects in the Catalysts division following the acquisition of our majority shareholding in BASF Shanshan Battery Materials Co., Ltd. had a slightly positive impact on sales.

Sales performance was weighed down by negative currency effects, mainly relating to the U.S. dollar.
At €800 million, income from operations (EBIT) before special items was €316 million above the 2020 figure due to considerably higher earnings in the Catalysts division. This was driven by growth in sales volumes and the considerably higher earnings contribution from precious metal trading.

EBIT before special items in the Coatings division declined considerably compared with the previous year. The significant rise in volumes was unable to compensate for higher fixed costs, primarily from higher bonus provisions, and a weaker margin due to increased raw materials prices.

EBIT rose by €1,348 million to €761 million. In 2021, we recorded special items of –€39 million after –€1,071 million in 2020, mainly in connection with special charges for impairments.

Division sales by region
(Location of customer)

<table>
<thead>
<tr>
<th>Divisions</th>
<th>Europe</th>
<th>North America</th>
<th>Asia Pacific</th>
<th>South America, Africa, Middle East</th>
<th>Total (million €)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Catalysts</td>
<td>29%</td>
<td>34%</td>
<td>33%</td>
<td>4%</td>
<td>19,219</td>
</tr>
<tr>
<td>Coatings</td>
<td>33%</td>
<td>23%</td>
<td>29%</td>
<td>15%</td>
<td>3,440</td>
</tr>
</tbody>
</table>

Division, products, applications

<table>
<thead>
<tr>
<th>Divisions</th>
<th>Products</th>
<th>Customer industries and applications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Catalysts</td>
<td>Automotive catalysts, process catalysts and technologies, battery materials, precious and base metal services</td>
<td>Automotive, chemical and pharmaceutical industries, refineries, battery manufacturers, solutions for the protection of air quality as well as the production of fuels, chemicals, plastics and battery materials, battery material recycling</td>
</tr>
<tr>
<td>Coatings</td>
<td>Coatings solutions for automotive applications, technology and system solutions for surface treatments, decorative paints</td>
<td>Automotive industry, body shops, steel industry, aviation, aluminum applications in the architecture and construction industries, household appliances, painting businesses and private consumers</td>
</tr>
</tbody>
</table>

For the outlook for 2022, see page 148 onward.
In the Nutrition & Care segment, consisting of the Care Chemicals and Nutrition & Health divisions, we serve the growing and increasingly sophisticated demands for fast-moving consumer goods. Our customers include food and feed producers as well as the pharmaceutical, cosmetics, detergent and cleaner industries. We also offer solutions for technical applications and for crop protection and nutrition. We strive to expand our position as a leading provider of ingredients and solutions for consumer goods in the areas of nutrition, home and personal care. Our goal is to drive organic growth. We focus on emerging markets, new business models and sustainability trends in consumer markets, supported by acquisitions.

For more information on the Nutrition & Care segment’s business model, see page 33 onward.

Sales
€6,442 million
2020: €6,019 million

EBIT before special items
€497 million
2020: €773 million

D’lite
Keeping on top of rapidly changing consumer trends in a fast-moving cosmetics market is a major challenge for traditional market analyses and product development processes. BASF developed a new digital platform to address precisely this: D’lite helps customers to identify the best cosmetic offerings and ingredients. This service combines the Care Chemicals division’s industry knowledge with a wide range of data from multiple internal and external sources, including analyses of social media sites, blogs, forums and review portals. D’lite supports BASF’s customers along the entire product development chain – from consumer and market understanding, concept and strategy development to formulation design – and enables them to speed up the formulation process by up to 50%.

Discover D’lite at dlite-global.basf.com
Business review

At a glance

- Sales growth of €423 million to €6,442 million due to higher volumes and raised prices
- EBIT before special items declines €276 million to €497 million as a result of lower contributions from both divisions

Sales to third parties in the Nutrition & Care segment rose by €423 million year on year to €6,442 million in 2021. This was attributable to the Care Chemicals division, which recorded sales growth of €450 million to €4,439 million. By contrast, in the Nutrition & Health division, sales declined by €27 million compared with 2020 to €2,003 million.

Factors influencing sales – Nutrition & Care

<table>
<thead>
<tr>
<th></th>
<th>Nutrition &amp; Care</th>
<th>Care Chemicals</th>
<th>Nutrition &amp; Health</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volumes</td>
<td>5.7%</td>
<td>6.9%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Prices</td>
<td>-4.5%</td>
<td>7.4%</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Portfolio</td>
<td>-1.3%</td>
<td>-1.2%</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Currencies</td>
<td>-1.9%</td>
<td>-1.9%</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Sales</td>
<td>7.0%</td>
<td>11.3%</td>
<td>-1.3%</td>
</tr>
</tbody>
</table>

The sales increase at segment level was primarily due to higher volumes. The Care Chemicals division increased its volumes mainly in the home care, industrial and institutional cleaning and industrial formulators business and in the personal care solutions business. Volumes rose slightly in the Nutrition & Health division, especially in the pharmaceutical and aroma ingredients businesses. This more than compensated for reduced volumes due to the lower availability of vitamin A.

Sales were positively impacted by higher prices overall due to significantly higher price levels in the Care Chemicals division, especially in the oleo surfactants and fatty alcohols business as well as in the home care, industrial and institutional cleaning and industrial formulators business, mainly as a result of higher raw materials prices. This more than compensated for slightly lower prices in the Nutrition & Health division.

Slightly negative currency effects, mainly relating to the U.S. dollar, had an offsetting effect.

Portfolio effects from the sale of the production site in Kankakee, Illinois, had a negative impact on sales in both divisions.
Compared with the prior-year figure, income from operations (EBIT) before special items declined by €276 million to €497 million due to lower earnings contributions from both divisions. The decline in earnings in the Nutrition & Health division resulted from lower margins, driven by higher prices for raw materials and energy, the lower availability of vitamin A, and higher fixed costs, primarily from higher bonus provisions. EBIT before special items in the Care Chemicals division decreased due mainly to higher fixed costs, largely as a result of higher bonus provisions.

EBIT declined by €134 million year on year to €554 million. It included special income from the sale of the production site in Kankakee, Illinois, in the second quarter of 2021. In the previous year, EBIT included special charges, mainly for impairments and provisions, primarily for the optimization of production structures in the Nutrition & Health division.

For the outlook for 2022, see page 148 onward.

### Division sales by region

(Location of customer)

<table>
<thead>
<tr>
<th>Divisions</th>
<th>Europe</th>
<th>North America</th>
<th>Asia Pacific</th>
<th>South America, Africa, Middle East</th>
<th>Total (million €)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Care Chemicals</td>
<td>53%</td>
<td>18%</td>
<td>20%</td>
<td>9%</td>
<td>4,439</td>
</tr>
<tr>
<td>Nutrition &amp; Health</td>
<td>37%</td>
<td>18%</td>
<td>35%</td>
<td>10%</td>
<td>2,003</td>
</tr>
</tbody>
</table>

### Division, products, applications

<table>
<thead>
<tr>
<th>Products</th>
<th>Customer industries and applications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Care Chemicals</td>
<td>Cosmetics, detergent and cleaner industry, agrochemical industry, technical</td>
</tr>
<tr>
<td></td>
<td>applications for various industries</td>
</tr>
<tr>
<td>Ingredients for skin and hair</td>
<td>Cosmetics, detergent and cleaner industry, agrochemical industry, technical</td>
</tr>
<tr>
<td>cleansing and care products,</td>
<td>applications for various industries</td>
</tr>
<tr>
<td>such as emollients, cosmetic</td>
<td></td>
</tr>
<tr>
<td>active ingredients, polymers</td>
<td></td>
</tr>
<tr>
<td>and UV filters</td>
<td></td>
</tr>
<tr>
<td>Ingredients for detergents</td>
<td>Food and feed industries, flavor and fragrance industry, pharmaceutical</td>
</tr>
<tr>
<td>and cleaners in household,</td>
<td>industry and bioethanol industry</td>
</tr>
<tr>
<td>institution or industry,</td>
<td></td>
</tr>
<tr>
<td>such as surfactants, enzymes,</td>
<td></td>
</tr>
<tr>
<td>chelating agents, water</td>
<td></td>
</tr>
<tr>
<td>soluble polymers, biocides</td>
<td></td>
</tr>
<tr>
<td>and products for optical</td>
<td></td>
</tr>
<tr>
<td>effects</td>
<td></td>
</tr>
<tr>
<td>Chemical ingredients and</td>
<td></td>
</tr>
<tr>
<td>processing additives, for</td>
<td></td>
</tr>
<tr>
<td>example for crop protection,</td>
<td></td>
</tr>
<tr>
<td>excipients for chemical</td>
<td></td>
</tr>
<tr>
<td>processes such as emulsion</td>
<td></td>
</tr>
<tr>
<td>polymerization, metal</td>
<td></td>
</tr>
<tr>
<td>surface treatments or textile</td>
<td></td>
</tr>
<tr>
<td>processing, as well as</td>
<td></td>
</tr>
<tr>
<td>products for concrete</td>
<td></td>
</tr>
<tr>
<td>additives, biofuels and other</td>
<td></td>
</tr>
<tr>
<td>industrial applications</td>
<td></td>
</tr>
<tr>
<td>Nutrition &amp; Health</td>
<td>Food and feed industries, flavor and fragrance industry, pharmaceutical</td>
</tr>
<tr>
<td></td>
<td>industry and bioethanol industry</td>
</tr>
<tr>
<td>Additives for the food and</td>
<td></td>
</tr>
<tr>
<td>feed industries, such as</td>
<td></td>
</tr>
<tr>
<td>vitamins, carotenoids, steroids,</td>
<td></td>
</tr>
<tr>
<td>enzymes, emulsifiers, omega-3</td>
<td></td>
</tr>
<tr>
<td>fatty acids</td>
<td></td>
</tr>
<tr>
<td>Industrial enzymes for</td>
<td></td>
</tr>
<tr>
<td>bioethanol and food production,</td>
<td></td>
</tr>
<tr>
<td>natural and synthetic</td>
<td></td>
</tr>
<tr>
<td>flavors and fragrances, such</td>
<td></td>
</tr>
<tr>
<td>as citral, geraniol, citronellol,</td>
<td></td>
</tr>
<tr>
<td>L-menthol and linalool,</td>
<td></td>
</tr>
<tr>
<td>Isobionics® Santalol, valencene</td>
<td></td>
</tr>
<tr>
<td>and nootkatone</td>
<td></td>
</tr>
<tr>
<td>Excipients for the</td>
<td></td>
</tr>
<tr>
<td>pharmaceutical industry and</td>
<td></td>
</tr>
<tr>
<td>selected, high-volume</td>
<td></td>
</tr>
<tr>
<td>active pharmaceutical</td>
<td></td>
</tr>
<tr>
<td>ingredients, such as l-leucine</td>
<td></td>
</tr>
<tr>
<td>and omega-3 fatty acids</td>
<td></td>
</tr>
</tbody>
</table>

### Production capacities of selected products in the regions

<table>
<thead>
<tr>
<th>Product</th>
<th>Europe</th>
<th>North America</th>
<th>Asia Pacific</th>
<th>South America, Africa, Middle East</th>
<th>Annual capacity (metric tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anionic surfactants</td>
<td>![ ]</td>
<td>![ ]</td>
<td>![ ]</td>
<td>![ ]</td>
<td>550,000</td>
</tr>
<tr>
<td>Citral</td>
<td>![ ]</td>
<td></td>
<td>![ ]</td>
<td>![ ]</td>
<td>78,000</td>
</tr>
<tr>
<td>Chelating agents</td>
<td>![ ]</td>
<td>![ ]</td>
<td>![ ]</td>
<td>![ ]</td>
<td>170,000</td>
</tr>
<tr>
<td>Methane sulfonic acid</td>
<td>![ ]</td>
<td>![ ]</td>
<td>![ ]</td>
<td>![ ]</td>
<td>30,000</td>
</tr>
<tr>
<td>Nonionic surfactants</td>
<td>![ ]</td>
<td>![ ]</td>
<td>![ ]</td>
<td>![ ]</td>
<td>650,000</td>
</tr>
</tbody>
</table>

* All capacities are included at 100%, including plants belonging to joint operations and joint ventures.
Agricultural Solutions

In the Agricultural Solutions segment, we aim to further strengthen our market position as an integrated provider. Our offer comprises seeds and seed treatment products, as well as fungicides, herbicides, insecticides and biological solutions, complemented by digital products to help farmers achieve better yield. Our strategy is based on innovation-driven organic growth and targeted portfolio expansion through acquisitions. Customer needs, societal expectations and reducing environmental impacts are what motivate us to innovate.

For more information on the Agricultural Solutions segment’s business model, see page 33 onward.

Sales
€8,162 million
2020: €7,660 million

EBIT before special items
€715 million
2020: €970 million
Business review

At a glance

- Sales above prior-year level at €8,162 million due to volume growth and higher prices
- EBIT before special items of €715 million, 26.3% below 2020 figure, mainly from higher costs and negative currency effects

At €8,162 million, sales to third parties in the Agricultural Solutions segment were €502 million above the prior-year level in 2021. The main drivers were higher volumes in all regions and higher prices. Negative currency effects had an offsetting impact.

Factors influencing sales – Agricultural Solutions

<table>
<thead>
<tr>
<th>Volumes</th>
<th>8.1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prices</td>
<td>2.5%</td>
</tr>
<tr>
<td>Portfolio</td>
<td></td>
</tr>
<tr>
<td>Currencies</td>
<td>–4.0%</td>
</tr>
<tr>
<td>Sales</td>
<td>6.6%</td>
</tr>
</tbody>
</table>

In Europe, sales rose by €93 million year on year to €2,128 million. This was primarily attributable to higher volumes, especially in fungicides and herbicides. Slightly higher prices contributed to sales performance. Sales were reduced by negative currency effects, mainly in eastern Europe and Turkey.

Sales in North America rose by €81 million to €3,085 million. Higher sales volumes, especially for herbicides, more than compensated for negative currency effects and slightly lower prices.

In Asia, we increased sales by €114 million to €938 million. This was mainly due to higher sales volumes, especially in fungicides and insecticides, primarily in China. Slightly higher price levels contributed to the positive sales development, while negative currency effects had a dampening impact.

Sales in the region South America, Africa, Middle East amounted to €1,990 million, €213 million above the previous year, and were driven by significantly higher price levels and considerable volume growth in all sectors, especially in Brazil. This more than offset negative currency effects, especially in Argentina and Brazil.
At €715 million, income from operations (EBIT) before special items was €255 million below the 2020 figure. This was primarily attributable to significantly higher fixed costs, mainly from much higher bonus provisions, significantly higher raw materials prices and logistics costs, and a low-margin product mix. Earnings were also weighed down by negative currency effects.

**Good to know**

We are committed to sustainable farming and focus on four areas to help farmers not only produce more, but also better.

**Climate-smart farming:** We help farmers tackle pressing climate challenges with the right combination of technologies designed to increase yield, make farm management easier and more effective, and reduce the impact on the environment. Our technologies include nitrogen management products to improve fertilizer efficiency and lower greenhouse gas emissions, no-till herbicides, seeds and traits for more stress-resilient crops, digital solutions and bacteria that improve nitrogen availability to plants.

**Sustainable solutions:** We systematically steer our innovation pipeline according to sustainability criteria from an early stage on. This enables us to continually develop innovations that offer added value for farmers, the environment and society. We also assess each product in our existing portfolio with respect to its contribution to sustainability. In this way, we systematically steer our portfolio to annually increase the sales share from solutions that make a substantial sustainability contribution.

**Digital farming:** Digitalization has the power to transform agriculture and make it more efficient and sustainable. Our digital solutions help farmers to produce more with less and grow their business profitably while reducing their environmental footprint.

**Smart stewardship:** Our stewardship tools and services are tailored to farmers’ daily work. Farmers get the support they need to use our products safely; access to tools and services, protective equipment, customized training, digital solutions and new and future-oriented application technologies such as drones.

**Products and applications**

<table>
<thead>
<tr>
<th>Indications and sectors</th>
<th>Applications</th>
<th>Selected products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fungicides</td>
<td>Protecting crops against harmful fungal diseases; improving plant health, securing yield and harvest quality with chemical and biological solutions</td>
<td>Boscalid, dimethomorph, F500®, Initium®, metiram, metrafenone, Revysol®, Serifel®, Xemium®</td>
</tr>
<tr>
<td>Herbicides</td>
<td>Reducing competition from weeds for nutrients, water and sunlight to secure yield and harvest quality</td>
<td>Basta®, dimethenamid-p, Engenia®, Finale®, imazamox, Kiox®, Liberty®, pendimethalin, Tirexor®, topramezone</td>
</tr>
<tr>
<td>Insecticides</td>
<td>Combating insect pests in agriculture and beyond with chemical and biological solutions, such as in the areas of public health, professional pest control and landscape maintenance</td>
<td>Alpha-cypermethrin, Broflanilide, chlorfenapyr, fipronil, Inscalis®, Interceptor®, Nealta®, teflubenzuron, Terminos®</td>
</tr>
<tr>
<td>Seed Treatment</td>
<td>Improving seeds’ potential with chemical and biological protection as well as inoculants</td>
<td>Flu Rite®, ILEVO®, Integrar®, Nodulator®, PRO, Poncho®, Serifel®, Sydraf®, Vaut®, HIHP, Velodis®</td>
</tr>
<tr>
<td>Seeds &amp; Traits</td>
<td>Seeds and traits for key field crops such as canola (oilseed rape), cotton, soybean and wheat, as well as vegetable seeds</td>
<td>Creedens®, FiberMax®, InVigor®, LibertyLink®, Nunhems®, Stoneville®</td>
</tr>
</tbody>
</table>

**Agricultural Solutions sales by region**

<table>
<thead>
<tr>
<th>Division</th>
<th>Europe</th>
<th>North America</th>
<th>Asia Pacific</th>
<th>South America, Africa, Middle East</th>
<th>Total (million €)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Solutions</td>
<td>26%</td>
<td>38%</td>
<td>12%</td>
<td>24%</td>
<td>8,162</td>
</tr>
</tbody>
</table>
In focus:

Research and Development for the Right Balance in Agriculture

For BASF, sustainability begins in research and development. Farmers in particular face major challenges: feeding a growing world population, changing weather conditions due to climate change, and limited natural resources and arable land.

Our research and development activities innovate for farmers’ success in strategically relevant crops in major markets around the world. They range from seed, biological and chemistry innovations to digital solutions that protect plants against fungal diseases, insect pests and weeds, and improve soil management and plant health. In 2021, we spent €904 million on research and development in the Agricultural Solutions segment, representing around 11% of the segment’s sales. By 2031, we will launch major pipeline projects across all business areas. Our well-stocked innovation pipeline has a peak sales potential totaling more than €7.5 billion with products to be launched between 2021 and 2031. BASF’s solutions help farmers achieve better yield and promote healthy eating, balancing economic, environment and societal demands.

Our research and development facilities are a global network of research sites, seed production and breeding stations. Proximity to our customers and the crops they grow enables us to seize future market opportunities and increase our competitiveness.

Our biotechnology activities and our research and development capabilities comprise advanced breeding techniques, analytics, technology platforms and trait validation. To offer tailor-made, more sustainable crop solutions, our research platform on gene identification focuses on plant characteristics that enable higher yield and better quality, disease resistance and tolerance of environmental factors, such as drought. We apply state-of-the-art scientific methods such as genetic engineering and selective genome editing. These biotechnology activities are part of BASF’s Bioscience Research division.¹

At a glance

<table>
<thead>
<tr>
<th>€904 million</th>
<th>&gt;€7.5 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research and development expenses in the Agricultural Solutions segment in 2021</td>
<td>Peak sales potential of our innovation pipeline with products to be launched between 2021 and 2031</td>
</tr>
</tbody>
</table>

¹ Corporate research and development expenses, sales, earnings and all other data for BASF’s Bioscience Research division are not reported in the Agricultural Solutions segment; they continue to be reported under Other.
**Other**

**Sales** in Other rose by €1,306 million compared with 2020 to €3,666 million. This was primarily the result of higher sales in commodity trading.

At –€643 million, **income from operations before special items** in Other was €126 million above the prior-year figure. This was largely attributable to lower miscellaneous income and expenses, as well as a higher contribution from other businesses.

**EBIT** rose by €562 million to –€641 million. This included special income, mainly from the partial release of provisions for the restructuring of the Global Business Services unit. In the previous year, special charges arose for their recognition.

<table>
<thead>
<tr>
<th>Financial data – Other</th>
<th>2021</th>
<th>2020</th>
<th>+/-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>3,666</td>
<td>2,360</td>
<td>55.3%</td>
</tr>
<tr>
<td>Income from operations before depreciation, amortization and special items</td>
<td>–489</td>
<td>–609</td>
<td>19.7%</td>
</tr>
<tr>
<td>Income from operations before depreciation and amortization (EBITDA)</td>
<td>–484</td>
<td>–1,032</td>
<td>53.1%</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>157</td>
<td>171</td>
<td>-8.2%</td>
</tr>
<tr>
<td>Income from operations (EBIT)</td>
<td>–641</td>
<td>–1,203</td>
<td>46.8%</td>
</tr>
<tr>
<td>Special items</td>
<td>3</td>
<td>–443</td>
<td>-</td>
</tr>
<tr>
<td>EBIT before special items</td>
<td>–643</td>
<td>–769</td>
<td>16.4%</td>
</tr>
<tr>
<td>of which costs for cross-divisional corporate research</td>
<td>–355</td>
<td>–364</td>
<td>2.5%</td>
</tr>
<tr>
<td>costs of corporate headquarters</td>
<td>–255</td>
<td>–214</td>
<td>–19.2%</td>
</tr>
<tr>
<td>other businesses</td>
<td>180</td>
<td>143</td>
<td>25.9%</td>
</tr>
<tr>
<td>foreign currency results, hedging and other measurement effects</td>
<td>–62</td>
<td>–58</td>
<td>–6.9%</td>
</tr>
<tr>
<td>miscellaneous income and expenses</td>
<td>–151</td>
<td>–276</td>
<td>45.3%</td>
</tr>
<tr>
<td>Assets</td>
<td>23,121</td>
<td>24,131</td>
<td>–4.2%</td>
</tr>
<tr>
<td>Investments including acquisitions</td>
<td>183</td>
<td>156</td>
<td>17.0%</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>378</td>
<td>385</td>
<td>–1.8%</td>
</tr>
</tbody>
</table>

---

**Notes:**

- a Information on the composition of Other can be found in Note 5 to the Consolidated Financial Statements from page 213 onward.
- b Depreciation and amortization of property, plant and equipment and intangible assets (including impairments and reversals of impairments)
- c Contains assets of businesses recognized under Other as well as reconciliation to assets of the BASF Group
- d Additions to property, plant and equipment and intangible assets
Non-Integral Oil and Gas Business

BASF holds 67% of the ordinary shares in Wintershall Dea AG; 33% are held by LetterOne. This reflects the value of the exploration and production businesses contributed by Wintershall and DEA. BASF additionally holds preference shares for the contribution of Wintershall’s gas transportation business. Including preference shares, BASF has a shareholding of 72.7% in Wintershall Dea.

Macroeconomic environment

The price of a barrel of reference Brent crude oil averaged $71 in 2021 (2020: $42). Gas prices on European spot markets rose sharply and were at an all-time high at the end of 2021. The significant price increases in the second half of 2021 were driven by the very strong recovery in global macroeconomic demand.

Equity-accounted income of the oil and gas business

Wintershall Dea AG contributed –€344 million to net income from shareholdings in 2021 (2020: –€890 million). This included impairments and reversals of impairments totaling –€581 million, mainly in connection with the planned divestiture of assets in Argentina and due to adjusted price expectations. In the previous year, lower oil and gas price forecasts and changed reserve estimates led to impairments of €791 million.

Wintershall Dea’s activities in 2021


Several development projects were successfully completed in 2021, including the Norwegian projects Ærfugl Phase 2, Gråsel, and the field development of Solveig. The Achim Development joint venture operated by Gazprom in Russia, in which Wintershall Dea holds a 25.01% interest, started production in the first quarter of 2021. In Egypt, production at the Raven field started at the beginning of the year.

The Norwegian Njord and Nova projects continued and are expected to come on stream in 2022. The start of production for the Dvalin project in Norway was postponed to the second half of 2022. At the beginning of 2022, Wintershall Dea reached an agreement on the sale of its 50% interest in the unconventional oil blocks it operates in Argentina and decided to terminate its operations in Brazil.

Wintershall Dea drilled 12 exploration wells in 2021. Of these, around 58% were successful.

Wintershall Dea is also active in gas transportation. This includes interests in GASCADE Gastransport GmbH and OPAL Gas transport GmbH & Co. KG held by WIGA Transport Beteiligungs-GmbH & Co. KG, and the interest in Nord Stream AG held directly by Wintershall Dea. Wintershall Dea is one of five financial investors for the Nord Stream 2 pipeline project. It is not a shareholder of Nord Stream 2 AG. The laying of Nord Stream 2 was successfully completed, the pipelines have been filled with gas and Nord Stream 2 AG has applied to the relevant authorities for certification to operate the pipeline.

As part of its climate strategy, which was communicated in November 2020, Wintershall Dea aims to achieve net zero emissions from upstream activities by 2030 and reduce methane intensity to 0.1% by 2025. Wintershall Dea is involved in the Greensand CCS project in the Danish North Sea, which aims to store up to 8 million metric tons of CO2 per year.

1 Development activities include projects before and after the FID (final investment decision)
2 Scope 1 and 2 emissions from upstream activities operated and non-operated by Wintershall Dea at an equity basis
3 100% volume of methane emissions of Wintershall Dea’s operated assets divided by the volume of the own operated gas marketed
4 Carbon capture and storage

As planned, in 2021 Wintershall Dea completed the integration that began with the merger and was able to realize the intended synergies. The IPO targeted for 2021 was postponed due to the market environment.
Regional Results

<table>
<thead>
<tr>
<th>Regions</th>
<th>Sales by location of company 2021</th>
<th>Sales by location of customer 2021</th>
<th>+/-</th>
<th>Sales by location of company 2020</th>
<th>Sales by location of customer 2020</th>
<th>+/-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>31,594</td>
<td>24,223</td>
<td>30.4%</td>
<td>30,531</td>
<td>23,129</td>
<td>32.0%</td>
</tr>
<tr>
<td>North America</td>
<td>21,935</td>
<td>16,440</td>
<td>33.4%</td>
<td>20,867</td>
<td>15,709</td>
<td>32.8%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>20,632</td>
<td>14,440</td>
<td>38.5%</td>
<td>21,234</td>
<td>15,406</td>
<td>37.8%</td>
</tr>
<tr>
<td>of which Greater China</td>
<td>12,018</td>
<td>8,433</td>
<td>42.5%</td>
<td>12,036</td>
<td>8,463</td>
<td>42.2%</td>
</tr>
<tr>
<td>South America, Africa, Middle East</td>
<td>4,437</td>
<td>3,591</td>
<td>23.5%</td>
<td>5,965</td>
<td>4,905</td>
<td>21.6%</td>
</tr>
<tr>
<td>BASF Group</td>
<td>78,598</td>
<td>59,149</td>
<td>32.9%</td>
<td>78,598</td>
<td>59,149</td>
<td>32.9%</td>
</tr>
</tbody>
</table>

Europe

Sales at companies located in Europe rose by 30.4% year on year to €31,594 million. This was primarily due to considerably higher sales in the Chemicals and Materials segments. The Surface Technologies segment, Other and the Industrial Solutions and Nutrition & Care segments also posted considerable sales growth, while the Agricultural Solutions segment saw a slight increase in sales.

Sales growth was driven by higher prices and volumes in all segments and in Other. Prices rose especially for steam cracker products in the Chemicals segment, for isocyanates in the Materials segment, and as a result of higher precious metal prices in the Surface Technologies segment. Sales volumes increased, especially in the Materials, Surface Technologies, Industrial Solutions and Chemicals segments. Volume development was however negatively impacted by raw materials shortages, the semiconductor deficit in the automotive market and the associated production and supply chain disruptions. Sales were reduced by negative currency effects, mainly in the Surface Technologies segment. Sales performance was also weighed down by portfolio effects, particularly in the Industrial Solutions segment following the divestiture of the global pigments business.

North America

Sales at companies located in North America rose by 33.4% to €21,935 million in 2021. In local currency terms, they were 38.5% above the prior-year figure. Sales growth was mainly driven by considerably higher sales in the Surface Technologies and Chemicals segments. The Materials segment, Other and the Industrial Solutions segment also achieved considerably higher sales. Sales rose slightly in the Agricultural Solutions and Nutrition & Care segments.

Sales growth was mainly due to significantly higher price levels, especially in the Surface Technologies segment due to a significant increase in precious metal prices, and in the Chemicals segment, particularly for propylene and butadiene. Higher volumes supported sales performance in all segments. Volume development was however negatively impacted by extreme weather conditions, the semiconductor shortage in the automotive market and the resulting production and supply chain disruptions. Negative currency effects had an offsetting effect. Sales were reduced by portfolio effects, mainly driven by the divestiture of the global pigments business in the Industrial Solutions segment.

Asia Pacific

Sales at companies headquartered in the Asia Pacific region were 38.5% above the 2020 figure, at €20,632 million. In local currency terms, sales likewise rose by 38.5%. The increase in sales was primarily driven by growth in Greater China, where sales rose by 42.5% in euros to €12,018 million. All segments improved sales in the region compared with the prior year, but especially the Surface Technologies, Materials and Chemicals segments.

The sales performance was primarily the result of higher prices, particularly in the Surface Technologies, Chemicals and Materials segments. Higher volumes in all segments contributed to the increase in sales. Raw material shortages, the semiconductor deficit in the automotive market and the associated production and supply chain disruptions also hampered sales performance in Asia Pacific. Overall, portfolio measures had a positive impact on sales development, especially in Greater China and in the Surface Technologies segment following the formation of BASF Shanshan Battery Materials Co., Ltd.

South America, Africa, Middle East

Sales at companies located in South America, Africa, Middle East rose by 23.5% to €4,437 million. In local currency terms, they were 31.0% above the prior-year figure. Sales growth was primarily attributable to considerably higher sales in the Agricultural Solutions, Surface Technologies, Chemicals and Materials segments. The Industrial Solutions and Nutrition & Care segments also recorded higher sales.

The sales increase was mainly driven by higher prices, especially in the Surface Technologies, Agricultural Solutions and Chemicals segments. All segments significantly increased volumes despite supply chain disruptions caused by raw materials shortages. Negative currency effects had an offsetting impact in all segments.
To determine taxonomy eligibility, we first identified the activities relevant to BASF. The entire portfolio of products manufactured by BASF as well as production plants and investment projects were then reviewed to determine whether they belong to one of the following activities in the manufacturing sector that had been identified as relevant:

- Manufacture of hydrogen
- Manufacture of carbon black
- Manufacture of soda ash
- Manufacture of chlorine
- Manufacture of organic basic chemicals
- Manufacture of anhydrous ammonia
- Manufacture of nitric acid
- Manufacture of plastics in primary form

We additionally assessed the following enabling activities in the E.U. taxonomy to take into account solutions that contribute to climate change mitigation at our customers: “manufacture of batteries” and “manufacture of energy efficiency equipment for buildings.” To avoid double counting, assignment to an enabling activity is only made if a taxonomy-eligible product or project had not already been included under another activity. BASF also contributes solutions used to produce technologies for renewable energy or low-carbon mobility. Since the E.U. taxonomy focuses on the manufacture of technologies and thus excludes precursors, we have classified these as taxonomy-non-eligible.

In addition to our core business, the production of chemical products, we have identified further BASF activities that can be allocated to the following activities presented in the E.U. taxonomy:
- Afforestation
- Electricity generation using solar photovoltaic technology
- Production of heat/cool from bioenergy
- Production of heat/cool using waste heat
- Close to market research, development and innovation

These activities made no material contribution to our overall taxonomy eligibility and were generally classified as taxonomy-non-eligible.  

Buildings constructed and operated by BASF, traffic facilities and central water supply and wastewater management systems, i.e., the infrastructure that supports our core activities, may also fall under the E.U. taxonomy’s description of activities in the areas “Water supply, sewerage, waste management and remediation,” “Transport,” and “Construction and real estate activities.” In assessing taxonomy eligibility, we focused in 2021 on activities in the manufacturing sector and closely related activities in the energy and research and development sectors. We generally classified potential contributions from infrastructure-related activities as taxonomy-non-eligible.

We assessed the taxonomy eligibility of our sales based on sales revenue as defined and reported in the Consolidated Financial Statements of the BASF Group. Taxonomy-eligible sales revenue accounted for 11% of total sales revenue in 2021. The largest contributions were from the activities “manufacture of plastics in primary form” and “manufacture of organic basic chemicals.” Taxonomy-eligible investments (including acquisitions and excluding goodwill in accordance with the E.U. taxonomy) accounted for 29% of the total investments reported in the Consolidated Financial Statements. Investments in the “manufacture of organic basic chemicals” and in the “manufacture of batteries” made the greatest contribution. Operating expenses include non-capitalized costs that relate to research and development, and maintenance and repair. They are not reported in the Consolidated Financial Statements in this form. All of the investments and operating expenses of a production facility with a taxonomy-eligible activity are counted as taxonomy-eligible. Taxonomy-eligible operating expenses accounted for 11% of total operating expenses. The largest contributions were from the activities “manufacture of organic basic chemicals” and “manufacture of plastics in primary form.”

BASF entered into several partnerships to transform energy supply in 2021 (see page 128). The resulting investments are not included in the analysis of taxonomy eligibility, as investments in joint ventures and associated companies do not have to be reported under the taxonomy.

Sales, investments and operating expenses in 2021

<table>
<thead>
<tr>
<th>Million €</th>
<th>Total</th>
<th>Taxonomy-eligible</th>
<th>%</th>
<th>Taxonomy-non-eligible</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>78,598</td>
<td>8,881</td>
<td>11</td>
<td>69,717</td>
<td>89</td>
</tr>
<tr>
<td>Investments</td>
<td>4,627</td>
<td>1,340</td>
<td>29</td>
<td>3,287</td>
<td>71</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>4,424</td>
<td>504</td>
<td>11</td>
<td>3,920</td>
<td>89</td>
</tr>
</tbody>
</table>

1 The production of heat/cool using waste heat was also partially covered by other activities.
2 The criteria for the activity “close to market research, development and innovation” (for example, a technology readiness level of at least six) were used to determine taxonomy-eligible research and development costs.
Sustainability Along the Value Chain

We want to contribute to a better world with enhanced quality of life for everyone. That is why the three pillars of sustainability are firmly anchored in our corporate purpose, our strategy, our targets and our operating business. They are at the core of what we do, a driver for growth and an element of our risk management. We pursue a holistic approach that covers the entire value chain.

We contribute to a sustainable development and to the United Nations’ Sustainable Development Goals (SDGs) in many ways (see page 36). For instance, our innovations, products and technologies help to use natural resources more efficiently, meet the demand for food, enable climate-smart mobility, reduce emissions and waste, and increase the capabilities of renewable energy. Alongside these positive contributions, our business activities also have negative impacts. For example, we create CO₂ emissions, use water and procure raw materials from suppliers, which may involve a potential risk of human rights violations. This is why we are constantly working to broaden our positive contributions to key sustainability topics (see page 45) along our value chains and reduce the negative impacts.

We are committed to doing business in a responsible, safe, resource-efficient and respectful way. Our actions are guided by our corporate values and our global Code of Conduct. We comply with and in some cases exceed the applicable laws and regulations with voluntary commitments. We stipulate binding rules for our employees with standards and guidelines that apply throughout the Group. In doing so, we consider, respect and promote internationally recognized principles such as the 10 principles of the U.N. Global Compact and the Core Labor Standards of the International Labor Organization (ILO).

Our business partners are also expected to comply with prevailing laws and regulations and to align their actions with internationally recognized principles. We have established appropriate management and control systems, for example, for working with our suppliers (see page 109).

We seek dialog with our stakeholders to discuss critical issues and, if necessary, develop solutions together. Through our societal engagement, we want to create a positive impact, particularly in the communities surrounding our sites and help solve global challenges.

We are involved in numerous sustainability initiatives to drive forward sustainability in general and, specifically, as this relates to our value chains. These include the World Business Council for Sustainable Development (WBCSD) as well as networks with thematic focus like the Alliance to End Plastic Waste (AEPW) or the Global Battery Alliance (GBA). In addition, we realize a wide range of projects – often together with partners – for example, to improve sustainability in the supply chain or to promote circularity in the economy.

<table>
<thead>
<tr>
<th>SUPPLIERS</th>
<th>BASF</th>
<th>CUSTOMERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>We source responsibly</td>
<td>We produce safely and efficiently</td>
<td>We drive sustainable solutions</td>
</tr>
</tbody>
</table>

We value people and treat them with respect

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For more information on how we value people and treat them with respect, see page 97 onward
For more information on responsible procurement, see page 109 onward
For more information on responsible procurement, see page 109 onward
For more information on responsible procurement, see page 109 onward
For more information on sustainability initiatives, see page 141 onward
We Value People and Treat Them with Respect

Employee engagement and empowerment are key to our success. We build networks across our business and industry to establish good relationships with our partners and stakeholders. With our solutions, our responsible business conduct and our societal engagement, we want to contribute to a better quality of life for everyone.

In this section:
- Employees
- Responsibility for Human Rights
- Stakeholder Engagement
- Societal Engagement

Employees

Our employees make a significant contribution to BASF’s success. We want to attract and retain talented people for our company and support them in their development. To do so, we cultivate a working environment that inspires and connects people. It is founded on inclusive leadership based on mutual trust, respect and dedication to top performance.

At a glance

111,047
Employees around the world

- Employee engagement and leadership impact on center stage
- Promoting diversity and mutual respect
- Further expansion of virtual learning and digitalization

Strategy

Our employees are key to the successful implementation of BASF’s strategy. We are convinced of the value of excellent employees, leaders and working conditions, and strive to give our employees the tools and skills necessary to be able to offer our customers products and services with an even greater level of differentiation and customization. Our corporate strategy promotes a working atmosphere based on mutual trust, in which employees are given the space to optimally develop their individual skills and potential. This positions us to meet the challenges of an increasingly rapidly changing environment, demographic change and the digital workplace. In everything we do, we are committed to complying with internationally recognized labor and social standards. We want to further strengthen our innovative power with attractive working conditions and through the inclusion of diversity. Lifelong learning and individual employee development lay the foundation for this.

BASF Group employees by region

<table>
<thead>
<tr>
<th>Region</th>
<th>Total</th>
<th>Women</th>
<th>Men</th>
<th>Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>16,753</td>
<td>7,773</td>
<td>8,980</td>
<td>27.3% 72.7%</td>
</tr>
<tr>
<td>South America,</td>
<td>6,786</td>
<td>3,036</td>
<td>3,750</td>
<td>46.1% 53.9%</td>
</tr>
<tr>
<td>Africa, Middle</td>
<td>67,532</td>
<td>26,586</td>
<td>40,946</td>
<td>60.8% 39.2%</td>
</tr>
<tr>
<td>Europe¹</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Of which Germany</td>
<td>51,026</td>
<td>24,506</td>
<td>26,520</td>
<td>48.2% 51.8%</td>
</tr>
<tr>
<td>Of which BASF SE</td>
<td>34,405</td>
<td>17,405</td>
<td>17,000</td>
<td>50.0% 50.0%</td>
</tr>
</tbody>
</table>

¹ Of which Germany: 51,026 (45.9%) 24.5% † 75.5%
Of which BASF SE: 34,405 (31.0%) 21.9% † 78.1%
Compensation and benefits as well as offerings to balance personal and professional life complete our diverse total offer package. In order to continue to attract talented people to our company in the future, we work continuously on BASF’s attractiveness as an employer. Our employees play an important role here as ambassadors for BASF.

**Number of employees**

As of December 31, 2021, the number of employees increased to 111,047 employees compared with 110,302 employees as of December 31, 2020. The rise was primarily due to staff increases in Asia Pacific, especially in connection with the formation of BASF Shanshan Battery Materials Co., Ltd., as well as for our new Verbund site in Zhanjiang, China. The divestiture of the pigments business, which affected around 2,500 employees, had an offsetting impact. We employed 3,028 apprentices¹ (2020: 3,120). 2,329 employees were on temporary contracts (of which 47.6% were women).

**Employee engagement**

BASF can rely on the engagement of its employees. This is shown by a passion for the job, a dedication to top performance and a strong commitment to BASF. Global employee surveys and pulse checks are established feedback tools in the BASF Group and are used to actively involve employees in shaping their working environment. The results are communicated to employees, the Board of Executive Directors, the Supervisory Board and stakeholders. We have performed regular global employee surveys since 2008. We aim to keep the high level of employee engagement determined by these surveys and increase it even further as far as possible. As part of the BASF strategy, we therefore set ourselves the following goal in 2018: More than 80% of our employees feel that at BASF, they can thrive and perform at their best. We regularly calculate the employee engagement level as an index score based on five questions on set topics in our employee surveys. The most recent survey from 2020 revealed an engagement index of 82% (2019: 79%). Our aim is to keep this score above 80%. We support our leaders with a range of follow-up measures to decentrally address individual action areas and in this way, help to further strengthen employee engagement together with their employees.

Pulse checks were carried out to identify and address employees’ specific needs in 2021. In North and South America, for example, surveys were conducted on the inclusion of diversity. These revealed a desire to further embed inclusive behavior in the working environment, among other things. Employees in Germany and Europe were surveyed about their current work situation, flexible working, stresses caused by the coronavirus pandemic and team sentiment. Among other things, the results showed that employees feel safe working at our sites and that employees who have been working flexibly since the start of the pandemic are coping well with it. Regular global employee surveys remain a focus, and we plan to conduct the next survey in spring 2022.

**What we expect from our leaders**

Our leaders and their teams should contribute to BASF’s success. This is why we promote high-quality leadership and measure its impact. We understand impactful leadership as leaders that serve as role models by having a positive influence on the engagement and development of their employees, and developing and implementing business strategies in line with our corporate values. These expectations are part of the standard global nomination criteria for leadership positions. Our leadership culture is based on BASF’s corporate values: creative, open, responsible and entrepreneurial – CORE. Our specific expectations of leaders’ conduct are derived from these: The CORE Leadership Values serve as the guiding principles for all leaders and set out BASF’s expectations of leadership behavior. They are aligned with BASF’s strategic goals and reflect our company’s leadership vision (see also page 31).

We offer our leaders a wide variety of learning and development opportunities for each phase of their career as well as various formats that enable them to learn from one another and external experts. Global, regional and local offerings are optimally coordinated. We aim to develop leaders who lead their teams with optimism, empathy and trust, and in this way, create a competitive advantage for BASF.

In order to anchor the CORE Leadership Values in day-to-day life, an in-depth training course – CORE Leadership Upskilling – was offered in 2021. The virtual training comprised a series of modules that encouraged self-reflection and provided opportunities for global dialog. The training modules were initially completed by all senior executives worldwide. Work in small, mixed groups aimed to deepen participants’ understanding of the CORE Leadership Values, enable in-depth discussion of these and expand global networks. Since the fall of 2021, additional leadership levels have undergone training and activities modeled on CORE Leadership Upskilling.

Regular feedback plays an important role in the development of leaders. We have therefore adapted our global feedback tool to enable leaders to, in the future, even better reflect on how these values are anchored in their leadership behavior.

Since 2020, various existing leadership development tools have been converted to virtual formats to optimally support our leaders – including during the challenging times of the coronavirus pandemic.
Inclusion of diversity

The global character of our markets translates into different customer requirements. We want to reflect this diversity among our employees, too, because it enables them to better meet our customers’ needs. For us, diversity means, among other things, having people from different backgrounds working at our company who can draw on their individual perspectives and skills to grow our business. By valuing and promoting employee diversity, we boost our teams’ performance and power of innovation, and increase creativity, motivation and employees’ identification with the company.

Promoting and valuing diversity across all hierarchical levels is an integral part of our strategy and is also embedded in our corporate values. BASF strives to foster a working environment based on mutual respect, trust and appreciation. We expect inclusive conduct from all employees and our leaders. By this, we mean creating an environment in which different aspects of diversity and individual strengths are valued.

Our leaders play an important role in promoting diversity and creating an inclusive work environment. We support them with various offerings, for example as part of leadership development. A toolbox with a wide range of content inspires a change of perspective and a podcast series from leaders shows the importance of appreciative, fair and inclusive leadership.

Integrating different perspectives is very important to BASF. There are a number of Employee Resource Groups around the world dedicated to different aspects of diversity. In addition, we want to create a greater awareness of diversity in our organization with various activities. BASF supports the German Diversity Charter and has participated in German Diversity Day and European Diversity Month with various virtual initiatives and offerings. At our Ludwigshafen site in Germany, we campaigned against racism and discrimination as part of the International Weeks Against Racism.

We also promote diversity in the selection and development of our leaders. We have set a global target to promote female leadership and aim to increase the proportion of women in leadership positions to 30% by 2030. We have made important progress toward this and continuously review our target. In the BASF Group, the global proportion of female leaders with disciplinary responsibility was 25.6% at the end of 2021 (2020: 24.3%).

BASF is one of approximately 150 companies that support the United Nations Global LGBTI (lesbian, gay, bi, trans and intersex) Standards of Conduct for business and has done so since 2018. Employees again promoted openness, acceptance and tolerance with many activities to support the LGBTI movement at various sites around the world in 2021.

Diversity also relates to the company’s demographic profile, which varies widely by region within the BASF Group. Our aim is to create a suitable framework to help maintain the employability of our personnel at all stages of life and ensure the availability of qualified employees over the long term.

BASF Group employee age structure

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>26–39 years</td>
<td>42,531</td>
<td>42,531</td>
</tr>
<tr>
<td>40–54 years</td>
<td>38,798</td>
<td>38,798</td>
</tr>
<tr>
<td>55 years and up</td>
<td>21,511</td>
<td>21,511</td>
</tr>
<tr>
<td>Total</td>
<td>111,047</td>
<td>111,047</td>
</tr>
</tbody>
</table>

In order to continuously monitor our progress toward this target, we have developed a global dashboard, which is used to regularly review the implementation status. The systematic advancement of women is also an integral part of our process for selecting senior executives.

As a signatory to the United Nations’ Women’s Empowerment Principles (WEPs), we are committed to promoting gender equality. We are also involved in other external initiatives to promote inclusion of diversity at work, such as the Chefsache initiative and the European Round Table. Employees from all regions took International Women’s Day 2021 as an opportunity to reflect on the current situation of women at BASF, celebrate successes and campaign for greater equality.

Leaders and professionals in the BASF Group

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2021</th>
<th>Of which women (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Senior) executivesa</td>
<td>9,006</td>
<td>25.6</td>
</tr>
<tr>
<td>Professionalsb</td>
<td>40,030</td>
<td>32.5</td>
</tr>
</tbody>
</table>

a Employees with disciplinary leadership responsibilities
b Specialists without disciplinary leadership responsibilities

For more information on diversity in the Board of Executive Directors and the Supervisory Board, see page 167 onward

For more information on diversity and inclusion, see basf.com/diversity
Competition for talent

Attracting and retaining the best employees is crucial to our success. Having an attractive and compelling total offer package for employees is becoming increasingly important given the strong global competition for the best qualified employees and leaders. This is why we are constantly working on measures to increase BASF’s attractiveness in the global labor markets.

We are increasingly using digital platforms such as our country-specific career websites as well as global and regional social networks to reach potential candidates. This enables us to appropriately address different target groups.

In light of the coronavirus pandemic, we primarily used digital solutions for our talent search activities in 2021 and participated in a few in-person events. To also provide the best possible information on BASF as an employer virtually, we are continuously developing our digital presence. For example, we are represented at digital trade fairs and conferences, conduct digital excursions for students from various universities of sites in Germany, and organize expert lectures for future talent. This virtual contact enables a demand-oriented, flexible and location-independent approach. As a result, we were able to continue to attract and recruit talented employees.

In addition, we consistently take part in specific career events to directly reach and attract talent from various disciplines, especially female candidates. We focus in particular on our female employees as role models with various initiatives such as podcasts, career fairs and networking events aimed specifically at women, or on our social media channels.

In 2021, we established a digital onboarding process at some sites for new employees and their managers in the period up to the first day of work and beyond. The aim is to ensure a successful first day at work and to build an early bond between the new colleagues and their future team at BASF, for example by sending video messages and information about the division and team. We want to continue to drive forward global implementation in 2022.

To combat the shortage of skilled workers in production and technical areas, due among other factors to demographic-related declines in Ludwigshafen, Germany, we have strengthened our social media presence, for example, to alert qualified specialists to new career prospects at BASF. In addition, we cooperate with local radio stations and the German employment agency to target skilled workers at informational events.

We once again achieved high scores in a number of employer rankings in 2021. For example, in a study conducted by Universum, young scientists ranked BASF as the second most attractive employer in Germany (2020: fifth). In North America, DiversityInc named BASF as one of the top 50 companies for diversity in recruiting for the ninth consecutive year. In Asia, Top Employer recognized BASF China as one of the best employers for the twelfth time in succession. In South America, LinkedIn ranked BASF second in its list of top companies in Brazil.

The BASF Group hired 10,293 new employees in 2021. The percentage of employees who resigned during their first three years of employment – the early turnover rate – was 1.5% worldwide in 2021. This turnover rate was 0.6% in Europe, 2.4% in North America, 3.4% in Asia Pacific and 2.5% in South America, Africa, Middle East. Our early turnover rate is therefore at a desirable low level.

As of December 31, 2021, the BASF Group was training 3,028 people in 12 countries and around 50 occupations. We spent a total of around €119 million on vocational training in 2021.

Learning and development

Learning and development are essential success factors for a strong company culture. The skills and competencies of our employees are critical for profitable growth and lasting success. For this reason, we want to further modernize our learning culture and step up our efforts to promote continuous, self-directed learning and learning from others. Employee development at BASF is guided by the belief that talent is in everyone. This means that development opportunities and support are open to all employees.

In our understanding, there is more to development than a promotion or a job change – it encompasses the development of personal experience and abilities. In regular development meetings, which are held as part of our annual employee dialogs, employees outline ideas for their individual development together with their leaders and determine specific measures for further training and development, which focus on personal and professional competencies. Our learning activities follow the “70-20-10” philosophy: We apply the elements “learning from experience” (70%), “learning from others” (20%) and “learning through courses and media” (10%). Our learning and development offerings cover a range of learning goals: Starting a career, expanding knowledge, personal growth and leadership development.

Digital learning formats play an important role in our development offerings. Even before the coronavirus pandemic, training for leaders and employees was updated to meet the challenges of the digital transformation and modern working life with appropriate learning formats and content. For example, platforms such as the Digital Campus, Digitalization & Me and the Ways of Working portal were enhanced and refined to support employees in all aspects of virtual collaboration and in building their digital skills. The continuous
The coronavirus pandemic has fundamentally changed how we work. That is why our Future of Work @ BASF initiative addresses the question of how our teams can find the right balance between on-site and remote working to continue to perform at their best in the future. Connectedness and close dialog remain our number one priorities – both are key to team spirit, creativity and innovation. The wide range of jobs, tasks and local conditions make different working models necessary. To reflect this, our local teams are developing tailored solutions within global guidelines that meet individual requirements. Workshop concepts and training are made available to all units at the site in the form of a toolbox.

One example is the Flex Work @ LU project at the Ludwigshafen site in Germany. The focus is on the shift toward greater flexibility as well as practical solutions on how to maintain and strengthen connectedness in an increasingly hybrid working environment – from new office concepts to IT solutions and tips for teamwork. The ideas are tested together with pilot units. Successful concepts are made available to all units at the site in the form of a toolbox.

We enable our employees to take responsibility for their own professional development within the company with digital and novel offerings. To support multidisciplinary teams in the development of products, services or business models, workshops on design thinking empower participants to find creative and innovative solutions to complex problems. By providing interactive spaces, the concept also lends itself to hybrid working methods. This fosters an agile learning and working culture, which will ultimately also help us to master the digital transformation.

Against the backdrop of the digital transformation, we support our leaders in questions about shaping the working world of the future. For example, the #liveitleadit program provides insights into various areas of the organization and the opportunity to discuss topics such as hybrid working or living a failure culture.

Compensation and benefits

We want to attract and retain engaged and qualified employees, and motivate them to achieve top performance with a total offer package that includes market-oriented compensation, individual development opportunities and a good working environment so that they contribute to the company’s long-term success. Our employees’ compensation is based on global compensation principles according to position, market and performance. As a rule, compensation comprises fixed and variable components as well as benefits that often exceed legal requirements. In many countries, these benefits include company pension benefits, supplementary health insurance and share programs. We regularly review our compensation systems at the global and local levels.

We want our employees to contribute to the company’s long-term success. This is why the compensation granted to the vast majority of our employees includes variable compensation components, with which they participate in the success of the BASF Group as a whole and are recognized for their individual performance. The same principles basically apply for all employees worldwide. The amount of the variable component is determined by economic success as well as the employee’s individual performance. We use the BASF Group’s return on capital employed (ROCE) to measure economic success for the purposes of variable compensation. This links variable compensation to our ROCE target. Individual performance is assessed as part of a globally consistent performance management process. In numerous Group companies, our “plus” share program ensures employees’ long-term participation in the company’s success through incentive shares. In 2021, for example, around 23,600 employees worldwide (2020: around 27,600) participated in the “plus” share program.

Since 2020, BASF has offered senior executives the opportunity to participate in a long-term incentive (LTI) program in the form of a performance share plan. The LTI program has a term of four years.

1. In calculating ROCE, adjustments are made for negative and positive special items resulting from acquisitions and divestitures (for example, integration costs in connection with acquisitions and gains or losses from the divestiture of businesses) when these exceed a corridor of +/–1% of the average cost of capital basis. An adjustment of the ROCE in the first 12 months after closing) therefore only occurs in cases of exceptionally high special items resulting from acquisitions and divestitures.

2. The LTI program referred to here is aimed at management levels 2 to 4 as well as individuals who have attained senior executive status by virtue of special expertise. For more information on the compensation of the Board of Executive Directors and the Supervisory Board, see the Compensation Report at basf.com/compensationreport
and takes into account the development of the total shareholder return. It incentivizes the achievement of strategic growth, profitability and sustainability targets. To take part in this program, participants must hold BASF shares, the amount of which is based on their individual fixed compensation. In 2021, around 91% of the people eligible to participate in the LTI around the world did so, holding between 30% and 70% of their fixed annual compensation in BASF shares.

The share price-based compensation program (BASF Option Program, BOP), which had existed since 1999, was offered for the last time in 2020. Around 87% of the people eligible to participate in the program around the world did so, investing up to 30% of their actual variable compensation (for the 2019 business year) in BASF shares.

The BASF Group’s expenses for wages and salaries, social security contributions and assistance, and as well as for pensions in 2021 totaled €11,097 million. In 2020, these expenses amounted to €10,576 million and included personnel expenses from the disposal group for the construction chemicals business in the amount of €291 million until the date of the divestiture. The rise in personnel expenses in 2021 was mainly due to higher bonus provisions. Particularly the lower average number of employees had an offsetting impact.

BASF Group personnel expenses

<table>
<thead>
<tr>
<th>Million €</th>
<th>2021</th>
<th>2020</th>
<th>+/-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and salaries</td>
<td>8,847</td>
<td>8,416</td>
<td>+5.1%</td>
</tr>
<tr>
<td>Social security contributions and assistance expenses</td>
<td>1,519</td>
<td>1,424</td>
<td>+6.7%</td>
</tr>
<tr>
<td>Pension expenses</td>
<td>732</td>
<td>736</td>
<td>-0.5%</td>
</tr>
<tr>
<td><strong>Total personnel expenses</strong></td>
<td><strong>11,097</strong></td>
<td><strong>10,576</strong></td>
<td><strong>+4.9%</strong></td>
</tr>
</tbody>
</table>

### Balancing personal and professional life

Our identity as an employer includes our belief in supporting our employees in balancing their personal and professional lives. We want to strengthen their identification with the company and our position in the global competition for qualified personnel. To achieve this, we have a wide range of offerings aimed at employees in different phases of life that accommodate the growing demand for flexibility in when and where they work. These include flexible working hours, part-time employment, remote working, and time off options that provide the necessary flexibility to care for children or family members. We are constantly working to expand these options and increasingly support the effective use of digital solutions here.

Our flexible tools proved helpful during the coronavirus pandemic. They help our employees to master the increased challenges around work and personal life during the pandemic and will continue to provide flexibility. To integrate the positive experiences from the surge in remote working into our working culture, we have developed global guiding principles and a framework for the future of work (see box on page 101).

Regional initiatives specifically address the needs of our employees at a local level. For example, flexible co-working spaces in the Rhine-Neckar region in Germany were tested in pilot projects and a framework for potential future uses was developed.

Our **Work-Life Management employee center** in Ludwigshafen, Germany, (LuMi) offers a number of services under one roof: childcare, fitness and health, and social counseling and coaching offered by BASF Stiftung. Services were adapted so they could continue during the coronavirus pandemic based on the current coronavirus laws and local restrictions. We also provide employee assistance programs at other sites in Germany and around the world to help employees overcome difficult life situations and maintain and restore their employability. Social counseling and coaching also enabled employees and their families to receive extensive support during the coronavirus pandemic, for example by expanding telephone services.

### Dialog with employee representatives

**Trust-based cooperation** with employee representatives is an important component of our corporate culture. Our open and continual dialog lays the foundation for balancing the interests of the company and its employees, even in challenging situations. In the case of organizational changes or if restructuring leads to staff downsizing, for example, or in the case of codetermination-relevant topics, we involve employee representatives at an early stage to develop socially responsible implementation measures. In 2021, this happened in connection with the planned organizational realignment of research, for example. Our actions are aligned with the respective legal regulations and the agreements reached, as well as operational conditions. The organizational protective measures taken during the coronavirus pandemic to date are backed by our employee representatives.
By focusing our discussions on the local and regional situations, we aim to find tailored solutions to the different challenges and legal conditions for each site. The BASF Europa Betriebsrat (European Works Council) addresses cross-border matters in Europe. In South America, we foster dialog with the Diálogo Social. In China, we work together with trade unions that have been organized locally within the framework of legal possibilities.}

For more information, see basf.com/employeerepresentation

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**International labor and social standards**

We act responsibly toward our employees. Part of this is our voluntary commitment to respecting international labor and social standards, which we have embedded in our global Code of Conduct. This encompasses internationally recognized labor norms as stipulated in the United Nations’ Universal Declaration of Human Rights, the OECD Guidelines for Multinational Enterprises, and the Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy of the International Labour Organization (ILO). BASF is committed to complying with these standards worldwide. We mainly approach our adherence to international labor and social standards using three elements: the Compliance Program (including compliance hotlines), close dialog with our stakeholders (such as with employee representatives or international organizations) and the BASF guideline on compliance with international labor norms, which applies Group-wide. This guideline makes concrete the topics in our global Code of Conduct under “Human rights, labor and social standards” as these relate to our employees.

It forms the basis for our global, risk-based management process. We regularly follow up on and document the results of the comparison between national law and our guideline, as well as measures to implement the guideline. This is part of our central due diligence system. An additional component of our corporate due diligence is our training concept, which was enhanced and refined in 2021. It includes target group-specific training and e-learning modules as well as a global platform for internal dialog.

We monitor our voluntary commitment to international labor and social standards as part of our management process. As before, individual elements of the guideline are also reviewed as part of internal control processes such as Responsible Care audits at BASF Group companies. In addition to these quality assurance measures, compliance with international labor and social standards is an integral part of the standard questionnaire in the compliance management audits conducted by BASF’s Corporate Audit department.

For more information on global standards, see page 31
For more information on our responsibility for human rights, see page 104
For more information on compliance, see page 171 onward
For more information on standards in our supply chain, see page 109 onward
For more information on labor and social standards, see basf.com/labor_social_standards
BASF acknowledges its responsibility to respect internationally recognized human rights. For many years now, we have engaged in constructive dialog on human rights with other companies, nongovernmental organizations, international organizations and multi-stakeholder initiatives to better understand different perspectives and address conflicting goals. BASF is a founding member of the U.N. Global Compact and a member of the Global Business Initiative on Human Rights (GBI), a group of globally operating companies from various sectors. The initiative aims to ensure implementation of the U.N. Guiding Principles on Business and Human Rights.

At a glance
- Human rights due diligence as a Group-wide task
- Systematic and extensive anchoring of human rights topics in company processes and culture

We see human rights due diligence as an important, all-encompassing task that we can only perform by working together as a team throughout the entire organization. That is why we have embedded our responsibility for human rights into our Code of Conduct and set this out in our human rights position. We uphold our standards worldwide, including where they exceed local legal requirements. All employees and leaders are responsible for ensuring that we act in accordance with our Code of Conduct and our human rights position.

We rely on a systematic, integrated, risk-based approach and established monitoring and management systems. BASF is also active in initiatives such as Together for Sustainability (TfS) and Responsible Care®, which promote sustainability in the supply chain. Our measures and criteria for monitoring and observing human rights are integrated into supplier assessment processes and our global monitoring systems for environmental protection, safety and security, health protection and product stewardship. They are also part of the evaluation of investment, acquisition and divestiture projects, assessments along the entire product life cycle, and systems to monitor labor and social standards. In addition, aspects of human rights topics are part of the global qualification requirements for our security personnel and are incorporated into agreements with contractors.

Our compliance unit is responsible for steering human rights topics and coordinates the work of the cross-unit Human Rights Expert Working Group, which we established in 2020. In it, employees from specialist units – procurement, legal, HR, environmental protection, health and safety, sustainability strategy, site security, supply chain, communications and government relations – and the operating divisions work closely together. The expert working group provides support and advice in challenging and critical situations, on the development of internal processes, and on the creation of information and training offerings, among other things. This is how we ensure that we approach our human rights responsibility holistically and that we can continually improve our performance.

In 2020, we conducted a comprehensive review of our human rights management system and the related processes. This showed that we have achieved important milestones regarding our due diligence obligations. However, the analysis, which was discussed by the Board of Executive Directors, also identified potential for improvement, for example with regard to awareness of human rights topics within our organization and relating to the integration of these topics in our guidelines and processes.

We therefore launched a global, internal campaign in April 2021 to raise awareness on the topic of human rights. Externally, we were involved in the U.N.’s International Year for the Elimination of Child Labour through two initiatives and together with other partners, and committed to specific joint measures in the fight against child labor. Together with other DAX-listed companies, we also participated in the study “Moving with responsibility toward success: practical implementation of human rights due diligence in 10 companies” commissioned by the German Federal Ministry for Economic Cooperation and Development (BMZ) and the German Agency for International Cooperation (GIZ).

We strengthened awareness of our due diligence obligations in procurement by including additional information on human rights topics in training. In addition, the human rights risk assessment is more systematically incorporated into strategy development in our procurement segments (see page 109).

We also further improved our grievance mechanisms and introduced a standardized global external and internal hotline and reporting system in 2021. For example, we expanded the number of languages available. A new website provides information about the hotline and the grievance procedure, and now also offers the option of contacting the company anonymously online in addition to local telephone numbers. Employees can also contact specialists directly via an internal online platform or the corresponding app. The processing status of a submitted report can be tracked anonymously. Moreover, submitted cases will be able to be recorded and evaluated more systematically in the future (see page 171 onward). In 2021, 206 human rights-related complaints were received by phone as well as by post and e-mail. All complaints were reviewed and forwarded to the relevant departments for in-depth investigation. If justified, appropriate measures were taken.

We see assuming our human rights responsibilities as a continuous process. That is why we continuously review our policies and processes and update them whenever necessary. We are currently examining further development measures in various working groups against the backdrop of new regulations such as the German Act on Corporate Due Diligence Obligations in Supply Chains (LkSG) and the forthcoming E.U. legislation on due diligence in the supply chain.

We established a Human Rights Advisory Council in 2020 to systematically integrate external expertise. Its members include independent international human rights experts. The trust-based dialog on human rights topics helps us to better understand different
perspectives and to deal more openly with critical situations. At the same time, the renowned external experts show us where we have potential for improvement and help us to build on our strengths in how we handle human rights. The meetings, which are chaired by our Chief Compliance Officer, are also attended by employees from the sustainability strategy and compliance units. Other representatives, for example, from the operating divisions or procurement, are invited depending on the focus topics. In this way, the Human Rights Advisory Council provides an external perspective on establishing and improving our processes, and contributes this in discussions with the leadership team.

We maintained our dialog with the Human Rights Advisory Council throughout 2021, both with the body as a whole and in small groups, and with individual experts. The topics discussed included responsible supply chain management, for example in challenging supplier relationships or in high-risk regions. Our contribution to the responsible use of our solutions and products was also discussed.

In 2021, we stepped up our commitment to action areas with increased risk potential, such as battery materials (see box on the right). Where conflict minerals (tin, tantalum, tungsten, their ores and gold) are used, we pay attention to the implementation of the relevant E.U. regulation in our supply and value chains. We also set store on certified sustainable supply chains and fair working conditions in the procurement of raw materials such as palm oil, palm kernel oil and castor oil. We maintain dialog with national and international NGOs and are involved in numerous networks and partnerships (see page 113 onward). These include the Cobalt for Development initiative in the Democratic Republic of Congo, the Responsible Lithium Partnership in Chile, the Global Battery Alliance and the Roundtable on Sustainable Palm Oil (RSPO).

As an international company, we are a part of society in the countries in which we operate and have business relationships with partners around the world. We are confronted by the fact that there are states that do not honor their obligation to protect human rights. People are particularly at risk in such countries and companies’ ability to act is often limited. We are committed to our values – including and especially there – and contribute to the respect of human rights.

We have trustful working relationships with our partners (customers, suppliers, joint venture partners, contractors), expect them to comply with internationally recognized human rights standards and to demand the same of their partners further along the value chain. We support our partners in their efforts to meet their respective responsibilities.

We can only meet our goal of eradicating human rights abuses along our value chains if we work together. We have defined our expectations in a binding Supplier Code of Conduct. We are in close contact with our business partners, especially in higher-risk areas and regions, and monitor the implementation of required standards and measures for improvement. We use recognized assessments and audits to verify this.

We report on our global targets, monitoring systems and measures to integrate human rights topics into our business activities in publications such as this report and online.

In 2021, BASF established a Battery Minerals Task Force to meet the specific challenges associated with the growing demand for battery materials. It bundles the expertise of the Catalysts division and various functional units. The initiative was formed to address the risks and opportunities of our global raw material supply chains for battery materials from a sustainability viewpoint and steer the resulting activities. The aim is to ensure the responsible procurement of battery materials. The task force is also responsible for the ongoing development of our internal guidelines to ensure their continuous improvement and adaptation to new regulatory requirements, as well as to take account of developments in our business areas.

For more information on the Human Rights Advisory Council, see basf.com/human-rights-council
We leverage the expertise of global initiatives and networks and actively engage in dialog with various stakeholder groups, contributing our expertise.

For instance, we have been a member of the U.N. Global Compact (UNGC) since its establishment in 2000. As a recognized LEAD company, we contribute to the implementation of the Agenda 2030 and the associated goals. For example, we support the UNGC action platforms, including the Sustainable Finance platform in the form of the CFO Taskforce for the SDGs, and the Decent Work in Global Supply Chains action platform, in which company representatives and experts discuss how respecting human and labor rights is crucial to achieving the SDGs. With the six-month SDG Ambition program, the UNGC and the German Global Compact Network (DGCN) support participating companies in aligning their sustainability targets more closely with the SDGs and deriving specific measures from them. BASF is also active in 13 local Global Compact networks.

In 2021, we again discussed relevant sustainability topics with the Stakeholder Advisory Council. Focus topics included climate protection, the energy transformation and food security. Topics discussed by the Human Rights Advisory Council, which is chaired by our Chief Compliance Officer, included particular challenges in the battery materials value chain.

We promote digital dialog on sustainability topics. In November 2021, we held the second hackathon as part of the Climathon initiative in North and South America, where employees developed digital solutions for sustainability topics.

As a responsible neighbor and a partner in the Rhine-Neckar metropolitan region in Germany, our societal engagement strategy strengthens the participation and integration of disadvantaged groups, and promotes research and discovery.

With Wissensfabrik – Unternehmen für Deutschland e.V., we promote a network of around 130 companies and corporate foundations that sponsor educational institutions and start-ups to support children, young people, students and young entrepreneurs. The focus is on school projects that provide hands-on experience with STEM (science, technology, engineering and mathematics). Due to the coronavirus pandemic, the project’s initiatives (such as IT2School – Gemeinsam IT entdecken and KiTec – Kinder entdecken Technik) were also offered in digital formats, allowing these educational programs to continue even as school operations were restricted. In the new City4Future project launched in early 2022, schoolchildren explore topics related to energy, climate change and sustainability through play and can develop ideas for the urban living space of the future.

In South America, BASF initiated the Connect to Transform open call and has so far supported 48 social and environmental projects, such as the Geração Futura Institute’s Mão na Massa project near our local site in the São Bernardo do Campo region. The project trains women as bakers to promote their financial and personal autonomy.

We aim to create long-term value for BASF and society with new business models and cross-sector partnerships. Our Starting Ventures program helps people from low-income areas to improve their economic opportunities and their quality of life. The program also provides access to new markets and partners, and contributes to reaching the SDGs. A new internal application round for Starting Ventures projects was launched in October 2021. The projects,
which aim to help improve local living conditions, then enter the implementation phase. BASF contributes both technical expertise and resources to the projects to address local challenges and contribute to the SDGs. One project under our Starting Ventures program is the Waste-2-Chemicals project in Lagos, Nigeria. Under the project, plastic waste is collected by local residents, sorted and then converted into pyrolysis oil. This pyrolysis oil is used as feedstock in the production of high-quality chemical products. In cooperation with nonprofit organizations, this will enable local waste collectors and their families to earn a regular income.

BASF Group expenses for societal engagement activities¹

~€30 million

In the area of international development cooperation, we support the independent charitable BASF Stiftung with donations for its projects in cooperation with various organizations. The 2021 year-end donation campaign in favor of BASF Stiftung supported the United Nations Children’s Fund, UNICEF, which celebrated its 75th anniversary. Together with the Indian organization ChildLine and other partners, UNICEF is working to provide psychosocial care for children in India who have had difficulty accessing important services as a result of the pandemic. BASF doubled the donations made by employees of participating German Group companies to a total of around €600,000.

BASF also made donations to support those affected by natural disasters in 2021. In July, BASF donated €1 million to flood relief in Germany, which hit the states of North Rhine-Westphalia and Rhineland-Palatinate particularly hard. The donation went to the German Red Cross, which was active in these crisis regions. In August, BASF doubled the amount donated by employees at its German sites (€702,668 in total) to around €1.4 million. BASF Stiftung distributed the donations to affected private households and charitable institutions. In September, BASF donated $500,000 to disaster relief following Hurricane Ida and for long-term recovery efforts in Louisiana. Local nonprofit organizations used $300,000 of this amount for emergency relief and reconstruction. In addition, $200,000 went to supporting BASF employees who were directly impacted by the effects of the hurricane.

1 As of 2020, we report a total figure for our societal engagement activities. The figure includes all consolidated companies with employees, including joint operations.
In April 2021, BASF opened the first accredited corporate coronavirus vaccination center in Germany at its Ludwigshafen site. More than 22,000 primary vaccinations and more than 21,000 secondary vaccinations were administered there from April to August and more than 10,000 booster vaccinations were administered there in December to BASF employees, contractors and site partners. The coronavirus vaccination center was established and operated by an interdisciplinary team from various BASF units, coordinated by Corporate Health Management.

A global working group in our Pharma Solutions business unit has supported pharmaceutical companies in their research on vaccines and therapies to combat COVID-19 since March 2020. The task force reviews patent applications, clinical trials and scientific publications to identify potential collaborations with companies. BASF is currently supporting the global development of more than 80 therapies with its ingredients and expertise.

BASF products were used to cool coronavirus vaccines. For instance, Elastopir© insulation panels were produced in cooperation with a partner in Malaysia and used to equip refrigerated warehouses in Asia. In cooperation with various partners in Germany, Neopor® and Styropor®, BASF’s expandable polystyrenes (EPS), were used to produce boxes to transport COVID-19 vaccines due to their good insulating and shock-absorbing properties.

In 2021, BASF also provided in-kind support around the world to overcome the challenges posed by the coronavirus pandemic. For example, BASF donated molecular sieves to the Indian government to facilitate the production of medical oxygen. Medical equipment, including ventilators, was also donated, and acute care units were set up in Mumbai together with partners. We donated medical equipment to Malaysian hospitals for the treatment of COVID-19 patients. In South America, BASF launched a food drive and donated food packages to communities around BASF sites. The food was distributed there to those in need with the help of employees who volunteered their time.

For more information on the Helping Hands aid campaign, see basf.com/en/helping-hands
**We Source Responsibly**

As a global business, we have a responsibility to manage our supply chain carefully. We connect with our suppliers to source responsibly. Our partnerships with suppliers are based on mutual value creation, as well as a reliable supply of raw materials, technical goods and services at competitive prices.

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**Supplier Management**

BASF sources a wide range of raw materials, precursors, technical goods and services. Our suppliers are an important part of our value chain. Our objective is to secure competitive advantages through our professional procurement structures, to establish stable and reliable supply chains, and at the same time, meet high ethical and environmental standards. Together with our suppliers, we want to improve sustainability in the supply chain and minimize risks.

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**Strategy**

Our partnerships with suppliers are based on mutual value creation, as well as a reliable supply of raw materials, precursors, technical goods and services at competitive prices. In doing so, we want to generate long-term benefits for both sides. Our sustainability-oriented supply chain management is an integral part of our risk management. We have defined our standards and processes in a global guideline. We are continually refining and optimizing this to respond to changes in the regulatory environment and new requirements resulting, for example, from new laws and initiatives at national and international level. Procurement management systems such as guidelines and targets are set centrally and are binding for all employees with procurement responsibility worldwide.

Our risk-based approach aims to identify and evaluate sustainability matters in our value chains as best possible to improve sustainability together with our suppliers. We regularly review and document progress based on the risk level. Employees with procurement responsibility receive ongoing training in sustainability-oriented supplier management and responsible procurement. In 2021, 250 BASF employees received such training.

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**Global targets**

We actively promote sustainability in the supply chain and have set ourselves ambitious targets for this: By 2025, we aim to have conducted sustainability evaluations for 90% of the BASF Group’s relevant spend and will develop action plans where improvement is necessary. In addition, we aim to have 80% of suppliers improve their sustainability performance upon re-evaluation by 2025. In 2021, 85% of the relevant spend had been evaluated. Of the suppliers re-evaluated in 2021, 74% had improved. Both global targets are embedded in the target agreements of persons responsible for procurement.

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**Worldwide procurement**

Our more than 70,000 suppliers make an important contribution to our value creation. We work in long-term partnership with companies from different industries around the world. They supply us with raw materials, precursors, investment goods and consumables, perform a range of services and are innovation partners.

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1 We understand relevant spend as procurement volumes with relevant suppliers. We define relevant suppliers as Tier 1 suppliers showing an elevated sustainability risk potential as identified by our risk matrixes, our purchasers’ assessments or other sources.

2 BASF considers all direct suppliers of the BASF Group in the business year concerned as Tier 1 suppliers. These are suppliers that provide us with raw materials, investment goods, consumables and services. Suppliers can be natural persons, companies or legal persons under public law.
We acquired raw materials, goods and services for our own production worth approximately €43.5 billion in 2021. Of this, around 90% was procured locally. There were no substantial changes to our supplier structure.

**2025 target**

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>90%</td>
<td>Share of relevant spend covered by sustainability evaluations</td>
</tr>
<tr>
<td>80%</td>
<td>Percentage of suppliers with improved sustainability performance upon re-evaluation</td>
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What we expect from our suppliers

Together with our suppliers, we want to improve sustainability in the supply chain. Consequently, we expect our suppliers to comply with the applicable laws in full and to adhere to internationally recognized environmental, social and corporate governance (ESG) standards. We also expect our suppliers to make an effort to enforce these standards at their suppliers. In addition, we ask our suppliers to acknowledge, support and abide by our Supplier Code of Conduct – or to demonstrate and ensure their commitment to the principles specified in the Code of Conduct, for example in their own code of conduct.

Our global Supplier Code of Conduct is founded on internationally recognized guidelines, such as the principles of the United Nations’ Global Compact, the U.N. Guiding Principles on Business and Human Rights, the International Labor Organization (ILO) conventions and the topic areas of the Responsible Care initiative. Topics covered by the Code of Conduct include compliance with human rights, the exclusion of child and forced labor, safeguarding labor and social standards, antidiscrimination and anti-corruption policies, and protecting the environment. The Code of Conduct is available in the most relevant languages for our suppliers and integrated into electronic ordering systems and purchasing conditions across the Group. We revised our Supplier Code of Conduct in 2021 and added our expectations around the procurement of conflict minerals (tin, tantalum, tungsten, their ores and gold). Around 5,900 new suppliers committed to the Code of Conduct in 2021.

BASF conducts audits and assessments to ensure that suppliers comply with the applicable laws, rules and standards. BASF reserves the right to discontinue business relationships for non-adherence to international principles. The same applies to failure to correct violations, or for displaying patterns of non-compliance with these standards. Our Code of Conduct expressly points out that potential violations of laws, rules or standards can be reported – including anonymously – to our compliance hotlines. Each case is documented and investigated, and appropriate measures are taken as necessary.

**Selection and evaluation of our suppliers**

New suppliers are selected and existing suppliers are evaluated not only on the basis of economic criteria, but also ESG standards. As such, selection, evaluation and auditing is an important part of our sustainable supply chain management. Processes and responsibilities are defined in a global guideline. Due to the large number of suppliers, they are evaluated based on risk. We take into account the materiality of the supply relationship and country and industry-specific risks. We also use observations from our employees in procurement and information from internal and external databases, such as TfS assessments.

We have suppliers with a high potential sustainability risk evaluated by third parties, either through sustainability evaluations or on-site audits. The list of suppliers to be assessed is updated every year. Sustainability evaluations and on-site audits are mainly conducted according to the TfS framework. A total of 86 raw material supplier sites were audited on sustainability standards on our behalf in 2021.

**Together for Sustainability (TfS)**

BASF is a founding member of Together for Sustainability (TfS). The initiative was established in 2011 to improve sustainability in the supply chain. The focus is on standardizing and simplifying supplier audits and evaluations globally. This increases transparency and creates synergies: Suppliers only have to complete an assessment process once. The results are then made available to all TfS members and are mutually recognized – saving time and money for both parties. Suppliers are evaluated by independent experts either in on-site audits or online assessments. The latter are conducted by EcoVadis, a ratings agency specialized in sustainability analyses.

A new program on Scope 3 emissions was launched in 2021. The aim is to develop a methodology for the chemical industry to calculate upstream greenhouse gas emissions in particular. TfS members can use this data to implement and manage emissions reduction programs.

At the end of 2021, TfS had 34 members with a combined procurement spend of around €267 billion. A total of 284 audits and 5,817 online assessments were performed. As a TfS member, BASF itself is assessed and in 2021 was ranked among the top 1% companies worldwide in the sustainable procurement category.

1 “Local” means that a supplier is located in the same region (according to BASF’s definition) as the procuring company.
We received sustainability evaluations for 701 suppliers. We also take into account other certification systems and external audits, such as from the Roundtable on Sustainable Palm Oil, when assessing our suppliers. Depending on business requirements, we additionally conduct our own Responsible Care audits at selected suppliers (see page 117).

**Audit results**

We carefully analyze the results of our assessments and document them in a central database. The on-site supplier audits conducted over the past few years have identified some need for adjustment with respect to environmental, social and corporate governance standards, for example in waste management or deviations in occupational health and safety measures and standards under labor law. Follow-up audits in 2021 identified improvements, for example, a reduction in health and safety risks following the implementation of appropriate measures and compliance with labor law requirements.

In 2021, none of our audits identified any instances of child labor or dangerous work and overtime performed by persons under 18.

We maintained close dialog with our South African platinum supplier Sibanye-Stillwater² in 2021 on the results of the audit from 2020, the implementation of the resulting action plan, and other relevant topics. This includes working with all stakeholders, including local authorities, to take a unified approach to community development. Almost all the needs for adjustment identified by the audit had been implemented by the end of 2021. BASF and Sibanye-Stillwater continue to discuss the progress made four times a year and also use this as a platform for dialog on other sustainability topics.

In South America, around 340 suppliers attended a webinar on ethical principles, legislation and human rights in the supply chain.

We review our suppliers’ progress according to a defined timeframe based on the sustainability risk identified, or after five years at the latest. In the case of ongoing, serious violations of the standards defined in our Supplier Code of Conduct or international principles, we reserve the right to impose commercial sanctions. These can go as far as termination of the business relationship. In 2021, this happened in three cases.

**Supplier development**

We use TIS evaluations to pursue a risk-based approach with clearly defined, BASF-specific follow-up processes. If we identify deviations from standards, we ask suppliers to develop and implement corrective measures within a reasonable time frame. We support them in their efforts, for example by training employees from 31 suppliers in China on ESG topics in 2021 as part of a partnership with the East China University of Science and Technology. In South America, around 190 suppliers took part in a diversity talk on gender equality in the supply chain.

As part of TIS, training was also developed for suppliers undergoing a sustainability evaluation for the first time and for suppliers that already have a sustainability rating but have potential for improvement in ESG performance. In 2021, more than 1,800 participants attended online TIS training on this topic in different languages. TIS is also developing a global learning platform for buyers and suppliers, which will provide various (online) training opportunities on specific sustainability topics. It is scheduled for launch in 2022.

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1. In 2012, an extended strike at a platinum mine in Marikana, South Africa, culminated in a violent confrontation between mine workers and armed South African police. Employees of the former mine operator, Lonmin, were among the fatalities. Ownership of the Marikana mine was transferred to Sibanye-Stillwater in 2019. For more information on the supplier relationship with the Sibanye-Stillwater mine, see basf.com/en/marikana
In 2021, BASF purchased a total of around 35,000 different raw materials from more than 6,500 suppliers. Using resources as efficiently and responsibly as possible and the concept of the circular economy are firmly embedded in our strategy and our actions, for example, by our Verbund structure and the increased use of renewable and recycled feedstocks. We expect our suppliers to source and produce raw materials responsibly.

At a glance

35,000 different raw materials purchased
1.3 million metric tons renewable raw materials purchased

- BASF’s Verbund concept enables the efficient use of resources
- Recycled and renewable raw materials are gaining in importance
- Numerous projects to improve supply chain sustainability

Strategy

Our strategy covers the entire value chain – from responsible procurement and the efficient use and recycling of raw materials in our processes to developing resource-saving solutions for our customers. We want to decouple growth from resource consumption with process and product innovations to accelerate the shift toward closed-loop value creation systems. Alongside economic, environmental and social criteria, we also consider aspects such as product safety and supply security when selecting suppliers and raw materials.

Our expectations of our suppliers are laid down in our Supplier Code of Conduct (see page 109). We take a closer look at suppliers in critical supply chains, for example mineral raw materials, renewable resources such as palm kernel oil, a number of pigments and highly toxic substances. Upstream stages of the value chain are assessed for serious sustainability risks and, if necessary, suitable remedial measures are identified. In addition, we develop and test approaches to make the supply of raw materials more sustainable in joint initiatives with suppliers and other partners. Examples include our cooperative ventures and investments to recycle batteries (see page 30) and our joint activities on certified sustainable supply chains for renewable raw materials such as palm, palm kernel and castor oil.

BASF’s Verbund concept is key to making the use of raw materials in our own processes as efficient as possible: Intelligently linking and steering our plants and processes creates efficient value chains. By-products from one facility are used as feedstocks elsewhere. This saves raw materials and energy (see page 128). At the same time, the Verbund offers many opportunities to use renewable and recycled raw materials. We want to better leverage this potential going forward. For example, we are driving forward chemical recycling of mixed plastic waste and used tires in our ChemCycling™ project (see page 115).

Resource efficiency and stewardship are also becoming increasingly important topics for our customers. That is why we are constantly working to reduce the resources consumed in the manufacturing of our products, for example through more efficient processes, innovative technologies and the use of renewable and recycled raw materials. This enables us to offer our customers solutions that make a greater contribution to sustainability, like a smaller carbon footprint and better biodegradability. Our products also improve our customers’ resource efficiency and sustainability in many areas. For example, BASF additives increase the service life and mechanical recyclability of plastics, which saves fossil resources and avoids CO₂ emissions.

For more information on our supplier management, see page 109 onward
For more information on the circular economy, see page 44

Fossil and petrochemical resources

BASF’s most important raw materials (based on volume) include gas and crude oil-based petrochemical products such as naphtha and benzene. We mainly use liquid gas and natural gas to generate energy and steam, and to produce key basic chemicals such as ammonia or acetylene. Naphtha is mainly fed into our steam cracker, where it is split into products such as ethylene and propylene – both important feedstocks for numerous value chains. We use aromatics such as benzene or toluene to manufacture engineering plastics, among other products. Thanks to a high degree of forward and backward integration, we can produce many feedstocks for our value chains efficiently while conserving resources within the BASF Verbund. This increases supply security and reduces dependence on external supply sources to just a few key raw materials. We source these from different suppliers to minimize supply risks.

As part of our efforts to improve sustainability, we are continuously investigating whether fossil and petrochemical resources can be replaced with non-fossil alternatives. We carefully consider economic, environmental and social aspects, as well as other important criteria like supply security and product safety. Our aim is to increase the share of renewable and recycled feedstocks in our value chains. This brings with it challenges and compromises in the supply of both energy and resources for carbon-based organic chemistry. For example, the use of renewable energy can involve additional costs, which can have an impact on competitiveness. Another area of conflict arises, for example, when the increased consumption of renewable raw materials leads to greater land use. We raise awareness of these trade-offs through close dialog with our stakeholders. We are also involved in sustainability initiatives to develop and implement solutions in cooperation with partners.
Renewable resources

In addition to fossil resources, we employ renewable raw materials, mainly based on vegetable oils, fats, grains, sugar and wood. In 2021, we purchased around 1.3 million metric tons of renewable raw materials. For instance, we use renewable resources to produce ingredients for the detergent and cleaner industry, or to source natural active ingredients for the cosmetics industry. We also use renewable feedstocks such as biomethane and bio-naphtha in our Verbund as an alternative to fossil resources. The mass balance approach allows us to allocate the amount of renewable resources used to a wide variety of end products (see box at left). Examples include the Acrona® Eco and Joncryl® MB biomass balance binders for solvent-free paints and coatings, the HySorb® Biomass Balanced superabsorbent, various biomass balance versions from the Trilon®, Sokalan® and Protectol® product lines for the detergent and cleaner industry, and the biomass balance versions of our Styropor®, Neopor® and Styrodur® insulation materials.

As for fossil raw materials, we also consider how renewable resources impact sustainability topics along the value chain. Alongside positive effects like saving greenhouse gas emissions, these can also have negative effects on areas such as biodiversity, land use or working conditions, depending on the raw material. This is why we carefully weigh the advantages and disadvantages of using renewable resources, for example using Eco-Efficiency Analyses. We also take recognized certification standards such as the Roundtable on Sustainable Palm Oil into account in our decisions.

We want to minimize raw material-specific risks and increase sustainability in our supply chains with measures, projects and targeted involvement in initiatives. Our activities here concentrate on value chains that are relevant quantitatively or that do not yet have certification standards. We are also working on product innovations and on enhancing our production processes to improve the profitability and competitiveness of renewable resources. For example, we are developing innovative processes such as biocatalysis and fermentation for the production of vitamins and enzymes; and we are
driving forward white biotechnology for the production of chemical components from renewable resources.

Palm oil, palm kernel oil and their derivatives are some of our most important renewable raw materials. We mainly use these raw materials to produce ingredients for the cosmetics, detergent, cleaner and food industries. We aim to ensure that palm-based raw materials come from certified sustainable sources. To this end, we have endorsed the Roundtable on Sustainable Palm Oil (RSPO) since 2004 and are engaged in other national and international initiatives, such as the German Forum for Sustainable Palm Oil, the Polish coalition Polska Koalicja ds. Zrównoważonego Oleju Palmowego and the High Carbon Stock Approach organization, based on our Group-wide Supplier Code of Conduct (see page 109), we have outlined our expectations of suppliers in the palm-based value chain in an additional sourcing policy (BASF Palm Sourcing Policy). This addresses aspects such as forest and peat conservation, respect of human and labor rights, smallholder inclusion, and certification and traceability standards. The annual BASF Palm Progress Report reports on our measures and progress toward more sustainability and transparency in the value chain.

We purchased 242,946 metric tons of palm oil and palm kernel oil in 2021 (2020: 227,213 metric tons). We again met our own voluntary commitment to source only RSPO-certified palm oil and palm kernel oil. This avoided more than 330,000 metric tons of CO₂ emissions compared with the procurement of conventional palm oil and palm kernel oil. By 2025, we aim to extend our voluntary commitment to sustainable procurement to the main intermediate products¹ based on palm oil and palm kernel oil. We were able to trace 96% of our global palm footprint to oil mill level as of the end of 2021 (2020: 95%). In addition, we continued to drive forward the RSPO supply chain certification of our sites for cosmetic ingredients. At the end of 2021, 26 production sites worldwide were certified by the RSPO (2020: 25). In line with raised awareness for sustainability, we continue to see growing demand for certified palm-based products from our customers. We are expanding our range of certified sustainable products in accordance with the RSPO’s mass balance supply chain model. This helps our customers meet their obligations to customers, consumers and stakeholders.

We source most of our palm-based raw materials from Malaysia and Indonesia. Smallholders account for around one-third of the total volumes produced there. We have worked together with The Estée Lauder Companies, the RSPO and Solidaridad in Indonesia since 2019 to expand our supplier base for RSPO-certified palm oil products while strengthening smallholder structures and sustainable production methods at local level. The project in the province of Lampung supports around 1,000 independent smallholders in improving their livelihoods and the sustainable production of palm oil and palm kernel oil. The focus is on efficient and sustainable farming practices and health and safety standards. The goal is for at least one-third of program participants to become certified according to the RSPO Smallholder Standard in three years.

Also important for BASF, albeit at a much smaller scale, is castor oil. We use castor oil to manufacture products such as plastics and ingredients for paints and coatings, as well as products for the cosmetics and pharmaceutical industries. With the aim of establishing a certified sustainable supply chain for castor oil, we launched the Sustainable Castor Initiative – Pragati in 2016 together with the companies Arkema and Jayant Agro and the NGO Solidaridad. The initiative is intended to improve the economic situation of castor bean farmers in India and, at the same time, raise awareness of sustainable farming methods. Around 80% of the world’s castor beans are produced in India, mainly by smallholders. As part of Pragati, smallholder farmers receive training on topics such as cultivation methods, efficient water use, health and the safe use of crop protection products based on a specially developed sustainability code, SuCCESS. Since the project was initiated, more than 5,800 smallholders and over 13,300 hectares of land have been certified for sustainable castor cultivation. Yields from this land were 35% higher than average amounts for the region published by the local government for the 2020/2021 harvest cycle. In addition to

1 Fractions and primary oleochemical derivatives as well as vegetable oil esters
2 The figure for 2020 was adjusted from 96% to 95% due to a data correction.
we were able to further expand our portfolio of these Cycled™ of recycled content to the end product (see page 113). In 2021, we used a certified mass balance approach to allocate the percentage properties as products manufactured from fossil feedstocks. We and use it to make new products. These have exactly the same pyrolysis oil into our Verbund as an alternative to fossil raw materials used tires, which were not previously recycled. We can feed this pyrolysis process to extract pyrolysis oil from mixed plastic waste or high-performance plastics for the automotive industry, packaging products. It now comprises around 50 products that our customers materials and functional textiles. W

understanding in 2021 with our technology partner Quantafuel and In our ChemCycling™ project, our technology partners use the plastics into their building blocks or converts them into basic chemi-

landfill or thermally recovered. Chemical recycling breaks down helping to reduce the amount of plastic waste that is disposed of in landfill or thermally recovered. Chemical recycling breaks down plastics into their building blocks or converts them into basic chemi-
cals. Different methods are used to achieve this.

Recycled feedstocks

Recycling is becoming increasingly important due to limited resources, growing sustainability requirements in the markets and regulatory developments. We want to increase the use of recycled feedstocks with our Circular Economy Program: From 2025 onward, we aim to process around 250,000 metric tons of recycled and waste-based raw materials every year worldwide, replacing fossil raw materials (see page 44).

A focal point of our activities here is chemically recycling plastic waste. This technology complements mechanical recycling and can help to reduce the amount of plastic waste that is disposed of in landfill or thermally recovered. Chemical recycling breaks down plastics into their building blocks or converts them into basic chemi-
cals. Different methods are used to achieve this.

In our ChemCycling™ project, our technology partners use the pyrolysis process to extract pyrolysis oil from mixed plastic waste or used tires, which were not previously recycled. We can feed this pyrolysis oil into our Verbund as an alternative to fossil raw materials and use it to make new products. These have exactly the same properties as products manufactured from fossil feedstocks. We use a certified mass balance approach to allocate the percentage of recycled content to the end product (see page 113). In 2021, we were able to further expand our portfolio of these Cycled™ products. It now comprises around 50 products that our customers use, for example to manufacture transport cases for medicine, high-performance plastics for the automotive industry, packaging materials and functional textiles. We also signed a memorandum of understanding in 2021 with our technology partner Quantafuel and Remondis, a global leader in waste and water management. Its subject matter is the assessment of a joint investment in a pyrolysis plant for plastic waste.

We have also made further progress with the chemical recycling of used mattresses made of flexible polyurethane. It is based on a wet chemical process developed by BASF. After initial successful trials, our teams continued developing the process in 2021. Precursors recovered from old mattresses can now be used to produce new mattress-sized blocks of flexible polyurethane foam. The new process is currently being optimized and tested on a larger scale.

We have many years of experience and a high degree of specialization in recycling precious metals such as platinum, palladium and rhodium. They are used in automotive catalysts as well as in process and chemical catalysts. We primarily use the precious metals recovered in this way as feedstocks in catalyst production. With the expansion of our refinery plant in Seneca, South Carolina, and the acquisition of assets from Zodiac Enterprises in Caldwell, Texas, we are further expanding our leading position in platinum group metal recycling.

The growing demand for electromobility is also increasing the need for lithium-ion battery recycling. As a leading producer of battery materials with future local production capacities in the three main markets – Asia, Europe and North America – BASF has in-depth expertise in battery chemistry and process technology. We are utilizing these competencies to address battery recycling as an additional growth market in cooperation with partners along the value chain (see page 30). In this way, we want to ensure that valuable metals remain in the production cycle for as long as possible. This conserves resources while enabling production of cathode active materials in Europe with a significantly lower carbon footprint compared with the industrial standard. At the Schwarzeheide site in Germany, where a cathode active materials plant is already under construction, we will also build a prototype plant for battery recycling by 2023. The prototype plant will allow for the development of new operating procedures and optimization of technology to deliver superior recovery rates of lithium, nickel, cobalt and manganese from end-of-life lithium-ion batteries. The plant will also recycle metals from scrap of cell manufacturers and battery material pro-
ducers that do not meet product specifications.

Mineral raw materials

We procure a number of mineral raw materials, which we use to produce automotive and process catalysts or battery materials, among other products. We are continually improving our products and processes to minimize the use of primary mineral raw materials. At the same time, we are driving forward the recycling of mineral raw materials, for example, by recovering platinum metals from automotive and process catalysts and using these as secondary resources (see “Recycled feedstocks”).

Sourcing mineral raw materials responsibly is important to BASF. We implemented measures to meet the requirements of the E.U. Conflict Minerals Regulation by the January 1, 2021 deadline. This defines supply chain due diligence for tin, tantalum, tungsten, their ores and gold (3TG) imported into the E.U. from conflict-affected and high-risk areas (CAHRAs). To supplement our Supplier Code of Conduct (see page 109), we introduced a Group-wide Supply Chain Policy for Conflict Minerals in 2021. It contains expectations for our suppliers from CAHRAs and outlines voluntary commitments.

In addition to responsible procurement of the 3TG minerals, BASF is committed to responsible and sustainable global supply chains for other mineral raw materials as well. These include cobalt, a key component in the production of battery materials for electric vehicles, among other applications. Our cobalt supply chain is organized according to special sustainability criteria. Our goal is to not purchase cobalt from artisanal mines and to exclude this in supply chains as long as responsible artisanal production cannot be verified.

Together with BMW, Samsung SDI, Samsung Electronics, Volkswagen and the German Agency for International Cooperation (GIZ), we have been involved in the cross-industry Cobalt for Development initiative since 2018. It aims to improve working and living
conditions for artisanal miners in the Democratic Republic of Congo. To achieve this, the initiative offers programs such as training on important environmental, social and governance aspects of responsible mining practices. Since October 2020, 14 mining cooperatives in Kolwezi have participated in training on topics such as occupational safety and environmental management. Cobalt for Development also works closely with local NGOs and the Good Shepherd International Foundation to create additional income opportunities for families and improve access to education. The joint activities are beginning to show results according to an evaluation of the initiative: Participants of the program since its launch have seen an increase in average income and savings. Since construction of the new public primary and secondary schools in Kisote, the majority of children have enrolled in school. Overall, several thousand members of the participating communities are already benefiting. In 2021, the initiative also made an action pledge to eliminate child labor as part of a global campaign by the International Labor Organization (ILO). Three mining cooperatives around Kolwezi are receiving assistance to implement occupational safety measures and a zero-tolerance policy against child labor.

We signed a long-term supply agreement with Nornickel for nickel and cobalt from a metal refinery in Finland. The agreement ensures locally sourced and secure supply of raw materials for battery material production in Europe. In cooperation with Eramet, we are also assessing the development of a state-of-the-art hydrometallurgical refining complex in Indonesia, which is expected to secure access to more sustainably sourced nickel and cobalt as of the mid-2020s.

We are also involved in various international initiatives to strengthen sustainability and innovation in the value chain for batteries. These include the Global Battery Alliance (GBA), which we co-founded in 2017. It promotes dialog between business, government and civil society and develops standards and tools to create a socially responsible, ecological and economically sustainable, and innovative value chain for batteries. For instance, BASF is working with the GBA on the GBA Battery Passport. In the future, this “digital twin” will contain information on the sustainability of a battery to increase transparency in the value chain. The GBA, as well, made an action pledge with the ILO campaign against child labor, also focusing on the Democratic Republic of Congo. BASF is also an active member of the Responsible Minerals Initiative.

Furthermore, together with Daimler, Fairphone, and Volkswagen, we launched the Responsible Lithium Partnership in 2021. It advocates for the responsible use of natural resources in Chile’s Salar de Atacama, home to the world’s largest lithium reserves and a significant portion of global production. As a first step, the German Agency for International Cooperation (GIZ) was commissioned to organize a local multi-stakeholder platform on the opportunities and risks of lithium mining and other economic activities such as copper mining and tourism. The goal of the platform is to reach a common understanding on the status quo and to jointly develop a vision for the future of the Salar de Atacama watershed. In addition, potential risks are to be mitigated and opportunities promoted through the development and implementation of joint action plans.

Another mineral raw material that BASF processes is mica. We use both raw mica and effect pigments derived from mica, mainly in the production of coatings. BASF is conscious of its social responsibility with regard to mica sourcing and applies high standards which, among other things, exclude child labor. Suppliers are asked to source mica in accordance with our Supplier Code of Conduct. As a member of the Responsible Mica Initiative (RMI), we advocate for the eradication of child labor and unacceptable working conditions, specifically in India’s mica supply chain. The initiative focuses on labor standards, strengthening local communities and legal frameworks. According to an RMI study, activities in the relevant regions of India have already led to improved income and living conditions. These include improved access to clean drinking water through the installation of pumps and filtration systems and improved access to health care through doctors’ visits in villages and enrollment in public health insurance plans.

For more information on the Cobalt for Development project, see basf.com/cobalt-initiative and cobalt4development.com/
For more information on the Global Battery Alliance, see globalbattery.org
For more information on the Responsible Mica Initiative, see responsible-mica-initiative.com
We Produce Safely and Efficiently

Protecting people and the environment is our top priority. Our core business – the development, production, processing and transportation of chemicals – demands a responsible approach. We address environmental, health and safety risks with a comprehensive Responsible Care Management System. We expect our employees and partners to know the risks of working with our products, substances and plants and to handle these responsibly.

Global EHS guidelines and standards
Quality management with a focus on customer satisfaction
Risk-based site audits

Responsible Care Management System

Our EHS management approach covers the different stages of our value chain – from the transportation of raw materials to production at our plants, activities at our sites and warehouses, and distribution of our products down to our customers’ application of our products. The Environmental Protection, Health & Safety unit in the Corporate Center defines Group-wide management and control systems and monitors compliance with internal requirements and legal regulations, while the sites and legal entities implement these requirements locally. Our global network ensures that information and insights are shared across the BASF Group on an ongoing basis. Our policies and requirements are continuously updated. We also maintain dialog with government institutions, associations and international organizations for this reason. We set ourselves ambitious goals for environmental protection, health and safety (see page 36) and regularly review our performance and progress with audits. We assess the potential risks and weaknesses of all our activities – from research and production to logistics – and the potential effects of these on the safety and security of our employees, the environment or our surroundings. We use databases to document accidents, near misses and safety-related incidents at our sites as well as along our transportation routes to learn from these; appropriate measures are derived according to specific cause analyses.

Quality Management System

Our Quality Management System comprises our EHSQ policy as well as further standards, guidelines and processes for quality management along the value chain. Our Quality Management System is risk-based, process-oriented and focused on customer satisfaction. Its mandatory elements are set out in a Corporate Requirement. These include core processes such as nonconformance management, change management and the performance of internal audits. Local implementation of the requirements is the responsibility of our business units and sites.

Responsible Care audits

Regular audits help ensure that our safety, security, health and environmental protection standards are met. We conduct regular audits every three to six years at all BASF sites and at companies in which BASF is a majority shareholder. We take a risk-based approach and use an audit database to ensure that all sites and plants worldwide are regularly audited. We have defined our regulations for Responsible Care audits in a global Corporate Requirement.

Newly acquired sites and companies are audited after the integration phase is complete, generally within one to two years depending on complexity and size.
During our audits, we create a safety and environmental profile that shows if we are properly addressing the existing hazard potential. If this is not the case, we agree on measures and monitor their implementation, for example, with follow-up audits.

In the BASF Group in 2021, 143 environmental and safety audits were conducted at 71 sites (2020: 112 audits at 60 sites). The sites were audited based on their individual risk profile. Auditing of the sites acquired from Solvay could not start in late 2021 as planned due to the coronavirus pandemic. These audits will be performed in 2022.

In 2021, 13 sites were audited on occupational medicine and health protection (2020: 1). Online audits were conducted for 10 of these sites. These remote audits focused on documented processes and management systems.

External certification

We pursue a decentralized certification approach for our business units and subsidiaries. This takes into account local needs, internal and legal requirements, and our customers’ requirements.

Our Responsible Care audit system complies with the ISO 19011 standard and is certified according to ISO 9001. Worldwide, 130 BASF production sites are certified in accordance with ISO 14001 and EMAS (Eco-Management and Audit Scheme) (2020: 128). In addition, 54 sites worldwide are certified in accordance with OHSAS 18001 or ISO 45001 (2020: 51). Several BASF sites also have an ISO 17020 accredited inspection body for user inspection or an ISO 17025 accredited analytical laboratory for environmental emissions analyses.

Based on our customers’ requirements, quality management at our production sites is generally certified according to external international standards such as ISO 9001, GMP, FAMI QS or IATF 16949.

Costs and provisions

We continuously invest in reducing the impact of our actions on the environment. We also establish appropriate provisions for environmental protection measures and the remediation of active and former sites.

<table>
<thead>
<tr>
<th>Costs and provisions for environmental protection in the BASF Group</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating costs for environmental protection</td>
<td>1,133</td>
<td>1,125</td>
</tr>
<tr>
<td>Investments in new and improved environmental protection plants and facilitiesa</td>
<td>239</td>
<td>231</td>
</tr>
<tr>
<td>Provisions for environmental protection measures and remediationb</td>
<td>926</td>
<td>693</td>
</tr>
</tbody>
</table>

a Investments comprise end-of-pipe measures as well as integrated environmental protection measures.
b Values shown refer to December 31 of the respective year.

For more information, see Notes 9 and 23 on pages 224 and 260.
For occupational and process safety as well as corporate security and health and environmental protection, we rely on comprehensive preventive measures and expect the cooperation of all employees and contractors. Our safety and security concepts serve to protect our employees, contractors and neighbors, to prevent property and environmental damage, and to protect information and company assets.

**At a glance**

- 0.3 Lost-time injuries per 200,000 working hours
- 0.3 Process safety incidents per 200,000 working hours

- Global health and safety standards
- Strengthening risk awareness and mindful behavior
- Intensive dialog on safety topics
- Regular review of safety concepts, emergency systems and crisis management structures
- Comprehensive protection measures against third-party interference

**Strategy**

The safety of our employees, contractors and neighbors, and protecting the environment is our top priority. This is why we have set ourselves ambitious goals for occupational and process safety as well as health protection. We stipulate mandatory global standards for occupational and process safety, emergency response and health protection. Our sites and subsidiaries are responsible for implementing and complying with internal guidelines and legal requirements. The Environmental Protection, Health & Safety unit in the Corporate Center conducts regular audits to monitor this. As part of our continuous improvement process, we regularly monitor progress toward our goals. We have defined our reporting indicators in accordance with the reporting standard developed by the International Council of Chemical Associations.

We promote risk awareness for every individual with measures such as systematic hazard assessments, specific and ongoing qualification measures and a wide range of safety initiatives. We analyze accidents and incidents as well as their causes and consequences in detail at a global level to learn from these. Hazard assessments and the risk minimization measures derived from them are an important prevention tool. We also promote regular dialog across different sites to strengthen risk awareness among our employees and contractors, to learn from examples of good practice and in this way, continually develop our safety culture.

Leaders are important role models for employees, which is why environmental protection, health, safety and security are discussed with newly appointed senior executives. Senior executives with a particular responsibility for such topics, for example, in production, also receive specific further training to be able to meet their responsibilities. Due to the restrictions caused by the coronavirus pandemic, the seminars for senior executives were held virtually in 2021. Other events and initiatives in 2021 also focused on the high relevance of safety topics and dialog among our leaders. These included regular town halls for senior executives, the Lead with Safety initiative in North America and the Visible Leadership in EHS @ CP initiative in the Petrochemicals division.

Numerous digital solutions and applications are used in BASF’s production plants to further increase safety, security, planning capability and availability. For example, we had introduced augmented reality solutions at around 340 plants worldwide as of the end of 2021. We plan to implement these at more than 80 other plants by the end of 2022. At many sites, our employees already use mobile end devices and special apps for day-to-day tasks such as safety inspections, which continuously improves the efficiency and quality of our processes. Other areas of application for digital solutions include efficiently simulating maintenance and production processes in digital plant models and predictive maintenance. At the Ludwigshafen site in Germany, for example, over 40 plants already use predictive maintenance models to monitor plant components such as compressors, pumps and heat exchangers.

**Occupational safety**

Our aim is to reduce the worldwide lost-time injury rate to no more than 0.1 per 200,00 working hours¹ by 2025. To prevent work-related accidents, we encourage and promote risk-conscious behavior and safe working practices, learning from incidents and regular dialog. We are constantly refining and enhancing our requirements and training.

**2025 target**

Reduce the worldwide lost-time injury rate per 200,000 working hours

≤0.1

In addition to the legally required briefings, BASF requires new employees and contractors to complete compulsory health and safety training, as well as regular training on the safe handling of chemicals and the correct use of personal protective equipment for employees at our production sites. Due to the coronavirus pandemic, there was a greater focus on the safety aspects of remote working in 2021.

In 2021, 0.3 work-related accidents per 200,000 working hours¹ occurred at BASF sites worldwide (2020: 0.3). The share of chemical-related accidents declined slightly to 4% (2020: 6%).

¹ Hours worked by BASF employees, temporary employees and contractors
Unfortunately, there was one fatal work-related accident in 2021 (2020: 1). At the Geismar site in Louisiana, an employee of a contractor died while performing maintenance work. The accident is still being investigated by the local authorities. BASF is assisting the inquiry into the circumstances and cause of the accident. We use the findings to take appropriate measures to prevent this from happening again. Such measures include regular informational events and awareness-raising campaigns.

We actively share insights to further increase occupational safety and continually improve our processes and methods. For example, we evaluate trends in data, analyze accidents and potential incidents, and share knowledge and best practices within our global network of experts and as part of safety initiatives. We also seek dialog with government institutions and are actively involved in external occupational safety initiatives and networks around the world, led, for example, by the European Chemical Industry Council (CEFIC) or national associations such as the German Chemical Industry Association or the American Chemistry Council.

Process safety

Process safety is a core part of safe, effective and thus sustainable production. We meet high safety standards in the planning, construction and operation of our plants around the world. These meet and, in some cases, go beyond local legal requirements.

Our global guidelines provide the framework for the safe construction and operation of our plants as well as the protection of people and the environment. Our experts have developed a safety concept for every plant that considers the key aspects of safety, health and environmental protection – from plant design to the end of the production phase – and that sets out specific safety measures. Regular implementation checks ensure that all aspects of process safety comply with the safety concept and are always up to date.

2025 target

Reduction of worldwide process safety incidents per 200,000 working hours

In order to maintain the highest level of safety at our plants across their entire life cycles, we verify that our protection concepts, safety reviews and resulting safety measures have been carried out in all our plants at timely intervals based on risk potential. We regularly update our plants’ safety and security concepts, taking into particular account new technological opportunities and regulatory developments.

We use the number of process safety incidents (PSI) per 200,000 working hours as a reporting indicator. We have set ourselves the goal of reducing process safety incidents to a rate of no more than 0.1 per 200,000 working hours by 2025. In 2021, we recorded 0.3 process safety incidents per 200,000 working hours worldwide (2020: 0.3). We investigate every incident in detail, even under the constraints of the coronavirus pandemic, analyze causes and use the findings to derive suitable measures. We share the findings in our global network in the interest of continuous improvement.

Health protection

Our global corporate health management serves to promote and maintain the health and productivity of our employees. Our occupational health standards are specified in a binding global requirement, the implementation of which is the responsibility of our sites and subsidiaries. They are supported in this task by a global network of experts. The Environmental Protection, Health & Safety unit in the Corporate Center conducts regular audits to monitor compliance with the standards.

We raise employee awareness of health topics with offerings tailored to specific target groups. The BASF health checks form the foundation of our global health promotion program and are offered to employees at regular intervals.

We measure our performance in health protection using the Health Performance Index (HPI). This has five components: recognized occupational diseases, medical emergency drills, first aid, preventive medicine and health promotion. Each component contributes a maximum of 0.2 to the total score, meaning that the highest possible score is 1.0. We aim to reach a value of more than 0.9 every year. With an HPI of 0.96, we once again reached this target in 2021 (2020: 0.92). As in 2020, the figure is slightly lower due to restrictions associated with the coronavirus pandemic, in-person seminars were again held as virtual meetings or taught using web-based applications in 2021.

We play an active role in improving process safety around the world in internal and external networks, through our involvement in organizations such as the International Council of Chemical Associations (ICCA), the European Process Safety Centre (EPSC) or the Center for Chemical Process Safety (CCPS), and by fostering dialog with government institutions.
than in previous years due to the coronavirus pandemic. Consequently, a number of criteria crucial to the HPI could not be fully met or measures could not be performed as usual in the reporting year. These included activities that required physical participation such as emergency drills, examinations or first aider training.

In 2021, 36 work-related illnesses among BASF employees worldwide were documented as recognized occupational diseases (2020: 26). The main recognized occupational diseases are occupational asthma, hearing loss, skin diseases, musculoskeletal disorders and cancer.

In 2021, we continued the measures to fight the coronavirus pandemic developed and successfully implemented at our sites in 2020, adapted to the local infection situation in each case. By sharing information in our BASF medical network and working closely together with the authorities, employee representatives and our partners at BASF sites, we were able to make and implement sound and timely decisions according to the situation. Our actions focused on the health of all of our employees, contractors and third parties. Measures included providing information to and raising awareness among employees, tracing and breaking infection chains, and vaccination services. For example, we set up our own coronavirus vaccination center at our largest site in Ludwigshafen, Germany. More than 22,000 primary vaccinations and more than 21,000 secondary vaccinations were administered there from April to August 2021, and more than 10,000 booster vaccinations were administered in December to BASF employees, contractors and site partners. Another focus in 2021 was on influenza prevention. BASF employees could be vaccinated against the seasonal flu at many sites around the world, an offer that was very well received. At the Ludwigshafen site in Germany, for example, around 6,800 employees participated in the influenza vaccination campaign.

In light of the coronavirus pandemic, the Global Health Campaign 2021 was again devoted to the personal health of our employees. The program included a wide range of in-person and virtual seminars and interactive events on regeneration under the banner of “Recharge yourself.” Focus topics were physical activity, nutrition and relaxation. Over 444 sites worldwide took part, offering events such as workshops, courses, lectures or exercises.

In October 2021, BASF SE’s Corporate Health Management unit received the European Responsible Care® Award from the European Chemical Industry Council (CEFIC) in the category “Supporting health in COVID-19 times” for its wide-ranging activities and innovative approaches to fight the coronavirus pandemic – bundled under the motto of “Protect yourself and others.”

**Emergency response, corporate and cyber security**

We create working conditions and an environment in which our employees can work safely. The focus of our emergency and crisis management is therefore on the safety of our employees, plants and sites as well as our communities. We are well prepared at global, regional and local level for exceptional situations such as major incidents or pandemics thanks to our extensive regulations and measures for emergency preparedness, emergency response and crisis management. All incidents are carefully followed up on to identify potential for improvement, which is integrated into existing concepts as needed. Unusual incidents are recorded and reported centrally in accordance with a standard Group-wide procedure (e-Rapid Incident Report). This enables us to identify risks at an early stage and, if necessary, initiate appropriate relief and communication measures.

Incidents are initially handled by the local crisis organization or local emergency response team. We have implemented precautionary organizational measures with clearly defined responsibilities and procedures at all sites for this purpose. The responsible persons receive regular training. Depending on the situation, we also involve business partners and our sites’ communities, such as local authorities or neighboring companies. Additional teams may be called in depending on the extent of the damage and how it develops.

For example, the Global Crisis Management Support Team (GCMS), led by a member of the Board of Executive Directors, was activated in connection with the coronavirus pandemic. It provides the strategic direction for crisis management and is supported by issue-specific and specialist working groups.

Safety and emergency drills are also conducted regularly at site and Group level. The number of employees and partners involved varies depending on the type of exercise.

We are actively involved in external networks, which quickly provide information and assistance in emergencies. These include the International Chemical and Environmental (ICE) initiative and the German Transport Accident Information and Emergency Response System (TUIS), in which BASF plays a coordinating role. In 2021, we provided assistance to public emergency response agencies and other companies in 138 cases (2020: 112). This included information on chemicals and their proper disposal, on-site operational support for transportation accidents involving hazardous goods, or information on human biomonitoring. We apply the experience we have gathered to improve our own processes and set up similar systems in other countries.

The corporate security requirements for site security are set out in a global guideline. Local implementation by our sites and subsidiaries is regularly audited and continuously improved. Respect for human rights is a mandatory element of our requirements. Aspects of human rights relevant to site security are a component of the global code of conduct and qualification requirements for our internal and external security personnel. We analyze the potential safety and security risks associated with investment projects and strategic plans, and define appropriate safety and security concepts. Our
guiding principle is to identify risks for the company at an early stage, assess them properly and derive appropriate safeguards.

We inform business travelers and transferees about appropriate protection measures prior to and during travel in countries with elevated security risks. We updated our travel recommendations in line with the coronavirus pandemic. After any major incident, we can use a standardized global travel system to locate and contact employees in the affected regions.

We protect our employees, sites, plants and company know-how against third-party interference. This includes addressing in depth the issue of cybersecurity and information security. BASF applies the "security by design" principle to critically review and optimize IT applications from a cybersecurity perspective as early as the design phase. We are continually improving our ability to prevent, detect and react to security incidents with various measures and training programs. Our global cybersecurity team monitors and protects our IT systems against hacker attacks. We cooperate with experts and partners in a global network to ensure that we can protect ourselves against cyberattacks as far as possible. Our IT security management system is certified according to DIN EN ISO/IEC 27001:2017. It also supports, in particular, our critical infrastructures in meeting additional compliance requirements such as DIN EN ISO/IEC 27019:2020, IT security catalog and corresponding industry-specific standards (B3S).

Our worldwide network of information protection officers comprises around 650 employees. They support the implementation of our uniform requirements and hold events and seminars on secure behaviors. Around 100,000 employees had been trained on the basics of cybersecurity and information protection in 2021. Our standardized Group-wide recommendations for the protection of information and knowledge were expanded to include additional guidance for employees and updated in line with current developments.

For more information on emergency response, see basf.com/emergency_response

Good to know

Automation Security Roadmap

The advance of digitalization increases the risk of cyberattacks on IT systems such as online stores or servers. At the same time, automation technology (operational technology) is increasingly being used in production plants, buildings, laboratories and in logistics, which is also connected to the internet via various protection levels. An interdisciplinary team with experts from information and automation technology developed the Automation Security Roadmap to reduce risk in these areas. It serves as a guide for facilities to protect themselves against cyberattacks. Part of the concept is training Officers for Automation Security (OAS). BASF now has over 300 OASs. They provide advice and support on cybersecurity in automation technology at all BASF sites worldwide – for example, on risk analysis, protecting sensitive data and access control.
We see product safety as an integral part of all business processes, as an element of our risk management, and as an important pillar of our commitment to Responsible Care\(^\text{\circ}\). We continuously work to ensure that our products pose no risk to people or the environment when they are used responsibly and in the manner intended. We aim to comply with all relevant national and international laws and regulations.

**Strategy**

We are committed to continuously minimizing the negative effects of our products on the environment, health and safety and to the ongoing optimization of our products. This commitment to product safety is enshrined in our Responsible Care\(^\text{\circ}\) charter and the initiatives of the International Council of Chemical Associations (ICCA).

Our products should not pose any risk to humans or the environment when used responsibly and in the manner intended. We aim to comply with all relevant national and international laws and regulations. Our global requirements define rules, processes and responsibilities, for example, to ensure uniformly high product safety standards worldwide. Our sites and subsidiaries are responsible for implementing and complying with internal guidelines and legal requirements. The Environmental Protection, Health & Safety unit in the Corporate Center conducts regular audits to monitor this. BASF’s global network of experts shares information, insights and best practices around product safety on an ongoing basis.

We maintain and evaluate environmental, health and safety data for all of our substances and products in a global database. This information is continuously updated. The database forms the basis for substance and product assessments and for our safety data sheets, which we make available to our customers in around 40 languages. These include information on the physical/chemical, toxicological and ecotoxicological properties of products, potential hazards, first aid measures, measures to be taken in the case of accidental release, and disposal. Our global emergency hotline network enables us to provide information around the clock. In order to help users to quickly find out about our products and the risks associated with them, we use the Globally Harmonized System (GHS) to classify and label our products around the world, provided this is legally permissible in the country concerned. We take into account any national or regional modifications within the GHS framework, such as the E.U.’s CLP Regulation.

We train our employees, customers and logistics partners worldwide on the proper handling and optimal use of selected products with particular hazard potential. Furthermore, in associations and together with other manufacturers, BASF is pushing for the establishment of voluntary global commitments to prevent the misuse of chemicals.

**Global chemicals regulations**

Most of the products we manufacture are subject to statutory chemicals regulations. We want to ensure compliance with these. We are bound by the relevant regional and national chemicals regulations, which continue to grow in number worldwide. Examples include REACH in the E.U., TSCA in the United States and KKDIK in Turkey. BASF Group companies work closely together with a global network of experts to ensure that BASF complies with the applicable regulations.

**Environmental and toxicological testing**

Before launching products on the market, we subject them to a variety of environmental and toxicological tests using state-of-the-art knowledge and technology. If we employ animal studies, we adhere to the specifications laid down by the German Animal Welfare Act as well as the requirements of the Association for Assessment and Accreditation of Laboratory Animal Care – the highest standard for laboratory animals in the world. We develop and are continuously optimizing alternative methods to experimentally assess the safety and tolerance of our products without animal studies. Our aim is to replace, reduce and refine animal studies to minimize the impact on them. We made great progress toward this goal in 2021. For example, an animal-free toxicological testing strategy jointly developed by BASF and Givaudan was approved by the OECD – the first of its kind worldwide. The strategy comprises three individual alternative methods. By combining these methods, it is possible to test more precisely than in animal studies whether a substance causes allergic skin reactions.

**Management of nano- and biotechnology**

Nanotechnology and biotechnology offer solutions for key societal challenges – such as environmental and climate protection or health and nutrition. For example, nanomaterials can improve battery performance and biocatalytic methods can improve process resource efficiency. We want to harness the potential of both technologies. Using them safely and responsibly is our top priority. Safe handling of nanomaterials is stipulated in our Nanotechnology Code of Conduct, for instance. We produce a range of products with the help of biotechnological methods, including natural fragrances and flavors, enzymes, vitamins or seeds for agriculture. This provides us with extensive experience in their safe use in research, development and production. We are guided by the code of conduct set out by EuropaBio, the European biotechnology association, and want to adhere to all relevant standards and legal regulations governing production and marketing in our use of biotechnology.
Crop protection products and seeds are highly regulated at national and international level, which brings with it strict requirements for registering and re-registering active ingredients and crop systems. Regulatory approval is only granted when extensive documentation can be provided showing that our products are safe for people, animals and the environment when used in the manner intended.

Potential risks are assessed and minimized throughout the research, development and registration process, and on an ongoing basis following market registration. We regularly perform a large number of scientific studies and tests to ensure that, as far as possible, our registration dossiers address all questions on potential environmental and health effects.

We adapt our portfolio to the specific requirements of regional markets as crops, soils, climate conditions, plant diseases and farming practices vary around the world. Consequently, product approvals differ from country to country.

Crop protection

BASF adheres to the International Code of Conduct issued by the World Health Organization (WHO) and the Food and Agriculture Organization (FAO) for the distribution of crop protection products. These are only marketed once they have been approved by the relevant authorities. We no longer sell WHO Class 1A or 1B products (high acute oral and dermal toxicity). Depending on availability, we offer our customers alternatives.

All of BASF’s crop protection products can be used safely under local farming conditions if the information and directions on the label are followed. Customers can contact us directly if they have any questions, complaints or issues, for example, by calling the telephone number printed on product labels, using the contact forms on our websites or by approaching our sales employees directly. We record all products incidents relating to health or the environment that come to our attention in a global database. If necessary, we take appropriate measures on the basis of this information, such as updating the instructions for use on the product label to minimize preventable incidents in the future. We communicate changes to instructions for use and general recommendations on the safe use of our products through channels such as our Farmer Field School initiatives in Asia and in training programs such as the On Target Application Academy in the United States.

One of the ways we meet our commitment to product stewardship is by offering a wide range of courses and training on the safe storage and safe use of our products. In India, for example, BASF launched the Suraksha Hamesha program. Suraksha Hamesha means “safety all the time.” The program creates a platform for educating farmers and agricultural workers about the nine steps of responsible use of crop protection products and personal protection. Through Suraksha Hamesha, BASF has engaged with over 162,600 agricultural workers and around 33,200 users across India since 2016. BASF also involves government agencies and the central government’s farm extension teams in these meetings to support and promote farm safety.

We also work closely together with associations such as CropLife International and CropLife Europe to promote the safe and proper use of crop protection products. For example, we support stewardship initiatives of both associations and various programs on the proper disposal and recycling of product containers. Technological innovations developed together with industry partners such as the easyconnect closed transfer system in Europe or the Wisdom system in South America also help to make using crop protection products easier and safer.

Seeds

BASF is a member of Excellence Through Stewardship, a global industry initiative for seeds. This initiative promotes the adoption of quality management systems for seeds and product stewardship programs covering the entire life cycle. It also has independent ETS-certified auditors verify members’ compliance with its guidelines. In 2021, BASF successfully passed ETS audits in the areas of laboratory operations, contained biotech plants, general stewardship, incident response management and product handling at our Ghent and Astene sites in Belgium.
Our regulations and measures for transportation safety cover the delivery of raw materials, the handling and distribution of chemical products between BASF sites, warehouses and customers, and the transportation of waste.

At a glance

Zero transportation incidents with significant impact on the environment

- Risk minimization along the entire transportation chain
- Risk assessment based on national and international dangerous goods regulations
- Regular review of logistics service providers

Strategy

We want our products to be loaded, transported and handled safely. This is why we depend on global standards, an effective organization and reliable logistics partners. Our goal is to minimize risks along the entire transportation chain – from loading and transportation to unloading. The transportation of dangerous goods is subject to mandatory national and international dangerous goods regulations as well as our global guidelines. The sites and subsidiaries are responsible for implementing transportation safety regulations and guidelines. Compliance is regularly monitored by the Environmental Protection, Health & Safety unit in the Corporate Center using globally standardized transportation safety reviews.

Preventive safety measures

National and international dangerous goods regulations are based on an assessment of transportation risks and set out rules and measures for safely transporting dangerous goods. We use various tools to minimize transportation risks. For example, for every dangerous good to be transported, we check in each case whether the packaging is suitable for the type of transport. We conduct digital dangerous goods checks before shipping orders are released. In addition, vehicles are subjected to a thorough dangerous goods check prior to loading and rejected if there are any issues.

Above and beyond this, we use our global requirement to specifically assess the safety and environmental risks of transporting and handling raw materials and sales products with high hazard potential. This is based on the Guidance on Safety Risk Assessment for Chemical Transport Operations published by the European Chemical Industry Council (CEFIC).

We stipulate worldwide requirements for our logistics service providers and assess them in terms of safety and quality. Our experts use our own evaluation and monitoring tools as well as internationally approved schemes such as the ship inspection reports issued by the Chemical Distribution Institute (CDI) and the Oil Companies International Marine Forum (OCIMF).

Transportation incidents

To evaluate transportation safety, we systematically record transportation incidents according to defined criteria. We use the number of transportation incidents1 as a reporting indicator. In 2021, we recorded 21 transportation incidents worldwide (2020: 19).

A particular focus is incidents involving goods spillages that could lead to significant environmental impacts. These include dangerous goods leaks of BASF products in excess of 200 kilograms on public traffic routes, provided BASF arranged the transport. We recorded three incidents in 2021 with spillage of more than 200 kilograms of dangerous goods2 (2020: 2). None of these transportation incidents had a significant impact on the environment (2020: 0).

For more information on transportation safety, see basf.com/distribution_safety

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1 Data is collected based on the International Council of Chemical Association’s (ICCA) guidance for reporting performance and includes road, rail and container shipping incidents.

2 Hazardous goods are classified in accordance with national and international hazardous goods regulations.
As an energy-intensive company, we take responsibility for the efficient use of energy and global climate protection. We are committed to the Paris Climate Agreement. Our innovative products enable a reduction in greenhouse gas emissions in many areas. At the same time, we are working to significantly reduce our own carbon footprint with our carbon management.

### At a glance

- **20.2 million metric tons**
  - Greenhouse gas emissions in 2021
- **2.4 TWh**
  - Renewable energy

### Strategy

Climate protection is very important to us and is an important part of our corporate strategy. We significantly raised our climate protection targets in 2021: As a leading chemical company, we want to reduce total greenhouse gas emissions\(^1\) from our production sites and our energy purchases by 25% by 2030 compared with 2018 – despite targeted growth and the construction of a large Verbund site in southern China.\(^2\) By 2050, we aim to achieve net zero emissions from our production sites and our energy purchases.

We have bundled our global activities to reduce greenhouse gas emissions in our carbon management (see “Global targets and measures”). We only consider external offsetting measures as a temporary stop-gap if our activities do not make the desired contribution to reducing emissions. By 2025, we plan to invest up to €1 billion to achieve our climate protection targets. Additional investments of up to €3 billion are to follow by 2030.

Our new organizational structure aims to drive forward our climate protection targets and carbon management activities with even greater focus and speed: The Corporate Strategy & Sustainability unit in the Corporate Center will continue to develop targets and track global target achievement, while the Net Zero Accelerator unit, which was launched at the beginning of 2022, will focus on accelerating the implementation of existing and new cross-company projects to reduce emissions. The emphasis is on low-carbon production technologies (see page 132), the circular economy (see page 44) and renewable energies (see page 128). Both units report directly to the Chairman of the Board of Executive Directors. This ensures that climate protection-relevant aspects are integrated into strategic decision-making processes as well as into core business activities (see page 46). In parallel, our operating divisions are working on division-specific projects to reduce emissions, supported by the global service units.

We consistently align our actions with our climate protection targets, based on a comprehensive analysis of our emissions. Group-wide CO\(_2\) emissions are anchored in the BASF Group’s steering and compensation systems as a most important nonfinancial key performance indicator, giving them even more weight. Investments and acquisitions are assessed with regard to their impact on our climate protection targets.

We are gradually integrating our suppliers into the management of greenhouse gas emissions along the value chain. To this end, we launched our Supplier CO\(_2\) Management Program in 2021 (see page 130).

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1 The goal includes greenhouse gases according to the Greenhouse Gas Protocol, which are converted into CO\(_2\) equivalents (CO\(_2\)e).
2 In March 2021, we replaced our previous target of CO\(_2\)-neutral growth until 2030 (baseline 2018: 21.9 million metric tons of CO\(_2\)e) with a new, more ambitious climate protection target to reduce absolute CO\(_2\) emissions by 25% compared with 2018 (new target: 16.4 million metric tons of CO\(_2\)e).
We offer our customers solutions that help prevent greenhouse gas emissions and improve energy and resource efficiency. More than 60% of our annual research and development spending1 goes toward developing these products, optimizing our processes, and toward research projects to make our processes more energy and resource-efficient and to prevent greenhouse gas emissions.

We continuously analyze potential risks to our business operations arising in connection with the topics of energy and climate protection and derive appropriate measures. We support the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Since the 2019 reporting year, BASF’s annual report has included an overview showing the sections and subsections in which TCFD-relevant information can be found (see page 19). We also participate in the program established by the international nonprofit organization CDP for reporting on data relevant to climate protection and have done so since 2004. BASF achieved a score of A– in CDP’s 2021 climate change questionnaire, again attaining Leadership status. Companies on the Leadership level are distinguished by factors such as the completeness and transparency of their reporting. They also pursue comprehensive approaches in managing the opportunities and risks associated with climate change as well as strategies to achieve company-wide emission reduction goals.

We report on greenhouse gas emissions in accordance with the Greenhouse Gas Protocol as well as the sector-specific standard for the chemical industry.

Climate protection is a shared task. This is why we support various national and international initiatives and are involved in partnerships. For instance, in 2021 we worked with Together for Sustainability (TfS), the World Business Council for Sustainable Development (WBCSD) and the World Economic Forum’s Low-Carbon Emitting Technologies Initiative (LCET) to harmonize the methodological approaches used to calculate Scope 3 emissions. This will help increase the transparency of greenhouse gas emissions along the supply chain and will provide the basis for a Scope 3 target-setting methodology for the chemical sector.  

For more information on climate protection, see basf.com/climate_protection

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1 Costs not relevant to the calculation of this share include research expenses in early innovation stages of the phase-gate process, patent costs and expenses for supporting services.

### BASF Group’s greenhouse gas emissions according to the Greenhouse Gas Protocol

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
<th>2018 (baseline)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BASF operations</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scope 1&lt;sup&gt;a&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CO₂ (carbon dioxide)</td>
<td>17.234</td>
<td>16.860</td>
<td>17.025</td>
</tr>
<tr>
<td>N₂O (nitrous oxide)</td>
<td>0.418</td>
<td>0.609</td>
<td>0.677</td>
</tr>
<tr>
<td>CH₄ (methane)</td>
<td>0.034</td>
<td>0.023&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0.027</td>
</tr>
<tr>
<td>HFC (hydrofluorocarbons)</td>
<td>0.034</td>
<td>0.031&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0.091</td>
</tr>
<tr>
<td>SF₆ (sulfur hexafluoride)</td>
<td>0.001</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>20.185</td>
<td>20.802&lt;sup&gt;d&lt;/sup&gt;</td>
<td>21.887</td>
</tr>
<tr>
<td><strong>Offsetting</strong></td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total after offsetting</strong></td>
<td>20.185</td>
<td>20.802&lt;sup&gt;d&lt;/sup&gt;</td>
<td>21.887</td>
</tr>
</tbody>
</table>

**Sale of energy to third parties (Scope 1<sup>e</sup>)**

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CO₂</td>
<td>0.947</td>
<td>0.845&lt;sup&gt;e&lt;/sup&gt;</td>
<td>0.773</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>21.132</td>
<td>21.647&lt;sup&gt;f&lt;/sup&gt;</td>
<td>22.660</td>
</tr>
</tbody>
</table>

**Use of biomass<sup>e</sup>**

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CO₂</td>
<td>0.091</td>
<td>0.024</td>
<td>r/va</td>
</tr>
</tbody>
</table>

<sup>a</sup> BASF reports separately on direct and indirect emissions from the purchase of energy. Scope 1 emissions encompass both direct emissions from production and generation of steam and electricity, as well as direct emissions from the generation of steam and electricity for sale. Scope 2 emissions comprise indirect emissions from the purchase of energy for BASF’s use.

<sup>b</sup> Emissions of N₂O, CH₄ and HFC have been translated into CO₂ emissions using the Global Warming Potential, or GWP, factor. GWP factors are based on the Intergovernmental Panel on Climate Change (IPCC) 2007, errata table 2012 for the 2018 and 2020 reporting years, and IPCC 2014 for the 2021 reporting year. HFC (hydrofluorocarbons) are calculated using the GWP factors of the individual components.

<sup>c</sup> Market-based approach. Under the location-based approach, Scope 2 emissions were 3.362 million metric tons of CO₂ in 2020 and 3.670 million metric tons of CO₂ in 2021.

<sup>d</sup> Includes sales to BASF Group companies; as a result, emissions reported under Scope 2 can be considered twice in some cases.

<sup>e</sup> Emissions are reported separately from Scope 1 and Scope 2 in accordance with the Greenhouse Gas Protocol.

<sup>f</sup> The comparative figure for 2020 has been adjusted to reflect updated data.
Global targets and measures

Compared with baseline 2018, we want to reduce greenhouse gas emissions from our production sites (excluding emissions from the sale of energy to third parties) and our energy purchases by 25% by 2030, i.e., from 21.9 million metric tons to 16.4 million metric tons. This corresponds to a reduction of around 60% compared with 1990. Our long-term goal is net zero greenhouse gas emissions by 2050 (Scope 1 and 2).

2030 and 2050 targets

-25%

Reduction in our absolute greenhouse gas emissions by 2030 compared with 2018* (Scope 1 and 2)

Net zero

Greenhouse gas emissions by 2050* (Scope 1 and 2)

The BASF Group’s emissions reported under these targets in 2021 amounted to 20.2 million metric tons of CO₂ equivalents (2020: 20.8 million metric tons of CO₂ equivalents). We were able to reduce emissions by around 3% year on year despite significantly higher production volumes due to the increased use of renewable energy and measures to improve energy efficiency and optimize processes. Lower ammonia production due to the high price of natural gas also reduced emissions.

To achieve our ambitious climate protection goals, we have adopted comprehensive carbon management. This has five levers to reduce greenhouse gas emissions: Using renewable energies for both electricity and steam production (gray-to-green and power-to-steam levers), developing and applying new carbon-free and low-carbon production processes (new technologies lever, see page 132), using alternative raw materials (bio-based feedstocks lever), and ongoing measures to further increase energy and resource efficiency in our production (continuous opex lever).

To generate our own steam and power, we mainly use natural gas (80.3%) and substitute fuels (17.4%). These are residues from chemical production plants that cannot be reused in the BASF Verbund. We cover more than 58% of our electricity demand with our own gas and steam turbines in highly efficient combined heat and power plants. To achieve the highest possible energy yield with the lowest possible greenhouse gas emissions, we continuously invest in our combined heat and power plants. One example is our gas and steam turbine power plant at the Schwarzheide site in Germany, which is undergoing a €73 million modernization. Once it is started up in 2022, it will produce 10% more electricity and the CO₂ emissions factor of the power generated will be around 10% lower thanks to higher fuel efficiency.

Energy supply

Our total energy consumption, comprising fuel demand in our own central power and steam generation plants, primary energy requirements in our process plants, and net power and steam imports, was 58.8 million MWh in 2021.
Compared with separate methods of generating steam and electricity, we saved 15.0 million MWh of fossil fuels and avoided 3.0 million metric tons of carbon emissions in 2021. In 2021, internally generated power in the BASF Group had a carbon footprint of around 0.24 metric tons of CO₂ per MWh of electricity and was below the national grid factor at most BASF Group locations.

Another important component of carbon-optimized energy supply at our sites is the Verbund system. It helps us realize synergies and manage value chains in a resource-efficient way. For example, waste heat from one plant’s production process is used as energy in another plant, and steam and power generated there can cover energy demand for production processes. Purchased renewable energy has a primary energy conversion efficiency rate of 100%.

To ensure access to energy from renewable sources, we are pursuing a make and buy approach. Firstly, BASF is investing in its own renewable power assets, particularly offshore wind farms. Secondly, BASF will purchase green power on the market through long-term supply agreements with plant operators, green power agreements or renewable energy certificates, depending on the region and market regulations. A key purchasing criterion is the “additionality” of the energy purchased. This means that power is primarily generated by new wind and solar farms.

In 2021, we entered into pioneering cooperative agreements to transform our energy supply. For instance, we currently hold a 49.5% share in Vattenfall’s Hollandse Kust Zuid (HKZ) offshore wind farm. Pending approval of the relevant merger control authorities, we plan to sell shares in HKZ to Allianz Capital Partners in the first quarter of 2022. This will reduce our interest to 24.3%. The originally agreed power purchase volumes remain unaffected by the transaction on the basis of a long-term fixed-price power purchasing agreement. Once fully operational, expected in 2023, HKZ will have a total capacity of 1.5 gigawatts. We will use part of the electricity generated there at the Verbund site in Antwerp and at other European production sites. Under a letter of intent, together with RWE we are developing a project concept for an offshore wind farm in the German North Sea with a capacity of 2 gigawatts. Provided the regulatory framework is adapted by the authorities, this wind farm could supply the Verbund site in Ludwigshafen, Germany, with green electricity before 2030. Together with enviaM, we are also planning to build and operate a solar park with a total installed capacity of 24 megawatts peak (MWp) to supply the Schwarzeheide site in Germany.

In addition to these cooperative ventures, in 2021 we concluded further long-term supply agreements for green power. In Europe, these include a power purchase agreement for wind energy with the Engie group (volume: up to 20.7 TWh / term: 25 years) and an offshore wind power purchase agreement with Ørsted (installed capacity: 186 MW / term: 25 years). We will procure energy for our new Verbund site in Zhanjiang, China, from a wind and solar park with a capacity of 400 megawatts. Further long-term supply agreements for wind and solar power were concluded in the United States for the Freeport and Pasadena sites (both in Texas).

In addition, we have converted existing agreements to green power and have acquired renewable energy certificates in a number of regions. The aim is to gradually replace these temporary measures with our own power assets or long-term supply agreements.

In total, over 88 sites worldwide (2020: 19) were already partially or fully powered by emission-free electricity at the end of 2021. The carbon footprint of purchased electricity in 2021 was around 0.21 metric tons of CO₂/MWh (market-based approach), significantly lower than in the previous year (0.41 metric tons CO₂/MWh).

### Additional key indicators for energy and climate protection in BASF operations

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
<th>2018 (baseline)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specific greenhouse gas emissions (metric tons of CO₂ equivalents per metric ton of sales product)</td>
<td>0.564</td>
<td>0.639</td>
<td>0.577</td>
</tr>
<tr>
<td>Primary energy demand (million MWh)</td>
<td>57.627</td>
<td>60.256</td>
<td>60.586</td>
</tr>
<tr>
<td>Energy efficiency (kilograms of sales product per MWh)</td>
<td>626</td>
<td>540</td>
<td>626</td>
</tr>
</tbody>
</table>

a) Scope 1 and Scope 2 (market-based) according to the GHG Protocol, excluding emissions from the generation of steam and electricity for sale to third parties, including offsetting.

b) Sales product volumes include sales between BASF Group companies; merchandise is not taken into account.

c) Primary energy used in BASF’s plants as well as in the plants of our energy suppliers to cover energy demand for production processes. Purchased renewable energy has a primary energy conversion efficiency rate of 100%.
Specific greenhouse gas emissions and energy efficiency

Energy use and greenhouse gas emissions are closely linked to capacity utilization and production volumes at our plants. Specific greenhouse gas emissions in 2021 amounted to 0.564 metric tons of CO₂ equivalents per metric ton of sales product,¹ a decrease of 11.7% compared with the previous year (2020: 0.639 metric tons of CO₂ equivalents per metric ton of sales product). This was mainly due to higher demand compared with the previous year and consequently, better and more stable capacity utilization at our plants. In addition, the increased use of renewable energy had a positive impact on specific greenhouse gas emissions. Since 1990, we have been able to lower our overall greenhouse gas emissions from BASF operations by 49.7% and even reduce specific emissions by 75.4%.

As part of our carbon management, we aim to make our plants and processes even more efficient and resource saving. An important component of this is the introduction and ongoing maintenance of certified energy management systems according to DIN EN ISO 50001 at all relevant production sites.² These help us to identify and implement further potential for improvement in energy efficiency. This not only reduces greenhouse gas emissions and saves valuable energy resources but also increases our competitiveness. Our employees are an important source of optimization ideas in this regard. For instance, suggestions for improvement submitted by our employees in 2021 enabled us to avoid around 12,000 metric tons of CO₂ at the Ludwigshafen site in Germany alone.

We further improved energy and resource consumption in production with numerous projects around the world in 2021. At the Ludwigshafen site in Germany, for example, a multi-stage evaporation system set up at one plant saves over 60,000 metric tons of steam per year. At another plant, additional heat integration made it possible to supply other users with higher-pressure steam, reducing fuel consumption on the power plant side. At the Shanghai-Caojing site in China, a modernized control concept reduced the fuel demand of a heat recovery unit, and at another plant, steam demand was reduced by additional heat integration using a cooler. At the Geismar Verbund site in Louisiana, steam demand was reduced by the use of optimized condensate separators. In total, these measures save more than 23,000 metric tons of CO₂ annually. We also achieved additional savings in steam, electricity and fuel through process improvements at many other sites.

Certified energy management systems (ISO 50001) at BASF Group sites worldwide, in terms of primary energy demand

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>42.3</td>
</tr>
<tr>
<td>2017</td>
<td>54.3</td>
</tr>
<tr>
<td>2018</td>
<td>69.9</td>
</tr>
<tr>
<td>2019</td>
<td>85.1</td>
</tr>
<tr>
<td>2020</td>
<td>91.0</td>
</tr>
<tr>
<td>2021</td>
<td>90.2</td>
</tr>
</tbody>
</table>

We are currently pursuing more than 250 technical and organizational measures to reduce energy consumption and increase competitiveness. Our employees are an important source of optimization ideas in this regard. For instance, suggestions for improvement submitted by our employees in 2021 enabled us to avoid around 12,000 metric tons of CO₂ at the Ludwigshafen site in Germany alone.

Carbon footprint, product carbon footprint and climate protection products

BASF has published a comprehensive corporate carbon footprint every year since 2008. This reports on all emissions along the value chain – from raw materials extraction to production and disposal.

The Scope 3 greenhouse gas emissions arising before and after BASF’s activities in the value chain (in accordance with the Greenhouse Gas Protocol’s definition) were determined as around 101 million metric tons of CO₂ equivalents for 2021 (2020: 92 million metric tons of CO₂ equivalents).³ We are continually working to reduce greenhouse gas emissions from our business activities – in our own production and, together with our partners, along the value chain.

BASF was able to reduce emissions in the Scope 3 category “customers” by 2 million metric tons in 2021, primarily through the use of new blowing agents in polyurethane (PU) foams. Until now, the main blowing agents used were hydrofluorocarbons. These are used in the production of PU insulation materials to create foams with excellent insulation properties. The use of these hydrofluorocarbons in PU products will be prohibited in the European Union from 2023 due to their high climate impact. We are therefore gradually replacing them with hydrofluoroolefins, which have a much lower climate impact (measured by global warming potential, GWP). BASF began rolling out PU spray foams based on this new generation of blowing agents on the European market back in 2017. By the end of 2021, we will have almost completely converted our European PU spray foam production and will continue to systematically drive this forward in other regions as well.

Our climate protection products offer our customers solutions to avoid greenhouse gas emissions over their entire life cycle compared with reference products. The systematic analysis we conduct on our portfolio – Sustainable Solution Steering (see page 141) –

¹ Sales product volumes include sales between BASF Group companies; merchandise is not taken into account.
² Relevant sites are selected based on the amount of primary energy used and local energy prices.
³ Calculated in accordance with internationally recognized rules, including the use of values from general databases and industry averages.
rates the use of these Accelerator solutions as particularly good with respect to climate protection and energy.

We calculate carbon footprints for around 45,000 sales products to increase **carbon transparency for our customers** (see box on the right). These Product Carbon Footprints (PCF) include all product-related greenhouse gas emissions generated until a BASF product leaves the factory gates (“cradle-to-gate”).

The extraction of the raw materials we require and the production of purchased precursors account for the largest share of the PCF. We currently use industrial averages and values from commercial databases as the basis for calculating these upstream emissions.

In 2021, we introduced a global **Supplier CO₂ Management Program** to create transparency and better steer and, in the long term, reduce upstream emissions. In a first step, we ask our suppliers to provide PCFs for our raw materials. We support them by sharing our knowledge of evaluation and calculation methods. In this way, we are also contributing to the standardization of PCF calculation. In a second step, we want to work with our suppliers on solutions to reduce product-related emissions and establish the PCF as a criterion for our purchasing decisions.

For more information on our emissions reporting, see basf.com/corporate_carbon_footprint

For more information on Product Carbon Footprints, see basf.com/pcf

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**Product Carbon Footprint**

We use an in-house digital solution to calculate the carbon footprint of our products (PCF). In 2021, this was recognized by organizations such as the German chemical industry association (VCI) with the Responsible Care Award for digitalization. The methodology follows general standards for life cycle analysis such as ISO 14044 and ISO 14067, as well as the Greenhouse Gas Protocol Product Standard, and has been certified by TÜV Rheinland.

We used the new method to calculate PCFs for around 45,000 sales products in 2021. The transparency this creates enables us to target our CO₂ reduction measures to those areas where our customers can later achieve the greatest value added from lower carbon emissions in the value chain. In 2021, we were able to offer the first products with a certified reduced carbon footprint through the use of renewable energy.

We also started to make the automated PCF calculation approach available to interested industry players by way of partnerships. In a first step, IT companies will be able to translate BASF’s methodology and in-house solution into a marketable software through licensing agreements.
Our focus here is on the production of basic chemicals such as hydrogen. The element is needed as a reaction partner in many processes. The processes currently used to produce hydrogen, such as steam reforming, produce high levels of CO₂ emissions. That is why BASF is open to different technologies and is driving forward two alternative processes for climate-smart hydrogen production: water electrolysis and methane pyrolysis. In water electrolysis, water is split directly into its two components, hydrogen and oxygen. If the required energy comes from renewable sources, the process is carbon-free. We intend to use the hydrogen generated by water electrolysis primarily as a material in the BASF Verbund and also, to a limited extent, for hydrogen model region projects in Germany’s Rhine-Neckar region. We are currently working with Siemens Energy on initial concepts for the construction of a PEM (proton exchange membrane) water electrolyzer with a capacity of 50 megawatts at the Ludwigshafen site in Germany. We are also exploring various options for project funding.

In parallel, we are developing methane pyrolysis technology together with partners from academia and industry in a project sponsored by the German Federal Ministry of Education and Research. In this innovative process, (bio)methane is split directly into hydrogen and solid carbon. The process requires around 80% less electricity than water electrolysis and is virtually carbon-free if renewable energy is used. Following extensive groundwork, we started up a test plant for methane pyrolysis at the Ludwigshafen site in Germany in 2021. It will provide insights into the heating concept, as well as the use of new types of materials.

Another focus area is alternative heating concepts for our steam cracker furnaces (see page 72). We use these plants to split petroleum into olefins and aromatics. This requires temperatures of around 850 degrees Celsius, which are normally achieved by burning fossil fuels – which emits high levels of CO₂. A fundamentally new heating concept based on electric resistance heating (eFurnace) and the use of renewable energy could eliminate up to 90% of process-related emissions in the future. To develop and pilot the concept, we signed a cooperation agreement with SABIC and Linde in 2021 and jointly applied for funding to build a demonstration plant.

In addition to new, low-carbon production processes, we are also investigating the use of innovative carbon storage methods. At the Antwerp site in Belgium, BASF plans to invest in one of the largest carbon capture and storage (CCS) projects under the North Sea together with its Antwerp@C consortium partners. The project can potentially avoid more than one million metric tons of CO₂ emissions per year from the production of basic chemicals. A final investment decision is targeted for 2022.

For more information on carbon management, see basf.com/carbon-management
We want to minimize the impact of our activities on people and the environment by continually reducing emissions to air, preventing waste and protecting the soil. Our plants are operated safely and efficiently. We use resources responsibly and are continually reducing the environmental impact of our plants and processes with our Operational Excellence Program.

**At a glance**

<table>
<thead>
<tr>
<th>26,358 metric tons</th>
<th>47.0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air pollutants from BASF operations</td>
<td>Share of our waste recycled or thermally recovered</td>
</tr>
</tbody>
</table>

- Improvements based on continuous monitoring of emissions to air and waste streams
- Circular concepts an important part of our activities
- Systematic management of contaminated sites

**Strategy**

The safe and efficient operation of our plants and the responsible management of resources and waste are core components of our Responsible Care Management system. We have defined our global standards for emissions to air, waste and contaminated sites in Group-wide guidelines, the implementation of which is the responsibility of the sites and subsidiaries. The Environmental Protection, Health & Safety unit in the Corporate Center conducts regular audits to monitor compliance with legal requirements and internal guidelines. BASF’s global network of experts regularly shares information, insights and best practices to further reduce our emissions to air, manage waste and responsibly handle contaminated sites.

Continuous documentation and monitoring of emissions to air, waste streams and contaminated sites as well as the implementation of measures for improvement are an integral part of our environmental management. In addition to greenhouse gases (see page 126 onward), we also measure and analyze emissions of air pollutants to avoid potentially harmful substances as best possible.

Our waste management is based on the systematic tracking of material flows and follows a clear hierarchy. We aim to avoid waste as far as possible, for example, by continuously optimizing our processes or developing new production methods. BASF’s Verbund structure with its networked plants and value chains is key here. We use it to efficiently manage our material flows. The by-products of one plant serve as feedstock for other plants and processes elsewhere in the BASF Verbund, avoiding waste and enabling us to use raw materials as efficiently as possible.

If these cannot be used within BASF’s Verbund structures, we assess whether they can be recycled or thermally recovered. Non-recyclable materials are disposed of safely, appropriately and in an environmentally responsible manner. If we use external waste disposal companies, we conduct regular audits to ensure that waste is disposed of properly. In this way, we also contribute to preventive soil protection and keep today’s waste from becoming tomorrow’s contamination. If soil and groundwater contamination occurs at active or former sites, appropriate remediation measures are reviewed and implemented.

In addition to optimizing our own processes, we are committed to reducing the impact on air and soil and minimizing our disposal volumes and material consumption along our value chains. We expect our suppliers to comply with internationally recognized environmental standards. This is assessed as part of our sustainable supply chain management. We support our suppliers in developing and implementing measures for improvement, for example in waste management (see page 111). We offer our customers a wide range of products that can reduce air pollutants or waste – from industrial process catalysts, fuel additives and catalysts for the automotive sector to additives and track-and-trace technologies to extend the useful life of plastics or improve mechanical recycling of plastic waste.

We are increasingly aligning our actions with the circular economy principle. For example, we are increasingly using recycled and waste-based raw materials in our production, recycling operating supplies, and expanding our capacities for recovering precious metals from spent automotive and industrial catalysts. We are also developing product-specific recycling technologies, often together with partners along our value chains. For instance, we are driving forward the chemical recycling of mixed plastic waste and disposed foam mattresses and are working on new concepts for recycling battery materials. We are also involved in cross-industry networks and initiatives to avoid waste and strengthen the circular economy. These include the Alliance to End Plastic Waste (see box on page 134) and the Ellen MacArthur Foundation.

For more information on the circular economy, see page 44
Emissions to air

Total emissions of air pollutants from our production plants amounted to 26,358 metric tons in 2021 (2020: 24,496 metric tons). Emissions of ozone-depleting substances as defined by the Montreal Protocol totaled 17 metric tons in 2021 (2020: 14 metric tons). We significantly reduced these emissions compared with 2002 (229 metric tons) by successively shifting to alternative coolants. Emissions of heavy metals in 2021 amounted to 2 metric tons (2020: 2 metric tons).

<table>
<thead>
<tr>
<th>Air pollutants from BASF operations</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO (carbon monoxide)</td>
<td>3,951</td>
<td>3,731</td>
</tr>
<tr>
<td>NOx (total nitrogen oxides)</td>
<td>11,450</td>
<td>10,646</td>
</tr>
<tr>
<td>NMVOC (nonmethane volatile organic compounds)</td>
<td>4,988</td>
<td>4,532</td>
</tr>
<tr>
<td>SOx (total sulfur oxides)</td>
<td>1,864</td>
<td>1,861</td>
</tr>
<tr>
<td>Dust</td>
<td>2,154</td>
<td>2,000</td>
</tr>
<tr>
<td>NH3 (ammonia) and other inorganic substances</td>
<td>1,951</td>
<td>1,711</td>
</tr>
<tr>
<td>Total</td>
<td>26,358</td>
<td>24,496</td>
</tr>
</tbody>
</table>

*The comparative figure for 2020 has been adjusted to reflect updated data.*

We want to further reduce our emissions with various measures. For instance, we use catalysts to reduce nitrogen oxides or feed waste gases back into the production process. One example is the nitrous oxide generated in the production of adipic acid at the Ludwigshafen site in Germany: 99% of this by-product is already decomposed or used in the BASF Verbund. In the future, it will even be 99.9%. This will be made possible by an automation project implemented in 2021 to optimally control processes based on important plant parameters and using predictive model calculations. The aim is to avoid around 550 metric tons of nitrous oxide emissions annually, corresponding to around 145,000 metric tons of CO₂ equivalents.

Contaminated sites

We have global standards for managing contaminated sites. A worldwide network of experts ensures these are implemented. We develop remediation solutions that balance nature conservation, climate protection concerns, costs and social responsibility. This means making differentiated decisions on a case-by-case basis, founded on the legal framework and current technological standards. Contaminated sites are documented in a database. Ongoing remediation work around the world continued on schedule in 2021 and planning was concluded for future remediation projects.

Waste

BASF generated 2.47 million metric tons of waste in 2021 (2020: 2.21 million metric tons). Of this, 53.0% was disposed of. Hazardous waste accounted for 73.9% of the total disposed waste (2020: 69.6%). Based on the concept of the circular economy, we are continuously examining options for material or thermal recycling for all waste (see “Strategy”). In this way, we were able to find new uses for 47.0% of our waste in 2021. We continuously identify and evaluate the safest and most environmentally sound disposal routes for non-recyclable waste. In 2021, most of our hazardous waste was incinerated (77.7%), where possible with energy recovery. 7.6% of hazardous waste was disposed of in landfill. This is mainly contaminated construction waste that cannot be reused or recycled due to legal requirements.

Waste generation in the BASF Group

<table>
<thead>
<tr>
<th>Million metric tons</th>
<th>Hazardous waste*</th>
<th>Nonhazardous waste*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>2020</td>
<td>2021</td>
</tr>
<tr>
<td>Recycled</td>
<td>0.14</td>
<td>0.13</td>
</tr>
<tr>
<td>Thermally recovered</td>
<td>0.52</td>
<td>0.43</td>
</tr>
<tr>
<td>Waste recovered</td>
<td>0.66</td>
<td>0.56</td>
</tr>
<tr>
<td>Through incineration</td>
<td>0.75</td>
<td>0.64</td>
</tr>
<tr>
<td>(without energy recovery)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In surface landfills</td>
<td>0.12</td>
<td>0.13</td>
</tr>
<tr>
<td>Other</td>
<td>0.10</td>
<td>0.10</td>
</tr>
<tr>
<td>Waste disposed of</td>
<td>0.97</td>
<td>0.87</td>
</tr>
<tr>
<td>Total waste generation</td>
<td>1.63</td>
<td>1.43</td>
</tr>
</tbody>
</table>

*Waste is classified as hazardous or nonhazardous waste according to local regulations.

Good to know

Alliance to End Plastic Waste

In 2019, we co-founded the Alliance to End Plastic Waste (AEPW) with other companies along the value chain – from plastics producers and consumer goods manufacturers to waste disposal companies. The AEPW now has around 65 members, who together aim to develop solutions that stop plastic waste from entering the environment, especially the ocean. There are four main focus areas: developing infrastructure for waste collection, promoting innovative recycling methods, education and engagement of various stakeholders, and cleanup of areas heavily impacted by plastic waste. The initiative aims to invest up to $1.5 billion by 2023. For instance, BASF supports the AEPW’s goal of establishing a circular economy for plastics with its ChemCycling™ project.

For more information on the Alliance to End Plastic Waste, see endplasticwaste.org
Water is of fundamental importance in chemical production. It is used as a coolant, solvent and cleaning agent, and to make our products. Our goods are transported via waterways. At the same time, water is a scarce commodity in more and more regions. That is why we promote the responsible use of this resource with sustainable water management.

**At a glance**

- 1,695 million Cubic meters total water abstraction
- 78.5% of water demand covered by reuse
- Responsible use a core part of our strategy
- Global water target 53.5% achieved
- Demand and utilization continuously optimized

**Strategy**

The responsible use of water as a resource is a core element of our Responsible Care Management System and an important part of our commitment to the United Nations’ Sustainable Development Goals (SDGs). This is also reflected in our position paper on water protection, which we published in 2021.

Our global standards and requirements for water are defined in Group-wide guidelines. Among other things, these stipulate that water protection concepts must be implemented at all production sites. The guidelines also cover aspects such as process and transportation safety (see pages 120 and 125) in order to prevent production and transportation-related product spillages into water bodies as far as possible. Our sites and subsidiaries are responsible for implementing and complying with internal guidelines and legal requirements. The Environmental Protection, Health & Safety unit in the Corporate Center conducts regular audits to monitor this. BASF’s global network of experts shares information, insights and best practices around the responsible use of water on an ongoing basis.

Introducing and implementing sustainable water management has been a cornerstone of our strategy for many years now. Our focus here is on our Verbund sites and on production sites in water stress areas. The aim is to protect water as a resource, to use it as efficiently as possible through recirculation, and to continuously reduce wastewater and emissions. We consider the quantitative, qualitative and social aspects of water use.

We pursue our goal by applying the European Water Stewardship standard, which rests on four principles: sustainable water abstraction, maintaining good water quality, preserving conservation areas, and ensuring continuous improvement processes.

We advocate the responsible use of water as a resource along the entire value chain. We audit supplier compliance with environmental standards in our regular supplier assessments (see page 110). Where improvement is necessary, we support suppliers in developing and implementing appropriate measures, such as the correct handling of wastewater. In addition, we are involved in a wide range of initiatives to promote sustainability in the supply chain (see page 113). For example, efficient water use is a core part of the Pragati project to improve sustainability in castor bean farming, the source of the castor oil we use.

We offer our customers solutions that help purify water and use it more efficiently while minimizing pollution. These include high-performance plastics to produce ultrafiltration membranes, seeds with higher drought and heat tolerance, or water-saving thin-film processes for metal pretreatment.

We work with numerous partners along the value chain and from civil society to protect water as a resource. For instance, BASF is a member of the Alliance for Water Stewardship, a global multi-stakeholder organization that promotes the responsible use of water. We are co-founders of the Alliance to End Plastic Waste (AEPW) and are also involved in other global networks such as the World Plastics Council or Operation Clean Sweep to effectively reduce and prevent plastic waste, especially in water bodies.

We report transparently and comprehensively on water. For instance, we again provided detailed answers to the 2021 water survey from the nonprofit organization CDP. BASF again achieved leadership status with an A– rating in the final assessment. CDP evaluates how transparently companies report on their water management activities and how they reduce risks such as water scarcity. The assessment also considers the extent to which product developments can also contribute to sustainable water management at the customers of the evaluated companies.

For more information on our position paper on water protection, see basf.com/water

For more information on the CDP water survey, see basf.com/en/cdp
Global target and measures

Our goal is to introduce sustainable water management at our Verbund sites and at all production sites in water stress areas by 2030, covering 89% of BASF’s total water abstraction. We achieved 53.5% of our target in 2021 (2020: 46.2%).\(^1\) Sustainable water management was introduced at seven additional sites in 2021 (2020: 6).

As part of sustainable water management, our sites regularly assess the water situation in the catchment area. This raises awareness of potential risks and impacts for the population such as water scarcity. Based on the assessments conducted until the end of 2021, we did not identify any activities with a significant impact on water availability and quality at any site.

2030 target

Introduction of sustainable water management at our production sites in water stress areas and at our Verbund sites

Another important part of our sustainable water management is the continuous analysis and implementation of measures for improvement. For instance, we use wastewater from municipal wastewater treatment plants to reduce our demand for freshwater at our sites in Tarragona, Spain (since 2013) and Freeport, Texas (since 2019). At the Pontecchio site in Italy, we partially use rainwater, which reduced our demand for river and groundwater by 22,200 cubic meters in 2021. In Belgium, our Verbund site in Antwerp is a member of the Lerend Netwerk Water network of the Belgian chemical association Essenscia together with other chemical and pharmaceutical companies. The aim is to facilitate dialog on the responsible use of water and to develop action plans for water conservation and circular water use. At the Verbund site in Ludwigshafen, Germany, we have continually optimized cooling water needs over the past few years with various technical improvements. One example is the ethylene oxide plant, where a change in the pipeline route implemented in 2020 reduces the river water used for cooling purposes by around 4.7 million cubic meters compared with the reference period (June 2019 to June 2020). Since then, the cooling system has operated without pumps. This also saves around 360,000 kilowatt hours of electricity compared with the reference period.

Depending on the local situation, we also implement measures for improvement at our sites’ catchment areas together with other stakeholders. One example is the Incentivo ao Produtor de Água program that we launched at the Guaratinguetá site in Brazil in 2011 together with local authorities, the Espaço ECO Foundation and other partners. Measures such as better soil management or the reforestation of riverbank woodlands have since significantly reduced surface runoff and soil erosion in the Ribeirão Guaratinguetá catchment area.

Water in the BASF Group 2021

<table>
<thead>
<tr>
<th>Abstraction / supply</th>
<th>Use</th>
<th>Discharge</th>
<th>Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,695</td>
<td>6,881</td>
<td>1,503</td>
<td>72</td>
</tr>
<tr>
<td>Of which in water stress areas: 1%</td>
<td>Water used in cooling processes</td>
<td>Of which cooling water: 1,326</td>
<td>Of which in water stress areas: 16%</td>
</tr>
<tr>
<td>Surface water / freshwater</td>
<td>1,308</td>
<td>1,239</td>
<td></td>
</tr>
<tr>
<td>Brackish water / seawater</td>
<td>259</td>
<td>245</td>
<td></td>
</tr>
<tr>
<td>Groundwater</td>
<td>100</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Drinking water</td>
<td>20</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>Reusable wastewater from third parties</td>
<td>3</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Water from raw materials</td>
<td>5</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Percentage in recirculating cooling systems</td>
<td>81%</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>Percentage of water reused</td>
<td>10%</td>
<td>13%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Water balance

Our water abstraction totaled 1,695 million cubic meters in 2021 (2020: 1,728). This demand was covered for the most part by freshwater such as rivers and lakes (84% of water abstraction). At some sites, we use alternative sources such as treated municipal wastewater, brackish water or seawater. A small part of the water we use reaches our sites as part of raw materials and steam, or is released in our production processes. We abstract most of the water we need for cooling and production ourselves. In 2021, 5% of our total water demand was covered by third parties (2020: 5%).

We predominantly use water for cooling purposes (87% of water abstraction), after which we discharge it back to our supply sources with no product contact. We reduce our demand for cooling water by recirculating as much of it as possible. To do this, we use recirculating plants that allow water to be reused several times. Around 13% of our total water abstraction is used in production plants, for

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1. Our water target also continues to take into account the sites that we identified as water stress sites in accordance with Pfister et al. (2009) prior to 2019.
example, for extraction or dissolution processes or for cleaning. Here, too, we reduce our demand for water by recycling wastewater. Most of the water used for production purposes is discharged back to water bodies after being treated in our own or third-party plants. Overall, 78.5% of the water we use in cooling or production is reused several times.

The BASF Group’s **water consumption** describes the amount of water that is not discharged to a water body, meaning that it is no longer available to other users. Consumption is mainly attributable to the evaporation of water in recirculating cooling systems. A smaller amount is from the water contained in our products. Water consumption in 2021 amounted to around 72 million cubic meters (2020: 63 million cubic meters).

In 2021, around 25% of our production sites were located in **water stress areas** (2020: 25%). These sites accounted for 1% of BASF’s total water abstraction (2020: 1%). In water stress areas, we mainly source water from third parties (81%) and largely cover our demand with freshwater. Water consumption in water stress areas accounted for 16% of BASF’s total water consumption in 2021 (2020: 11%) and was primarily attributable to evaporation in cooling processes. Wastewater in water stress areas accounted for less than 1% of BASF’s total wastewater. The share of wastewater from cooling processes in water stress areas is lower than for the BASF Group as a whole. Cooling water is rarely used for once-through cooling here. Instead, it is generally recirculated to reduce water demand. Production wastewater in water stress areas is primarily treated at third-party facilities.

The supply, treatment, transportation and recoling of water is associated with a considerable energy demand. We are constantly working to optimize our energy consumption and the amount of water we use, and to adapt to the needs of our business and the environment.

**Emissions to water**

A total of 1,503 million cubic meters of water were discharged from BASF production sites in 2021 (2020: 1,429), including 177 million cubic meters of wastewater from production.

Our wastewater is subject to strict controls and we carefully assess the impact of wastewater discharge in accordance with the applicable laws and regulations. Both internal audits and the responsible local authorities regularly assess whether the analyses and safety precautions at our sites comply with internal guidelines and legal requirements.


Our approach is to reduce wastewater volumes and contaminant loads at the source in our production processes and to reuse wastewater and material flows internally as far as possible. To treat wastewater, we use both central measures in wastewater treatment plants and the selective pretreatment of individual wastewater streams before these are sent to the wastewater treatment plant. We use different methods depending on the type and degree of contamination – including biological processes, chemical oxidation, membrane technologies, precipitation or adsorption.

In order to avoid unanticipated emissions and the pollution of surface or groundwater, we have **water protection concepts** for our production sites in place. This is mandatory for all production plants as part of our Responsible Care Management System. The wastewater protection plans involve evaluating wastewater in terms of risk and drawing up suitable monitoring approaches. We use audits to check that these measures are being implemented and complied with.

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1 Aqueduct 3.0 was used to identify sites in water stress areas to determine pro rata water abstraction and water consumption.

For more information, see basf.com/water
Biodiversity describes the variety of life forms on Earth. Low flora and fauna diversity weakens ecosystems’ ability to withstand changes such as climate change. As a chemical company, we depend on ecosystem services like the availability of renewable resources and high air, water and soil quality, while also influencing them. Protecting biodiversity is a key element of our commitment to sustainability.

At a glance

- Strategic alignment of our biodiversity measures based on impact assessments
- Commitment to preserving biodiversity along the entire value chain with strategic partnerships

Strategy

BASF sees the United Nations’ Convention on Biological Diversity and the Sustainable Development Goals (SDGs) – including Life below water (SDG 14) and Life on land (SDG 15) – as important orientation and reference frameworks. Our measures help to preserve biodiversity and meet our responsibility to maintaining the wellbeing of the environment and society. Our corporate sustainability goals on climate protection, product portfolio, circular economy, water management and responsible procurement also help to protect biodiversity.

We align our biodiversity measures with the impact of our business activities along the value chain. Our focus here is on three impact areas: supply chains, sites and production, and product impact. We analyzed these in an internal workshop according to the five drivers areas: supply chains, sites and production, and product impact. We counteract the climate change driver of biodiversity loss – and in this way, help to preserve biodiversity – with our climate protection measures, which play an integral role in all our impact areas (see page 126).

We use various methods to measure our sustainability performance that implicitly and explicitly consider relevant risks and opportunities for biodiversity. These include the Eco-Efficiency Analysis, SEEbalance®, Sustainable Solution Steering, Value to Society, AgBalance® and the corresponding biodiversity calculator. Under Value to Society, we assess land use along value chains, among other things. Newly developed assessment methods help us to understand further influences on biodiversity. On the basis of this understanding, we seek dialog with partners and enter into strategic partnerships, through which we drive forward measures to protect biodiversity around the world.

Responsibility to our supply chains

Some of the business activities of our raw material suppliers involve land uses that can influence biodiversity (biodiversity loss driver: land-use change). We have laid down our expectations of our suppliers with regard to environmental, labor and social standards in the supply chain in the Supplier Code of Conduct (see page 109).

BASF procures a variety of renewable raw materials. In the procurement of palm and palm kernel oil in particular, there is an elevated risk that forest areas are cleared to create farmland. To improve sustainability in procurement, we established the BASF Palm Commitment in 2011, which was updated in 2015 and is implemented with our Palm Sourcing Policy. Third-party certification with standards such as the Roundtable on Sustainable Palm Oil (RSPO) standard enables us to take biodiversity criteria into account when purchasing raw materials (see page 113). We are also committed to the environmental sustainability of other supply chains through our own initiatives, such as our rambutan program. This was launched in 2014 in close collaboration with partners in Vietnam to source botanical ingredients for cosmetic products from certified organic rambutan gardens. In cooperation with local farmers and NGOs, BASF’s program promotes the preservation of biodiverse habitats, as well as good agricultural practices, gender equity and fair working conditions.

Our position on forest protection sets out our commitment to preserving biodiversity in areas of High Conservation Value such as High Carbon Stock forest areas and peatlands in the procurement of renewable raw materials. BASF participated in the “Forests” assessment conducted by the international organization CDP for the second time in 2021 and achieved a score of A–, again giving it Leadership status. CDP is a nonprofit organization that evaluates companies’ management of the environmental risks and opportunities relating to forests, among other things. The assessment is conducted based on detailed insights into the palm value chain and activities that impact ecosystems and natural habitats.

Responsibility to our sites and production

Preservation of biodiversity is taken into consideration in the management of our sites. We operate our facilities in a responsible manner and minimize negative effects on the environment (biodiversity loss driver: pollution) by keeping air, water and soil emissions as low as possible and reducing and avoiding waste (see page 133 for more information).

Our site management measures consider our impact on the biodiversity loss driver of land-use change. For example, given the relevance of conservation areas to preserving diversity, we check how close our production sites are to internationally recognized conservation areas. In 2021, we included this indicator in our environmental database. This allows us to raise awareness of biodiversity at local level and draw attention to potential impacts of our sites on these areas. Four percent of our production sites are adjacent to a Ramsar site and 1% are adjacent to a category I, II or...
Ill protected area as defined by the International Union for Conservation of Nature. None of our production sites are adjacent to a UNESCO protected area.

We have adopted biodiversity as a criterion in decision-making processes. In addition, we systematically consider sustainability aspects when deciding whether to invest in the construction of new sites or expand existing ones. Aspects assessed include the potential impacts on forests and biodiversity.

We are implementing local measures to protect biodiversity at a number of sites. In Clermont, France, for example, grassed areas were converted into biodiversity-friendly spaces, nesting boxes for swallows and other bird species were installed, and their population sizes were measured and documented. In addition, training was held to raise employees’ awareness of biodiversity.

We also take biodiversity conservation into account in our production. We are committed to complying with the provisions of international environmental agreements such as the Nagoya Protocol. The supplementary agreement to the U.N.’s Convention on Biological Diversity regulates access to genetic resources and access and benefit sharing. It sets out obligations (for example, compensation payments) for the users of genetic resources such as plant-based raw materials. We use internal control mechanisms to monitor compliance with standards.

Management of our product impact

BASF offers products and solutions for a wide range of industries. We want to ensure that our products meet our customers’ standards in quality and, through appropriate use, pose no risk to humans, animals or the environment. Our commitment to the objectives set forth by the Responsible Care® charter of the International Council of Chemical Associations (ICCA) obligates us to continuously minimize the negative effects of our products on the environment, health and safety and to optimize our products on an ongoing basis. It is important to consider the potential impacts of product use on biodiversity, for example, with regard to the biodiversity loss driver of pollution.

For example, we evaluate our products and solutions in crop protection and seeds throughout the entire research, development and registration process. After they have been approved for the market, we continue assessing them regularly for potential risks and impact to the ecosystems in which they are used. We have initiated various projects and offer training to prevent misuse of our products (see page 124).

All types of land development, such as agriculture and forestry, play a role in changing biodiversity (biodiversity loss driver: land-use change). Activities such as tillage, drainage, fertilization and the use of crop protection products can affect flora and fauna, for example, by influencing food sources. Minimizing these impacts while ensuring the necessary productivity is one of the biggest challenges farmers are facing. Our Agricultural Solutions segment focuses on four areas to help farmers to find the right balance: climate-smart farming, sustainable solutions, digital farming and smart stewardship (see page 90). In this context, we work with farmers to create balanced agricultural systems which enable productive and efficient farming of high-quality food products and at the same time promote biodiversity in the field. For example, we advise them on soil cultivation and look for suitable ways to improve biodiversity in farmlands. Our many years of experience in sustainability measurement and evaluation in agriculture are particularly useful here.

Our AgBalance® method and the biodiversity calculator, which has been available since 2020, enable a scientifically sound assessment of the impact of agricultural practices on biodiversity. Based on these assessments, we issue recommendations for measures such as planting flower strips or establishing nesting places to benefit pollinators like wild bees and farmland birds. Our modern seed solutions also enable better yield on existing farmlands and thus help protect natural habitats.

We have defined “adjacent” as the area within a 3 km radius.

BASF started the global registration for a new, more environmentally friendly insecticide active ingredient in 2021. The active ingredient, Axalontm™, enables farmers to control a wide range of piercing and sucking pests that are harmful to crops. At the same time, it is highly compatible with beneficial insects such as pollinators. This supports
farmers in balancing agricultural productivity, environmental protection and societal demands.

**Animal farming** is essential to meeting growing global demand for products of animal origin such as meat, eggs and milk. Industrialized livestock production also requires large areas of agricultural land for growing feed, which has implications for the share of forest areas and biodiversity. BASF offers a range of feed additives such as enzymes, vitamins, glycinates and organic acids that improve nutrient utilization from feed. Better feed conversion and more sustainable livestock production mean that less land is needed, preserving natural ecosystems.

**Strategic partnerships to promote biodiversity**

Engaging in ongoing dialog with a variety of stakeholders is important to BASF. That is why we seek out partnerships with relevant interest groups and organizations worldwide to raise awareness of biodiversity and drive forward the action needed to preserve natural habitats. This enables us to firstly share the knowledge gained from our biodiversity activities and secondly learn from others to improve our own practices.

We cooperate with a number of organizations including the Roundtable on Sustainable Palm Oil, the Sustainable Palm Oil Forum, the Brazilian Coalition on Climate, Forests and Agriculture and the High Carbon Stock Approach Steering Group. The Taskforce on Nature-related Financial Disclosures (TNFD) is working to provide a framework for reporting on nature-related risks and related activities. In 2021, BASF joined the newly established TNFD Forum, a consultative network, to support this development. Our involvement in organizations such as the Alliance to End Plastic Waste and the Alliance for Water Stewardship (see page 135) help to preserve biodiversity in bodies of water.

Together with international partners and based on dialog with stakeholders in the food value chain, we are driving forward measures to promote sustainable agriculture. In the United States, for example, BASF is a member of the Honey Bee Health Coalition, which aims to achieve healthy honey bee populations and support healthy populations of native and managed pollinators in productive agricultural systems and thriving ecosystems. BASF France is part of the Entreprises pour l’environnement (EPE) network, which launched the Act4nature campaign with the main objective of protecting and enhancing biodiversity.

Since 2013, we have also been working with different farmers and experts from the **BASF FarmNetwork Sustainability**, an association of farms in Europe, to integrate more connected biodiversity areas into agricultural production. Based on the insights gained from working together, an advisory board of experts from agriculture, nature conservation and environmental protection developed a biodiversity checklist and published it in 2021. This summarizes 10 ecologically effective and practicable measures to promote biodiversity. Since 2021, BASF has supported farmers participating in its #wirzahlenBiodiversität (“We pay biodiversity”) program financially and with professional advice. Our initiatives to preserve biodiversity help farmers to achieve the right balance between economic and environmental factors and help them make an important societal contribution to the preservation of ecosystems.
Innovations based on chemistry are key to solving global challenges such as climate change or resource scarcity. They can play a pivotal role in reducing emissions or decoupling growth and resource consumption, for example. Targeted research and development is the foundation for sustainable solutions and an important growth driver for BASF.

Accelerator products make a substantial sustainability contribution in the value chain. These include catalysts that reduce emissions to the environment, biodegradable mulch films for agricultural applications, and high-performance insulation materials for higher energy savings and reduced material use in building construction.

Based on our corporate strategy, we have set ourselves a global target: We aim to make sustainability an even greater part of our innovation power and achieve €22 billion in Accelerator sales by 2025. We met this target already in 2021. Consequently, we will update our product portfolio steering target over the course of 2022.

A significant steering tool for the product portfolio, based on the sustainability performance of our products, is the Sustainable Solution Steering method. It considers our products’ applications in various markets and customer industries. Transparently classifying our products on the basis of their contribution to sustainability enables us to systematically improve them. We review the categorization of the portfolio at least every four years. This includes analyzing the portfolio in workshops.

If, during reassessment of our portfolio, we identify products with significant sustainability concerns, we classify these as “challenged.” We develop and systematically implement action plans for all products in this category. These include research projects and reformulations to optimize products, or even replacing the product with an alternative. To systematically align our portfolio with contributions to sustainability, in 2018 we started phasing out all Challenged products within five years of their initial classification at the latest. We strive to offer products that make a greater contribution to sustainability in their area of application to live up to our own commitments and meet our customers’ demands. That is why an adapted version of our Sustainable Solution Steering method is used in areas such as our research and development pipeline, and in merger and acquisition projects. The results and any measures required are part of our business strategies.
Circular economy

Circularity is a particular focus in the continued development of our product portfolio. This enables us to help our customers achieve their sustainability goals while improving the resource and carbon footprint of our products.

By 2030, we aim to generate sales of €17 billion with solutions for the circular economy. These include products based on renewable or recycled raw materials that close material cycles ("close the loop") or increase the resource efficiency or life of materials ("extend the loop"). In addition, we want to increasingly use alternative raw materials in the manufacturing of our products. These include bio-based raw materials such as bionaphtha and biogas, and renewable raw materials such as RSPO-certified palm oil, which we have been using for many years as a substitute for fossil resources. To expand our supply base for alternative raw materials and at the same time, contribute to the circular economy, we are also developing new, waste-based sources of raw materials. To achieve this, we develop innovative technologies, usually in cooperation with partners, for example for the chemical recycling of plastic waste or disposed mattresses made of polyurethane. We aim to process 250,000 metric tons of recycled and waste-based raw materials in our production plants annually from 2025.

One of the steps we have taken to achieve our goals is establishing a company-wide Circular Economy Program. As part of this program, BASF teams are currently developing new approaches to the three main action areas in more than 35 initiatives: alternative raw material pathways, innovative material cycles and new business models for the circular economy – which also include digital and service-based concepts.

The data helps us to target our CO₂ reduction measures to those areas where our customers can later achieve the greatest value added from lower carbon emissions in the value chain.

To determine the carbon footprint of our purchased raw materials (upstream Scope 3 emissions), we have until now worked with industry averages and values from external databases. To obtain a more accurate data base and reduce emissions in the supply chain, we launched our Supplier CO₂ Management Program in 2021. The aim of the program is to, in a first step, determine the carbon footprints of raw materials as accurately as possible. We support our suppliers here by sharing our knowledge of valuation and calculation methods, for example. In the second step, we then want to work with our suppliers to identify levers and targets to continuously reduce greenhouse gas emissions along the supply chain.

For more information on Sustainable Solution Steering, see basf.com/en/sustainable-solution-steering

For more information on raw materials, see page 112 onward

For more information on the circular economy, see page 44

For more information on our corporate carbon footprint and Supplier CO₂ Management Program, see page 130 onward

Product Carbon Footprint

In line with increasingly ambitious climate protection targets, CO₂ transparency is becoming more and more important for us and our customers. We have published a comprehensive corporate carbon footprint along our value chain every year since 2008. In addition, we already calculated carbon footprints for individual products in the past. To further increase transparency, we developed a digital solution to determine product-specific greenhouse gas emissions in 2020 and have since calculated the carbon footprints of around 45,000 sales products. These Product Carbon Footprints include all greenhouse gas emissions from raw material extraction to the finished BASF product leaving the factory gates ("cradle-to-gate").

For more information on raw materials, see page 112 onward
In focus:  
**BASF Solutions for a Sustainable Future**

Solutions based on chemistry are fundamental to a sustainable future. Every day, around 111,000 employees at BASF work to turn good ideas into innovative products that help solve global challenges such as climate change, resource scarcity or food supply.

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### Enabling climate-smart mobility

The transportation sector is one of the largest sources of greenhouse gases. In Europe, for example, around one-quarter of all CO₂ emissions are caused by road traffic. BASF helps to reduce exhaust emissions and vehicle fuel consumption with innovative solutions to treat exhaust gases such as zeolite SCR catalysts or tri-metal catalyst technology (see page 82), Keropur® fuel additives or lightweight high-performance plastics such as Ultramid®, Ultradur® or Elastoflex®.

At the same time, as a leading supplier of battery materials for lithium-ion batteries, we are paving the way for the age of electromobility. Here, too, the focus is on sustainability – from the responsible procurement of mineral raw materials and the most economical use in production to recycling at the end of the life cycle. In the future, the carbon footprint of our European production will be significantly below the industry standard thanks to our efficient manufacturing processes, the high share of renewable energy, and regional procurement and recycling of key raw materials.

In aviation, the Novaflex Sharkskin surface film developed jointly with Lufthansa Technik leads to noticeable CO₂ reductions. Its structure is modeled on sharkskin and optimizes aerodynamics at the flow-related parts of the aircraft. The sharkskin technology will be used on Lufthansa Cargo’s entire freighter fleet from 2022. Through its use on the 10 Boeing 777F freighters alone, Lufthansa Technik expects to save around 3,700 metric tons of kerosene and reduce CO₂ by around 11,700 metric tons every year.

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### Making better use of sun and wind

BASF products enable renewable energies to be used more efficiently. One example is solar salt. This mixture of sodium nitrate and potassium nitrate is used in concentrated solar power (CSP) plants (image left). As a heat transfer fluid at high temperatures of over 550 degrees Celsius, molten solar salt allows solar energy to be stored and thus used even in bad weather or at night.

Other examples are the amine-based hardeners Baxxodur® EC 301 and EC 201. Both have proven effective in processing epoxy resins for the manufacture of rotor blades for modern wind turbines. Baxxodur® hardeners contribute significantly to the advantageous properties of the cured epoxy resin, such as low weight, high mechanical strength, and high chemical and thermal resistance – all of which are key to the longevity of rotor blades.
Avoiding CO₂ through efficient thermal insulation

An important lever in reducing CO₂ is the energy efficiency of buildings. For a number of years now, we have also offered biomass balance versions of our proven insulating materials Styropor®, Neopor®, Styrodur® and Elastopir®. Under a certified mass balance method, we replace 100% of the fossil raw materials used in the production of these product lines with renewable feedstocks. This significantly reduces the carbon footprint of the end product – in the case of Neopor® BMB, by 66% per cubic meter of insulation panel compared with conventional Neopor®.

Creating new products from waste

Our innovative technologies and solutions help to reduce waste generation and increase the amount of waste that can be recycled. One example is our portfolio of plastics additives. Among other things, these additives help to reduce waste by improving the durability of materials. Additives also enable improved mechanical recycling. For example, the IrgaCycle™ product series launched in 2021 helps our customers avoid certain quality problems in mechanically recycled plastics. This means that recycled plastics can also be used for higher-value applications and recycled content can be increased in the manufacture of new products.

In addition to our mechanical recycling solutions, we are driving forward chemical recycling (see page 115). In our ChemCycling™ project, our technology partners convert waste such as used tires or mixed plastic waste, which was not previously recycled, into pyrolysis oil. We can feed this pyrolysis oil into our Verbund structure in place of fossil raw materials and use it to make new products based on a certified mass balance approach. This reduces waste, saves resources and simultaneously reduces the carbon footprint of our products. One example is Styropor® Cycled™, which is used to manufacture products like insulated transport boxes for temperature-sensitive goods such as coronavirus vaccines. Another application is functional textiles. For example, VAUDE will be launching outdoor pants made using our Ultramid® Cycled™ polyamide from 2022.

Natural ingredients for industrial and consumer goods

Both industrial users and end consumers are increasingly interested in nature-based ingredients. We are addressing this trend with a growing portfolio of plant-based solutions. One example is Disponil® APG 215 for the wood processing industry. Used as an adjuvant in production, this surfactant increases the bond strength of medium-density fiberboard (MDF). This enables manufacturers to achieve a denser and smoother surface and with it, improved water-repellent properties compared with conventional manufacturing processes. Disponil® APG 215 also offers energy saving potential in the production process and is 100% based on natural, renewable plant-based raw materials.

Alongside the natural trend, sensory characteristics such as consistency and texture play an important role in skin and hair care. That is why we are researching and developing alternatives to synthetic ingredients and excipients for cosmetics and personal care products. One example is Hydagen® Clean. Launched on the market in 2021, the biopolymer is characterized by its ease of use and high quality. It can be processed in both cold and hot water and is biodegradable. It is extracted from the tuber of the konjac plant native to southwest China and is suitable for applications such as gels and fluids, as well as novel products such as patches and jelly cosmetics.

Reducing the environmental impacts of agriculture

The demand for food, feed and energy is increasing, while natural resources are limited. Agriculture is a key enabler in providing enough healthy, affordable food. Our innovative solutions help farmers find the right balance between productive and sustainable cultivation. One example is Revysol®. The new fungicidal active ingredient controls several economically important fungal diseases in several key crops globally. Its enhanced efficacy, improved selectivity and favorable regulatory profile allows farmers to maximize yield and to reduce the need to convert more natural habitat to farmland. Revysol®’s performance and its formulation innovation, which provides long-lasting protection under critical weather conditions, avoids the need for repeated fungicide applications. Revysol® helps to significantly reduce CO₂ emissions per ton of crop.

BASF tapped the Brazilian market with Pingo Doce™ watermelons, introducing not only high-quality seeds but also a new business model. BASF provides technical support to farmers and demonstrates best practices in efficient water management, fertilization and traceability to establish sustainable production. Regular quality controls are carried out to check the sweetness, color and size of the watermelons in order to reduce the amount of fruit rejected by supermarkets. This new approach delivers a product that benefits farmers, consumers and the environment alike.
Forecast

We expect the global economic recovery to continue in 2022. As a result, we anticipate global GDP growth of 3.8% (2021: +5.8%). Global growth should be supported by the gradual containment of the coronavirus pandemic. In the advanced economies in particular, demand will increasingly shift from goods to services. However, the bottlenecks in global supply chains will ease only slowly. As order backlogs in industry are high, we expect global industrial production to grow at an above-average rate of 3.8% and chemical production at 3.5%.

Economic Environment in 2022

At a glance

- Moderate GDP growth expected in Europe and the United States
- Strong growth assumed in Asia
- Moderate growth in global industrial production
- Fragile recovery in the automotive industry
- Slower but still above-average growth forecast for the chemical industry

For Europe and the United States, we expect a moderate weakening of growth momentum compared with the previous year. For China, however, – which made an earlier start to its economic recovery following the downturn in 2020 – we anticipate much slower but still solid growth. Growth in the other emerging markets in Asia will likely be slightly stronger than in the previous year.

However, uncertainty about future developments remains high. The further course of the coronavirus pandemic could impact demand more severely than expected. Supply difficulties in the global value chains could continue for longer than assumed in our outlook. High energy prices and higher inflation rates could dampen consumer purchasing power more strongly than expected in our forecast.

Trends in the global economy in 2022

Overall, we anticipate moderate GDP growth of 3.6% (2021: 5.2%) in the European Union (E.U.). This will be driven in part by the economic upturn in the services sector and the gradual overcoming of supply difficulties that we anticipate for the industrial sector. Growth will also be supported by payments from the European Recovery and Resilience Facility. We expect the differences in growth rates between the E.U. member states to be less pronounced than in the previous year. The dynamic recovery in the western European countries that grew particularly strongly in 2021 (France, Italy) is expected to weaken somewhat, while Germany should see slightly stronger growth. In the eastern E.U. countries, we expect growth rates to converge at a similar level.

For the United States, we are forecasting growth of 3.8% (2021: 5.7%). Growth will be supported by government spending on infrastructure, social and climate programs. A continued revival of the labor market should partially compensate for the phasing out of extended unemployment benefits under the COVID relief package. Delays in the clearance of goods at U.S. ports should gradually become less relevant as growth in demand for goods slows and shifts toward the services sector. In addition, congestion at ports should gradually ease. Labor shortages will prevent a stronger upturn, which will dampen the recovery in the services sector in particular.

We expect growth in the emerging markets of Asia to slow overall. In China, the real estate sector will cool. In addition, the zero-tolerance policy toward the coronavirus pandemic will likely curb the recovery in private consumption. We also assume that selective measures to contain new coronavirus outbreaks will continue to negatively impact industrial value chains and logistics. Overall, we expect Chinese GDP to grow by 4.5% in 2022 (2021: 8.1%). Economic development in India remains uncertain given the still low vaccination rate. We expect growth there to be slightly lower than in the previous year (2022: 7.0%; 2021: 8.1%). This will be driven in particular by a recovery in private consumption. In this
environment, we expect slightly higher GDP growth of 4.6% (2021: 4.2%) for the other emerging Asian economies. This is anticipated due to positive base effects and a gradual recovery in tourism.

In Japan, we expect growth momentum to pick up only slightly in the coming year (+2.5%) after weak growth of just 1.7% in 2021. Growth will be supported by private consumption and investment, while the slowdown in China is expected to have a dampening effect on exports. Government stimulus measures could however accelerate growth more strongly than assumed in our forecast.

In South America, growth is expected to weaken significantly in 2022. High net exports of industrial and agricultural commodities will continue to support the Brazilian economy but will no longer provide strong growth impetus. Growth in domestic demand will be curbed by high inflation rates, increased debt and rising interest rates. Overall, we are forecasting growth of only 0.4% for Brazil in 2022 (2021: 4.7%). In Argentina, too, growth will slow significantly against the backdrop of continued very high inflation and increasing fiscal consolidation requirements (2022: 2.3%; 2021: 9.0%). For the other emerging markets in South America, we expect growth to be slightly higher compared with other countries, but likewise significantly weaker year on year (2022: 3.2%; 2021: 9.5%), as the positive base effects from the previous year also level off in these countries.

### Outlook for gross domestic product 2022

<table>
<thead>
<tr>
<th>Region</th>
<th>Real change compared with previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>3.8%</td>
</tr>
<tr>
<td>European Union</td>
<td>3.6%</td>
</tr>
<tr>
<td>United States</td>
<td>3.8%</td>
</tr>
<tr>
<td>Emerging markets of Asia</td>
<td>4.8%</td>
</tr>
<tr>
<td>Japan</td>
<td>2.5%</td>
</tr>
<tr>
<td>South America</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

### Trends in gross domestic product 2022–2024

<table>
<thead>
<tr>
<th>Region</th>
<th>Average annual real change</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>3.2%</td>
</tr>
<tr>
<td>European Union</td>
<td>2.6%</td>
</tr>
<tr>
<td>United States</td>
<td>2.8%</td>
</tr>
<tr>
<td>Emerging markets of Asia</td>
<td>4.9%</td>
</tr>
<tr>
<td>Japan</td>
<td>1.7%</td>
</tr>
<tr>
<td>South America</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

### Outlook for key customer industries

Overall, we anticipate growth of 3.8% (2021: 6.5%) in global industrial production. Growth in the advanced economies (2022: 3.4%; 2021: 5.3%) is likely to be weaker than growth in the emerging markets (2022: 4.1%; 2021: 7.4%). We are forecasting higher growth in the transportation industry in 2022 compared with our other customer industries on average. Based on the current, exceptionally low level, we expect production in the automotive industry to return to strong growth. Overall, production volumes will however still remain well below pre-coronavirus pandemic levels. Growth should pick up again in Europe in particular, after automotive production declined by 26% overall in 2020 and 2021. North America also has a lot of ground to make up.

Automotive production there fell by around one-fifth overall in the past two years, compared with around 7% in Asia. Accordingly, we anticipate the strongest catch-up effects in Europe, followed by North America and Asia. However, the supply of precursors, especially semiconductors, will remain a problem and will continue to limit growth.

In the energy and raw materials sector, we are forecasting slightly higher production growth than in 2021 due to strong demand and higher raw materials prices. We expect the OPEC+ countries to continue to gradually step up oil production. Oil and gas production in the United States should increase as well.

Growth in the construction industry is expected to weaken somewhat. More so than in 2021, commercial construction and infrastructure investment will be a stronger driver than new residential construction. Residential construction activity is expected to cool sharply, especially in China. However, the infrastructure program in the United States, projects under the European Recovery and Resilience Facility, further government programs to support the energetic renovation of existing buildings and still low interest rates will continue to support growth in the construction industry.

Consumer goods production is expected to grow slightly faster than global GDP. We expect growth in textiles and consumer durables to decline. Production of care products will presumably likewise grow at a slightly slower rate than in the previous year.

In the electronics industry, demand is likely to remain high and benefit from the ongoing trend toward digitalization and automation in many areas of application, both in industry and in private households. Nevertheless, we expect weaker growth compared with the exceptionally strong prior year.

In the health and nutrition sector, we are forecasting lower growth compared with 2021, as the exceptionally strong growth in the pharmaceutical industry is expected to level off. Growth in the food

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1. The transportation industry includes the production of motor vehicles, motor vehicle parts and the construction of other vehicles (especially ships and boats, trains, air and spacecraft, and two-wheelers).
industry is also likely to return to its long-term growth path after the gradual reopening of the hospitality sector following the lockdowns in the previous year provided above-average growth in 2021.

Under normal weather conditions, growth in agricultural production in 2022 will presumably be similar to the long-term average. Production in industrialized countries will grow only weakly. By contrast, we anticipate solid production growth in emerging markets such as Argentina, China, India and Ukraine.

### Outlook for the chemical industry

Global chemical production (excluding pharmaceuticals) is expected to grow by 3.5% in 2022, slower than in the previous year (2021: 6.1%) but still above the average for the years prior to the coronavirus pandemic. In the advanced economies, we anticipate growth of 3.1% (2021: 3.9%), which is above the average for the pre-crisis years. Growth in the emerging markets is expected to slow at a much stronger rate (2022: +3.7%; 2021: 7.2%). Based on these forecasts, global chemical production at the end of the year will be almost 10% above the 2019 level.

In **China**, the world’s largest chemical market, we are forecasting much weaker growth in chemical production of 4.0% as base effects from the previous year level off (2021: 7.7%). Growth in demand for chemicals in the consumer goods industries and from the electronics industry is expected to weaken. We anticipate continued growth in demand from the Chinese automotive industry. In the other emerging markets of Asia, we expect chemical growth to be slightly weaker than in China.

In the **E.U.**, we expect chemical production to increase by 2.8% (2021: 6.0%). We anticipate a significant recovery in the automotive industry, which will strengthen growth in demand for chemicals. For the other customer industries, we are forecasting growth slightly above the long-term average. However, momentum in chemical production already slowed over the course of 2021. As a result, the European chemical industry will presumably grow below the average for the manufacturing sector. We are assuming growth of 2.0% in the United Kingdom (2021: 2.5%).

For the **United States**, we are forecasting significantly stronger growth in chemical production (2022: 4.5%; 2021: 1.8%) following the weather-related production outages in the previous year. In addition to statistical base effects, we expect growing demand above all from the automotive industry, the energy sector and the consumer goods industry.

In **Japan**, we expect growth in chemical production to track the growth rate for GDP. The strongest growth stimulus will be provided by the electronics industry and the automotive sector (2022: 2.5%; 2021: 3.7%).

Chemical production in **South America** will presumably grow at around the same rate as the economy as a whole (2022: 1.5%; 2021: 4.6%). This will be primarily driven by the significant recovery in automotive production and continued moderate growth in demand from agriculture and the raw materials sector.

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### Trends in chemical production 2022–2024 (excluding pharmaceuticals)

<table>
<thead>
<tr>
<th></th>
<th>Average annual real change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>World</strong></td>
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<td>1.7%</td>
</tr>
<tr>
<td><strong>South America</strong></td>
<td>2.1%</td>
</tr>
</tbody>
</table>
Outlook 2022

We expect global economic growth to be somewhat more moderate in 2022 following the very strong recovery in 2021. Global growth should be supported by the gradual containment of the coronavirus pandemic. Nevertheless, a full recovery of the market environment is still not yet expected in 2022 as uncertainty remains exceptionally high.

At a glance

- Forecast sales of between €74 billion and €77 billion
- Expected EBIT before special items of between €6.6 billion and €7.2 billion
- Projected ROCE of between 11.4% and 12.6%
- Capex of around €4.6 billion planned for 2022

Our forecast assumes moderate growth in the majority of our customer industries, while the automotive industry is expected to see a stronger recovery. Our forecast range takes into account uncertainty resulting in particular from the effects of ongoing supply chain disruptions, the further course of the coronavirus pandemic and the development of energy prices. The global economy is expected to grow by 3.8% in 2022 (2021: 5.8%). As order backlogs in industry are high, we expect global industrial production to grow by 3.8% (2021: 6.5%) and chemical production by 3.5% (2021: 6.1%). We anticipate an average oil price of $75 for a barrel of Brent crude and an exchange rate of $1.15 per euro.

Based on these assumptions, we are forecasting sales of between €74 billion and €77 billion (2021: €78.6 billion). The BASF Group’s income from operations (EBIT) before special items is expected to be between €6.6 billion and €7.2 billion (2021: €7.8 billion). ROCE should be between 11.4% and 12.6% (2021: 13.5%).

Our CO₂ emissions are expected to be between 19.6 million metric tons and 20.6 million metric tons in 2022 (2021: 20.2 million metric tons). No forecast has been made for the previous Accelerator sales target as we plan to update our portfolio steering target in 2022.

Sales, earnings and ROCE forecast for the BASF Group

The BASF Group is expected to generate sales of between €74 billion and €77 billion in 2022. Contributing factors will include the volume growth expected in all segments and slightly positive portfolio effects from the formation of BASF Shanshan Battery Materials Co., Ltd. We expect slightly lower sales in the Industrial Solutions segment due to negative portfolio effects from the sale of the pigments and kaolin businesses. By contrast, we are forecasting considerable sales growth in the Agricultural Solutions and Nutrition & Care segments following significant price increases. We expect slightly higher sales in the Materials segment and in Other.

The BASF Group’s EBIT before special items is expected to decline to between €6.6 billion and €7.2 billion. We anticipate significantly lower contributions from the Chemicals and Materials segments and from Other. We are forecasting slightly lower EBIT before special items in the Industrial Solutions and Surface Technologies segments. The Agricultural Solutions and Nutrition & Care segments plan to considerably increase EBIT before special items.

Based on the forecast for global economic development and expected business development in the BASF Group in 2022, we expect a ROCE of between 11.4% and 12.6%. Compared with the previous year, we anticipate a considerable decrease in ROCE in the Chemicals, Materials and Surface Technologies segments. The Agricultural Solutions and Nutrition & Care segments are expected to considerably increase ROCE, while the Industrial Solutions segment will see a slight increase.

CO₂ emissions forecast for the BASF Group

CO₂ emissions are expected to be between 19.6 million metric tons and 20.6 million metric tons in 2022. We will take specific emission reduction measures to limit the additional emissions from moderate growth and the expected higher capacity utilization of the ammonia plants following low capacity utilization in 2021. These include measures to increase energy efficiency and process optimization, as well as the continued shift to renewable energy. In addition, the reductions in emissions from divestitures, including the agreed sale of the kaolin business, will slightly more than compensate for the additional emissions from the formation of BASF Shanshan Battery Materials Co., Ltd. in 2022.

For sales, “slight” represents a change of 0.1%–5.0%, while “considerable” applies to changes of 5.1% and higher. “At prior-year level” indicates no change (+/-0.0%). For earnings, “slight” means a change of 0.1%–10.0%, while “considerable” is used for changes of 10.1% and higher. “At prior-year level” indicates no change (+/-0.0%).

At a cost of capital percentage of 9% for 2022, we define a change in ROCE of 0.1 to 1.0 percentage points as “slight,” a change of more than 1.0 percentage points as “considerable” and no change (+/-0.0 percentage points) as “at prior-year level.”
The material opportunities and risks that could affect our forecast are described under Opportunities and Risks on pages 151 to 160.

Sales and earnings forecast for the segments

For the **Chemicals** segment in 2022, we expect sales to decline considerably following very high prices in 2021 due to supply shortages in the market. The decrease in 2022 will be driven by considerably lower sales in the Petrochemicals division. We expect a normalization of the market situation, particularly in the United States, following the supply disruption caused by Winter Storm Uri in January 2021. In the Intermediates division, we anticipate higher sales volumes driven mainly by amines and polyalcohols. Prices in the segment are expected to decline to a lower level while higher raw materials prices will put pressure on margins. For both divisions, we therefore anticipate a considerable decline in EBIT before special items.

For the **Materials** segment, we are forecasting slight sales growth in 2022. Despite the strong recovery in 2021, this will be largely attributable to further volume growth in both divisions. Increased inflationary pressures will be offset by efficiency gains. We anticipate lower prices due to a normalization of the market environment. EBIT before special items in the Monomers division is expected to decrease considerably after strong margins in 2021 as a result of lower price levels and higher raw materials prices. In the Performance Materials division, by contrast, we anticipate a considerable increase in EBIT before special items due to the positive development of sales volumes. However, this will only be able to partly compensate for the decline in the Monomers division.

We expect sales in the **Industrial Solutions** segment to be slightly below the prior-year level. Higher volumes and continuing high price levels in both operating divisions will presumably not be able to completely offset the negative portfolio effects from the divestiture of the pigments business as of June 30, 2021. We are forecasting a slight decline in the segment's EBIT before special items compared with 2021. This will primarily result from the decrease in the Dispersions & Resins division, largely due to the divestiture of the pigments business. The Performance Chemicals division will likely see significant growth in EBIT before special items mainly as a result of higher sales volumes and stronger margins. However, this will not be able to fully compensate for lower earnings in the Dispersions & Resins division.

In the **Surface Technologies** segment, we are forecasting considerably lower sales in 2022, primarily as a result of lower precious metal prices in the Catalysts division. This will be partly offset by higher volumes in both divisions. The segment's EBIT before special items is expected to decline slightly. We anticipate considerably higher EBIT before special items in the Coatings division but a considerable year-on-year decrease in EBIT before special items in the Catalysts division due to lower contributions from precious metal trading.

For the **Nutrition & Care** segment, we expect considerable sales growth compared with 2021. We anticipate higher volumes in both divisions and higher price levels overall, primarily due to the passing on of higher raw materials prices and logistics and energy costs. This will be partly offset by portfolio effects from the sale of the production site in Kankakee, Illinois. The segment's EBIT before special items should be significantly above the prior-year level. We expect significantly higher earnings contributions from both divisions, mainly due to higher margins on the back of strong volume growth.

We are forecasting considerable sales growth in the **Agricultural Solutions** segment. We will raise our sales prices and volumes in a continued challenging market environment, characterized by supply bottlenecks and high energy and raw materials prices. Based on the positive development of sales, we anticipate a strong improvement in EBIT before special items. In 2022, we will continue to invest in research and development and digitalization at a high level.

Sales in **Other** are expected to be slightly above the 2021 level in 2022. This will be mainly attributable to sales growth in commodity

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**Forecast by segment**

<table>
<thead>
<tr>
<th>Million €</th>
<th>Sales 2021</th>
<th>EBIT before special items 2021</th>
<th>ROCE 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2022</strong> Forecast</td>
<td>2022</td>
<td>2022</td>
<td>2022</td>
</tr>
<tr>
<td><strong>Chemicals</strong></td>
<td>13,579</td>
<td>2,974</td>
<td>32.9%</td>
</tr>
<tr>
<td><strong>Materials</strong></td>
<td>15,214</td>
<td>2,418</td>
<td>22.8%</td>
</tr>
<tr>
<td><strong>Industrial Solutions</strong></td>
<td>8,676</td>
<td>1,006</td>
<td>15.2%</td>
</tr>
<tr>
<td><strong>Surface Technologies</strong></td>
<td>22,659</td>
<td>800</td>
<td>5.6%</td>
</tr>
<tr>
<td><strong>Nutrition &amp; Care</strong></td>
<td>6,442</td>
<td>497</td>
<td>8.2%</td>
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<tr>
<td><strong>Agricultural Solutions</strong></td>
<td>8,162</td>
<td>715</td>
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</tr>
<tr>
<td><strong>Other</strong></td>
<td>3,666</td>
<td>–643</td>
<td>–</td>
</tr>
<tr>
<td><strong>BASF Group</strong></td>
<td>78,598</td>
<td>€74 billion–€77 billion</td>
<td>13.5%</td>
</tr>
</tbody>
</table>

**Note:**
- “slight” represents a change of 0.1%–5.0% for sales; 0.1%–10.0% for earnings; 0.1 to 1.0 percentage points for ROCE.
- “substantial” represents a change of 5.1% and higher. “At prior-year level” indicates no change (+/–0.0%).
- For a cost of capital percentage of 9% for 2022, we define a change in ROCE of 0.1 to 1.0 percentage points as "slight," a change of 10.1% and higher as "substantial," and no change (+/–0.0%) as "at prior-year level."

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BASF Report 2021
Management’s Report – Outlook 2022
trading. Despite lower corporate research expenses, we anticipate considerably lower EBIT before special items for 2022 compared with the previous year.

**Capital expenditures (capex)**

We are planning capital expenditures (additions to property, plant and equipment excluding acquisitions, IT investments, restoration obligations and right-of-use assets arising from leases) of around €4.6 billion for the BASF Group in 2022. For the period from 2022 to 2026, we have planned capital expenditures totaling €25.6 billion, including €12.9 billion for our major growth projects. The investment volume in the next five years will thus be above that of the planning period 2021 to 2025 (€22.9 billion). Focus areas will be our investment project in Zhanjiang, China, to expand our businesses in Asia, as well as investments in battery materials.

Projects currently being planned or underway include:

<table>
<thead>
<tr>
<th>Location</th>
<th>Project Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antwerp, Belgium</td>
<td>Capacity expansion: integrated ethylene oxide complex</td>
</tr>
<tr>
<td></td>
<td>Gradual capacity expansion: alkoxylates</td>
</tr>
<tr>
<td>Chalampé, France</td>
<td>Construction: production plant for hexamethylenediamine</td>
</tr>
<tr>
<td>Geismar, Louisiana</td>
<td>Capacity expansion: MDI plant</td>
</tr>
<tr>
<td>Harjavalta, Finland, and</td>
<td>Investment: battery materials</td>
</tr>
<tr>
<td>Schwarzheide, Germany</td>
<td>Planned construction: integrated Verbund site</td>
</tr>
<tr>
<td>Zhanjiang, China</td>
<td>Planned construction: integrated Verbund site</td>
</tr>
</tbody>
</table>

**Capex by segment 2022–2026**

- **Chemicals**: 27%
- **Materials**: 11%
- **Industrial Solutions**: 3%
- **Surface Technologies**: 18%
- **Nutrition & Care**: 9%
- **Agricultural Solutions**: 4%
- **Other (Infrastructure, R&D)**: 28%

**Capex by region 2022–2026**

- **Asia Pacific**: 45%
- **Europe**: 37%
- **North America**: 15%
- **South America, Africa, Middle East**: 1%

**Dividend**

We have an ambitious dividend policy and offer our shareholders an attractive dividend yield. We aim to increase our per-share dividend each year. Information on the proposed dividend can be found on page 13.

**Financing**

In 2022, we expect cash outflows in the equivalent amount of around €2.0 billion from the scheduled repayment of bonds. To refinance maturing bonds and to optimize our maturity profile, we continue to have medium to long-term corporate bonds and our global commercial paper program at our disposal. Information on our financing policies can be found on page 64.

**Events after the reporting period**

On January 4, 2022, the Board of Executive Directors resolved on a share buyback program with a volume of up to €3 billion, which shall be concluded by December 31, 2023, at the latest.1 The share buyback program started on January 11, 2022.

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1 Subject to a renewed authorization to purchase own shares by the Annual Shareholders’ Meeting on April 29, 2022.
Opportunities and Risks

The goal of BASF’s risk management is to identify and evaluate opportunities and risks as early as possible and to take appropriate measures in order to seize opportunities and limit risks. The aim is to avoid risks that pose a threat to BASF’s continued existence and to make improved managerial decisions to create value. We define opportunities as potential successes that exceed our defined goals. We understand risk to be any event that can negatively impact the achievement of our short-term operational or long-term strategic goals.

At a glance

- Integrated process for opportunity and risk identification, assessment and reporting
- Decentralized management of specific opportunities and risks: aggregate reporting at Group level
- Material opportunities and risks for 2022 arise from overall economic developments and margin volatility

In order to effectively measure and manage identified opportunities and risks, we quantify these where appropriate in terms of probability and economic impact in the event they occur. Where possible, we use statistical methods to aggregate opportunities and risks into risk factors. In addition, we use a qualitative evaluation scale for opportunities and risks if quantification is not possible. This enables us to not only evaluate economic impact but sustainability-related aspects as well. In this way, we achieve an overall view of opportunities and risks allowing us to aggregate risks at Group level and take effective risk management measures.

Overall assessment

For 2022, we expect the overall economic recovery to continue and the coronavirus pandemic to weaken as the population becomes increasingly immunized. General economic uncertainty will nevertheless remain high. The course of the pandemic is difficult to predict; in particular, mutations of the coronavirus may lead to further waves of infection. This can result in production stoppages and supply chain disruptions in our customer industries, with our suppliers and in our own production plants. Moreover, restricted economic activity resulting from further lockdowns can have a significant negative impact on aggregate demand. In addition, an ongoing low supply of energy and raw materials and the resulting high prices could cause inflation rates to rise further. This could dampen the production of energy-intensive products and consumer demand beyond our assumed level of slowed growth.

An escalation of geopolitical conflicts as well as the ongoing trade conflicts between the United States and China and the associated slowdown of the economy also pose significant risks.

Opportunities will arise from stronger demand growth, in particular from a greater reduction in pandemic-related risks than assumed by our forecasts. Rapidly increasing global vaccination rates and the approval of effective antiviral drugs against COVID-19 could be contributing factors.

In addition to the uncertainties surrounding market growth and the development of key customer industries, material opportunities and risks for our earnings arise from margin volatility.

According to our assessment, there continue to be no significant individual risks that pose a threat to the continued existence of the BASF Group. The same applies to the sum of individual risks, even in the case of a global economic crisis like the coronavirus crisis.

Ultimately, however, residual risks (net risks) remain in all entrepreneurial activities that cannot be ruled out, even by comprehensive risk management.

As a non-integral shareholding, income from Wintershall Dea is reported in net income from shareholdings. The opportunities and risks resulting from the shareholding in Wintershall Dea are therefore not included in the outlook for the EBIT of the BASF Group. Opportunities and risks that have an impact on net income from shareholdings and cash flow from the shares in Wintershall Dea are monitored and tracked through BASF’s involvement in the relevant governing bodies.
## Potential short-term effects on EBIT of key opportunity and risk factors subsequent to measures taken

<table>
<thead>
<tr>
<th>Possible variations related to:</th>
<th>Outlook – 2022 +</th>
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<td><strong>Business environment and sector</strong></td>
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<td>Market growth</td>
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<td>Margins</td>
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<td>Regulation/policy</td>
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<td><strong>Company-specific opportunities and risks</strong></td>
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<td>Procurement</td>
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<td><strong>Financial</strong></td>
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<td>Exchange rate volatility</td>
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<td>Other financial opportunities and risks</td>
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<th>€100 million</th>
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<th>€500 million</th>
<th>€1,000 million</th>
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<td>€500 million</td>
<td>€1,000 million</td>
<td>€2,000 million</td>
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* Using a 95% confidence interval per risk factor based on planned values; summation is not permissible.

## Risk management process

The BASF Group’s risk management process is based on the international risk management standard, COSO II Enterprise Risk Management – Integrated Framework, and has the following key features:

### Organization and responsibilities

- **Risk management is the responsibility of the Board of Executive Directors**, which also determines the processes for approving investments, acquisitions and divestitures.
- The Board of Executive Directors is supported by the Corporate Center. Corporate Finance and Corporate Development, which are units within the Corporate Center, and the Chief Compliance Officer coordinate the risk management process at a Group level, examine financial and sustainability-related opportunities and risks, and provide the structure and appropriate methodology. Opportunity and risk management is thus integrated into the strategy, planning and budgeting processes.
- BASF’s risk committee reviews the BASF Group’s risk portfolio at least twice a year to evaluate any adjustments to risk-management measures and informs the Board of Executive Directors of these. Members of the risk committee are the president of Corporate Finance, the president of Corporate Development, the president of Corporate Legal, Compliance & Insurance and the heads of the Corporate Audit, Corporate Environmental Protection, Health & Safety, Corporate Treasury, and Group Reporting & Performance Management units.
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- As part of strategy development, the Corporate Development unit additionally conducts strategic opportunity/risk analyses with a 10-year assessment period. These analyses are annually reviewed as part of strategic controlling and are adapted if necessary. Scenarios were also developed to map possible developments beyond the ten-year horizon.
- BASF’s Chief Compliance Officer (CCO) manages the implementation of our Compliance Management System, supported by additional compliance officers worldwide. The CCO regularly reports to the Board of Executive Directors on the status of implementation as well as on any significant results and provides a status report to the Supervisory Board’s Audit Committee at least once a year, including any major developments. The Board of Executive Directors immediately informs the Audit Committee about significant incidents.
- The internal audit unit (Corporate Audit) is responsible for regularly auditing the risk management system established by the Board of Executive Directors in accordance with section 91(2) of the German Stock Corporation Act. Furthermore, as part of its monitoring of the Board of Executive Directors, the Supervisory Board considers the effectiveness of the risk management system. The suitability of the early detection system we set up for risks is evaluated by our external auditor.
Tools

- The Governance, Risk Management, Compliance (GRC) Policy, applicable throughout the Group, forms the framework for risk management and is implemented by the operating divisions, the service and research units and the regions according to their specific business conditions.

- A catalog of opportunity and risk categories helps to identify all relevant financial and sustainability-related opportunities and risks as comprehensively as possible. We also systematically assess opportunities and risks with effects that cannot yet be measured in monetary terms, such as reputational and climate risks. To reflect these, risks for companies in connection with the transition to a low-carbon economy (transition risks) as well as physical risks as defined by the Task Force on Climate-related Financial Disclosures (TCFD), among others, were added to the catalog.

- Because global climate policy ambitions and the implementation of the relevant measures play a decisive role in the ongoing growth of the chemical industry and its customer industries, global long-term scenarios (up to 2050) with various global warming paths were defined. To assess the impact of different global climate policy approaches on our business units, the scenarios were discussed by the business units in workshops. Their feedback will be incorporated into the further development of scenario assumptions and outcomes. A dataset of scenario-specific macroeconomic parameters will be provided to test the economic feasibility of investments and business strategies.

For more information on our sustainability management processes, see page 45 onward

- We use standardized evaluation and reporting tools for the identification and assessment of risks. The aggregation of opportunities, risks and sensitivities at division and Group level using a Monte Carlo simulation helps us to identify effects and trends across the Group. We also aggregate qualitatively assessed risks at Group level using a risk portfolio.

- Our Group-wide Compliance Program aims to ensure adherence to legal regulations and the company’s internal guidelines. Our global employee Code of Conduct firmly embeds these mandatory standards into everyday business. Members of the Board of Executive Directors are also expressly obligated to follow these principles.

For more information on our Group-wide Compliance Program, see page 171 onward

Significant features of the internal control and risk management system with regard to the Group financial reporting process

The Consolidated Financial Statements are prepared by a unit in the Corporate Finance department. The Consolidated Financial Statements are derived from the separate financial statements of the subsidiaries and joint operations, taking into account the relevant data for the joint ventures and associated companies accounted for using the equity method. The BASF Group’s accounting process is based on a uniform accounting guideline that, alongside accounting policies based on the International Financial Reporting Standards applicable in the European Union, defines the significant processes and deadlines for the Group. There are binding directives for the internal reconciliations and other accounting operations within the Group. Standard software is used to carry out the accounting processes for the preparation of the individual financial statements as well as for the Consolidated Financial Statements. There are clear rules for the access rights of each participant in these processes.

Employees involved in the accounting and reporting process meet the qualitative requirements and participate in training on a regular basis. There is a clear assignment of responsibilities between the specialist units, companies and service units involved. We strictly adhere to the principles of segregation of duties and dual control, or the “four-eyes principle.” Complex actuarial reports and evaluations are produced by specialized service providers or specially qualified employees.
An internal control system for financial reporting continuously monitors these principles. To this end, methods are provided to ensure that evaluation of the internal control system in financial reporting is structured and uniform across the BASF Group. They also work in accordance with the international risk management standard, COSO II Enterprise Risk Management – Integrated Framework.

Material risks for the BASF Group regarding a reliable control environment for proper financial reporting are reviewed and updated on an annual basis. Risks are compiled into a central risk catalog.

Moreover, a centralized selection process identifies companies that are exposed to particular risks, that are material to the Consolidated Financial Statements of the BASF Group, or that provide service processes. The selection process is conducted annually. Persons responsible for implementing the requirements for an effective control system in financial reporting are appointed at the relevant companies.

The process for identifying, evaluating, managing and controlling risks related to preparing the Consolidated Financial Statements as well as monitoring these processes in the selected companies comprises the following steps:

- **Evaluation of the control environment**
  Adherence to internal and external guidelines that are relevant to the maintenance of a reliable control environment is checked by means of a standardized questionnaire.

- **Identification and documentation of control activities**
  In order to mitigate the risks to the financial reporting processes listed in our central risk catalog, critical processes and control activities are documented.

- **Assessment of control activities**
  After documentation, a review is performed to verify whether the described controls are capable of adequately covering the risks. In the subsequent test phase, spot checks are carried out to test whether, in practice, the controls were executed as described and effective.

- **Monitoring of control weaknesses**
  The responsible managers receive reports on any control weaknesses identified and their resolution; and an interdisciplinary committee investigates their relevance to the BASF Group. The Board of Executive Directors and the Audit Committee are informed if control weaknesses with a considerable impact on financial reporting are identified. Only after material control weaknesses have been resolved does the company’s managing director confirm the effectiveness of the internal control system.

- **Internal confirmation of the internal control system**
  All managing directors and chief financial officers of each consolidated Group company must confirm to the Board of Executive Directors of BASF SE every half-year and at the end of the annual cycle, in writing, that the internal control system is effective with regard to accounting and reporting.

### Operational opportunities and risks

#### Market growth

The development of our sales markets is one of the strongest sources of opportunities and risks. For more details on our assumptions regarding short-term growth rates for the global economy, regions and key customer industries, such as the chemicals, automotive and construction sectors, see Economic Environment in 2022 on pages 145 to 147.

We also consider opportunities and risks caused by deviations in assumptions. Stronger demand resulting from faster eradication of the coronavirus pandemic, for example through sustained efficacy and growing acceptance of coronavirus vaccines and drugs, will give rise to macroeconomic opportunities. A significant macroeconomic risk arises from the possibility that measures to contain the coronavirus are kept in place for a longer period of time or augmented, and, as a result, negatively affect global supply chains and slow global economic growth. Further increases in energy prices, caused, for example by an escalation of the conflict between Russia and Ukraine, and the resulting higher inflation rates for manufacturer and consumer prices also pose a risk to the economy. Additional macroeconomic risks result from the escalation of other geopolitical conflicts and a renewed intensification of the trade conflict between the United States and China. Both can have a considerable impact on global demand for intermediate goods for industrial production and demand for investment goods.

Weather-related influences can result in positive or negative effects on our business, particularly in the Agricultural Solutions segment.

#### Margins

Opportunities and risks for the BASF Group primarily result from higher or lower margins in the Chemicals and Materials segments. Opportunities arise here if the positive margin trend continues for longer than expected. However, further increases in energy and raw materials prices in particular, new capacities and raw materials shortages could increase margin pressure on a number of products and value chains. This would have a negative effect on our EBIT.

Moreover, if oil and gas prices rise, Wintershall Dea does not have a compensating effect on the BASF Group’s EBIT because this shareholding is no longer reported in EBIT, but in net income from shareholdings.

The year’s average oil price for Brent crude was $71 per barrel in 2021, compared with $42 per barrel in the previous year. For 2022, we anticipate an average oil price of $75 per barrel. We therefore expect price levels for the raw materials and petrochemical basic products that are important to our business to rise.

#### Competition

We continuously enhance our products and solutions in order to maintain competitive ability. We monitor the market and the competition, and try to take targeted advantage of opportunities and counter emerging risks with suitable measures. Aside from innovation, key components of our competitiveness are our ongoing cost management and continuous process optimization.
Regulation/policy
Risks for us can arise from intensified geopolitical tensions, new trade sanctions, stricter emissions limits for plants, and energy and climate laws. In addition, changes in chemical regulations can affect both the BASF Group’s product portfolio and that of our customers, for example, on the use or registration of agrochemicals.

Political measures could also give rise to opportunities. For example, we view measures around the world to increase energy efficiency and reduce greenhouse gas emissions as an opportunity for increased demand for our products, such as our insulation foams for buildings, catalysts, battery materials for electromobility, or our solutions for wind turbines. Our broad product portfolio enables us to, in some cases, offer alternatives if new chemicals have to be developed as a result of restrictions in connection with the REACH chemicals regulation or new standards in our customers’ industries.

Procurement and supply chain
We minimize procurement risks through our broad portfolio, global purchasing activities and the purchase of raw materials on spot markets. If possible, we avoid procuring raw materials from a single supplier. When this cannot be avoided, we try to foster competition or we knowingly enter into this relationship and assess the consequences of potential nondelivery. We continuously monitor the credit risk of important business partners.

Around the world, the frequency and intensity of extreme weather conditions (such as high/low water levels on rivers, heat/cold waves and hurricanes) are increasing as a result of climate change. We address the risk of supply interruptions on the procurement and sales side caused by extreme weather conditions by switching to alternative logistics carriers and the possibility of falling back on unaffected sites within our global Verbund.

We implemented a package of climate resilience measures for our Verbund site in Ludwigshafen, Germany, to address low water levels on the Rhine River: We developed an early warning system for low water, created multimodal transportation concepts, chartered more ships that can navigate low water levels and, in cooperation with partners, developed a special type of ship designed for extreme low-water situations. These measures are already making longer periods of low water on the Rhine River more manageable.

Investments and production
We try to prevent unscheduled plant shutdowns by adhering to high technical standards and by continuously improving our plants. We reduce the effects of an unscheduled shutdown on the supply of intermediate and end products through diversification within our global production Verbund.

In the event of a production outage – caused by an accident, for example – our global, regional or local emergency response plans and crisis management structures are engaged, depending on the impact scope. Every region has crisis management teams on a local and regional level. They not only coordinate the necessary emergency response measures, they also initiate immediate measures for damage control and resumption of normal operations as quickly as possible.

Crisis management also includes dealing with extreme weather conditions such as hurricanes (for example, at the sites on the Gulf of Mexico in Freeport, Texas, and Geismar, Louisiana) or significantly elevated water temperatures in rivers due to extended heat waves, which limit the available cooling capacity (for example, at the Ludwigshafen site in Germany). Appropriate precautions are taken at the sites in the case of a potential change in risk in connection with climate change. For example, over the past few years, the Verbund site in Ludwigshafen, Germany, has implemented several measures to increase cooling capacity, including expanding and optimizing the central recooling plants and optimizing cooling water flows. These are capable of preventing production outages due to extreme heatwaves.

Short-term risks from investments can result from, for example, technical malfunctions or schedule and budget overruns. We counter these risks with highly experienced project management and controlling.

Acquisitions, divestitures and cooperations
We constantly monitor the market in order to identify possible acquisition targets and develop our portfolio appropriately. In addition, we collaborate with customers and partners to jointly develop new, competitive products and applications.

Opportunities and risks arise in connection with acquisitions and divestitures from the conclusion of a transaction, or if it being completed earlier or later than expected. They relate to the regular earnings contributions gained or lost as well as the realization of gains or losses from divestitures if these deviate from our planning assumptions.

For more information on opportunities and risks from agreed transactions, see page 41

Personnel
Due to BASF’s worldwide compensation principles, the development of personnel expenses is partly dependent on the amount of variable compensation, which is linked to the company’s success, among other factors. The correlation between variable compensation and the success of the company has the effect of minimizing risk. Another factor is the development of interest rates for discounting pension obligations. Furthermore, changes to the legal environment of a particular country can have an impact on the development of personnel expenses for the BASF Group. For countries in which BASF is active, relevant developments are therefore constantly monitored in order to recognize risks at an early stage and enable BASF to carry out suitable measures.

For more information on our compensation system, see page 102
For more information on risks from pension obligations, see page 157

Information technology risks
BASF employs on a large number of IT systems. We use technologies such as big data and the Internet of Things to develop new business models, corporate concepts and strategies and to respond appropriately to changing customer behavior. IT system downtime, confidentiality breaches and the manipulation of data stored in critical IT systems and applications can all have a direct impact on production and logistics processes. The threat environment has changed in recent years, as attackers have become better
organized, use more sophisticated technology, and have far more
resources available. If data are lost or manipulated, this can, for
example, negatively affect plant availability, delivery quality or the
accuracy of our financial reporting. Unauthorized access to sensitive
data, such as personnel records or customer data, competition-
related information or research results, can result in legal conse-
quences or jeopardize our competitive position. This would also be
accompanied by the associated loss of reputation.

To minimize such risks, BASF uses globally uniform processes and
systems to ensure IT availability and IT security. These include stable
and redundantly designed IT systems, backup processes, virus and
access protection, encryption systems as well as integrated, Group-
wide standardized IT infrastructure and applications. The systems
used for information security are constantly tested, continuously
updated, and expanded if necessary. In addition, our employees
receive regular training on information and data protection. IT-related
risk management is conducted using Group-wide regulations for
organization and application, as well as an internal control system
based on these regulations.

The Cyber Defense Center was established in 2015 and is continu-
ously being expanded in line with the growth in current
requirements. BASF is also a member of Cyber Security Sharing
and Analytics e.V. (CSSA) and a founding member of the German
Cybersecurity Organization (DCSO) together with Allianz SE,
Bayer AG and Volkswagen AG. BASF has also established an
information security management system and is internationally
certified according to IDIN EN ISO/IEC 27001:2017.

Legal disputes and proceedings
We constantly monitor current and potential legal disputes and
proceedings, and regularly report on these to the Board of Executive
Directors and Supervisory Board. In order to assess the risks from
current legal disputes and proceedings and any potential need to
recognize provisions, we prepare our own analyses and assess-
ments of the circumstances and claims considered. In addition, in
individual cases, we consider the results of comparable proceedings
and, if needed, independent legal opinions. Risk assessment is
particularly based on estimates as to the probability of occurrence
and the range of possible claims. These estimates are the result of
close cooperation between the relevant operating and service units
with Corporate Finance and Corporate Legal. If sufficient
probability of occurrence is identified, a provision is recognized
accordingly for each proceeding. Should a provision be unneces-
sary, general risk management continues to assess whether these
litigations nevertheless represent a risk for the BASF Group’s EBIT.

We use our internal control system to limit risks from potential
infringements of rights or laws. For example, we try to avoid patent
and licensing disputes whenever possible through extensive clear-
ance research. As part of our Group-wide Compliance Program, our
employees receive regular training.

Tax
The recognized tax-related opportunities and risks only concern
taxes that impact the BASF Group’s EBIT in the short term. These
arise when BASF has taken a position that differs from the opinion
of a competent administrative authority. If a tax payment has already
been made and could be reclaimed, this is presented as an oppor-
tunity. If, on the other hand, a potential payment is outstanding in
accordance with the administrative opinion, this is a risk. We
primarily evaluate opportunities and risks with regard to their proba-
bility of occurrence and, if necessary, set up a provision for the rele-
vant risk. If a provision is not necessary, this is taken into account in
determining EBIT-relevant risks of the BASF Group.

Financial opportunities and risks
Detailed guidelines and procedures exist for dealing with financial
risks. Among other things, they provide for the segregation of financial
instrument trading and back office functions.

As a part of risk management, activities in countries with transfer
restrictions are continuously monitored. This includes, for example,
regular analysis of the macroeconomic and legal environment,
shareholders’ equity and the business models of the operating units.

The chief aim is the management of counterparty, transfer and
currency risks for the BASF Group.

Exchange rate volatility
Our competitiveness on global markets is influenced by fluctuations
in exchange rates. For BASF’s sales, opportunities and risks arise in
particular when the U.S. dollar exchange rate fluctuates. A full-year
appreciation of the U.S. dollar against the euro by $0.01, which
could result from a macroeconomic slowdown, would increase the
BASF Group’s EBIT by around €30 million, assuming other condi-
tions remain the same. On the production side, we counter exchange
rate risks by producing in the respective currency zones.

Financial currency risks result from the translation of receivables,
liabilities and other monetary items in accordance with IAS 21 at the
closing rate into the functional currency of the respective Group
company. In addition, we incorporate planned purchase and sales
transactions in foreign currencies into our financial foreign currency
risk management. These risks are hedged using derivative instru-
ments, if necessary.

Interest rate risks
Interest rate risks result from potential changes in prevailing market
interest rates. These can cause a change in the fair value of fixed-
rate instruments and fluctuations in the interest payments for
variable-rate financial instruments, which would positively or nega-
tively affect earnings. To hedge these risks, interest rate swaps
and combined interest rate and currency derivatives are used in
individual cases.

In addition to market interest rates, BASF’s financing costs are
determined by the credit risk premiums to be paid. These are
mainly influenced by our credit rating and the market conditions at
the time of issue. In the short to medium term, BASF is largely pro-
tected from the possible effects on its interest result thanks to the
balanced maturity profile of its financial indebtedness.
Risks from metal and raw materials trading
In the catalysts business, BASF employs commodity derivatives for precious metals and trades precious metals on behalf of third parties and on its own account. Appropriate commodity derivatives are also traded to optimize BASF’s supply of refinery products, gas, and other petrochemical raw materials. To address specific risks associated with these non-operating trades, we set and continuously monitor limits with regard to the type and volume of the deals concluded.

Liquidity risks
Risks from fluctuating cash flows are recognized in a timely manner as part of our liquidity planning. We have access to extensive liquidity at any time thanks to our good ratings, our unrestricted access to the commercial paper market and committed bank credit lines. In the short to medium term, BASF is largely protected against potential refinancing risks by the balanced maturity profile of its financial indebtedness as well as through diversification in various financial markets.

Risk of asset losses
We limit country-specific risks with measures based on internally determined country ratings, which are continuously updated to reflect changing environment conditions. We selectively use investment guarantees to limit specific country-related risks. We lower credit risks for our financial investments by engaging in transactions only with banks with good credit ratings and by adhering to fixed limits. Creditworthiness is continuously monitored and the limits are adjusted accordingly. We reduce the risk of default on receivables by continuously monitoring the creditworthiness and payment behavior of our customers and by setting appropriate credit limits. Risks are also limited through the use of credit insurance and individual hedging strategies, such as guarantees. Due to the global activities and diversified customer structure of the BASF Group, there are no major concentrations of credit default risk.

Impairment risks
Asset impairment risk arises if the assumed interest rate in an impairment test increases, the predicted cash flows decline, or investment projects are suspended. Following the impairments recognized in the third quarter of 2020, we currently consider the risk of further impairment for assets such as property, plant and equipment, goodwill, technologies and trademarks to be immaterial. The same applies to investments accounted for using the equity method, with the exception of Wintershall Dea, which was remeasured at fair value in 2019. As the value of the shareholding is dependent on expected oil and gas price developments, impairments of the shareholding and of the assets held by the company are possible.

Long-term incentive program for senior executives
Since 2020, BASF has offered its leaders the opportunity to participate in a long-term incentive program (LTI program) in the form or a performance share plan. The LTI plan incentivizes the achievement of strategic growth, profitability and sustainability targets and takes into account the development of the BASF share price and the dividend. The need for provisions for this program varies according to assumptions on the degree of strategic target achievement, the development of the BASF share price and the dividend. This leads to a corresponding increase or decrease in personnel costs.

Until 2020, BASF offered leaders the opportunity to participate in a share price-based compensation program. The need for provisions for this program varies according to the development of the BASF share price and the MSCI World Chemicals Index; this leads to a corresponding increase or decrease in personnel costs.

Risks from pension obligations
Most employees are granted company pension benefits from either defined contribution or defined benefit plans. We predominantly finance company pension obligations externally through separate plan assets. This particularly includes BASF Pensionskasse VVaG and BASF Pensionsreihand e.V. in Germany, in addition to the large pension plans of our Group companies in North America, the United Kingdom and Switzerland. To address the risk of underfunding due to market-related fluctuations in plan assets, we have investment strategies that align return and risk optimization to the structure of the pension obligations. Stress scenarios are also simulated regularly by means of portfolio analyses. An adjustment to the interest rates used in discounting pension obligations leads immediately to changes in equity. To limit the risks of changing financial market conditions as well as demographic developments, employees have, for a number of years now, been almost exclusively offered defined contribution plans for future years of service. Some of these contribution plans include minimum interest guarantees. If the pension fund cannot generate this, it must be provided by the employer. A permanent continuation of the low interest rate environment could make it necessary to recognize pension obligations and plan assets for these plans as well.

Strategic opportunities and risks

Long-term demand development
We assume that growth in chemical production (excluding pharmaceuticals) will be about as strong as that of the global gross domestic product over the next five years and stronger than the five-year average prior to the coronavirus pandemic. Through our market-oriented and broad portfolio, which we will continue to strengthen in the years ahead through investments in new production capacities, research and development activities and acquisitions, we aim to achieve volume growth that slightly exceeds this market growth. Should global economic growth see unexpected, considerable deceleration because of prolonged restrictions due to the coronavirus pandemic, an ongoing weak period in the emerging markets, protectionist tendencies or geopolitical crises, the expected growth rates could prove too ambitious.

Development of competitive and customer landscape
We expect competitors from Asia and the Middle East in particular to gain increasing significance in the years ahead. Furthermore, we predict that many producers in countries rich in raw materials will expand their value chains in consumer-oriented sectors. In addition, the proliferation of large-scale digital marketplaces for chemicals could impact existing customer and supplier relationships.

For more information on the corporate strategy, see page 26 onward
We expect a continuous rise in customer demand for sustainable solutions, for example, products with a lower carbon footprint, made from recycled, circular, or bio-based raw materials that are bio-degradable, or products with other measurable sustainability benefits. We are therefore addressing these topics in research and investment programs for the sustainable transformation of BASF. Companies with a proven track record of providing more sustainable solutions will be able to achieve higher growth and profitability as a result. The expansion of sharing economy business models could have a long-term impact on demand in individual customer industries. At the same time, higher demands on product features can also create opportunities for innovation.

To maintain our competitiveness, we are continuously improving our production processes, streamlining our administration and simplifying workflows and processes as part of our excellence programs. Our research and business focus is on highly innovative businesses and differentiation through sustainability advantages to make our customers and BASF more successful.

Regulation/policy
We expect to achieve continued regulatory and societal pressure, climate-neutral energy production, climate-neutral energy consumption, and a climate-neutral resource and raw material base. The political approaches to address these issues will vary greatly from region to region. However, based on Europe in particular, we expect measures with a high level of regulation and detail that will have an impact on demand in individual customer industries. At the same time, higher demands on product features can also create opportunities for innovation.

We counter these risks as part of our corporate strategy. We explain our strategy in meetings with political decision-makers and social stakeholders. In doing so, we also inform ourselves of the changes we must undergo and advocate for a favorable and stable regulatory framework at both the national and international level. We consider BASF to be in a strong position to contribute solutions toward achieving U.N. development goals, particularly regarding climate neutrality, through new technologies, innovative products and processes and our broad product portfolio.

Innovation
We expect the trend toward increased sustainability requirements in our customer industries to continue. Our aim is to leverage the resulting opportunities in a growing market with even more sustainable innovations. The key areas are products with a lower or even net-zero carbon footprint, circular economy solutions, and safe and sustainable products. To be successful in these fields, we have launched specific research and investment programs for the sustainable transformation of BASF. Furthermore, we began applying the Sustainable Solution Steering method to the evaluation of innovation projects and integrated it at an early stage of our research and development processes. In this way, we are steering our innovation portfolio toward increased sustainability, which leads to higher profitability while reducing reputational and financial risks as well.

There are technical and commercial risks of failure associated with every single research and development project. We also address this by maintaining a balanced and comprehensive project portfolio as well as through professional, milestone-based project management.

Further risks may arise from increasing state protectionism and the demand for localization of intellectual property in order to achieve technological independence. Through our Know-how Verbund in research and development, we ensure that critical intellectual property is generated and protected in countries with high intellectual-property standards.

We expect that the digital disruption of established processes will lead to a sharp increase in efficiency and effectiveness in some fields. BASF is therefore committed to taking a leading role in the digital transformation of the chemical industry. Possible applications of digital technologies and solutions are evaluated along the entire value chain and implemented throughout the company, for example, in production, logistics, research and development, business models and corporate governance.

Procurement, supply chain and infrastructure
Supply security for raw materials, energy and services is increasingly affected by trade disputes, protectionism and geopolitical conflict. In addition, supply chains are increasingly threatened by disruptions such as suppliers’ production bottlenecks, interrupted logistics chains, extreme weather events, and longer-lasting effects from the coronavirus pandemic. Climate change and extreme weather events are impacting the availability of renewable resources.

These risks, as well as the introduction of new environmental regulations (e.g., carbon fees), can have an impact on purchasing prices. Transportation costs are significantly affected by capacity constraints (e.g., a lack of truck drivers, traffic jams due to inadequate logistics infrastructure).

We are seeing an ongoing expansion of the regulatory framework affecting us and our suppliers. Potential non-compliance by our suppliers may lead to a reduced supplier base. Moreover, the availability of renewable energies depends largely on favorable prices and framework conditions.

These risks are continuously analyzed and appropriate strategies and measures developed to minimize the impact on BASF.

To assess the changing risks for our sites from climate change, climate data based on the latest scenarios of the Intergovernmental Panel on Climate Change (IPCC) were compiled for our sites in cooperation with an external partner. This enables the sites to...
assess the potential impact of climate change in the coming decades. Here, we focus on a climate protection scenario, supplemented by two scenarios with medium and high levels of global warming.\(^1\) The most common potential impact is an increase in heat and drought. The findings can be considered in the development of site strategies.

The availability of our infrastructure, production plants and supply chains can be negatively affected by system downtime, confidentiality breaches, or manipulation of data in critical IT systems and applications. The threat environment has changed in recent years, as attackers have become better organized, use more sophisticated technology, and have far more resources available.

**Portfolio development through investments**

We expect growth in chemical production in emerging markets to remain above the global average in the years to come. This will create opportunities that we want to exploit by expanding our local presence. In addition, regional value chains help mitigate risks from trade conflicts and barriers that pose a challenge to global markets and supply chains.

Decisions on the type, scope and location of our investment projects are made on the basis of established comprehensive assessment processes. They take into account long-term forecasts for market, margin and cost development, raw material availability as well as country, currency, sustainability and technology risks. Opportunities and risks arise from potential deviations in actual developments from our assumptions.

Investments in more sustainable technologies represent a long-term opportunity, even though they may not be competitive or profitable in the short term, depending on the market and the prevailing regulatory framework.

\[\text{For more information on our investment projects, see page 150 onward}\]

**Acquisitions, divestitures and cooperations**

In the future, we will continue to expand and refine our portfolio through acquisitions that promise above-average profitable growth, are innovation-driven or offer a technological differentiation and help achieve a relevant market position, and make new, sustainable business models possible.

The evaluation of opportunities and risks plays a significant role during the assessment of acquisition targets. A detailed analysis and quantification is conducted as part of due diligence. Examples of risks include increased staff turnover, delayed realization of synergies, or the assumption of obligations that were not precisely quantifiable in advance. If our expectations in this regard are not met, risks could arise, such as the need to impair intangible assets; however, there could also be opportunities, for example, from additional synergies.

Divestitures also play a key role in the development of our portfolio. Risks could arise from divestitures as a result of potential warranty claims or other contractual obligations, such as long-term supply agreements.

\[\text{For more information on our acquisitions and divestitures, see page 41}\]

**Recruitment and long-term retention of qualified employees**

BASF anticipates growing challenges in attracting qualified employees in the medium and long term due to demographic change, especially in North America and Europe. As a result, there is an increased risk that job vacancies may not be filled, or only after a delay. We address these risks with measures to integrate diversity, employee and leadership development, and intensified employer branding. At local level, demographic management includes succession planning, knowledge management and offerings to improve the balance between personal and professional life, and promote healthy living. This increases BASF’s appeal as an employer and retains our employees in the long term.

\[\text{For more information on individual initiatives and our targets, see page 97 onward}\]

**Sustainability**

Opportunities and risks that could arise from material sustainability topics can only rarely be measured in specific financial terms and have an impact on business activities, especially in the medium to long term.

We reduce potential risks in the areas of environmental protection, safety and security, health protection, product stewardship, compliance, supplier relationships and labor and social standards by setting ourselves globally uniform requirements. These sometimes go beyond local legal requirements. Our globally applicable Code of Conduct defines a binding framework for the activities of all BASF employees, leaders and members of the Board of Executive Directors. To ensure compliance with our internal standards, we have global management systems in place and monitor their implementation internally by means such as global surveys and audits. Expectations of suppliers are laid down in our global Supplier Code of Conduct. We have suppliers with a high potential sustainability risk evaluated by third parties, either through sustainability evaluations or on-site audits. The monitoring systems are complemented by grievance mechanisms such as our compliance hotlines.

Furthermore, ongoing climate change poses both opportunities and risks for BASF. As an energy-intensive company, climate-related risks arise particularly from regulatory changes, such as in carbon prices through emissions trading systems, taxes or energy legislation. In addition, BASF’s emissions footprint and intensity could lead to a negative perception and reduced appeal among external stakeholders such as customers or investors. We counter these risks with our carbon management measures and by transparently disclosing our positions on and contributions to climate protection (such as political demands, progress in the implementation of our climate strategy and how our products help to protect the environment) in publicly accessible sources (such as this annual report or on the BASF website) and in direct dialog with external stakeholders.

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1. The assessment model was based on the IPCC climate change scenario SSP1-2.6, supplemented by SSP2-4.5 (medium global warming scenario) and SSP5-8.5 (high global warming scenario).
In addition to climate-related risks, there are also opportunities. Our broad product portfolio includes, among other things, solutions for the circular economy and climate protection (such as insulation foams for buildings, materials for electromobility and bio-based products). Increased social awareness offers additional market opportunities for these products. We are working with numerous scientific and public organizations and initiatives on solutions for sustainable agriculture that meet economic, environmental, and social demands over the long term.

Our decentralized specialists use a central decision tree to document reportable sustainability risks within the meaning of section 289b et seq. of the German Commercial Code. No reportable residual net risks within the meaning of section 289b et seq. of the German Commercial Code were identified for 2021.

For more information on sustainability management, see page 45 onward
For more information on energy and climate protection, see page 126 onward
For more information on opportunities and risks from energy policies, see page 135
For more information on our positions on and contributions to climate protection, see basf.com/en/sustainable-solution-steering