

# BASF Group

GRI 2

**At BASF, we create chemistry for a sustainable future. We combine economic success with environmental protection and social responsibility. Around 111,500 employees contribute to the BASF Group's success worldwide. Our business is divided into the Chemicals, Materials, Industrial Solutions, Surface Technologies, Nutrition & Care and Agricultural Solutions segments.**

## Sites and Verbund

As one of the world's largest chemical companies, BASF is present in 91 countries. We operate 239 production sites worldwide. The foundation for the Verbund concept was laid in 1865 at the Ludwigshafen site in Germany and is still one of BASF's great strengths today. Intelligently linking and steering our Verbund plants creates efficient value chains – from basic chemicals to high value-added solutions such as coatings or crop protection products. The Verbund enables us to manage our production in a resource-efficient, carbon-optimized and reliable way. By-products from one facility are used as feedstocks elsewhere, for example. This saves us raw materials and energy, avoids emissions, lowers logistics costs and leverages synergies.

In addition to Ludwigshafen, BASF operates five other Verbund sites in Antwerp, Belgium; Freeport, Texas; Geismar, Louisiana; Kuantan, Malaysia; and Nanjing, China. Another Verbund site is being built in Zhanjiang in the southern Chinese province of Guangdong.

We also use the Verbund principle for more than production, applying it to technologies, the market and digitalization as well. Research expertise is bundled globally.

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

[For more information on our segments' investments, see page 37 onward](#)

## The BASF Group's segments in 2022



### Chemicals

The Chemicals segment supplies BASF's other segments and customers with basic chemicals and intermediates.

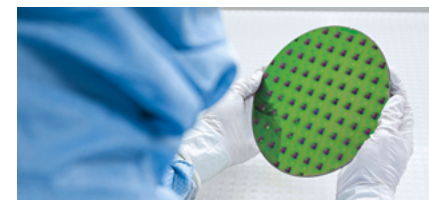
- Share of sales: 17%
- R&D expenses: €93 million
- Investments including acquisitions:<sup>1</sup> €1,701 million



### Materials

The Materials segment offers advanced materials and their precursors for the plastics and plastics processing industries.

- Share of sales: 21%
- R&D expenses: €201 million
- Investments including acquisitions:<sup>1</sup> €880 million



### Industrial Solutions

The Industrial Solutions segment develops and markets ingredients and additives for industrial applications.

- Share of sales: 12%
- R&D expenses: €172 million
- Investments including acquisitions:<sup>1</sup> €322 million



### Surface Technologies

The Surface Technologies segment offers chemical solutions for surfaces and automotive coatings, as well as battery materials and catalysts.

- Share of sales: 24%
- R&D expenses: €335 million
- Investments including acquisitions:<sup>1</sup> €740 million



### Nutrition & Care

The Nutrition & Care segment produces ingredients and solutions for consumer applications such as human and animal nutrition, and home and personal care.

- Share of sales: 9%
- R&D expenses: €172 million
- Investments including acquisitions:<sup>1</sup> €642 million



### Agricultural Solutions

The Agricultural Solutions segment is an integrated provider of seeds, crop protection and digital solutions for the agricultural sector.

- Share of sales: 12%
- R&D expenses: €944 million
- Investments including acquisitions:<sup>1</sup> €414 million

<sup>1</sup> Additions to property, plant and equipment and intangible assets

## Organization of the BASF Group

The BASF Group consists of eleven operating divisions, which are grouped into six segments as follows:

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

This segment structure enables us to steer our businesses in a differentiated way 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. The operating divisions, the service units, the regions and the corporate center are the cornerstones of the BASF organization. This organizational structure lays the foundation for customer proximity, competitiveness and profitable growth. 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.

 For more information on the products and services offered by the segments, see pages 72, 76, 79, 82, 85 and 88 onward

For more information on the segment structure, see Note 5 to the Consolidated Financial Statements from page 219 onward

The divisions bear strategic and operational responsibility and are organized according to sectors or products. They manage the 52 global and regional business units and develop strategies for 72 strategic business units.

BASF's regional and national companies represent the Group locally and support the growth of business units with local proximity to customers. For financial reporting purposes, we organize the regional companies into four regions: Europe, North America, Asia Pacific, as well as South America, Africa and Middle East.

To strengthen our innovation capabilities, we reorganized our global research activities in 2022 and aligned them even more closely with the needs of our customers. As part of this, we integrated downstream research into the divisions and bundled activities with broad relevance for our customers in a research division. This division is globally positioned with research centers in Europe, North America and Asia Pacific.

 For more information on the reorganization of our research activities, see page 49 onward

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

We have driven forward the bundling of services and resources in the Global Business Services unit, making greater use of the digitalization of processes. This aims to achieve annual savings of more than €200 million from 2023.<sup>1</sup>

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, safety and quality, human resources, communications, investor relations, corporate audit and the Net Zero Accelerator unit.

## Procurement and sales markets

BASF supplies products and services to around 82,000 customers<sup>2</sup> 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<sup>3</sup> worldwide. They supply us with important raw materials, chemicals, investment goods and consumables, and perform a range of services.

 For more information on customers, see page 26; for more on suppliers, see page 114 onward; for more on raw materials, see page 117 onward

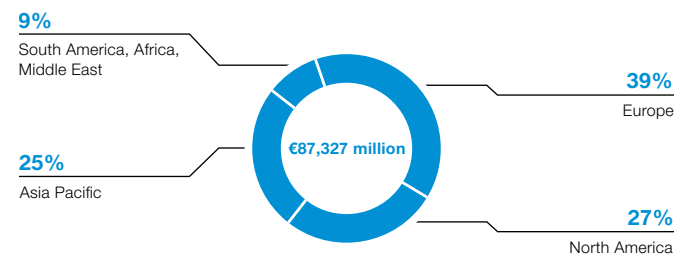
### BASF sales by industry 2022

Direct customers

>20%	Chemicals and plastics   Transportation (respectively)
10%–20%	Agriculture   Consumer goods (respectively)
<10%	Construction   Electronics   Energy and resources   Health and nutrition (respectively)

### BASF sales by region 2022

Location of customer

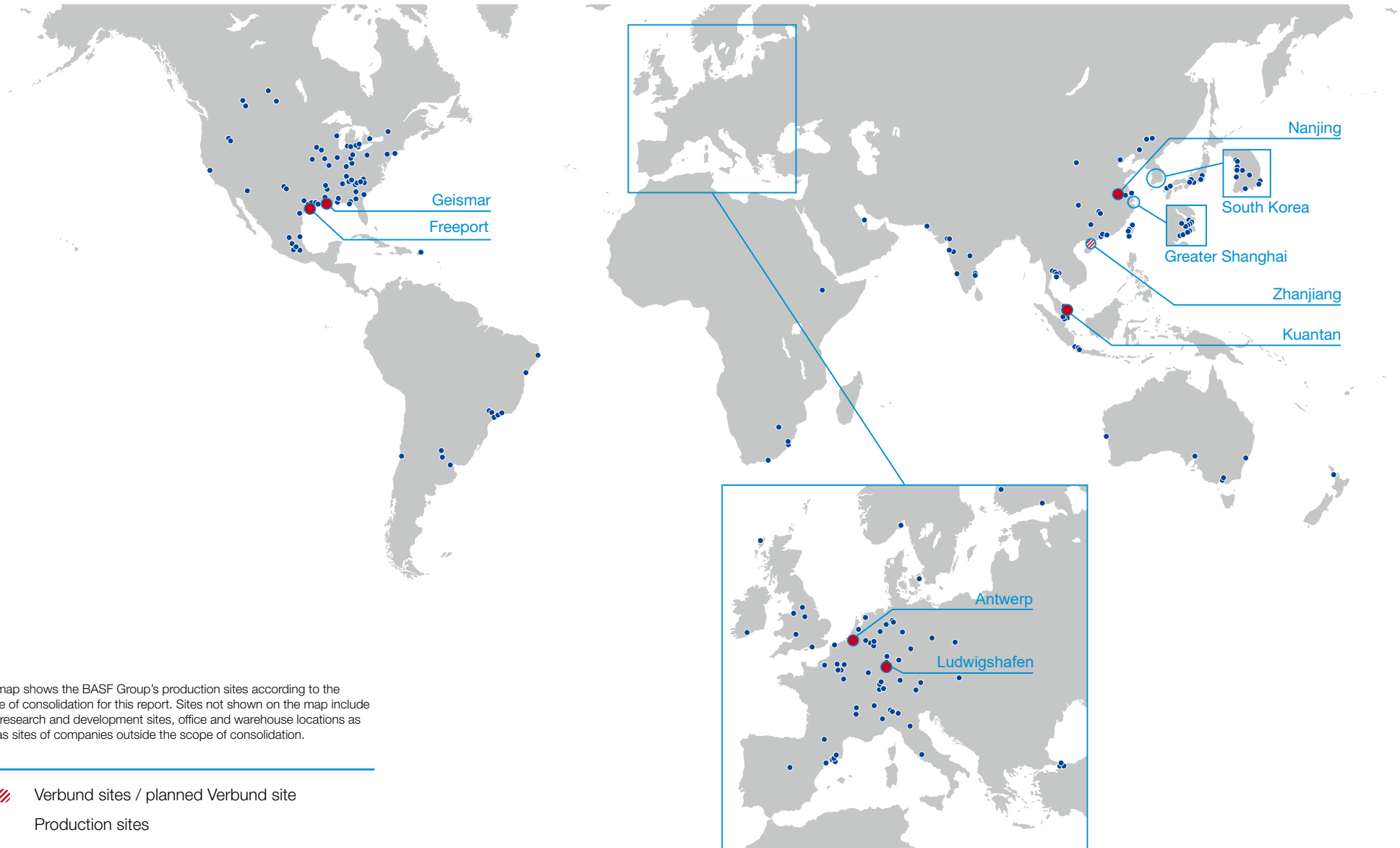


<sup>1</sup> Part of these savings is included in the €500 million cost savings program announced in October 2022.

<sup>2</sup> The number of customers refers to all external companies (sold-to parties) that had contracts with the BASF Group in the business year concerned in which sales were generated.

<sup>3</sup> 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.

BASF's production sites



The map shows the BASF Group's production sites according to the scope of consolidation for this report. Sites not shown on the map include pure research and development sites, office and warehouse locations as well as sites of companies outside the scope of consolidation.

- / Verbund sites / planned Verbund site
- Production sites

## 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 and political environment
- Legal and political requirements
- 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.

## Challenging market conditions in Europe

On February 24, 2022, Russia launched a war against Ukraine. BASF strongly condemns the Russian attack on Ukraine. As a consequence, the company announced on April 27, 2022, that it would wind down its existing business activities in Russia in accordance with international law. Exempt from this decision is business to support food production, as the war risks triggering a global food crisis. The decision to withdraw from Russia led to special charges in EBIT of €72 million, including impairments on property, plant and equipment of €14 million. In 2021, Russia and Belarus accounted for around 1% of the BASF Group's total sales.

The war in Ukraine has significantly changed the economic environment in Europe. Above all, reduced gas supplies from Russia led to much higher and volatile commodity and energy prices and exceptionally high uncertainty, especially surrounding the gas supply. As a result, the European gas price peaked at a monthly average of €235.94 per MWh (\$69.84 per mmBtu) in August 2022. In December 2022, it was significantly lower, averaging €118.25 per MWh (\$36.74 per mmBtu), but still more than five times the U.S. gas price (Henry Hub). European gas prices averaged €124.16 per MWh (\$38.01 per mmBtu) for the year, more than double the prior-year level and more than ten times the 2020 level. The consequences of the gas price increase are manifold: In addition to strong cost pressure, it is driving inflation, weakening the economy and slowing demand from our customer industries. This development made production adjustments necessary in Europe's energy-intensive industries. BASF took a variety of measures here. For example, ammonia production was temporarily scaled back and partly offset by higher plant utilization at non-European sites and through procurement. BASF also reduced its consumption of natural gas in European production by switching to alternative fuels wherever technically possible and economically viable. Even though European gas prices were already higher than U.S. prices before the outbreak of the war in Ukraine, they are expected to decline again with the targeted substitution and diversification of gas procurement sources and the shift to other energy sources, but to remain well above pre-crisis levels.

Another factor leading to generally challenging conditions for the European chemical industry include planned regulations under the European Green Deal. These will have far-reaching consequences for the regulation of chemicals in Europe. All of these headwinds are weakening the competitiveness of European chemical production.

Against this background and given the significant decline in earnings in our European market, we have announced a cost-cutting program focusing on Europe and above all Germany. Concrete measures are currently being developed. The program will be implemented in 2023 and 2024 and is expected to generate annual savings of €500 million in non-production areas upon completion. In

parallel, we are developing further measures to structurally adjust BASF's Production Verbund in Europe.

! For more information on how BASF is reducing its natural gas consumption, see page 118

## 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. In the BASF Group Consolidated Financial Statements, 248 companies including BASF SE are fully consolidated. We consolidate nine joint operations on a proportional basis and account for 23 companies using the equity method.

! For more information, see Note 2 to the Consolidated Financial Statements from page 214 onward