

MANCON



ManCon-Onlinevortrag

Nachhaltigkeitsreporting & -controlling in der Praxis

Ansätze und Erfahrungen bei BASF

*“Exzellente Weiterbildung in
Finance, Controlling und Accounting.”*

Stefan Schnell

BASF SE



Our purpose:

We create
chemistry for a
sustainable future

BASF – We create chemistry

- Our chemistry is used in almost all industries
- We combine economic success, social responsibility and environmental protection
- Sales 2022: €87.3 billion
- EBIT before special items 2022: €6.9 billion
- Employees (as of December 31, 2022): 111,481
- 6 Verbund sites and 239 other production sites
- Around 82,000 customers from various sectors in almost every country in the world



BASF's segments



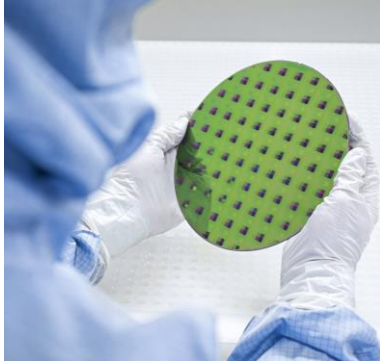
Chemicals

Petrochemicals
Intermediates



Materials

Performance Materials
Monomers



Industrial Solutions

Dispersions & Resins
Performance Chemicals



Surface Technologies

Catalysts
Coatings



Nutrition & Care

Care Chemicals
Nutrition & Health



Agricultural Solutions

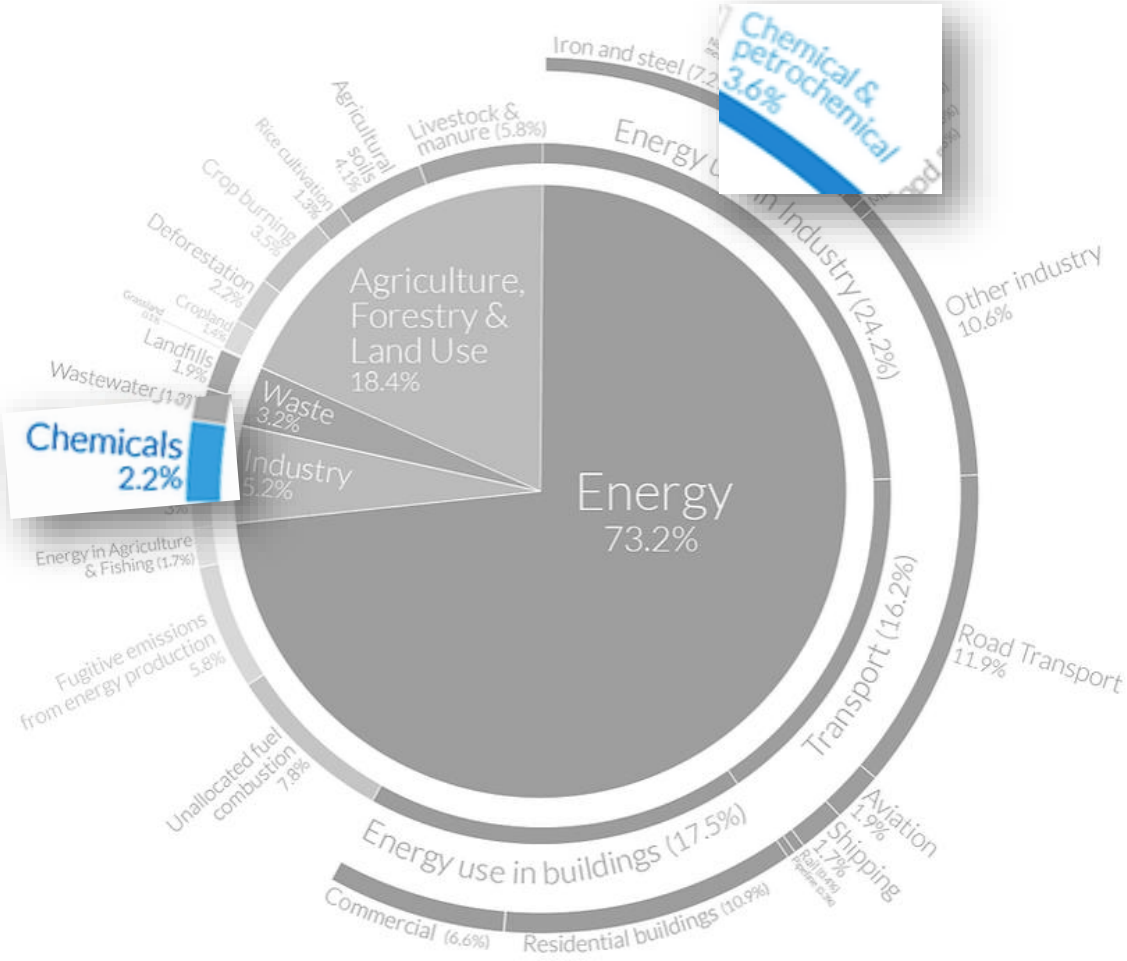
Agenda



1. Sustainability at BASF

2. Sustainability reporting & performance management

As a chemical company, we have a major role in enabling sustainability along the value chain



“ Over **95% of all manufactured goods** rely on some form of **industrial chemical process**. Most industry sectors make use of chemical products, from energy generation and transportation, to information and communication technology (ICT) and construction. ”



BASF's Corporate Commitments cover every part of our value chain and operations to deliver long-term business success



We source responsibly

We produce safely for people and the environment

We produce efficiently

We drive sustainable solutions

We value people and treat them with respect

Sustainability – We are shaping the transformation towards climate neutrality and a circular economy



Our target: Net zero emissions by 2050.

By **2030** we will reduce our **absolute CO₂ emissions by 25%** compared to 2018 (Scope 1 and 2) and we will reduce our specific **emissions by 15 percent** compared to 2022 (Scope 3.1)¹.

¹ Corresponds to a reduction from 1.57 to 1.34 kilograms of CO₂e per kilogram of raw material bought; calculated on the basis of relevant Scope 3.1 emissions of 48 million metric tons

We aim at doubling our circular sales to reach €17 billion by 2030.

- Recycled-based and renewable-based feedstocks
- Close and extend material loops

We integrate sustainability in our steering processes

► Material ESG topics anchored in Board target agreements

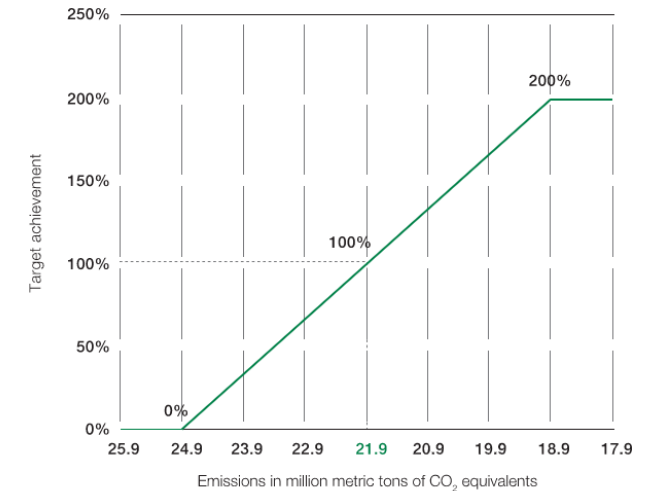


Principles

The compensation of the Board of Executive Directors is determined by the company's size, complexity and financial position, as well as the performance of the Board of Executive Directors as a whole (*Gesamtvorstand*). It is designed to contribute to sustainable corporate development and the achievement of strategic corporate goals. The long-term strategic goals communicated as part of BASF's strategy form the key performance indicators for the short-term and long-term variable compensation and thus foster the sustainable development of the company.

- The strategic target "**yield**" refers to an annual return on capital employed ([ROCE](#)) above the cost of capital percentage. The ROCE serves as the key performance indicator for determining the performance bonus (**short-term incentive, STI**).
- The strategic targets "**growth**," "**profitability**" and "**CO₂-neutral growth until 2030**" are represented in the new **long-term incentive (LTI)** program. The final number of performance share units (PSUs) is determined based on the level of target achievement for the three strategic targets over the entire four-year period of the [LTI](#) program.

Strategic target 3: Grow CO₂-neutrally until 2030



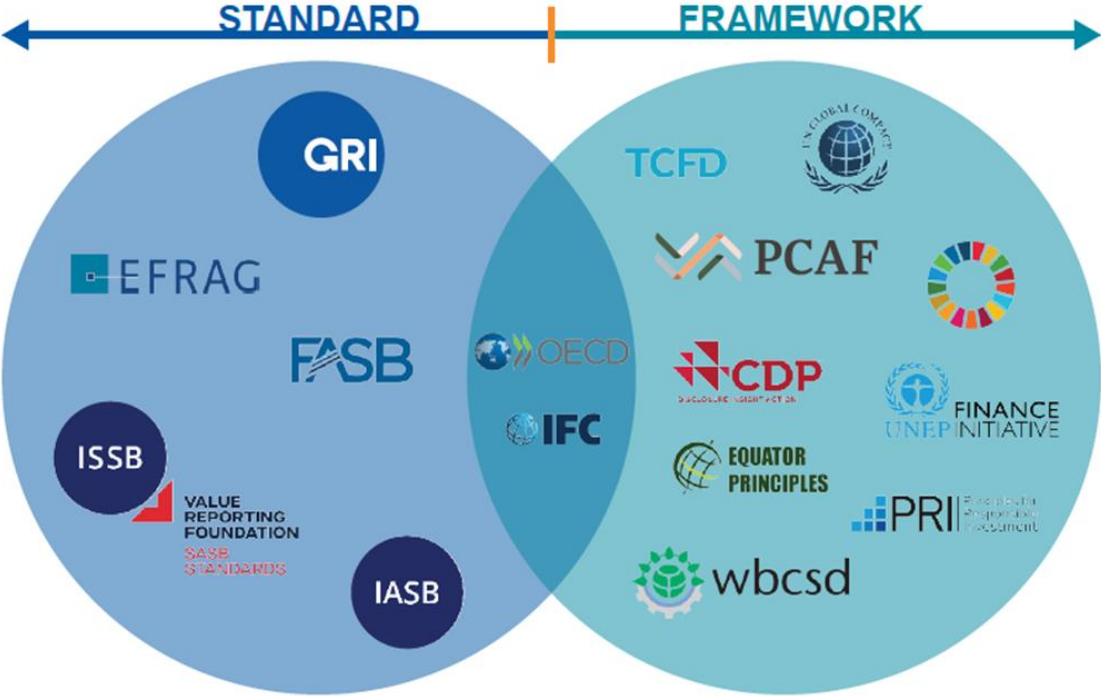
- With emissions of 21.9 million metric tons of CO₂ equivalents per year, the target achievement is 100% (**target value**).
- With emissions of 24.9 million metric tons of CO₂ equivalents per year or more, the target achievement is 0 (**minimum value**).
- With emissions of 18.9 million metric tons of CO₂ equivalents per year or less, the target achievement is 200% (**maximum value**).
- Intermediate values are determined by linear interpolation.
- The target achievement for the entire performance period 2020–2023 is calculated as the arithmetic mean of the degree of target achievements of each of the four years.

Source: BASF Report 2020 – compensation report

Agenda

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Multiple different stakeholders shape sustainability reporting today



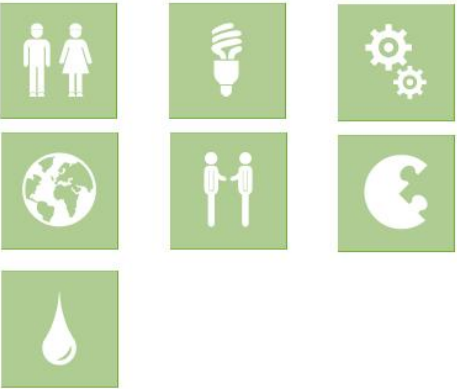
RANKERS & RATERS

A collection of logos for various ranking and rating agencies, arranged in a grid. The logos include: World Benchmarking Alliance, MSCI, S&P Dow Jones Indices (A Division of S&P Global), FitchRatings, S&P Global, Morningstar, Environmental Performance Index, Refinitiv, FTSE Russell, ISS, RepRisk, Ecovadis, Alliance for Corporate Transparency, Calvert (An Eaton Vance Company), Moody's, Global100, GRESB, and GGEI/CSRHUB.

BASF is demonstrating its commitment to sustainability through reporting, too

We listen to our stakeholders

We aim to understand the current and future needs of our markets and society (materiality).

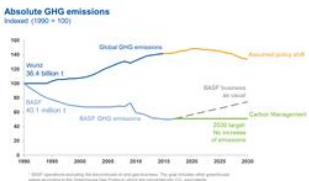


We steer our activities

We integrate relevant ESG aspects in core decision making and steering processes.



Our target: CO₂-neutral¹ growth until 2030



We disclose our activities

We drive transparency through stakeholder engagement and integrated reporting.

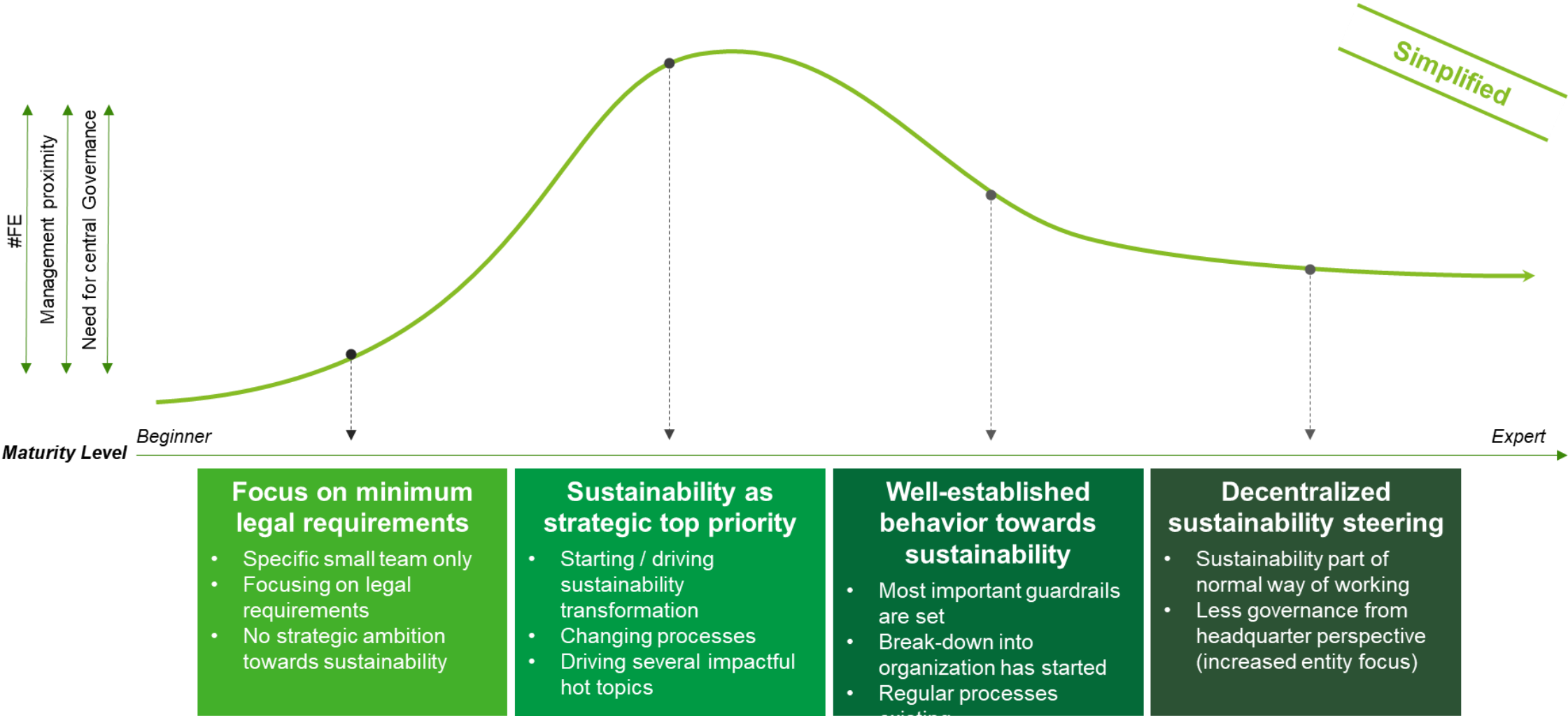


BASF Reporting Journey – still on a learning curve



Deloitte outside-in view: sustainability maturity curve

The ESG Operating model is heavily depending on an organization's maturity in ESG topics



Deloitte outside-in view: organizational trends in Germany

ESG Operating models are changing due to regulatory requirements and pressure from capital markets

Trends



ESG central part of any **top management agenda**



Changing perspective: from external communication to comprehensive, **internal steering**



Legal requirements driving **increased demands towards (external) reporting**



Shift from small teams around top management to **decentralized orchestration across the organization**



Limited resources with comprehensive sustainability skills available on job market

Implications



ESG becoming a strategic priority within corporate strategy, requiring focus



Increasing expectations towards organization (additional skills, additional roles)



Data collection getting more complex and suggesting new responsibility splits



Increasing coordination effort across departments necessary



Fight for top talents within Sustainability community

Deloitte outside-in view: task allocation

Task allocation should follow a clear set of principles



Stakeholders need to be managed by defined single point of contacts (e.g. Investor Relations to handle ESG Investor requests)



Process ownership follows functional expertise, content support by Sustainability where required (e.g., KPI reporting process sits with Group Accounting)



Interfaces between functions to be minimized and only to be established where necessary



For **overarching topics with a joint responsibility** (e.g., ESG KPI Framework), clear **decision governance** is required. For all other tasks, a **collaboration model to be set-up** for involvement of required departments



Distribution of tasks **without build-up of FTEs**.
De-prioritization of existing tasks has priority over the build-up of new resources

We integrated Sustainability into Finance and Controlling visions

Corporate Finance delivers insights and impact to help BASF create chemistry for a sustainable future.

WE

safeguard the financing and financial reporting of BASF Group

set the financial framework and drive targets for reliable company steering

manage BASF's portfolio development through M&A

are the center of excellence for digital and sustainable finance

From insights to impact – trusted, connected, forward-looking

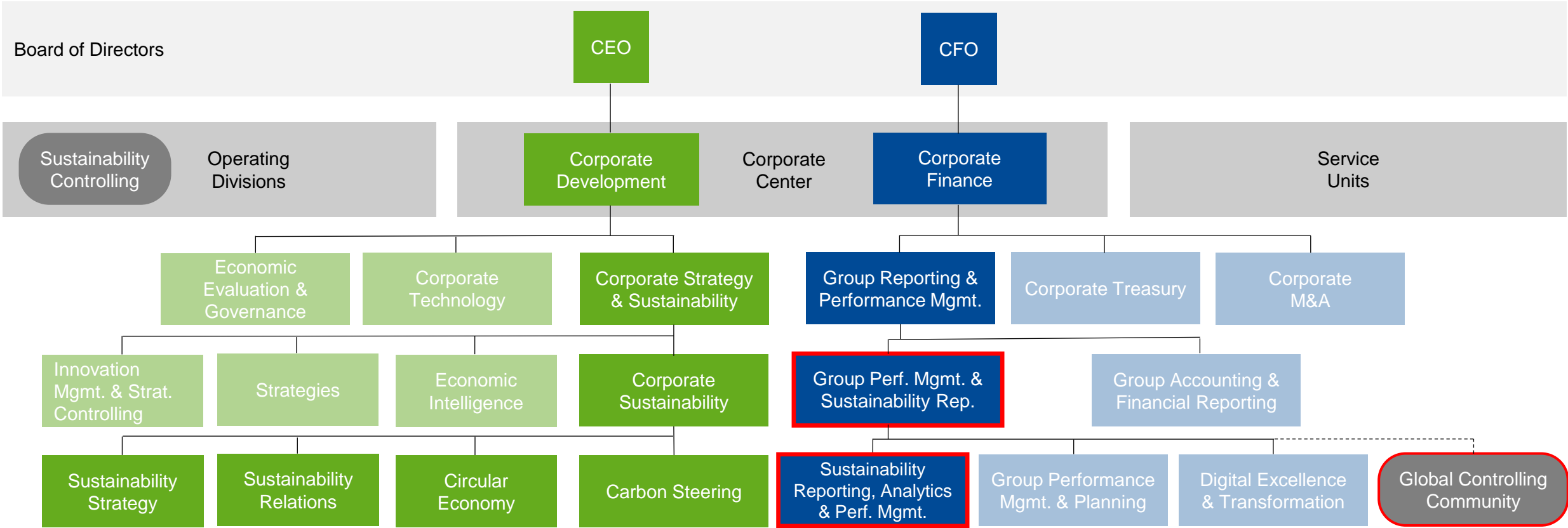


BASF Controllers' Mission

As part of the
management team,
we actively drive
BASF's business
performance by...

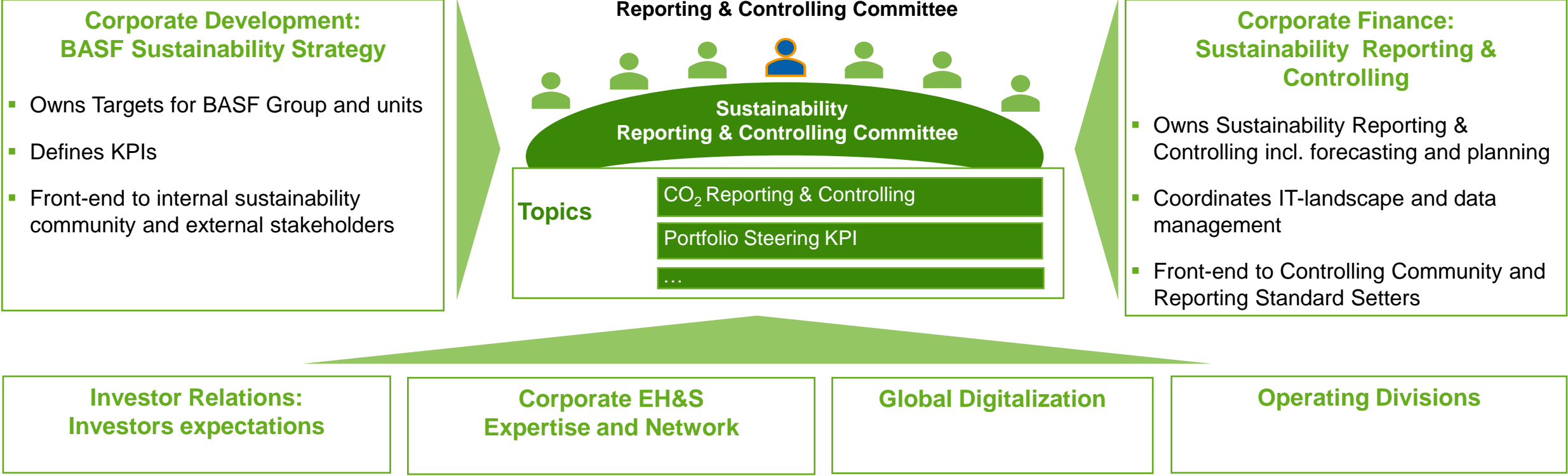
- ▶ ...steering the organization in its **economic decision-making**
- ▶ ...incorporating **customer, environmental and social aspects** into business steering
- ▶ ...ensuring **cross-unit steering and optimization** to reach BASF's financial and non-financial targets
- ▶ ...leveraging **data and technology** to drive innovative processes and business analyses & steering
- ▶ ...enforcing **compliance** with Finance and Controlling related rules and guidelines

We established the unit “Group Performance Management & Sustainability Reporting” within Corporate Finance



Simplified illustration

BASF's Sustainability Reporting & Controlling Committee aligns priorities and actions across internal organizational boundaries



Lean reporting principles – Clearly defined ESG disclosure priorities steered by SRCC

The **ESG reporting target picture** will thus focus on qualitative and quantitative

1. Mandatory disclosure requirements (ESRS)
2. KPIs requested by relevant stakeholders (investors, customers)
3. KPIs to pro-actively shape BASF's position as ESG leader



What can be reported centrally will be covered by central units (corporate or service units)



Automated reporting preferred (cost/benefit)



Only reporting on KPIs according to the three requirement groups mentioned above



Clear distinction between requirements for external reporting purposes and KPIs relevant for steering (only a few KPIs)

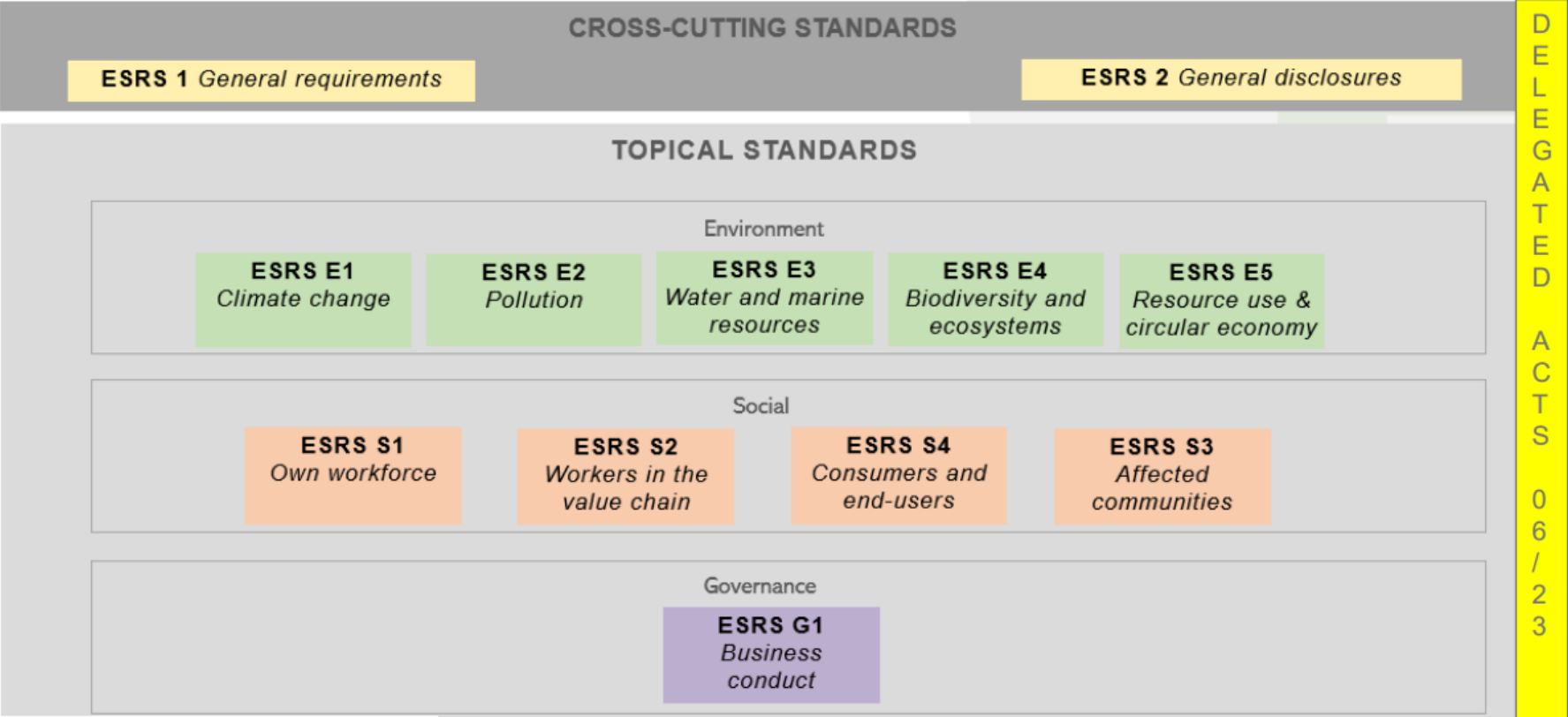


SRCC will assign related tasks and implementation projects to the related expert units



SRCC will evaluate whether current reporting applied under current standards (e.g., GRI) could be stopped

Corporate Sustainability Reporting Directive (CSRD) and European Sustainability Reporting Standards (ESRS) apply to BASF as of 2024



84 Disclosure Requirements
Qualitative or quantitative

1144 Datapoints

Double materiality

- Financial materiality
- Impact materiality

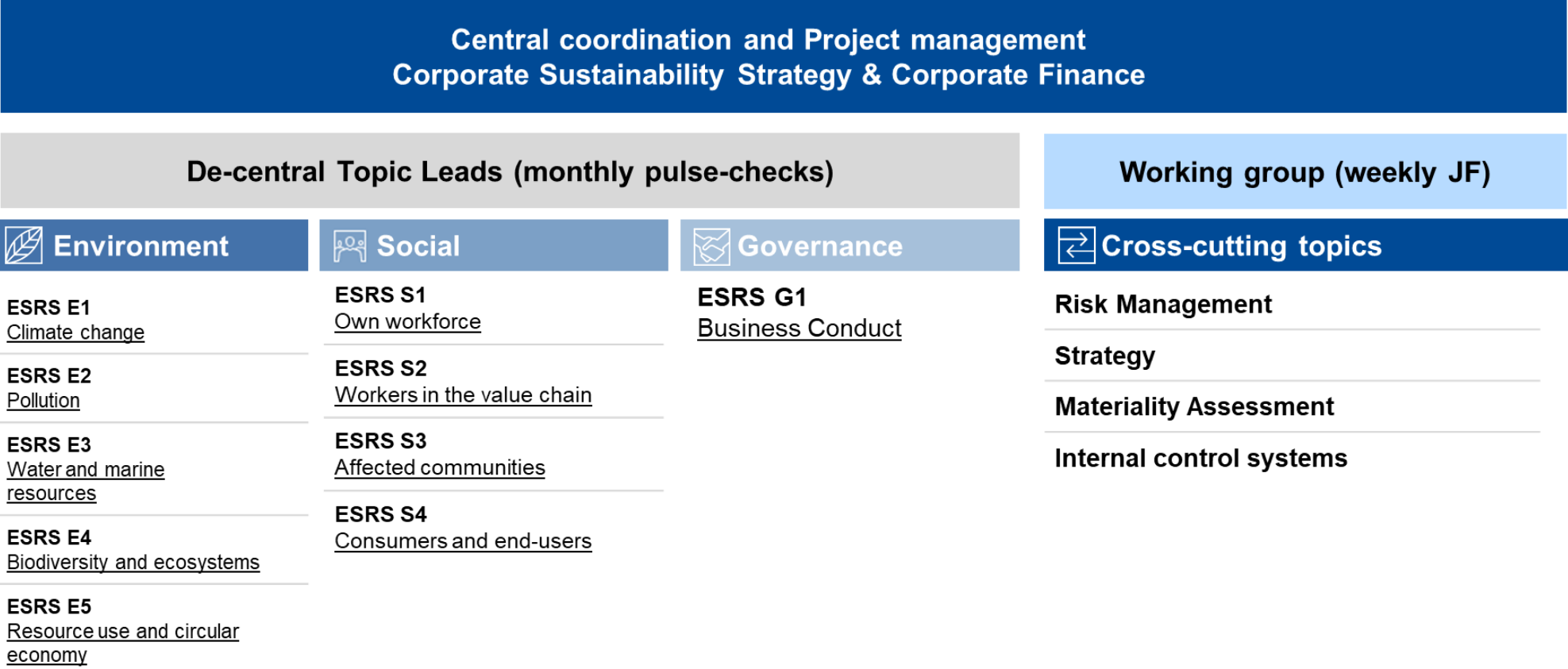
4 pillars

- Governance
- Strategy
- Impact, risk and opportunity management
- Metrics and targets



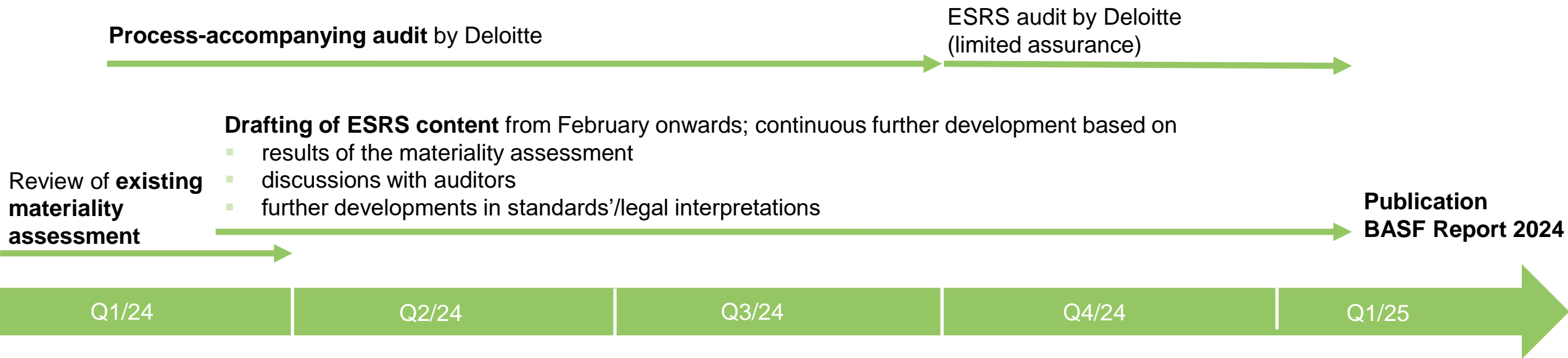
Implementation of CSRD and ESRS at BASF

Organizational set-up



Implementation of CSRD and ESRS at BASF

Steps in 2024

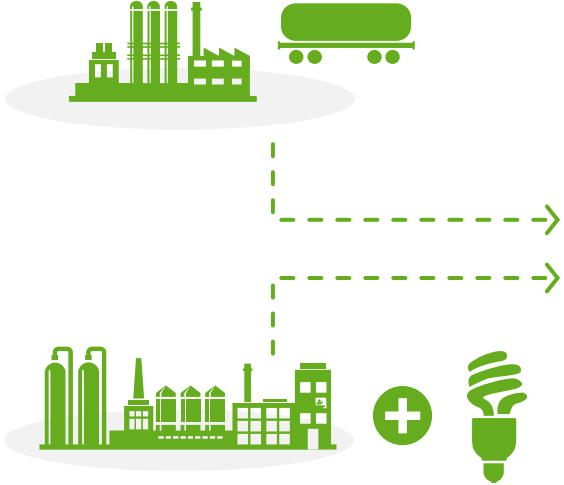


- Central coordination and project management at Corporate Finance
- Decentralised managers from expert units defined for each topical standard
- Cross-functional working group on overarching governance/strategy/risk management requirements

We have built an industry-leading system enabling us to provide product carbon footprints calculated with a certified digital solution

Scope 3

Emissions caused by suppliers and generation of raw materials



CO₂



Product carbon footprints of sales products

Customer benefits

- Transparency on CO₂ emissions
- Identification of main reduction levers
- Certified software
- Transparent documentation

Scope 1 + 2

Emissions caused by own operations*

- TÜV-certified**
- Meets ISO standards***
- Calculates product carbon footprints cradle-to-gate

* Energy generation and chemical processes
 ** ISO 14067:2018
 *** ISO 14040:2006, 14044:2006, 14067:2018, GHG Protocol Product Standard



PCF transparency using product costing know how & tools

Harmonized data extraction

Data consolidation and proper, **ISO compliant**, CO₂ **allocation on product level** along the typically non-linear chemical manufacturing network

Transparency to all stakeholders of the organization, with insights on emission drivers for subject experts and dashboards for sales&marketing



Plant emissions



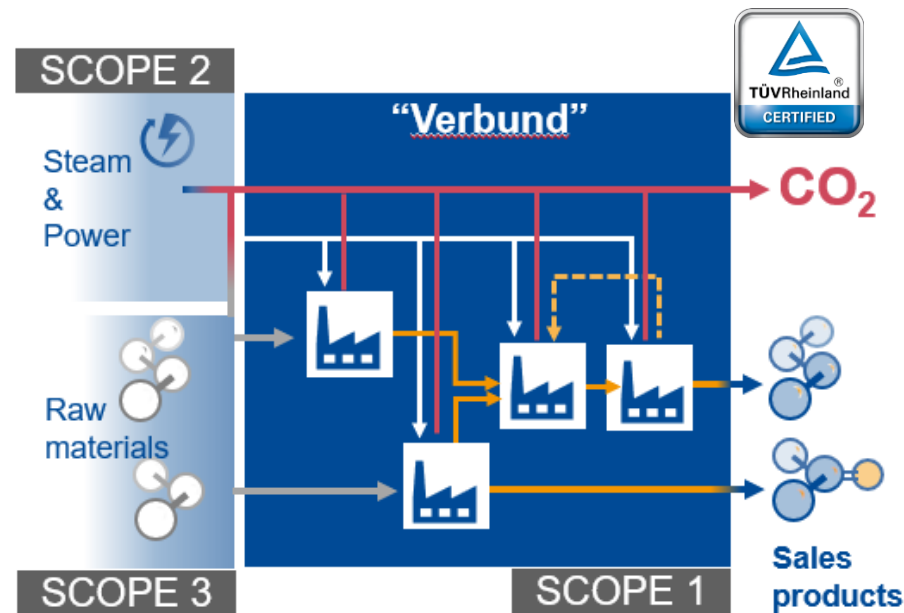
Bill of materials



Utility consumptions



Raw material purchases and PCFs¹



Note: 1 preferably primary data calculated by the respective supplier; if not available, secondary data will be used

We are also developing Sustainability upskilling for Controllers

► Training concept

Onboarding Package

Materials for self-learning guided by the “Sustainability Upskilling Journey Map”

1

- **Website** (within CF Portal) with a **modular learning journey**
- **Internal + external resources**, incl. glossary, quiz, links to videos, presentations, one-pagers etc.
- Communication series with **„Sustainability Bites“**

Webinar Series

Events on Sustainability Basics, Projects & Initiatives, and Governance & Regulation topics, incl. “deep dives” on selected topics

2

- **Webinars** (presentation + Q&A)
- **Panel discussions**
- **Informal events**, such as e.g., “lunch & learn” or “coffee break”
- **Aligned with Sustainability Week** program + **sessions on controlling-relevant topics**

Special Events

Customized training on selected Controlling-relevant topics for specific target groups

3

- Controlling topics according to **needs of individual ODs/units**
- **Cross-OD/unit exchange and best practice sharing**
- **Sustainability Day/Week** (for Controlling)

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