

BASF Green Finance Framework

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1. Corporate Purpose “We create chemistry for a sustainable future”

BASF SE is the largest operating company and the ultimate parent company of the BASF Group. BASF Group is a transnational chemical company. The company's portfolio is grouped into six segments: Chemicals, Materials, Industrial Solutions, Surface Technologies, Nutrition & Care and Agricultural Solutions.

BASF has companies in more than 90 countries and operates six Verbund sites and 361 additional production sites worldwide. The Verbund site in Ludwigshafen, Germany, is the world's largest chemical complex owned by a single company that was developed as an integrated network. The company supplies products and services to around 100,000 customers from various sectors in almost every country in the world. BASF's customer portfolio ranges from major global customers and medium-sized businesses to end consumers.

BASF wants to contribute to a world that provides a viable future with enhanced quality of life for everyone. By creating chemistry for customers and society and by making the best use of available resources, sustainability is at the core of the company's operations. For BASF, sustainability is a driver for growth as well as an element of risk management.

To underline this, sustainability is firmly embedded in BASF's corporate purpose “We create chemistry for a sustainable future,” and is a cornerstone of the company's strategy. BASF supports the objective of the Paris Climate Agreement to limit global warming to below 2 degrees Celsius. Innovative climate protection products, such as insulation materials for buildings or battery materials for electromobility play a role here. BASF is continually working to reduce carbon emissions and has already almost halved carbon emissions since 1990 through improvements to processes and methods, while simultaneously doubling sales product volumes.

Corporate Commitments

BASF has defined sustainability focus areas within its corporate strategy. These formulate the commitments with which BASF positions itself in the market and how it aims to meet the growing challenges along the value chain, see Figure 1.



Figure 1 BASF Corporate Commitments

We source responsibly. As a global business, we have a responsibility to manage our supply chain carefully. We strive to procure responsibly and use raw materials efficiently. That is why we take an interest in our suppliers, their products and the entire supply chain. The BASF “Verbund” system is an important component of our resource efficiency concept: The by-products of one plant often serve as feedstock elsewhere, helping us to use raw materials more efficiently.

We produce safely for people and the environment. Our global safety and security concepts serve to protect our employees, contractors and neighbours as well as to prevent property and environmental damage and protect information and company assets. Operational excellence is key to outperforming the competition sustainably, long-term. We are connecting across BASF to operate in the most efficient way possible.

We drive sustainable solutions. A growing need for food, energy and clean water for a growing world population, limited resources and protecting the climate – innovations based on chemistry play a key role for these challenges, as they contribute decisively to new solutions and business models which enable decoupling growth from the consumption of finite resources. Effective and efficient research and development is a prerequisite for innovation as well as an important growth engine for BASF.

We value people and treat them with respect. Engaged and empowered employees are key to our success. We are connecting across our business and industry to create good relationships with our partners and stakeholders. With our solutions and responsible business conduct, we want to contribute to a better quality of life for everyone.

Sustainability Management Aligned with SDGs

As a member of the UN Global Compact, BASF actively supports the Sustainable Development Goals (“SDGs”). BASF helps achieving the United Nations’ Sustainable Development Goals (SDGs) via its products, solutions and technologies, for example through climate protection measures. BASF also contributes to other goals, such as No poverty (SDG 1) and Zero hunger (SDG 2), Good health and well-being (SDG 3), and Clean water and sanitation (SDG 6).

2. BASF Green Finance Framework

BASF has established this Green Finance Framework under which the company intends to issue Green Finance Instruments, which may include bonds, loans, promissory notes (Schuldscheindarlehen) and any other green finance instruments, to finance and/or refinance sustainable products or projects with a clear benefit to environment and/or society.

The International Capital Markets Association (“ICMA”) Green Bond Principles are a set of voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of green financing instruments. The BASF Green Finance Framework follows the ICMA Green Bond Principles (hereafter “GBP”) 2018 edition¹ as well as the LMA Green Loan Principles (GLP) 2018 edition², which provides guidelines in the form of four core components:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

The Framework may be subsequently revised or updated as the green finance market continues to evolve.



3. Use of Proceeds

The net proceeds of BASF’s Green Bond will be used to finance and/or refinance, in whole or in part, new or existing projects (“Eligible Projects”) from any of the Eligible Green Products/Project Categories as defined below:




- ***Eco-efficient and/or circular economy adapted products, production technologies and processes***
- ***Renewable energy***

¹ <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

² https://www.lma.eu.com/application/files/9115/4452/5458/741_LM_Green_Loan_Principles_Booklet_V8.pdf

GBP/GLP Category	Eligible Green Products / Project Categories	UN SDGs	EU Environmental Objective (Taxonomy Regulation) ³
<p>Eco-efficient and circular economy products, production technologies and processes</p>	<p>Accelerator Solutions Only the highest level of sustainable products (solutions referred to as "Accelerator") is eligible. These products have a substantial sustainability contribution in the value chain and no negative impacts on any other relevant sustainability criteria (see Figure 2 and Appendix).</p> <p>Carbon Management Carbon Management bundles BASF's global activities and a long-term research and development program to reduce greenhouse gas emissions. The objective is to achieve the company's climate protection target and set the course for low-carbon chemical production.</p>		<p>The project categories contribute mainly to (but not limited to) the following objectives:</p> <p>EU Environmental Objective 1: Article 6: Substantial contribution to Climate Change Mitigation</p> <p>EU Environmental Objective 2: Article 7: Substantial contribution to Climate Change Adaptation</p> <p>EU Environmental Objective 3: Article 8: Substantial contribution to sustainable use and protection of water and marine resources</p> <p>EU Environmental Objective 4: Article 9: Substantial contribution to Transition to the circular economy, waste prevention and recycling:</p> <p>EU Environmental Objective 5: Article 10: Substantial contribution to pollution prevention and control <u>Including:</u> Article 10.1.c: minimising significant adverse effects on human</p>
	<p>Electric vehicle battery materials and plants Development, manufacturing, acquisition of low carbon transportation components, as for example battery materials.</p>		

³ Proposal for a regulation of the European Parliament and of the council on the establishment of a framework to facilitate sustainable investment, COM/2018/353 final, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52018PC0353>

	<p>Recycling: ChemCycling products and plants</p> <p>Since mechanical recycling is limited, e.g., due to high sorting requirements and decreasing material quality in each cycle, BASF is developing innovative technologies that promote recycling of plastics. This includes research and development on new materials and additives that facilitate recycling processes as well as several chemical recycling processes to create value out of waste. Chemical recycling allows to recycle waste for which there are no recycling solutions or missing capacities today and is therefore complementary to mechanical recycling.</p>	<p>health and the environment of the production and use of chemicals.</p> <p>EU Environmental Objective 6: Article 11: Substantial contribution to protection of healthy ecosystems</p> <p>For a full list of indicators for the contributions in the value chain see Appendix.</p> 
<p>Renewable Energy</p>	<p>Provision of capital for the planning, construction, development and installation of renewable energy production and storage units</p>	 

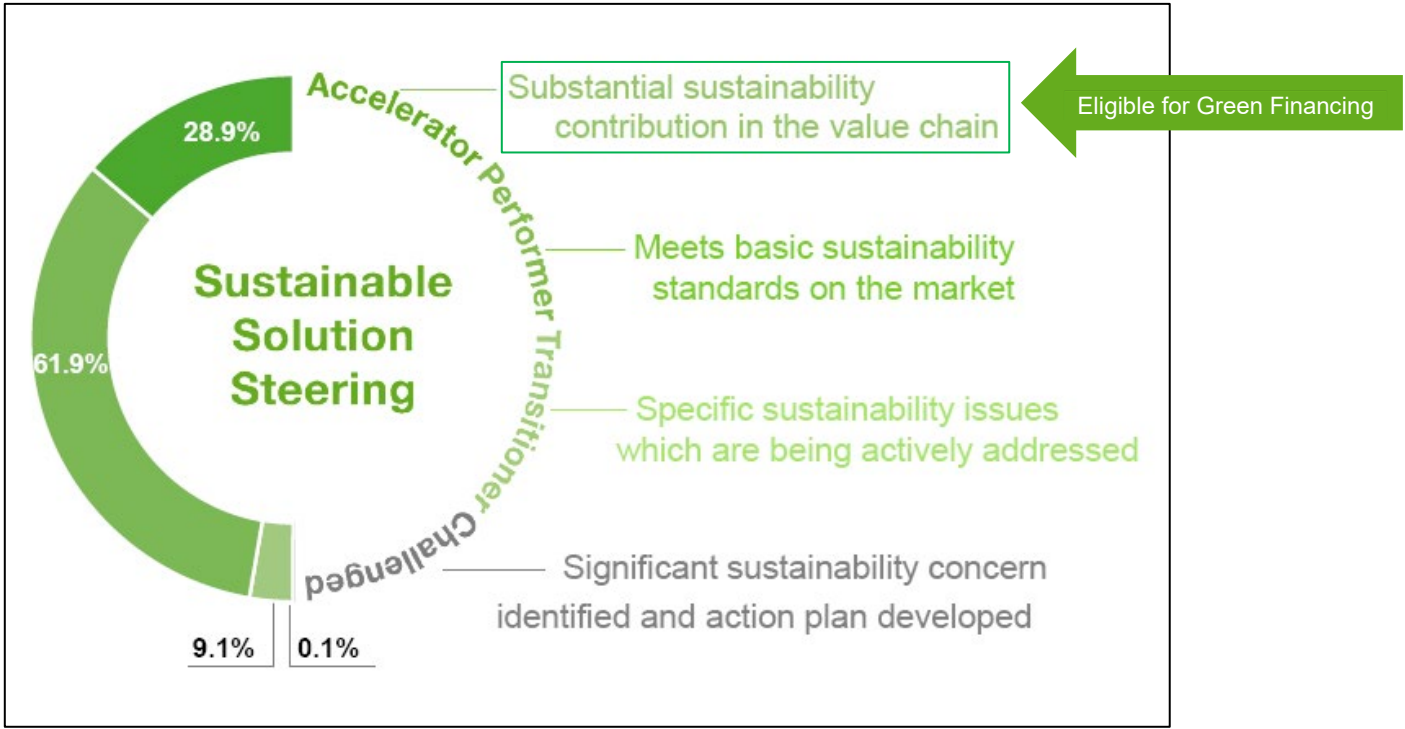


Figure 2 Sustainable Solution Steering, percentage figures refer to 2019 sales

BASF has targets in place to steer its product portfolio towards more sustainable businesses:

- Increase sales from Accelerator products to €22 billion in 2025 (€15 billion in 2019)
- BASF intends to stop selling Challenged products within maximum of five years after classification. Challenged products are not eligible for green financing under this framework.

4. Process for Project Evaluation and Selection

Products and projects financed and/or refinanced through the Green Finance Instrument proceeds are evaluated and selected based on compliance with the eligibility criteria by the BASF Sustainability Committee formed by members of Corporate Treasury, Group Reporting & Performance Management, Corporate Sustainability and Investor Relations.

BASF applies internationally recognized environmental requirements, “Do No Significant Harm” as well as minimum safeguards for many of its activities, including those financed with the proceeds of the Green Finance instruments. In the first step, all solutions of a business unit portfolio are subject to a so-called “Check for Basic Sustainability Requirements” to systematically and proactively identify solutions which are likely to be affected by a sustainability issue, either at present or in the foreseeable future. Within this check, each solution in its respective application and region is evaluated based on corporate minimum and stakeholder specific economic, environmental and social criteria. Solutions which are identified as likely to be affected by a sustainability issue are subject to a separate Impact Check for analysing the significance of the sustainability issue in a following step. Solutions which have successfully passed the initial Check for Basic Sustainability Requirements are then, in a second step, subject to a Check for Sustainability Value Contribution which intends to evaluate the solution’s sustainability contribution compared to competitive solutions in the same application and region.

In order to define an Accelerator product, BASF uses a method called Sustainable Solution Steering (SSS)⁴ (see Figure 3 and appendix) which has been assured by an external auditor. The methodology is also adopted by other companies in the chemical industry and known as the Product Portfolio Steering Framework of the World Business Council for Sustainable Development (WBSCD)⁵. The objective of SSS is to provide a fully transparent and consistent evaluation of the sustainability performance of BASF’s solutions. It provides the basis for actively steering a portfolio towards a more sustainable profile.

⁴ <https://www.basf.com/global/en/who-we-are/sustainability/we-drive-sustainable-solutions/sustainable-solution-steering.html>

⁵ <https://www.wbcsd.org/Programs/Circular-Economy/Factor-10/Sector-Deep-Dives/Resources/Chemical-Industry-Methodology-for-Portfolio-Sustainability-Assessments>

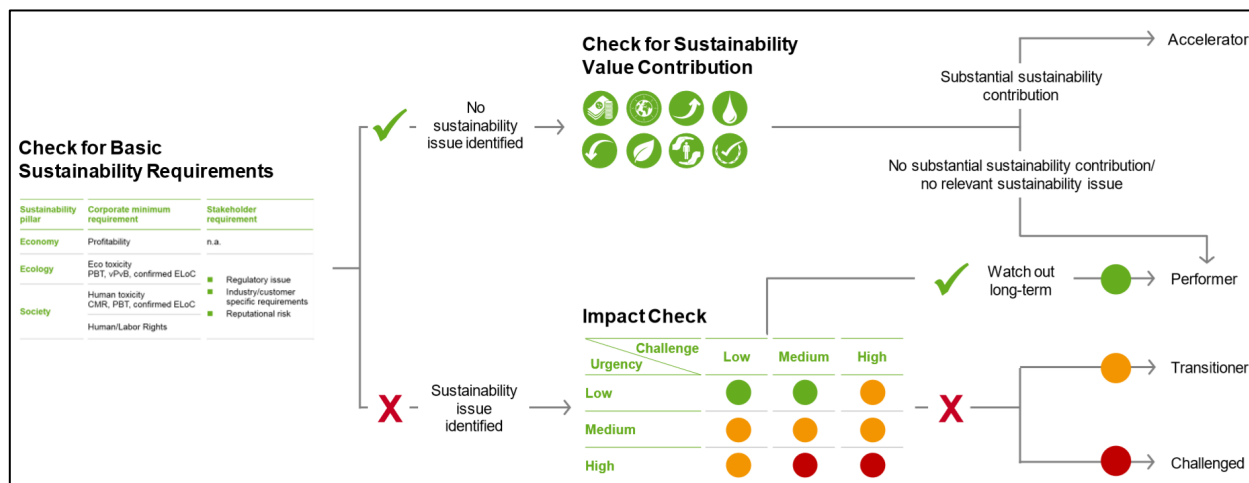


Figure 3 Sustainable Solutions Steering Process Flow

By identifying key drivers and issues in customers' industries, BASF is able to assess the sustainability contribution of each of its products in its specific application.

With its approach BASF evaluates the entire value chain considering industry- and region-specific views in the markets. BASF strives to achieve a balance between the three dimensions of sustainability:

- Economy, e.g., potential cost savings for customers through the use of BASF products
- Environment, e.g., ensuring standards are met, developing environmentally sound solutions
- Society, e.g., enhancing safety in production, use or end-of-life, stakeholder perception of solutions

In addition to our Sustainable Solution Steering Methodology, BASF has a long-standing expertise in taking Life-Cycle considerations into account when assessing products or processes. BASF established this holistic method already in 1996 and was one of the first companies in the chemical industry to do so. The Eco-Efficiency Analysis was most recently validated by NSF International in 2016. The Eco-Efficiency Analysis follows ISO 14040:2006 and 14044:2006 for environmental life cycle assessments. The assessment of life cycle costs and aggregation to an overall Eco-Efficiency is based on ISO 14045:2012.⁶

BASF is evaluating the criteria for chemicals in the EU Taxonomy for sustainable activities and evaluates a translation matrix with its own Sustainable Solution Steering method.⁷

⁶ <https://www.basf.com/global/en/who-we-are/sustainability/we-drive-sustainable-solutions/quantifying-sustainability/eco-efficiency-analysis.html>

⁷ https://ec.europa.eu/info/publications/sustainable-finance-teg-taxonomy_en

5. Management of Proceeds

BASF intends to allocate the proceeds from the Green Finance Instruments to an Eligible Green Project Portfolio, selected in accordance with the use of proceeds criteria and evaluation and selection process presented above.

Over time, BASF will strive to achieve a level of allocation for the Eligible Green Project Portfolio which matches or exceeds the balance of net proceeds from its outstanding Green Financing Instruments.

Activated eligible green assets shall qualify for refinancing without a specific look-back period, provided that at the time of issuance they follow the relevant eligibility criteria. Eligible green capital expenditures and operational excellence measures shall qualify for refinancing with a maximum three-year look-back period before the issuance year of the Green Finance Instrument.

Whilst any Green Finance Instrument net proceeds remain unallocated, BASF will hold and/or invest, at its own discretion, in its treasury liquidity portfolio, in cash or other short term and liquid instruments or pay back a portion of its outstanding indebtedness, the balance of net proceeds not yet allocated to the Eligible Product Portfolio.

6. Reporting

BASF will make and keep readily available reporting, covering the allocation of net proceeds to the Eligible Green Project Portfolio and, wherever feasible, reporting on the impact of the Eligible Green Project Portfolio, at least at the category level. Reporting will take place in line with BASF's general annual reporting cycle until net proceeds of Green Finance Instrument have been fully allocated.

BASF intends to provide aggregated reporting for all of BASF's Green Financing Instruments and other potential sustainable financings outstanding. BASF will align, on a best effort basis, the reporting with the portfolio approach described in "Handbook – Harmonized Framework for Impact Reporting (June 2019)."

6.1 Allocation Reporting

The allocation report may provide:

- Allocation per Green Eligible Project Category
- Balance amount of unallocated net proceeds
- Portion of financing and refinancing (the split between new and existing projects)
- Break-down of what is financed/refinanced






6.2 Impact Reporting




The impact report may provide:

- Brief description of the Eligible Projects and their contribution to the EU Environmental Objectives
- Environmental impact metrics per Eligible Green Project Category, depending on data availability

GBP/GLP Category	Potential Impact Reporting Indicators
<p>Eco-efficient and circular economy adapted products, production technologies and processes</p>	<p>Accelerator Solutions</p> <ul style="list-style-type: none"> • Case studies of Accelerator solutions • Amount or percentage of sales of Accelerator solutions • CO₂ (or other greenhouse gas) emissions avoided/reduced (tons of CO₂e) through the use of BASF products <p>Carbon Management</p> <ul style="list-style-type: none"> • Case study of research outcome of Carbon Management <hr/> <p>Recycling: ChemCycling products and plants</p> <ul style="list-style-type: none"> • Tons of waste recycled <hr/> <p>Electric vehicle battery materials and plants</p> <ul style="list-style-type: none"> • Number of electrical vehicles supplied with battery materials
<p>Renewable Energy</p>	<p>CO₂ (or other greenhouse gas) emissions avoided/reduced (tons of CO₂e).</p>

7. Appendix: Indicators used for Sustainable Solution Steering

Sustainability pillar	Sustainability criterion	Solution description (exemplary)	Sustainability icon
Economy	Cost savings downstream	<ul style="list-style-type: none"> ■ Enables cost savings downstream 	Cost savings 
	Biodiversity and renewables	<ul style="list-style-type: none"> ■ Enables conservation of biodiversity ■ With improved eco tox profile ■ Based on sustainably sourced renewable raw materials ■ Enables the use of sustainably produced renewable raw materials 	Biodiversity  Renewables 
Ecology		Climate change and energy	<ul style="list-style-type: none"> ■ With reduced carbon footprint in production ■ Enables greenhouse gas avoidance downstream ■ With reduced energy consumption in production ■ Enables energy savings downstream
	Emission reduction (air, noise, soil)		<ul style="list-style-type: none"> ■ With reduced air pollutant emissions in production ■ Enables a reduction of air pollutants ■ Enables noise reduction ■ With reduced noise pollution in production ■ Enables a reduction of soil contaminants
Resource efficiency		Resource efficiency	<ul style="list-style-type: none"> ■ Enables resource savings ■ Enables improved production yield downstream
	<ul style="list-style-type: none"> ■ Incorporates recycled content ■ Enables reduction, reuse or recycling of waste ■ Enables prolonged life span of the final product 		Waste reduction  Durability 

	Water	<ul style="list-style-type: none"> ■ Enables reduction of emissions into water ■ Enables water savings downstream ■ With improved aqua tox profile ■ With reduced water footprint in production ■ Enables water treatment and drinking water purification 	Water	
Society	Health and safety	<ul style="list-style-type: none"> ■ With improved human tox profile ■ Enables safer handling and use of chemical substances ■ Enables improved protection of worker health ■ Enables improved protection of public health ■ Enables reduction of nutrition deficiencies 	Health and safety	
	Hunger and poverty	<p>With focus on the advancement of developing countries</p> <ul style="list-style-type: none"> ■ Achieves food security and/or improves nutrition ■ Enables affordable housing ■ Improves sanitation ■ Helps reduce poverty 	Hunger and poverty	

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