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**Report of the Board of Executive Directors to the Annual Shareholders' Meeting on May 12, 2017 on the exclusion of the subscription right upon issuance of convertible bonds and bonds with warrants in accordance with Article 9 of the SE Regulation in combination with Section 221(4) of the German Stock Corporation Act in combination with Section 186(4) Sentence 2 of the German Stock Corporation Act**

The authorization proposed under Item 7 provides that Debt Instruments with a total nominal value of up to €10,000,000,000 can be issued with conversion or option rights and/or obligations with respect to BASF SE shares and that these can be exchanged for consideration in cash or in kind. For this purpose, up to 91,847,800 new registered BASF SE shares with no par value ("BASF shares") with a pro rata amount of share capital of up to €117,565,184 shall be available from the newly created Conditional Capital 2017. Full utilization of this authorization could result in the issue of Debt Instruments which when issued would grant subscription rights to BASF shares equivalent to as much as approximately 10 percent of the current share capital. The authorization expires on May 11, 2022.

Having appropriate capital resources and financing is an important foundation for the Company's business development. By issuing convertible bonds and/or bonds with warrants ("Debt Instruments"), according to the market situation and the Company's financing requirements, the Company can take advantage of attractive financing opportunities on the capital market, for example, to raise outside capital which may potentially be converted into equity and thus remain with the Company. Furthermore, the issuance of Debt Instruments, potentially also as a complement to the use of other instruments such as a capital increase, can enable the Company to tap into new groups of investors. The given possibility of establishing conversion obligations in addition to granting conversion and option rights expands the scope of this financing instrument. The proposed authorization gives the Company the necessary flexibility to place the Debt Instrument either itself or via a dependent Group company in the meaning of Section 18 German Stock Corporation Act ("Subsidiary"). Debt Instruments can be issued in euros as well as in other legal currencies of OECD countries. Furthermore, the Debt Instruments can be settled by the delivery of BASF shares or the payment of an equivalent cash amount.

The conversion and/or option price may not be below a minimum issue amount whose calculation basis is precisely defined. The basis for the calculation in each case is the stock market price of the BASF shares prevailing at the time of placement of the bonds; alternatively, in case of conversion or option obligations, it is the stock market price of BASF shares prevailing at the time of the final maturity date of the bond or warrants. Without prejudice to Section 9(1) of the German Stock Corporation Act and Section 199(2) of the German Stock Corporation Act, the

conversion and/or option price may be by virtue of a dilution protection or adjustment clause subject to a more precise definition of the respective Debt Instrument's terms and conditions if the Company, for example, changes its capital structure during the term of the bonds or warrants (e.g., through a capital increase, a capital decrease or a stock split). Furthermore, dilution protection or adjustments may be provided for in connection with dividend payments, the issuance of additional convertible bonds and/or bonds with warrants, restructuring/reorganization measures, and in the case of other events affecting the value of the conversion or option rights that may occur during the term of the bonds and/or warrants (e.g., acquisition of control by a third party). Dilution protection or adjustments may be provided for in particular by granting subscription rights, by changing the conversion or option price, or by amending or introducing cash components.

In principle, shareholders have a subscription right when Debt Instruments are issued. In order to simplify the transaction, the Company may also make use of the option to issue the Debt Instruments to credit institutions or companies as described in Section 186(5) Sentence 1 of the German Stock Corporation Act with the obligation that they offer the Debt Instruments to shareholders in accordance with their subscription rights. However, in the cases stipulated in the authorization, the Board of Executive Directors shall also be entitled to exclude the subscription right with the approval of the Supervisory Board.

Placing the Debt Instruments with the exclusion of shareholders' subscription rights enables the Company to take advantage of favorable capital market situations at short notice and thus achieve a larger and faster cash inflow than would be the case if subscription rights were granted. Due to uncertainty surrounding the exercise of subscription rights, the granting of subscription rights could jeopardize the success of a placement or could involve additional expense. Favorable conditions for the Company that are as close to the market as possible can be established only if the Company is not bound to them for an excessively long offer period. Otherwise, a significant safety margin would be required in order to ensure the attractiveness of the conditions and thus the chances of success of each issue over the entire offer period. Moreover, if foreign currencies are included, the effects of exchange rate fluctuations can be reduced if the subscription rights are excluded and the offer period is correspondingly reduced.

According to Section 221(4) Sentence 2 of the German Stock Corporation Act, Section 186(3) Sentence 4 of the German Stock Corporation Act applies mutatis mutandis to the exclusion of subscription rights when convertible bonds or bonds with warrants are issued. The restriction of up to 10 percent of the share capital for the exclusion of subscription rights as set out in this provision will not be exceeded due to the express limitation of the authorization. The calculated portion of the share capital represented by the BASF shares to be issued on the basis of the Debt Instruments issued under this authorization must not exceed 10 percent of the share capital, either at the time when such authorization takes effect or – in the event this amount is lower – at the time this authorization is exercised. BASF shares that are sold during the term of this authorization until the date it is utilized with the exclusion of the subscription right according

to Section 71(1) No. 8 Sentence 5 in combination with Section 186(3) Sentence 4 of the German Stock Corporation Act must be credited against the above restriction. Furthermore, those BASF shares that are issued during the term of this authorization from authorized capital with the exclusion of the subscription right according to Section 203(2) Sentence 1 in combination with Section 186(3) Sentence 4 of the German Stock Corporation Act are to be credited against the above restriction. These credits are applied in the interest of shareholders in order to ensure the smallest possible dilution of their shareholdings.

The interests of the shareholders are safeguarded by the fact that the Debt Instruments may not be issued substantially below their theoretical fair value. The theoretical fair value is to be determined using recognized mathematical valuation methods. In determining the price, the Board of Executive Directors will, taking into account the prevailing situation on the capital market, ensure that the discount on the fair value is as small as possible. This means that the notional value of the right to subscribe to the Debt Instruments will fall to almost zero, so shareholders will not suffer any notable financial disadvantage as a result of the subscription rights exclusion. Furthermore, shareholders have the possibility to maintain their proportion of the Company's share capital by acquiring the necessary BASF shares on the stock exchange close to the time that the issue terms for the Debt Instrument are established.

The remaining proposed instances of exclusion of shareholders' subscription rights are designed to facilitate the issuance of Debt Instruments. The exclusion in the case of fractional amounts is reasonable and in line with the market situation in order to achieve a practicable subscription ratio. The customary exclusion of subscription rights for the benefit of Holders of previously issued Debt Instruments has the advantage that the conversion or option price for previously issued Debt Instruments, which often feature a built-in dilution protection mechanism, does not have to be discounted. This means that the Debt Instruments can be placed more attractively in several tranches, which enables the Company to achieve a higher cash inflow overall. The proposed subscription right exclusions are therefore in the interests of the Company and its shareholders.

Debt Instruments can also be issued in exchange for contributions in kind, provided this is in the Company's interest. In this case, the Board of Executive Directors is authorized, with the approval of the Supervisory Board, to exclude the subscription rights of shareholders provided that the value of the contribution in kind is appropriate in relation to the theoretical fair value of the Debt Instruments as calculated according to recognized principles of financial mathematics. This creates the possibility of using Debt Instruments in suitable individual cases as currency for acquisitions, for example, in connection with the acquisition of companies, participations (although these can also be achieved via merger or other legal transformation measures) or other assets.

The option of offering Debt Instruments as a consideration is essential, especially amid the international competition for interesting acquisition targets, and creates the necessary scope to

take advantage of opportunities arising to acquire companies, participations in companies or other assets while preserving liquidity. This can also be useful from the point of view of an optimal financing structure. In each individual case the Board of Executive Directors will carefully examine whether to use the authorization to issue Debt Instruments with conversion and option rights and/or obligations in exchange for contributions in kind, with the exclusion of subscription rights. The Board will only do so when it is in the interests of the Company and therefore its shareholders.

Under this authorization, Debt Instruments may only be issued in exchange for cash and in-kind considerations with the exclusion of subscription rights if the total of the new BASF shares to be issued on the basis of such Debt Instruments does not exceed in aggregate a calculated portion of 20 percent of the share capital, either at the time when such authorization takes effect or – in the event this amount is lower – at the time this authorization is utilized. The Company's shares that were issued during the term of this authorization based on other capital measures with the exclusion of shareholders' subscription rights should be credited against this maximum level of 20 percent. This includes in particular shares issued or granted from authorized capital or in connection with a Debt Instrument issued during the term of this authorization on the basis of the utilization of another authorization with the exclusion of the subscription right. Applying these credits limits a possible dilution of voting rights for the shareholders excluded from subscription rights.

The Conditional Capital 2017 is required in order to be able to settle the conversion and/or option rights and obligations or tender rights with respect to BASF shares in connection with Debt Instruments, unless other types of fulfillment are used to ensure delivery.

There are currently no concrete plans to utilize the authorization to issue convertible bonds and bonds with warrants. The Board of Executive Directors will carefully review in each case whether the use of the authorization is in the interests of the Company and its shareholders. It will only exclude the shareholders' subscription right when this is in the well-understood interests of the Company.

The Board of Executive Directors will inform the Annual Shareholders' Meeting about each use of this authorization at the subsequent Annual Shareholders' Meeting.

Ludwigshafen/Rhine, February 2017

BASF SE

The Board of Executive Directors

Dr. Kurt Bock	Dr. Martin Brudermüller	Dr. Hans-Ulrich Engel	Sanjeev Gandhi
Michael Heinz	Dr. Harald Schwager	Wayne T. Smith	Margret Suckale