



# Invitation to the Annual Shareholders' Meeting of BASF SE

on May 4, 2018

 **BASF**

We create chemistry

Cover photo:

At the Application Technology Center in Heidelberg, Germany, BASF tests new powders, resins, filaments and granulates for 3D printing and develops solutions for industrial additive manufacturing. This makes it possible to create parts with new properties for our customers' applications in industries such as automotive, aviation and aerospace or consumer goods.

## **BASF SE Ludwigshafen/Rhine**

### **Invitation**

Dear Shareholders,

Please accept our cordial invitation to this year's Annual Shareholders' Meeting of BASF SE on Friday, May 4, 2018, 10:00 a.m., in the Congress Center Rosengarten, Rosengartenplatz 2, 68161 Mannheim, Germany.

## I. Agenda

### 1. **Presentation of the adopted Financial Statements of BASF SE and the approved Consolidated Financial Statements of the BASF Group for the financial year 2017; presentation of the Management's Reports of BASF SE and the BASF Group for the financial year 2017 including the explanatory reports on the data according to Sections 289a(1) and 315a(1) of the German Commercial Code; presentation of the Report of the Supervisory Board**

The Supervisory Board approved the Financial Statements prepared by the Board of Executive Directors and the Consolidated Financial Statements of the BASF Group on February 22, 2018. The Annual Financial Statements have thus been adopted according to Section 172 of the German Stock Corporation Act. Therefore, according to the statutory provisions, no resolution by the Annual Shareholders' Meeting is planned for Item 1 of the Agenda. The documents specified above have been published on our website and can be accessed at [www.basf.com/generalmeeting](http://www.basf.com/generalmeeting).

### 2. **Adoption of a resolution on the appropriation of profit**

The Board of Executive Directors and the Supervisory Board propose to pay a dividend of €3.10 per qualifying share from the profit retained by BASF SE in the financial year 2017 in the amount of €3,129,844,171.69. If the shareholders approve this proposal, a total dividend of €2,847,283,951.40 will be payable on the 918,478,694 qualifying shares as of the date of adoption of the Financial Statements for the financial year 2017 (February 22, 2018).

The Board of Executive Directors and the Supervisory Board propose that the remaining profit retained of €282,560,220.29 be allocated to the retained earnings reserve.

In accordance with Section 58(4) of the German Stock Corporation Act, claims to dividends are payable on the third business day following the Annual Shareholders' Meeting, in this case May 9, 2018.

### 3. **Adoption of a resolution giving formal approval to the actions of the members of the Supervisory Board**

The Board of Executive Directors and the Supervisory Board propose that formal approval be given to the actions of the members of the Supervisory Board of BASF SE for the financial year 2017.

### 4. **Adoption of a resolution giving formal approval to the actions of the members of the Board of Executive Directors**

The Supervisory Board and the Board of Executive Directors propose that formal approval be given to the actions of the members of the Board of Executive Directors of BASF SE for the financial year 2017.

### 5. **Appointment of the auditor for the financial year 2018**

The Supervisory Board proposes – based on the recommendation of its Audit Committee – that KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, be appointed auditor of the Financial Statements and the Group Consolidated Financial Statements of BASF SE for the financial year 2018.

## **6. Adoption of a resolution approving the compensation system for the members of the Board of Executive Directors**

In accordance with Section 120(4) of the German Stock Corporation Act, the Annual Shareholders' Meeting can adopt a resolution approving the compensation system for the Board of Executive Directors. The last resolution of this kind was adopted by the company's Annual Shareholders' Meeting on April 29, 2010. The compensation system for the Board of Executive Directors approved by the 2010 Annual Shareholders' Meeting was changed as of January 1, 2018. Therefore, it is proposed to once again make use of the option of having the Annual Shareholders' Meeting adopt a resolution approving the compensation system for the members of the Board of Executive Directors.

The compensation system for the members of the company's Board of Executive Directors and the most significant changes compared to the compensation system in place until the end of 2017 are explained in the report "compensation system for members of the Board of Executive Directors as of 2018" attached to this notice. This report is also available online at: **[www.basf.com/generalmeeting](http://www.basf.com/generalmeeting)**.

The Supervisory Board and Board of Executive Directors propose that the compensation system for the members of the Board of Executive Directors in effect since January 1, 2018, be approved.

## II. Further details and instructions for the Annual Shareholders' Meeting

### 1. Requirements for attending the Annual Shareholders' Meeting and exercising voting rights and procedures for proxy voting

The only persons who are entitled – personally or through proxies – to attend the Annual Shareholders' Meeting and exercise their voting rights are those shareholders who have registered with the Board of Executive Directors of the company not later than Friday, April 27, 2018, either at the following address

**Hauptversammlung BASF SE**  
**c/o ADEUS Aktienregister-Service-GmbH**  
**20784 Hamburg**  
**Germany**  
**Fax: +49 89 207037951**  
**Email: hv-service@basf.com**

or online according to the procedure laid down by the company at [www.basf.com/agm-service](http://www.basf.com/agm-service) and who are entered in the share register for the registered shares. For purposes of determining attendance and voting rights, the shares recorded in the share register at the end of April 27, 2018, are decisive.

Shareholders who would like to register online require their shareholder number and the corresponding access password. Those shareholders who are registered for the email transmission of the invitation to the Annual Shareholders' Meeting receive their shareholder number with the email invitation to the Annual Shareholders' Meeting and must use the access password they chose at registration. All other shareholders entered in the share register receive their shareholder number and their access password by post with the letter of invitation to the Annual Shareholders' Meeting.

After registering, shareholders or their proxy holders are issued admission tickets to the Annual Shareholders' Meeting. Shareholders who register via the online service are able to print out their admission ticket directly or have the ticket sent to them via email. Unlike the registration for the Annual Shareholders' Meeting, the admission ticket is not a prerequisite for attendance but merely serves to simplify the procedure at the entrance to the Annual Shareholders' Meeting.

If a credit institution is registered in the share register, it can only exercise the voting rights for shares that do not belong to it by virtue of a proxy issued by the shareholder.

Applications for share transfers in the share register that are received by the company after the end of April 27, 2018 (Technical Record Date) up to the end of the Annual Shareholders' Meeting on May 4, 2018 will be executed in the company's share register and take effect only after the Annual Shareholders' Meeting on May 4, 2018.

Owners of American Depositary Shares (ADS) receive the documents for the issue of a proxy from the Bank of New York Mellon (Depositary).

The shares are not blocked by registration for the Annual Shareholders' Meeting; shareholders therefore remain free to dispose of their shares even after registration.

## 2. Procedure for voting by an authorized representative

Shareholders who are entered in the share register can exercise their voting rights themselves or have these exercised at the Annual Shareholders' Meeting by an authorized representative, such as a credit institution or an association of shareholders, or by company-appointed proxies. In this case as well, the shareholder or the authorized representative must ensure that registration is carried out in good time.

### Voting by a proxy holder

A proxy, its revocation, and evidence of the authorization vis-à-vis the company can be made in text form or issued online at **[www.basf.com/agm-service](http://www.basf.com/agm-service)**; notwithstanding, in the case of an authorization of a credit institution, an association of shareholders, or any other person specified in Section 135(8) of the German Stock Corporation Act, the form of authorization is governed by the appropriate offer for exercising the voting right.

A proxy, its revocation, and evidence of the authorization vis-à-vis the company can be sent to the company at the following address

**Hauptversammlung BASF SE**  
**c/o ADEUS Aktienregister-Service-GmbH**  
**20784 Hamburg**  
**Germany**  
**Fax: +49 89 207037951**  
**Email: [hv-service@basf.com](mailto:hv-service@basf.com)**

or online according to the procedure laid down by the company at **[www.basf.com/agm-service](http://www.basf.com/agm-service)**.

Those credit institutions and associations of shareholders that participate in the company's Online Service can also be authorized online according to the procedure laid down by the company at **[www.basf.com/agm-service](http://www.basf.com/agm-service)**.

### Voting by company-appointed proxy

As a service, we offer our shareholders the possibility of being represented at the Annual Shareholders' Meeting by proxies appointed by the company. The proxies can be authorized in text form or online at **[www.basf.com/agm-service](http://www.basf.com/agm-service)**. Beatriz Rosa Malavé and Annette Buchen have been appointed proxies with the right of sole representation. The proxies exercise the voting right solely on the basis of the instructions issued by the shareholder. In the event that an individual vote takes place on an Item of the Agenda, any instruction issued for this purpose will apply to each individual sub-Item accordingly. Please note that the proxies appointed by the company will not accept any instructions to speak, file opposition to resolutions by the Annual Shareholders' Meeting, ask questions or put forward motions on behalf of the shareholder.

Shareholders who would like to use the internet to authorize the proxies appointed by the company or the credit institutions and associations of shareholders participating in the Online Service will require their shareholder number and the corresponding access password.

### 3. Forms provided by the company for the registration and issuing proxies

For the registration or issuing proxies, the form prepared by the company for this purpose can be used. Shareholders who are entered in the share register and have not signed up for the email transmission of the invitation to the Annual Shareholders' Meeting will receive the form by post. Shareholders who are entered in the share register and are registered for the email transmission of the invitation to the Annual Shareholders' Meeting can access the Online Service for the Annual Shareholders' Meeting via the link contained in the email to register and issue proxies. The registration and proxy form are also available online at [www.basf.com/agm-service](http://www.basf.com/agm-service).

Furthermore, the authorization form on the admission ticket can also be used for issuing a proxy.

### 4. BASF Report and further documents

The reports and financial statements specified under Item 1 of the Agenda, the report on Item 6 of the Agenda and further documents relating to the Annual Shareholders' Meeting 2018 have been published online at [www.basf.com/generalmeeting](http://www.basf.com/generalmeeting) and may be accessed there.

A copy of the BASF Report 2017 with the BASF Group Consolidated Financial Statements and the Management's Report for 2017 as well as reporting on corporate governance is sent to shareholders free of charge on request. To order a copy, please contact

### BASF SE

Mediencenter – L 410

67056 Ludwigshafen

Germany

Phone: +49 621 60-99001

Email: [mediencenter-02@basf.com](mailto:mediencenter-02@basf.com)

Internet: [www.basf.com/mediaorders](http://www.basf.com/mediaorders)

### 5. Supplementary motions to the Agenda at the request of a minority according to Article 56 Sentence 2 and Sentence 3 of Regulation (EC) No. 2157/2001 (SE Regulation), Section 50(2) of the SE Implementation Act, and Section 122(2) of the German Stock Corporation Act

Shareholders whose holdings together reach the twentieth part of the share capital or the pro rata sum of €500,000 (this is equivalent to 390,625 no-par shares) can request that Items be placed on the Agenda and announced. Each new Item must be accompanied by a reason or draft resolution. The request must have been received by the company by the end of April 3, 2018. Supplements to the Agenda to be announced will – provided that they have not already been announced with the notice of meeting – be published in Germany's Federal Gazette and online at [www.basf.com/generalmeeting](http://www.basf.com/generalmeeting) and announced and communicated to the shareholders promptly after the request has been received.



**6. Motions and electoral proposals by shareholders according to Article 56 Sentence 2 and Sentence 3 of Regulation (EC) No. 2157/2001 (SE Regulation), Section 50(2) of the SE Implementation Act, and Sections 126(1) and 127 of the German Stock Corporation Act**

Countermotions with reasons against a proposal by the Board of Executive Directors and the Supervisory Board on a specific Item of the Agenda and electoral proposals for the election of members of the Supervisory Board or auditors must be sent to the following address only. Countermotions and electoral proposals sent to other addresses will not be taken into consideration.

**BASF SE**

**G-FLL - D 100**

**67056 Ludwigshafen**

**Germany**

**Fax: +49 621 60-6641475**

**or +49 621 60-6643693**

**Email: [hv2018@basf.com](mailto:hv2018@basf.com)**

Countermotions and electoral proposals that are to be made accessible according to the German Stock Corporation Act and are received up to the end of April 19, 2018, at the above address with evidence of shareholder status will be published promptly on the internet at **[www.basf.com/generalmeeting](http://www.basf.com/generalmeeting)**. Any replies from management will also be published at the above internet address.

**7. Total number of shares and voting rights**

At the time of this notice of meeting, all the 918,478,694 no-par shares that have been issued hold attendance and voting rights.

**8. Rights of the shareholder to information according to Article 56 Sentence 2 and Sentence 3 of Regulation (EC) No. 2157/2001 (SE Regulation), Section 50(2) of the SE Implementation Act and Section 131(1) of the German Stock Corporation Act**

On request, any shareholder or shareholder's representative must be given information by the Board of Executive Directors at the Annual Shareholders' Meeting about company matters, including the legal and business relations with associated companies and about the situation of the Group and the companies included in the Consolidated Financial Statements, provided that the information is required for the factual assessment of the Item of the Agenda.

**9. Information on the company's website**

This notice of the Annual Shareholders' Meeting, the documents to be made accessible and motions of shareholders, as well as further information to be published according to Section 124a of the German Stock Corporation Act, can be found on the company's website at **[www.basf.com/generalmeeting](http://www.basf.com/generalmeeting)**. The notice of the Annual Shareholders' Meeting will be published in Germany's Federal Gazette on March 23, 2018.

**10. Live webcast of the Annual Shareholders' Meeting**

The speech of the Chairman of the Board of Executive Directors of BASF SE will be broadcast live online on May 4, 2018, and will be accessible to all at **[www.basf.com/generalmeeting](http://www.basf.com/generalmeeting)**.

### III. Report on Item 6 of the Agenda (compensation system for the members of the Board of Executive Directors as of 2018)

With effect from January 1, 2018, the Supervisory Board of BASF SE decided to further develop the well-established compensation system for the members of the Board of Executive Directors which was approved by the Annual Shareholders' Meeting on April 29, 2010. The target compensation and the maximum compensation remain unchanged. One significant change relates to the variable compensation, which was adapted in accordance with a new recommendation of the German Corporate Governance Code (GCGC) in the version of February 7, 2017. The further developed compensation system has been a part of the contracts of the members of the Board of Executive Directors since January 1, 2018. The changes comprise in particular:

- The previous annual variable compensation (bonus), which was based on the current and two preceding years, will be replaced by a performance bonus with a multiple-year, forward-looking assessment basis. The payment of one part of the performance bonus occurs after the end of the four-year performance period.
- Return on assets (ROA), the former key performance indicator for the success of the company in determining the variable compensation, will be replaced by return on capital employed (ROCE). As of the 2018 financial year, ROCE will also replace ROA as the key performance indicator for the success of the company in determining the variable compensation for all other employee groups.
- A clawback clause is being introduced for the variable compensation and applies in the event of substantial breaches of duty by a Board member.
- The pensionable age for Board members (Board Performance Pension) will be raised from 60 to 63 years for new members appointed to the Board of Executive Directors.
- An option will be introduced in the Board Performance Pension enabling members of the Board of Executive Directors to choose between payment of their pension entitlements in the form of a lifelong pension or a lump sum (lump-sum option).

#### Principles and structure

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. It is designed to promote sustainable corporate development. It is marked by a pronounced variability in relation to the performance of the Board of Executive Directors and the BASF Group's success.

Based on a proposal by the Personnel Committee, the Supervisory Board determines the amount and structure of compensation of members of the Board of Executive Directors. Internal and external appropriateness of the Board's compensation is reviewed by an independent external auditor on a regular basis. Globally operating companies based in Europe serve as an external reference. For internal comparison, compensation, especially for senior executives, is considered in total as well as over time.

## Overview of compensation components

The compensation system for the Board of Executive Directors contains the components listed in the following overview:

<b>1. Fixed salary</b>	Annual amount: €800,000 <sup>1</sup> Payment: in equal installments
<b>2. Performance bonus</b>	Annual target: €1,600,000 € <sup>1</sup> Cap: €2,500,000 € <sup>1</sup> Payment: Performance bonus, part 1, after the Annual Shareholders' Meeting for the prior business year Performance bonus, part 2, following the end of the four-year performance period
<b>3. Long-term, share price-based incentive program (LTI program)</b>	Annual amount granted is dependent on the fair value of the options as of the grant date and the scope of the individual investment Cap: €3,750,000 € <sup>1, 2</sup> Payment: in a period of 4-8 years after the grant date, depending on individual exercise date
<b>4. Fringe benefits</b>	Annual amount corresponds to value of nonmonetary compensation
<b>5. Company pension benefits</b>	Annual service cost is the accounting figure for the pension entitlements accrued in the relevant business year

<sup>1</sup> Amounts apply to an ordinary member of the Board of Executive Directors. The amount for the chairman of the Board of Executive Directors is 2 times this value, and 1.33 times this value for the vice chairman.

<sup>2</sup> To reach the cap, a Board member must make the maximum individual investment based on the maximum performance bonus and the set limit on the gain from exercising the options granted must be reached.

## Individual compensation components

### 1. Fixed salary

***The fixed salary remains unchanged from the previous system.***

The fixed salary is a set amount of yearly compensation paid out in equal installments. It is regularly reviewed by the Supervisory Board and adjusted, when appropriate.

The annual fixed salary for an ordinary member of the Board of Executive Directors is currently €800,000. The fixed salary for the chairman of the Board of Executive Directors is 2 times the value for an ordinary Board member, and 1.33 times this value for the vice chairman.

### 2. Performance bonus

***A multiple-year, forward-looking assessment basis, a deferral component and a new key performance indicator for the company's success are being introduced into the variable compensation.***

The previous annual variable compensation is being replaced as of 2018 with a forward-looking performance bonus that is geared to sustainable corporate development and has a three-year deferral component. The performance bonus is based on the performance of the Board of Executive Directors as a whole and the ROCE of the BASF Group. As of 2018, ROCE will serve as the key performance indicator for the success of the company in determining the variable compensation of all employee groups. By using ROCE, the variable compensation will be more

closely linked to the company's operating success and aligned with the BASF Group's financial goal of earning a significant premium on the cost of capital. ROCE is the ratio of income from operations (EBIT) of the operating divisions in relation to the average operating assets of the divisions (cost of capital basis).

The target ROCE for the variable compensation is one percentage point above the cost of capital percentage for the financial year, which is determined using the WACC (weighted average cost of capital) approach in accordance with the Capital Asset Pricing Model. This target reflects the strategic goal of earning a significant premium on the cost of capital through the operating business, even if the capital structure and interest rate level change over time. The target value is thus directly linked to the return expected by investors, which also serves as orientation for BASF Group's value-based management.

For the financial year 2018, the target ROCE is 11% with a cost of capital percentage of 10%; this figure is reviewed and communicated annually. If the target ROCE is met and the target achievement is 100%, the performance bonus is double the fixed salary (target amount).

Applying ROCE as the key performance indicator for the success of the company would have resulted in the target ROCE being exceeded in the years 2016 and 2017, when the company earned a premium on the cost of capital of €1,136 million (2016) and €2,727 million (2017). In 2015, when the premium on cost of capital amounted to €194 million, the target value would not have been reached. The use of ROCE instead of the previous key performance indicator ROA would have

resulted in bonuses being 15% higher on average in the past five years.

For each financial year, a member of the Board of Executive Directors is entitled to a performance bonus which is granted for a four-year period. After the first year of the four-year period, the performance bonus (performance bonus, gross) is determined based on the achievement of operational targets (operational performance factor, OPF) and strategic targets (strategic performance factor, SPF) as well as the ROCE (ROCE factor). 50% of the performance bonus, gross, is paid out after the Annual Shareholders' Meeting in the following year (performance bonus, part 1, see figure 1).

The remaining 50% is deferred for another three years and is not immediately payable (deferral component). The final amount of the deferral component is determined depending on the degree to which the strategic goals were achieved within the four-year period (strategic performance factor, SPF) and is paid out after the Annual Shareholders' Meeting in the year

following the end of the four-year period (performance bonus, part 2, see figure 2).

In order to assess the sustainable performance of the Board of Executive Directors, each year the Supervisory Board sets a target agreement with the entire Board of Executive Directors. The target agreement contains:

- One-year operational targets, primarily earnings, financial, investment and operational excellence targets
- Multiple-year strategic targets relating to the further development of BASF, primarily targets for growth, portfolio optimization, investment and R&D strategy, digitalization, sustainability and the BASF core values

An operational performance factor and a strategic performance factor, each with a value between 0 and 1.5, are determined on the basis of the goal achievement ascertained by the Supervisory Board. A target achievement rate of 100% equates to a value of 1.0 for the performance factor.

**Performance bonus, part 1** (schematic overview)

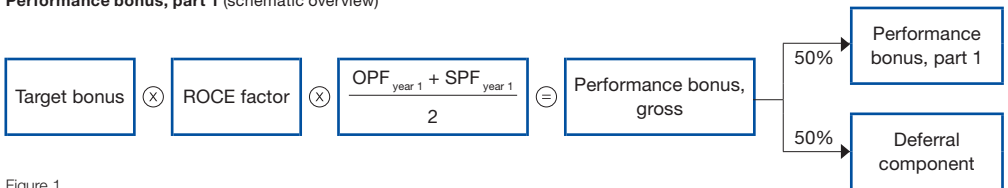


Figure 1

**Performance bonus, part 2** (schematic overview)

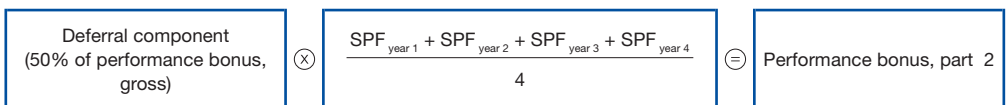


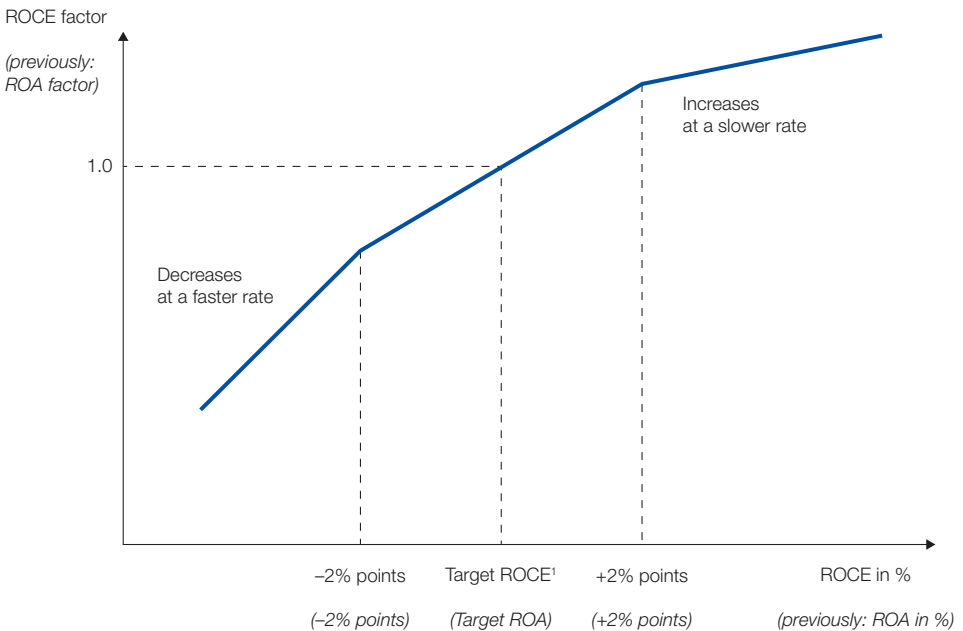
Figure 2

The ROCE of the particular financial year serves as the key performance indicator for the success of the company when determining the performance bonus. A ROCE factor is assigned to each relevant ROCE value. If the ROCE is two percentage points or more below the target ROCE, the ROCE factor will decline at a faster rate. The ROCE factor will increase at a

slower rate if the ROCE is two percentage points or more above the target ROCE (see figure 3).

The correlation between the ROCE and the ROCE factor is the same as the previous correlation between the ROA and the ROA factor (identical curve shape).

#### ROCE factor dependent on ROCE (schematic overview)



<sup>1</sup> Corresponds to cost of capital percentage plus 1% point. If the cost of capital percentage changes, the resulting change in the target ROCE for the subsequent financial year will be decided by the Supervisory Board and communicated.

Figure 3

The ROCE factor is 1.0 if the ROCE achieved in the financial year is one percentage point above the weighted cost of capital percentage (based on the weighted average cost of capital, WACC, in accordance with the Capital Asset Pricing Model) for that year, meaning an appropriate premium on the cost of capital was earned. In calculating ROCE, adjustments are made for negative and positive special items resulting from acquisitions and divestitures (e.g., integration costs in connection with acquisitions and gains or losses from the divestiture of businesses) when these exceed a corridor of plus or minus 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.

The Supervisory Board sets a maximum amount for the performance bonus (cap).

The performance bonus for an ordinary member of the Board of Executive Directors (performance bonus, part 1, and performance bonus, part 2) is currently limited to a maximum of €2,500,000 in total. The maximum amount for the chairman of the Board of Executive Directors is 2 times the maximum value for an ordinary member, and 1.33 times this value for the vice chairman.

### 3. Long-term, share price-based incentive program (LTI program)

*The LTI program remains unchanged from the previous system. As of 2018, the performance bonus serves as the reference value for the annual individual investment.*

#### LTI program

- Absolute performance threshold: BASF share price gains at least 30% compared with the base price for the LTI program concerned
- Relative performance threshold: BASF shares outperform the MSCI World Chemicals Index and no share price loss compared with the base price
- Holding obligation: mandatory individual investment in BASF shares with a holding obligation of 10% of the annual performance bonus, gross, plus up to an additional 20% of the annual performance bonus, gross, on a voluntary basis
- Term: eight years
- Exercise first possible: four years after the grant date (vesting period)
- Maximum exercise gain (cap): five times the individual investment

An LTI program exists for members of the Board of Executive Directors. The program is also offered to all senior executives of BASF Group in a slightly different version. To take part in the program, each participant must prove an individual investment in BASF shares and hold the shares for this purpose for a defined period of time (holding period). The individual investment can amount to a maximum of 30% of the participant's performance bonus, gross<sup>1</sup>. The members of the Board of Executive Directors are obligated to invest at least 10% of their individual

<sup>1</sup> See figure 1, Performance bonus, part 1 (schematic overview), page 13

performance bonus, gross, in the LTI program each year (share ownership obligation). This mandatory investment is subject to a holding period of four years. For any further additional voluntary investment of up to 20% of the performance bonus, gross, the general holding period of two years applies.

Four options are granted for each BASF share brought into the LTI program as an individual investment. After a four-year vesting period, there is a four-year exercise period during which the members of the Board of Executive Directors can exercise these options if performance thresholds are met. During the exercise period, the exercising of options is prohibited during certain periods (closed periods). Each member of the Board of Executive Directors can individually decide on the timing and extent of the exercising of options. Once the options are exercised, the computed value of the options is paid out in cash (cash settlement).

Each option consists of right A (absolute performance threshold) and right B (relative performance threshold), whose value is determined by different performance targets. At least one of the two conditions must be met in order for the option to be exercised:

- Performance threshold, right A: BASF share price increases at least 30% compared to the base price for the LTI program concerned. The value of right A is calculated as the difference between the market price of BASF shares on the exercise date and the base price. It is limited to 100% of the base price (cap).

- Performance threshold, right B: The cumulative percentage performance of the BASF share exceeds that of the MSCI World Chemicals Index (outperformance) and the price of the BASF share on the exercise date equals at least the base price. The value of right B is calculated as the base price of the option multiplied by twice the outperformance of BASF shares on the exercise date. It is limited to the closing price on the date of exercise minus the computed nominal value of BASF shares.

In total, the maximum exercise gain (cap) is currently limited to five times the individual investment and can amount to a maximum of €3,750,000 for an ordinary member of the Board of Executive Directors. The maximum amount for the chairman of the Board of Executive Directors is 2 times the maximum value for an ordinary Board member, and 1.33 times this value for the vice chairman.

Due to the multiple-year exercise period, it can occur that exercise gains from several LTI program years accumulate inside of one year; there can also be years without any exercise gains.



**4. Nonmonetary compensation and other additional compensation (fringe benefits)**

*The fringe benefits remain unchanged from the previous system.*

Members of the Board of Executive Directors receive various fringe benefits in addition to the above-mentioned cash compensation. Fringe benefits include delegation allowances, accident insurance premiums, transportation and benefits from the provision of security measures by the company. The fringe benefits granted by the company are subject to specific provisions and thereby also limited in its amount.

The members of the Board of Executive Directors are covered by a directors' and officers' liability insurance (D&O insurance) concluded by the company, which includes a deductible. This policy provides for the level of deductibles for the Board of Executive Directors as prescribed by Section 93(2) sentence 3 of the German Stock Corporation Act.

**5. Company pension benefits**

*In the company pension benefits, the pensionable age will be increased and a lump-sum option will be introduced.*

**Board Performance Pension**

- Accrual of annual pension units, the amount of which depends on the company's success and the performance of the Board of Executive Directors as a whole
- Pension entitlement: retirement, disability and surviving dependents' pensions; option to choose between payment of pension entitlements in the form of a lifelong pension or a lump sum
- Pension benefits due: on reaching the retirement age of 63 (60 for members first appointed to the Board of Executive Directors before 2017) or on account of disability or death

As part of the pension benefits granted to the Board of Executive Directors (Board Performance Pension), company pension benefits are intended to accrue annual pension units, the amount of which depends on the company's success and the performance of the Board of Executive Directors as a whole in the business year concerned. The method used to

**Board Performance Pension** (schematic overview)

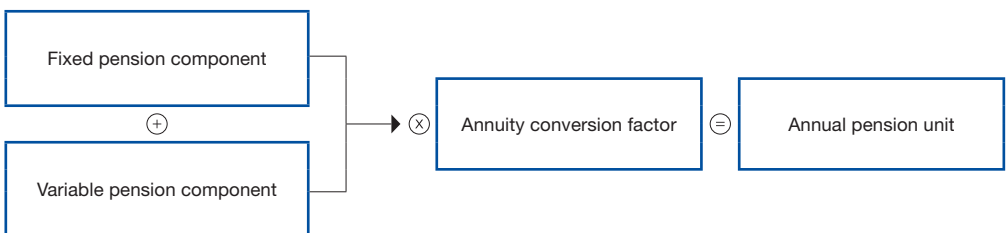


Figure 4

determine the amount of the pension benefits generally corresponds to that used for all other senior executives of the BASF Group in Germany.

The annual pension benefits accruing to Board members in a given reporting year (pension unit) are composed of a fixed and a variable component. The fixed component is calculated by multiplying the annual fixed salary above the Social Security Contribution Ceiling by 32% (fixed pension component).

The variable component of the pension unit is the result of multiplying the fixed component with a factor based on the relevant ROCE in the reporting year concerned, as well as the performance factors used to determine the performance bonus (variable pension component). The amount resulting from the fixed and the variable pension component is converted into a pension unit (lifelong pension) using actuarial factors (annuity conversion factor), (see figure 4, page 17). The currently applied annuity conversion factor is based on an actuarial interest rate of 5%, the probability of death, invalidity and bereavement according to Heubeck Richttafeln, 2005G (modified) and an assumed pension increase (at least 1% each year).

The sum of the pension units accumulated over the reporting years determines the respective Board member's pension benefit in the event of a claim.

This is the amount that is payable on retirement, disability or death. Pension benefits fall due at the end of service on reaching the age of 60 (for members first appointed to the Board of Executive Directors after January 1, 2017: on reaching the age of 63), or on account of disability or death. Pension payments are reviewed on a regular basis and adjusted by at least 1% each year. Members of the Board of Executive

Directors have the option to choose between payment of their pension entitlements in the form of a lifelong pension or a lump sum. The amount of the lump-sum payment is calculated by capitalizing the annual pension entitlement accrued as of the end of the service period as a member of the Board of Executive Directors.

The lifelong pension also includes survivor benefits. Upon the death of an active or former member of the Board of Executive Directors, the surviving spouse receives a survivor pension amounting to 60% of the Board member's pension entitlement. The orphan pension amounts to 10% for each half-orphan, 33% for an orphan, 25% each for two orphans and 20% each for three or more orphans of the pension entitlement of the deceased (former) Board member. Total survivor benefits may not exceed 75% of the Board member's pension entitlement. If the survivor pensions exceed this upper limit, they will be proportionately reduced.

Board members are members of the BASF Pensionskasse VVaG, as are generally all employees of BASF SE. Contributions and benefits are determined by the Statutes of the BASF Pensionskasse VVaG and the General Conditions of Insurance.

### Withholding and clawback clause

A withholding and clawback clause is being introduced for the performance bonus and the LTI program. In the event that a Board member commits a serious infringement of the Code of Conduct of BASF Group or of the duty of care as a member of the management of the company, this provision allows for a reduction or cancellation of not yet paid variable compensation as well as the clawback of variable compensation paid out since January 1, 2018.

### Upper limit for compensation

The compensation is capped with maximum levels, both in total and with regard to the variable compensation components, in accordance with the recommendation in section 4.2.3(2) sentence 6 GCGC. The amount of both variable compensation components is limited as a result of the establishment of a maximum amount (cap) for the performance bonus as well as the design of the LTI program and the establishment of an upper limit on the options' exercise value. The maximum compensation levels, excluding fringe benefits and pension benefits, for an ordinary member of the Board of Executive Directors are presented in the following overview:

#### Maximum compensation (cap values)

Fixed salary	€800,000 <sup>1</sup>
Performance bonus	€2,500,000 <sup>1</sup>
Maximum LTI gains	€3,750,000 <sup>1, 2</sup>
<b>Maximum compensation</b>	<b>€7,050,000<sup>1</sup></b>

<sup>1</sup> Amounts apply to an ordinary member of the Board of Executive Directors. The amount for the chairman of the Board of Executive Directors is 2 times this value, and 1.33 times this value for the vice chairman.

<sup>2</sup> Corresponds to five times the amount of the maximum individual investment of 30% of the maximum performance bonus.

### **End-of-service benefits in special cases**

The following applies to end of service due to a change-of-control event: A change-of-control event, in terms of this provision, occurs when a shareholder informs BASF of a shareholding of at least 25%, or the increase of such a holding. If a Board member's appointment is revoked within one year following a change-of-control event, the Board member will receive the contractually agreed payments for the remaining contractual term of office as a one-off payment (fixed salary and target amount of performance bonus). The Board member may also receive the fair value of the option rights acquired in connection with the LTI program within a period of three months or may continue to hold the existing rights under the terms of the program. For the determination of the accrued pension benefits from the Board Performance Pension, the time up to the regular expiry of office is taken into consideration.

In the event that a member of the Board of Executive Directors who was initially appointed to the Board before 2017 retires from employment before the age of 60, either because his appointment was not extended or was revoked for an important reason, he is entitled to pension benefits if he has served on the Board for at least ten years or if the time needed to reach legal retirement age is less than ten years. The company is entitled to offset compensation received for any other work done against pension benefits until the legal retirement age is reached.

This rule no longer applies for any member who joined the Board of Executive Directors after January 1, 2017. For those members who joined the Board of Executive Directors until December 31, 2016, the previously existing rule will continue to apply.

There is a general limit on severance pay (severance payment cap) for all Board members. Accordingly, payments made to a Board member upon premature termination of his contract, without serious cause, may not exceed the value of two years' compensation, including fringe benefits, nor compensate more than the remaining term of the contract. The severance payment cap is to be calculated on the basis of the total compensation for the past business year and, if appropriate, also the expected total compensation for the current business year. If the appointment to the Board of Executive Directors is prematurely terminated as the result of a change-of-control event, the payments may not exceed 150% of the severance compensation cap.

Ludwigshafen/Rhine, March 23, 2018

BASF SE

The Board of Executive Directors

## BASF Group 2017 at a glance

		2017	2016	Change in %
Sales	million €	64,475	57,550	12.0
Income from operations before depreciation and amortization (EBITDA) and special items	million €	12,527	10,327	21.3
EBITDA	million €	12,724	10,526	20.9
Amortization and depreciation <sup>1</sup>	million €	4,202	4,251	(1.2)
Income from operations (EBIT)	million €	8,522	6,275	35.8
Special items	million €	194	(34)	.
EBIT before special items	million €	8,328	6,309	32.0
Financial result	million €	(722)	(880)	18.0
Income before taxes and minority interests	million €	7,800	5,395	44.6
Net income	million €	6,078	4,056	49.9
EBIT after cost of capital	million €	2,727	1,136	140.1
Earnings per share	€	6.62	4.42	49.8
Adjusted earnings per share	€	6.44	4.83	33.3
Dividend per share	€	3.10	3.00	3.3
Research and development expenses	million €	1,888	1,863	1.3
Personnel expenses	million €	10,610	10,165	4.4
Number of employees		115,490	113,830	1.5
Assets	million €	78,768	76,496	3.0
Investments <sup>2</sup>	million €	4,364	7,258	(39.9)
Equity ratio	%	44.1	42.6	-
Return on assets	%	10.8	8.2	-
Return on equity after tax	%	18.9	13.3	-
Net debt	million €	11,485	14,401	(20.2)
Cash provided by operating activities	million €	8,785	7,717	13.8
Free cash flow	million €	4,789	3,572	34.1

<sup>1</sup> Amortization of intangible assets, depreciation of property, plant and equipment, impairments and reversals of impairments

<sup>2</sup> Additions to intangible assets and property, plant and equipment (including acquisitions)

## Segments

### BASF Group

#### Chemicals

The Chemicals segment comprises our business with basic chemicals and intermediates. Its portfolio ranges from solvents and plasticizers to high-volume monomers and glues as well as raw materials for detergents, plastics, textile fibers, paints and coatings, crop protection and medicines. In addition to supplying customers in the chemical industry and numerous other sectors, we also ensure that other BASF segments are supplied with chemicals for producing downstream products.

##### Key data Chemicals<sup>1</sup> (million €)

	2017	2016	Change in %
Sales	16,331	12,905	27
Thereof Petrochemicals	6,389	5,035	27
Monomers	6,963	5,189	34
Intermediates	2,979	2,681	11
EBITDA	5,374	3,114	73
Income from operations (EBIT)	4,208	1,953	115
EBIT before special items	4,233	2,032	108

#### Performance Products

Our Performance Products lend stability, color and better application properties to many everyday products. Our product portfolio includes vitamins and other food additives in addition to ingredients for pharmaceuticals, personal care and cosmetics, as well as hygiene and household products. Other products from this segment improve processes in the paper industry, in oil, gas and ore extraction, and in water treatment. They furthermore enhance the efficiency of fuels and lubricants, the effectiveness of adhesives and coatings, and the stability of plastics.

##### Key data Performance Products<sup>1</sup> (million €)

	2017	2016	Change in %
Sales	16,217	15,558	4
Thereof Dispersions & Pigments	5,398	5,086	6
Care Chemicals	5,079	4,735	7
Nutrition & Health	1,844	1,932	(5)
Performance Chemicals	3,896	3,805	2
EBITDA	2,427	2,577	(6)
Income from operations (EBIT)	1,510	1,678	(10)
EBIT before special items	1,416	1,777	(20)

#### Functional Materials & Solutions

In the Functional Materials & Solutions segment, we bundle system solutions, services and innovative products for specific sectors and customers, especially the automotive, electrical, chemical and construction industries, as well as applications for household, sports and leisure. Our portfolio comprises catalysts, battery materials, engineering plastics, polyurethane systems, automotive coatings, surface treatment solutions and concrete admixtures as well as construction systems like tile adhesives and decorative paints.

##### Key data Functional Materials & Solutions (million €)

	2017	2016	Change in %
Sales	20,745	18,732	11
Thereof Catalysts	6,658	6,263	6
Construction Chemicals	2,412	2,332	3
Coatings	3,969	3,249	22
Performance Materials	7,706	6,888	12
EBITDA	2,251	2,906	(23)
Income from operations (EBIT)	1,545	2,199	(30)
EBIT before special items	1,617	1,946	(17)

<sup>1</sup> On January 1, 2017, the Monomers and Dispersions & Pigments divisions' activities for the electronics industry were merged into the global Electronic Materials business unit and allocated to the Dispersions & Pigments division. For better comparability, the affected figures for 2016 have been adjusted accordingly.

## Agricultural Solutions

The Agricultural Solutions segment provides innovative solutions in the areas of chemical and biological crop protection, seed treatment and water management as well as for nutrient supply and plant stress.

### Key data Agricultural Solutions (million €)

	2017	2016	Change in %
Sales	5,696	5,569	2
EBITDA	1,282	1,305	(2)
Income from operations (EBIT)	1,015	1,037	(2)
EBIT before special items	1,033	1,087	(5)

## Oil & Gas

In the Oil & Gas segment, we focus on exploration and production in oil and gas-rich regions in Europe, North Africa, Russia, South America and the Middle East. Together with our Russian partner Gazprom, we are also active in the transportation of natural gas in Europe.

### Key data Oil & Gas (million €)

	2017	2016	Change in %
Sales	3,244	2,768	17
EBITDA	2,069	1,596	30
Income from operations (EBIT)	1,043	499	109
EBIT before special items	793	517	53
Net income	719	362	99

# Statement of income

## BASF Group

### Statement of income (million €)

	2017	2016
<b>Sales revenue</b>	<b>64,475</b>	<b>57,550</b>
Cost of sales	(43,929)	(39,265)
<b>Gross profit on sales</b>	<b>20,546</b>	<b>18,285</b>
Selling expenses	(8,262)	(7,764)
General administrative expenses	(1,412)	(1,337)
Research and development expenses	(1,888)	(1,863)
Other operating income	1,916	1,780
Other operating expenses	(2,949)	(3,133)
Income from companies accounted for using the equity method	571	307
<b>Income from operations</b>	<b>8,522</b>	<b>6,275</b>
Income from other shareholdings	31	54
Expenses from other shareholdings	(60)	(71)
<b>Net income from shareholdings</b>	<b>(29)</b>	<b>(17)</b>
Interest income	226	179
Interest expenses	(560)	(661)
<b>Interest result</b>	<b>(334)</b>	<b>(482)</b>
Other financial income	70	97
Other financial expenses	(429)	(478)
<b>Other financial result</b>	<b>(359)</b>	<b>(381)</b>
<b>Financial result</b>	<b>(722)</b>	<b>(880)</b>
<b>Income before taxes and minority interests</b>	<b>7,800</b>	<b>5,395</b>
Income taxes	(1,448)	(1,140)
<b>Income before minority interests</b>	<b>6,352</b>	<b>4,255</b>
Minority interests	(274)	(199)
<b>Net income</b>	<b>6,078</b>	<b>4,056</b>
<b>Earnings per share (€)</b>	<b>6.62</b>	<b>4.42</b>
Dilution effect (€)	(0.01)	(0.01)
<b>Diluted earnings per share (€)</b>	<b>6.61</b>	<b>4.41</b>



# Balance sheet

## BASF Group

### Assets (million €)

	Dec. 31, 2017	Dec. 31, 2016
Intangible assets	13,594	15,162
Property, plant and equipment	25,258	26,413
Investments accounted for using the equity method	4,715	4,647
Other financial assets	606	605
Deferred tax assets	2,118	2,513
Other receivables and miscellaneous assets	1,332	1,210
<b>Noncurrent assets</b>	<b>47,623</b>	<b>50,550</b>
Inventories	10,303	10,005
Accounts receivable, trade	11,190	10,952
Other receivables and miscellaneous assets	3,105	3,078
Marketable securities	52	536
Cash and cash equivalents	6,495	1,375
<b>Current assets</b>	<b>31,145</b>	<b>25,946</b>
<b>Total assets</b>	<b>78,768</b>	<b>76,496</b>

### Equity and liabilities (million €)

	Dec. 31, 2017	Dec. 31, 2016
Subscribed capital	1,176	1,176
Capital surplus	3,117	3,130
Retained earnings	34,826	31,515
Other comprehensive income	(5,282)	(4,014)
<b>Equity of shareholders of BASF SE</b>	<b>33,837</b>	<b>31,807</b>
Minority interests	919	761
<b>Equity</b>	<b>34,756</b>	<b>32,568</b>
Provisions for pensions and similar obligations	6,293	8,209
Other provisions	3,478	3,667
Deferred tax liabilities	2,731	3,317
Financial indebtedness	15,535	12,545
Other liabilities	1,095	873
<b>Noncurrent liabilities</b>	<b>29,132</b>	<b>28,611</b>
Accounts payable, trade	4,971	4,610
Provisions	3,229	2,802
Tax liabilities	1,119	1,288
Financial indebtedness	2,497	3,767
Other liabilities	3,064	2,850
<b>Current liabilities</b>	<b>14,880</b>	<b>15,317</b>
<b>Total equity and liabilities</b>	<b>78,768</b>	<b>76,496</b>

## Statement of cash flows

### BASF Group

#### Statement of cash flows (million €)

	2017	2016
Net income	6,078	4,056
Depreciation and amortization of intangible assets, property, plant and equipment and financial assets	4,213	4,291
Changes in inventories	(915)	(182)
Changes in receivables	(870)	(640)
Changes in operating liabilities and other provisions	618	926
Changes in pension provisions, defined benefit assets and other items	(227)	(547)
Gains (-) / losses (+) from disposal of noncurrent assets and securities	(112)	(187)
<b>Cash provided by operating activities</b>	<b>8,785</b>	<b>7,717</b>
Payments made for property, plant and equipment and intangible assets	(3,996)	(4,145)
Payments made for financial assets and securities	(748)	(1,389)
Payments made for acquisitions	(150)	(2,828)
Payments received for divestitures	177	664
Payments received from the disposal of noncurrent assets and securities	759	1,208
<b>Cash used in investing activities</b>	<b>(3,958)</b>	<b>(6,490)</b>
Capital increases/repayments and other equity transactions	19	28
Additions to financial and similar liabilities	8,572	7,533
Repayment of financial and similar liabilities	(5,324)	(6,954)
Dividends paid		
To shareholders of BASF SE	(2,755)	(2,664)
minority shareholders	(118)	(103)
<b>Cash provided by/used in financing activities</b>	<b>394</b>	<b>(2,160)</b>
<b>Net changes in cash and cash equivalents</b>	<b>5,221</b>	<b>(933)</b>
Change in cash and cash equivalents		
From foreign exchange rates	(110)	66
changes in scope of consolidation	9	1
<b>Cash and cash equivalents at the beginning of the year</b>	<b>1,375</b>	<b>2,241</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>6,495</b>	<b>1,375</b>



# May 4, 2018

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Half-Year Financial Report 2018

# July 27, 2018

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Quarterly Statement, 3rd Quarter 2018

# October 26, 2018

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BASF Report 2018

# February 26, 2019

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Quarterly Statement, 1st Quarter 2019 / Annual Shareholders' Meeting 2019

# May 3, 2019

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BASF supports the chemical industry's global Responsible Care initiative.

#### Further information

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#### Contact

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**Shareholder Hotline**  
Tel.: +49 180-2-2273111

**Media Relations**  
Tel.: +49 621 60-99123

**Investor Relations**  
Tel.: +49 621 60-48230

**Internet**  
[www.basf.com](http://www.basf.com)