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Report of the Board of Executive Directors of BASF SE to the Annual Shareholders' Meeting on May 4, 2018 on the compensation system for the members of the Board of Executive Directors as of 2018

In regard to the Agenda Item 6, the Board of Executive Directors presents the following report:

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:

1. Fixed salary	Annual amount: €800,000 ¹ Payment: in equal installments
2. Performance bonus	Annual target: €1,600,000 € ¹ Cap: €2,500,000 € ¹ 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
3. Long-term, share price-based incentive program (LTI program)	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 € ^{1,2} Payment: in a period of 4-8 years after the grant date, depending on individual exercise date
4. Fringe benefits	Annual amount corresponds to value of nonmonetary compensation
5. Company pension benefits	Annual service cost is the accounting figure for the pension entitlements accrued in the relevant business year

¹ 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.

² 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)

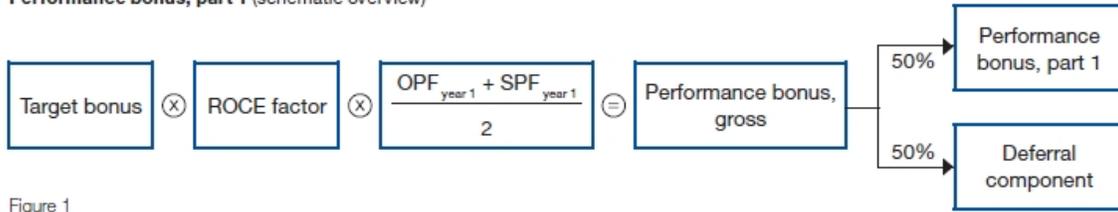


Figure 1

Performance bonus, part 2 (schematic overview)

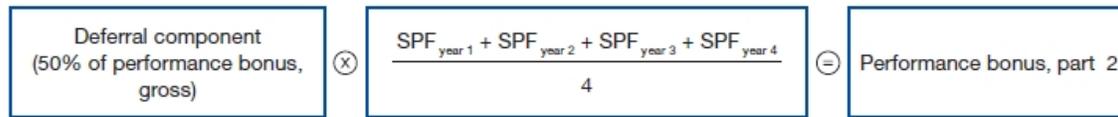
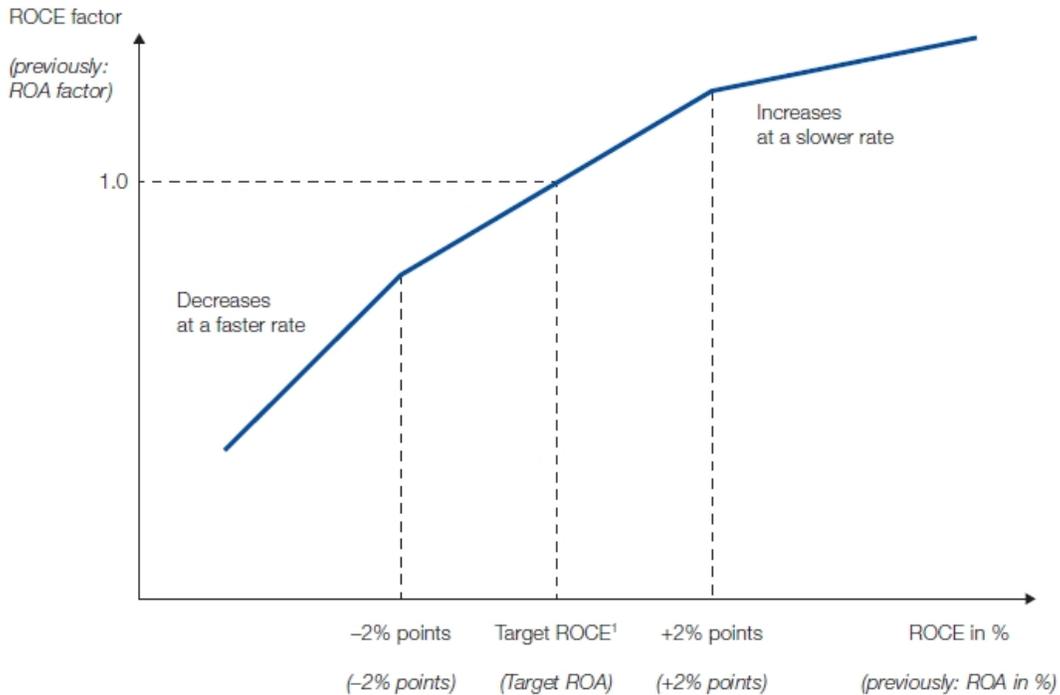


Figure 2

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)



¹ 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, gross¹. The members of the Board of Executive Directors are obligated to invest at least 10 % of their individual 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

¹ See figure 1, Performance bonus, part 1 (schematic overview), page 5

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 abovementioned 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.

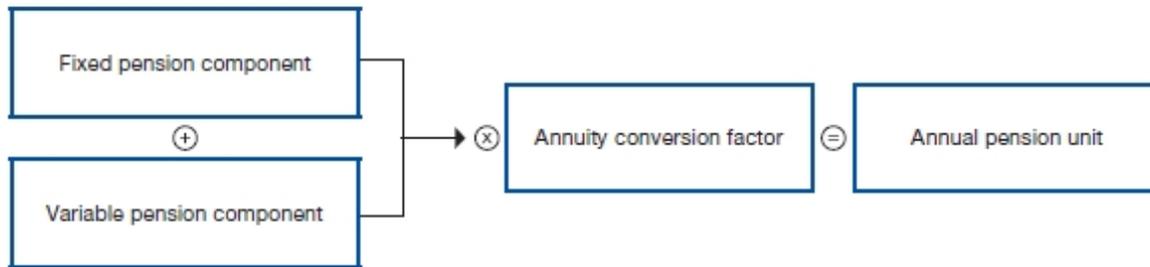
Board Performance Pension (schematic overview)

Figure 4

The method used to 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). 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 ¹
Performance bonus	€2,500,000 ¹
Maximum LTI gains	€3,750,000 ^{1, 2}
Maximum compensation	€7,050,000 ¹

¹ 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.

² 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, February 2018

BASF SE

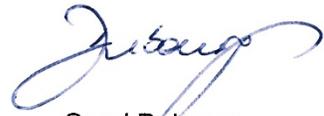
The Board of Executive Directors



Dr. Kurt Bock



Dr. Martin Brudermüller



Saori Dubourg



Dr. Hans-Ulrich Engel



Sanjeev Gandhi



Michael Heinz



Dr. Markus Kamieth



Wayne T. Smith