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Report of the Board of Executive Directors of BASF SE to the Annual Shareholders' Meeting on May 3, 2019 on the exclusion of the subscription right in connection with the proposed resolution on the creation of new authorized capital

Regarding Item 7 of the Agenda, according to Article 9 of the SE Regulation in combination with Section 203(2) sentence 2 in combination with Section 186(4) sentence 2 of the German Stock Corporation Act, the Board of Executive Directors presents the following report on the exclusion of the subscription right:

The Annual Shareholders' Meeting of May 2, 2014, had authorized the Board of Executive Directors to increase, with the consent of the Supervisory Board, until May 1, 2019, the company's share capital by up to €500,000,000.00 by issuing new shares against contributions in cash or in kind (authorized capital). The expiring authorization allows for the exclusion of the shareholders' statutory subscription right in the case of capital increases from this authorized capital in four strictly limited cases. The company has not made any use of the authorization to issue new shares.

Authorized capital 2019

It is proposed that the Annual Shareholders' Meeting approve new authorized capital and in doing so authorize the Board of Executive Directors, with the consent of the Supervisory Board, to increase, up to May 2, 2024, the company's share capital by a total of up to €470,000,000.00 by issuing new registered shares with no par value (shares) against contributions in cash or in kind (Authorized Capital). This should provide the Board of Executive Directors with a flexible instrument for fashioning corporate policy for the next five years. The new Authorized Capital shall be available for both capital increases against cash contributions as well as contributions in kind and it can also be used in portions, provided that the total amount is not exceeded. If the authorization is fully utilized, the proposed volume of new Authorized Capital would correspond to an increase in share capital of slightly less than 40%.

The purpose of the proposed Authorized Capital is to give the Board of Executive Directors the continued ability to raise the capital required for the strategic development of the company on the capital markets on short notice by issuing new shares, or to take quick and flexible advantage of any more favorable market conditions to meet future financial requirements, without the delay of having to wait until the next Annual Shareholders'

Meeting and thus losing the ability to take advantage of attractive market conditions on short notice, and without the complications of convening an Extraordinary Shareholders' Meeting. The aim is also to give the Board of Executive Directors the continued ability, even without tapping capital markets, to quickly and flexibly act upon attractive acquisition opportunities or to acquire companies, parts of companies, or holdings in other companies from third parties in return for issuing shares.

In the event of a utilization of the Authorized Capital, shareholders generally have a subscription right, so shareholders can participate in the capital increase in proportion to their shareholding ratio and thus prevent a dilution of their shareholding. In addition to directly issuing new shares to shareholders, another possibility for handling the technical processing of the share issue is for the Board of Executive Directors to appoint a credit institution or company which takes over the new shares with the obligation to offer them to the shareholders for subscription in accordance with Section 186(5) Sentence 1 of the German Stock Corporation Act (indirect subscription right).

However, with the authorization for a capital increase, the Board of Executive Directors shall also be authorized, with the consent of the Supervisory Board, to exclude the subscription right of the shareholders in the following cases:

<u>Exclusion of subscription right in the case of a capital increase in return for contributions in kind</u>

It should be possible to exclude the subscription right of shareholders in the case of capital increases in connection with the acquisition of companies, parts of companies or participations in companies. This possibility of issuing shares significantly increases the room for maneuver of the Board of Executive Directors in international competition, since particularly in the case of corporate mergers or the acquisition of companies, parts of companies and participations, the consideration to be paid is often paid in the form of the acquirer's shares. Sellers also frequently demand this type of consideration so that they can indirectly participate in the value appreciation of the divested company following the divestiture. In addition, with the increasingly large corporate units that are now involved in such transactions – also in the chemical industry – it is often not possible to pay or fully pay the considerations in cash without putting undue strain on the company's liquidity or raising its indebtedness to an undesirable extent. Shares are therefore an important alternative form of financing for acquisitions. As a rule, the timing of such acquisitions cannot be planned. Opportunities to acquire attractive companies, parts of companies or participations in companies often arise on short notice and must then be acted upon quickly, usually in a competitive environment. To also have the ability to acquire corporate holdings at short notice in such cases without holding a shareholders' meeting, the company must be able to increase its capital under exclusion of subscription rights. The authorization takes this circumstance into account. The reduction of a shareholder's stake resulting from such a capital increase carried out under exclusion of the subscription right will be offset by the fact that, although the stake is smaller than before, the shareholder has an interest in an overall more valuable company without personally having to provide any of the funds required for this increase in value. Furthermore, because the company's stock is publicly listed, every shareholder has the ability to restore the previous shareholding ratio by purchasing additional shares.

<u>Exclusion of subscription right for outstanding bonds with warrants and convertible bonds</u>

In addition, there should also be a possibility to exclude the subscription right if it is necessary in order to issue subscription rights for new shares to holders of debt instruments with conversion or option rights and / or obligations that have been or will be issued by the company or its direct and indirect subsidiaries to the extent to which the holders would be entitled as shareholders after exercising the option or conversion rights or after fulfillment of the option or conversion obligations. The exclusion of the subscription right in favor of owners of option certificates and creditors of convertible bonds enables these to participate in the capital increase to the extent to which they would be entitled to participate if they had purchased shares by virtue of their option or conversion rights or conversion obligations. They are therefore treated as if they had already exercised their option or conversion right or had fulfilled a conversion obligation. This counteracts any dilution as the result of the capital increase. This type of dilution protection is generally included in the corresponding terms of issue for the debt instruments in order to meet the expectations of investors and achieve a better placement on the capital market. At the same time, such dilution protection generally leads to a higher issue price for the shares to be issued in the event of the conversion or exercise of an option, as it avoids a reduction of the option or conversion price. The abovementioned advantages can, however, only be used when shareholders' subscription rights are excluded in this case. The exclusion of subscription rights therefore enables the company to have an optimal financing structure and is thus in the interest of shareholders.

<u>Exclusion of subscription rights for fractional amounts</u>

The authorization to exclude the subscription right for fractional amounts resulting from the subscription ratio opens up the possibility of laying down simple and practicable subscription conditions for raising capital. Fractional amounts occur if not all new shares can be distributed uniformly among the shareholders as the result of the subscription ratio or the amount of the capital increase. The fractional amounts are of subordinate importance in relation to the total capital increase, and because the exclusion is limited to fractional amounts, the potential dilution effect for shareholders is generally very low. This is also why excluding subscription rights is a customary market practice in this case. The new shares, known as “fractional shares,” excluded from the subscription right will be utilized on the most favorable terms for the company.

Exclusion of subscription rights for capital increases in return for cash contributions

The Board of Executive Directors is also to be authorized to exclude the subscription right, if, in the case of cash capital increases according to Section 186(3) sentence 4 of the German Stock Corporation Act, the new shares are issued at a price that is not substantially lower than the stock market price. Thus, the Board of Executive Directors will continue to be in a position to meet future financing requirements at short notice, taking advantage of any favorable capital market conditions to benefit the company and the shareholders. This is only possible to a very limited extent if the subscription right is granted, because processing subscription rights is costly and time-consuming. As a rule, capital increases under the exclusion of the subscription right lead to higher cash inflows than capital increases with shareholders’ subscription rights. In this way, the company benefits from higher proceeds of an issue while the dilution effect for existing shareholders is marginal. To adequately protect shareholders from a dilution of their holdings, the shares issued under exclusion of the subscription right according to Section 186(3) sentence 4 of the German Stock Corporation Act must not exceed a total of ten percent of the share capital, either at the time the authorization becomes effective or at the time the authorization is utilized. Those shares are to be credited against this limitation that have been, or are issued, during the term of this authorization in order to service bonds with conversion or option rights or conversion obligations on the basis of a corresponding authorization by the Annual Shareholders’ Meeting, insofar as these bonds were issued during the term of this authorization under the exclusion of the subscription right in appropriate application of Section 186(3) sentence 4 of the German Stock Corporation Act. Moreover, those shares are to be credited against this limitation that have been sold in appropriate application of Section 186(3) sentence 4 of the German Stock Corporation Act with the exclusion of the subscription right. This ensures that, in line with the statutory requirements of Section 186(3) sentence 4 of the German Stock Corporation Act, the shareholders’ pecuniary and voting interests remain appropriately safeguarded in the case of a utilization of the Authorized Capital under the exclusion of the subscription right, while the company gains further room to maneuver, which is in the interest of all shareholders.

Limitation of the total scope of capital increases without subscription rights

The total shares issued under the authorizations explained above on the exclusion of the subscription right in the case of capital increases both against cash contributions and contributions in kind must not exceed ten percent of the share capital, either at the time that the authorization comes into effect, or at the time that it is utilized. Shares that are sold or issued or are to be issued with exclusion of the subscription right after other explicit authorizations of the Annual Shareholders' Meeting, must be credited against this ten percent limit. This capital limit restricts the total scope of a share issue from the Authorized Capital under the exclusion of subscription rights, as well as in the case of the sale of own shares under the exclusion of subscription rights and the issue of bonds with warrants and convertible bonds under the exclusion of subscription rights. This will additionally safeguard the shareholders from any dilution of their holding.

Use of Authorized Capital

There are currently no plans for the use of the Authorized Capital. The Board of Executive Directors will carefully analyze on a case-by-case basis whether the use of the authorization for the capital increase and any exclusion of subscription rights are in the company's best interests, also taking into consideration the interests of existing shareholders. The Board of Executive Directors will report on each use of the Authorized Capital at the subsequent Annual Shareholders' Meeting.

Voluntary commitment by the Board of Executive Directors

Under Item 7 of the Agenda, it is proposed that the Annual Shareholders' Meeting approve new authorized capital and thus authorize the Board of Executive Directors, with the consent of the Supervisory Board, to increase, up to May 2, 2024, the company's share capital by a total of up to €470,000,000.00 by issuing new registered shares with no par value (shares) against contributions in cash or in kind (Authorized Capital). If the authorization is fully utilized, the proposed volume of new Authorized Capital would correspond to an increase in share capital slightly below 40%. The proposed volume therefore does not exceed the statutory ceiling of 50% of share capital as established in section 202(3) sentence 1 of the German Stock Corporation Act. The Annual Shareholders' Meeting of May 12, 2017, authorized the Board of Executive Directors within the framework of the Conditional Capital to issue shares to holders of option or conversion rights granted as an element of bonds with warrants and convertible bonds (see Article 5 No. 9 of the Statutes, "Conditional Capital 2017"). The maximum number of shares that can be issued under the Conditional Capital is 91,847,800 shares. This corresponds to around 10% of share capital.

In this regard, the Board of Executive Directors makes the following voluntary commitment: We will increase the company's share capital via the proposed Authorized Capital 2019 and the existing Conditional Capital 2017 by no more than 40% in total compared with the existing share capital at the time this authorization comes into effect. This voluntary commitment is effective as of entry into force of the resolution proposed in Item 7 of the Agenda and ends at the end of May 11, 2022 (expiry of the authorization to issue convertible bonds and bonds with warrants with share subscription rights under Conditional Capital 2017).

Ludwigshafen/Rhine, February 2019

BASF SE

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