



Dear Shareholder,

Looking back, 2017 was a successful business year in which BASF significantly exceeded its earnings targets. We achieved strong growth and were able to further increase our profitability. Moreover, we laid important groundwork for BASF's future development – in terms of both people and strategy. With the acquisitions announced for 2018 we want to further strengthen our company. We are ensuring our future competitiveness.

The positive development of our business is driven by the performance of our skilled and dedicated team at BASF. On behalf of the Board of Executive Directors, I sincerely thank all employees worldwide for their contribution to BASF's success.

Economic activity picked up in many countries in 2017. We took advantage of this upturn and markedly increased our sales and earnings compared with the previous year. We sold higher volumes in all segments and divisions. For basic chemicals in particular, we also increased our prices significantly. Overall, our sales grew by 12%. One contributing factor was the Chemetall business acquired in December 2016, which comprises tailor-made solutions for metals surface treatment.

Our earnings rose even more sharply, by around one-third. Our EBIT before special items came in at €8.3 billion, with a significant contribution coming from the Chemicals segment. Higher margins and volumes in the basic chemicals and intermediates businesses more than offset the lower margins in our businesses that are closer to customers. Overall, our earnings in the chemicals business were significantly higher than in the previous year.

In an ongoing difficult market environment, our Agricultural Solutions segment was nearly able to match the 2016 results thanks to a strong fourth quarter. In light of our promising research pipeline, we take an optimistic view of the future.

We significantly improved our earnings in the Oil & Gas segment, where we also benefited from the recovery in the oil price. It climbed to an average of \$54 per barrel for Brent crude in 2017 versus an average price of \$44 in the previous year.

“BASF achieved strong growth in all regions. We were particularly pleased with our strong growth in Asia.”

BASF achieved strong growth in all regions. We were particularly pleased with our strong growth in Asia. Our investments there in recent years are paying off. Our earnings in Asia doubled, making it the most profitable region for BASF.

The key indicator of the value we produce for you, our shareholders, is EBIT after cost of capital. This increased once again in 2017 and more than doubled to €2.7 billion.

At the end of 2017, our shares were trading for €91.74. This represents a 3.9% increase over the closing price in 2016, which was also the high for that year. We propose to you that the dividend be increased by €0.10 to €3.10 per share. The BASF share would thus once more offer an attractive dividend yield of around 3.4% based on the 2017 year-end share price. In total, we plan to pay out €2.8 billion to our shareholders.

Our strategy provides direction for how we further develop BASF. At the core is our corporate purpose: “We create chemistry for a sustainable future.” We are well aware of the needs of the fast-growing global population. More and more people need access to food and water, energy, raw materials, housing and healthcare. At the same time, the Earth’s resources are limited. Our products and services contribute to reconciling the needs with the limitations.

In doing so, we rely on research and development, organic growth through investments in plants, and the continuous refinement of our portfolio. Operational excellence and cost discipline along our value chains also continue to be essential for our sustainable success.

Around 10,000 dedicated employees worldwide work in research at BASF to develop new products for a sustainable future. We often collaborate with customers and academic partners as well as startups. We believe that innovation and sustainability are inextricably linked.

“For nearly two decades, we have been involved in the U.N. Global Compact network.”

For nearly two decades, we have been involved in the U.N. Global Compact network and we actively support the U.N. Sustainable Development Goals. Mobility, for example, is an established part of our lives. But we also have a responsibility to design it in a sustainable way. BASF contributes to this with our lightweight plastics, high-performance catalysts and new battery materials.

In order to strengthen our capacity for innovation, we also utilize the opportunities offered by digitalization. We are increasingly using digital technologies throughout our value chains. This helps us to design our processes more effectively and efficiently. At our sites around the globe, we combine data with modern analytics. At our Verbund site Ludwigshafen, for example, we use predictive maintenance techniques at our steam cracker, the heart of our production. Several thousand sensors record process data, such as temperature and pressure, around the clock. This makes it easier for us to optimally operate and monitor the plants.

Another example is our digital business models – such as services, platform solutions and licenses that customers obtain from us and use – which create additional value for our customers and for BASF.

In the past year we made important decisions for the development of our portfolio. We plan to acquire Solvay's global polyamide business. This will expand our range of engineering plastics for the transportation, construction and consumer goods industries and will strengthen our access to raw materials. Furthermore, we also expect to improve our access to key growth markets in Asia and South America.

"In the past year we made important decisions for the development of our portfolio."

We want to bolster our Agricultural Solutions segment with the acquisition of significant parts of Bayer's seed and herbicide businesses. These will be an excellent complement to our well-established and successful crop protection business and our biotechnology activities. With this acquisition we aim to expand our offerings for farmers. We want to enter into the seed business with proprietary assets in key agricultural markets, which will also allow us to more quickly implement the results of our seed research.

These two transactions exemplify our strategy of broadening BASF's portfolio by adding fast-growing, cyclically resilient businesses. Innovations play a major role in this, as they enable us to offer our customers specific and sustainable solutions for their particular applications.

However, we also divest businesses when we believe they could be more successful in a different constellation. At the end of September 2017, we transferred our business with leather chemicals to the Stahl Group, a leading producer of process chemicals for leather products. In return, we now hold a 16% share in the Stahl Group.

In December 2017, we announced fundamental changes for our oil and gas activities. BASF and the LetterOne group plan to merge their respective oil and gas businesses in a joint venture. The new company, Wintershall DEA, should be one of the largest independent exploration and production companies in Europe, with excellent growth prospects. We plan to list the company on the stock exchange in the medium term.

Despite a number of political risks, we expect economic conditions to be solid in 2018. We anticipate that the global economy and chemical production will grow at the same pace as in 2017. We assume an average oil price of \$65 per barrel for Brent crude and an average annual exchange rate of \$1.20 per euro for 2018.

I am also very optimistic about the future development of our company, which the BASF team will shape with great élan. Everyone contributes his or her own experiences, perspectives, ideas and skills at work each day. My successor, Martin Brudermüller, has what it takes to maintain our successful track record and advance the company. I am convinced that BASF will continue to seize opportunities in the future.

"I am very optimistic about the future development of our company, which the BASF team will shape with great élan."

Yours,



Kurt Bock