

Report of the Supervisory Board



Dear Shareholders,

The dynamic development of BASF and its competitive environment meant that 2017 was a very busy year for the Supervisory Board. Its work focused primarily on the following:

- Strategically important portfolio measures such as the agreed acquisition of significant parts of the seed business from Bayer and the planned transfer of the oil and gas business to a joint venture
- The further development of the compensation system for the Board of Executive Directors
- Changes to the Board of Executive Directors with the naming of a new Chairman, also for the purpose of succession planning for the Supervisory Board

The Supervisory Board addressed these tasks with a great sense of responsibility. Its aim is to lay the best possible foundation for BASF's continued successful and sustainable growth.

Monitoring and consultation in an ongoing dialog with the Board of Executive Directors

In 2017, the Supervisory Board of BASF SE exercised its duties as required by law and the Statutes with the utmost care. It regularly monitored the management of the Board of Executive Directors and provided advice on the company's strategic development and important individual measures, about which the Supervisory Board was regularly and thoroughly informed by the Board of Executive Directors. This occurred both during and outside of the meetings of the Supervisory Board and its committees in the form of written and oral reports on, for example, all of the major financial key performance indicators (KPIs) of the BASF Group and its segments, the economic situation in the main sales and procurement markets, and on deviations in business developments from original plans. Furthermore, the Supervisory Board tackled fundamental questions of corporate planning, including financial, investment, sales volumes and personnel planning, as well as measures for designing the future of research and development.


The Supervisory Board discussed in detail the reports from the Board of Executive Directors, and also deliberated on prospects for the company and its individual business areas with the Board of Executive Directors. It was convinced of the lawfulness, expediency and propriety of the Board of Executive Director's company leadership.

The Chairman of the Supervisory Board and the Chairman of the Board of Executive Directors were also in regular contact outside of Supervisory Board meetings so that the Chairman of the Supervisory Board was promptly informed of current developments and significant issues. The Supervisory Board was always involved at an early stage in decisions of major importance. The Supervisory Board passed resolutions on all of those individual measures taken by the Board of Executive Directors which by law or the Statutes required the approval of the Supervisory Board. In the 2017 business year, these included authorizing:

- The acquisition of the seed business offered by Bayer
- The transfer of the oil and gas business bundled in the Wintershall Group to a joint venture with LetterOne, including possible public listing
- The acquisition of the polyamide business from Solvay
- Co-financing the Nord Stream 2 pipeline project

Supervisory Board meetings

The Supervisory Board held six meetings in the 2017 business year. With the exception of one meeting at which one member of the Supervisory Board was unable to attend, all members attended all Supervisory Board meetings in 2017. No member of the Supervisory Board attended only half or fewer of the meetings of the Supervisory Board and the committees of which they are members. The members of the Supervisory Board elected by shareholders and those elected by the employees prepared for the meetings in separate preliminary discussions in each case, which were also attended by members of the Board of Executive Directors. All members of the Board of Executive Directors attended the Supervisory Board meetings unless it was deemed appropriate that the Supervisory Board discuss individual topics – such as personnel matters relating to the Board of Executive Directors – without them being present.

 An individual overview of attendance at meetings of the Supervisory Board and its committees will be made available on the company website at basf.com/governance/supervisoryboard/meetings

A significant component of all Supervisory Board meetings was the Board of Executive Directors' reports on the current business situation with detailed information on sales and earnings development, as well as on opportunities and risks for business development, the status of important current and planned investment projects, developments on the capital markets, and significant managerial measures taken by the Board of Executive Directors in addition to innovation projects.

In all meetings, with the exception of the meeting following the Annual Shareholders' Meeting on May 12, 2017, which exclusively addressed organizational Supervisory Board topics,

the Supervisory Board discussed the further development of the BASF Group's business activities through acquisitions, divestitures and investment projects. Discussions focused on:

- Global consolidation in the crop protection industry and the acquisition of the seed business offered by Bayer
- The acquisition of the polyamide value chain from Solvay
- The long-term development of and strategic opportunities for the oil and gas business bundled in the Wintershall group, including the gas transportation business and its combination with DEA's business in a joint venture with LetterOne, as well as the option of later public listing
- The progress of the Nord Stream 2 pipeline project and the BASF Group's involvement in financing the project
- The expansion of the battery materials business in Europe, North America and Japan, for example by establishing additional production capacities in cooperation with Toda and a raw materials supply cooperation with Norilsk Nickel

At its meeting on February 22, 2017, the Supervisory Board reviewed and approved the Consolidated Financial Statements, Management's Report and the proposal for the appropriation of profit for the 2016 business year as presented by the Board of Executive Directors. In addition, it discussed details of the new structure of the Supervisory Board's compensation and prepared the corresponding resolution for the Annual Shareholders' Meeting. The Supervisory Board met prior to the Annual Shareholders' Meeting on May 12, 2017, primarily to prepare for the Annual Shareholders' Meeting.

In addition to strategically significant individual measures, the Supervisory Board also addressed BASF's strategy and long-term business prospects in individual business areas and regions. This was the focus of its meeting on July 24/25, 2017, at which the Board of Executive Directors provided a status update on the implementation of the "We create chemistry" strategy. The main consultation topics were:

- The possibilities and objectives for strategic portfolio development
- Strategic opportunities for the oil and gas business
- The development of the Verbund and measures to promote operational excellence
- The long-term development of the automotive industry as one of BASF's key customer industries and the related strategic business opportunities, especially from the development of electromobility and autonomous driving
- Innovations, especially the status, opportunities and risks arising from the digitalization of industrial processes

At its meeting on October 20, 2017, the Supervisory Board addressed the crop protection and seeds business in detail, including its growth prospects and business risks as well as technology, market and development trends. It was also informed of the new statutory nonfinancial reporting requirements and how the Board of Executive Directors planned to structure BASF's nonfinancial statements going forward. In this connection, the Supervisory Board resolved to also have the auditor conduct a substantive audit with limited assurance

for the nonfinancial statements, above and beyond the statutory auditing requirements.

At its meeting on December 21, 2017, the Supervisory Board discussed and approved the Board of Executive Directors' operational and financial planning including the investment budget for 2018, and as usual authorized the Board of Executive Directors to procure the necessary financing in 2018.

Composition and compensation of the Board of Executive Directors

In several meetings in the 2017 business year, the Supervisory Board conferred on, and passed resolutions on, personnel topics in the Board of Executive Directors as well as questions concerning the compensation of the Board of Executive Directors. Based on preparation conducted by the Personnel Committee, it determined the targets for the Board of Executive Directors for the 2017 business year at its meeting on February 22, 2017.

At its meeting on December 21, 2017, the Supervisory Board discussed at length, based on the counsel of the Personnel Committee, questions relating to the composition of the Board of Executive Directors, succession planning for the Board of Executive Directors, the further development of the compensation system for the Board of Executive Directors as well as the related adjustments to the Board members' contracts as of January 1, 2018, and evaluated the Board of Executive Directors' performance in 2017. As part of long-term succession planning, the Supervisory Board named Dr. Martin Brudermüller, currently Vice Chairman of the Board of Executive Directors, as Chairman of the Board of Executive Directors effective at the end of the Annual Shareholders' Meeting on May 4, 2018. The current Chairman of the Board of Executive Directors, Dr. Kurt Bock, will step down from the Board of Executive Directors by mutual agreement on this date so that he can be elected to the Supervisory Board and appointed as its chairman in 2020. Dr. Kurt Bock agreed on early discontinuance of his contract without severance pay and will receive the contractually agreed interim and pension benefits in accordance with regular expiration of a term on the Board of Executive Directors on this date. Furthermore, the Supervisory Board named the Board of Executive Directors member Dr. Hans-Ulrich Engel as Vice Chairman of the Board of Executive Directors, likewise effective May 4, 2018, and extended the appointments of Dr. Martin Brudermüller, Dr. Hans-Ulrich Engel and Sanjeev Gandhi until the end of the Annual Shareholders' Meeting in 2023. The number of members of the Board of Executive Directors will be reduced from eight to seven following the 2018 Annual Shareholders' Meeting.

In addition, on December 21, 2017, after a number of preparatory briefings by the Personnel Committee in the meetings prior, the Supervisory Board resolved to amend the compensation system for the Board of Executive Directors and its members' contracts. The main changes are the introduction of a new performance bonus to make it more long

term and forward-looking in line with the new recommendations of the German Corporate Governance Code, which replaces the annual variable compensation granted to date, as well as the agreement of a contractual clawback clause in the case of a gross breach of the duties pertaining to the Board of Executive Directors. The amended compensation system for the Board of Executive Directors is to be submitted to the Annual Shareholders' Meeting on May 4, 2018 for approval. All members of the Board of Executive Directors have agreed to the contractual amendment with effect from January 1, 2018.

Committees

The Supervisory Board of BASF SE has four committees: 1. the committee for personnel matters of the Board of Executive Directors and the granting of loans in accordance with section 89(4) of the German Stock Corporation Act (Personnel Committee); 2. the Audit Committee; 3. the Nomination Committee; and 4. the Strategy Committee. Following each Committee meeting, the chairpersons of the Committees reported in detail about the meetings and the activities of the Committees at the subsequent meeting of the Supervisory Board.

 For information on the composition of the committees and the tasks assigned to them by the Supervisory Board, see the Corporate Governance Report on page 129

The **Personnel Committee** met four times during the reporting period. With the exception of one meeting, which one committee member was unable to attend, all committee members attended the meetings. At its meeting on February 22, 2017, the Personnel Committee advised on the targets for the Board of Executive Directors for the 2017 business year. The main focus at the meeting on July 24, 2017 was the development of leadership at the top levels of management below the Board of Executive Directors, as well as long-term succession planning and potential alternate candidates for that Board.

The main agenda item at the meeting on October 20, 2017 was the further development of the compensation system for the Board of Executive Directors. Agenda items at the meeting on December 21, 2017 were the performance evaluation of the Board of Executive Directors for 2017, consultation on the profile of skills and expertise and the diversity concept for the Board of Executive Directors and the Supervisory Board, as well as preparations for resolutions by the Supervisory Board on the composition of the Board of Executive Directors. One of the committee's core tasks at all meetings was continuing the discussion started in 2016 on the further development of the compensation awarded to the Board of Executive Directors and the resulting amendment to Board members' contracts. The results of the committee's discussions formed the basis for the amended compensation system for the Board of Executive Directors that was resolved by the Supervisory Board on December 21, 2017.

The **Audit Committee** is responsible for all the tasks listed in section 107(3) sentence 2 of the German Stock Corporation Act

and in section 5.3.2 of the German Corporate Governance Code in the version dated February 7, 2017. Since the 2017 business year, these tasks also include auditing the nonfinancial statements of BASF SE and the BASF Group. The Audit Committee met five times during the reporting period. Its core duties were to review BASF SE's Financial Statements and Consolidated Financial Statements, as well as to discuss the quarterly statements and the half-year financial report with the Board of Executive Directors prior to their publication. With the exception of two meetings, which one member did not attend, all committee members participated in the meetings.

At the meeting on February 21, 2018, the auditor reported in detail on its audits of BASF SE's Separate and Consolidated Financial Statements for the 2017 business year, including the corresponding management's reports, and discussed the results of its audit with the Audit Committee. The committee's audit also included the nonfinancial statements of BASF SE and the BASF Group, which were part of the management's reports for the first time in 2017. In preparation for the audit, the Audit Committee had, following a corresponding resolution by the Supervisory Board, additionally engaged KPMG AG Wirtschaftsprüfungsgesellschaft to perform a substantive audit with limited assurance of the nonfinancial statements and to issue an assurance report on this. KPMG also reported in detail on the focus, the procedure and the key findings of this audit.

At the meeting on July 24, 2017, the Audit Committee engaged KPMG AG Wirtschaftsprüfungsgesellschaft – the auditor elected by the Annual Shareholders' Meeting – with the audit for the 2017 reporting year and auditing fees were agreed upon. The focus areas for the annual audit were discussed and defined together with the auditor. The Audit Committee categorically excluded any service relationships between auditor and BASF Group companies outside of the audit of the annual financial statements, including beyond prevailing legal limitations. These services may only be performed upon approval by the Audit Committee. For certain nonaudit services beyond the scope of the audit of the financial reports, the Audit Committee either granted approval for individual cases or authorized the Board of Executive Directors to engage KPMG AG Wirtschaftsprüfungsgesellschaft for such services. The authorization of each service applies for one reporting year and is limited in amount.

Other important activities included advising the Board of Executive Directors on accounting issues and the internal control system. The Audit Committee focused on the internal auditing system at the meeting on July 24, 2017, and compliance in the BASF Group on December 20, 2017. In these meetings, the head of the Corporate Audit department and the Chief Compliance Officer reported to the Audit Committee and answered its questions. In all meetings, the Audit Committee also received information on the development of risks from litigation.

The **Nomination Committee** is responsible for preparing candidate proposals for the election of those Supervisory Board members who are elected by the Annual Shareholders' Meeting. The Nomination Committee is guided by the


objectives for the composition of the Supervisory Board adopted by the Supervisory Board as well as the profile of skills and expertise and diversity concept for the Supervisory Board resolved at the meeting on December 21, 2017. The Nomination Committee met once in 2017. All committee members attended the meeting. The focus of the meeting was consultation on the preparation of a profile of skills and expertise and diversity concept for the Supervisory Board as a whole, which aim to ensure that – based on a systematic review – individuals are nominated to the Annual Shareholders' Meeting for election to the Supervisory Board that collectively possess all of the professional and personal competencies and experience that, according to the Supervisory Board's assessment, are necessary to perform its tasks in full. Another focus of the meeting was discussing the alternate candidates as well as long-term planning and preparations for the succession of the current Chairman of the Supervisory Board with the suggestion to elect the current Chairman of the Board of Executive Directors, Dr. Kurt Bock, as a member of the Supervisory Board and its Chairman after expiry of the statutory cooling-off period of two years following his departure from the Board of Executive Directors.

The **Strategy Committee** met four times in 2017. The Committee was established to consult on strategic options for the further development of the BASF Group and has comprised six members of the Supervisory Board since May 2017. With the exception of one meeting, which one committee member was unable to attend, all committee members attended the meetings. At its meetings, the Committee addressed in detail options for the strategic further development of BASF's portfolio and proposed material acquisitions and divestitures, particularly in the Agricultural Solutions and Oil & Gas segments. The Committee's discussions and resolutions repeatedly dealt with the intended acquisition of the seed business offered by Bayer and the potential combination of the BASF Group's and LetterOne's oil and gas businesses in a joint venture, with the intention of later listing it on the stock exchange.


Corporate Governance and Declaration of Conformity

The Supervisory Board places great value on ensuring good corporate governance: In 2017, it was therefore once again intensely occupied with the corporate governance standards practiced in the company and the implementation of the recommendations and suggestions of the German Corporate Governance Code in the version dated February 7, 2017. In addition to the review of BASF's corporate governance culture, topics of discussion were the implementation of the new recommendations and suggestions of the German Corporate Governance Code as well as the statutory requirements for the Supervisory Board arising from the CSR Directive Implementation Act. Discussions and decisions focused especially on the implementation of the expanded recommendations of the German Corporate Governance

Code on structuring the variable components of the compensation awarded to the Board of Executive Directors, as well as the requirements on the composition of the Supervisory Board and the Board of Executive Directors, which are summarized in the profiles of skills and expertise and diversity concepts for the Supervisory Board and the Board of Executive Directors.

 For more information on the profiles of skills and expertise, diversity concepts and composition goals, see page 128 and from page 130 onward

At its meeting of December 21, 2017, the Supervisory Board approved the joint Declaration of Conformity by the Supervisory Board and the Board of Executive Directors in accordance with section 161 of the German Stock Corporation Act. BASF complies with the recommendations of the German Corporate Governance Code in the version dated February 7, 2017, without exception. The Corporate Governance Report of the BASF Group provides extensive information on BASF's corporate governance.

 The full Declaration of Conformity is rendered on page 157 and is available to shareholders on the company website at basf.com/en/governance

Independence and efficiency review

An important aspect of good corporate governance is the independence of Supervisory Board members and their freedom from conflicts of interest. According to assessments of the Supervisory Board, eleven of its twelve members can be considered independent within the meaning of the German Corporate Governance Code and the additional criteria defined by the Supervisory Board for evaluating their independence. The criteria used for this evaluation can be found in the Corporate Governance Report on page 131. In cases where Supervisory Board members hold supervisory or management positions at companies with which BASF has business relations, we see no impairment of their independence. The scope of these businesses is relatively marginal and furthermore takes place under conditions similar to those of a third party. The Supervisory Board reviews the efficiency of its activities every year in the form of a self-assessment. This took place in 2017 as well, as the Chairman of the Supervisory Board conducted individual dialogs with each Supervisory Board member using a structured questionnaire. Topics especially centered on Supervisory Board meeting agendas, cooperation with the Board of Executive Directors, information supply of the Supervisory Board, the Committees' duties, composition and work, and cooperation with shareholder and employee representatives. The results of these individual meetings were presented and thoroughly discussed at the Supervisory Board meeting on December 21, 2017. Overall, its members rated the Supervisory Board's activity as efficient.

Independent of the efficiency review, the Audit Committee also conducted a self-assessment of its activities in 2017 based on individual discussions with all of its members. Material topic areas were the organization and content of the

meetings and the supply of information as the basis of the Committees' work. No notable need for action was identified.

Separate and Consolidated Financial Statements

KPMG AG Wirtschaftsprüfungsgesellschaft, the auditor elected by the Annual Shareholders' Meeting for the 2017 reporting year, has audited the Financial Statements of BASF SE and the BASF Group Consolidated Financial Statements, which were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, and the additional requirements that must be applied in accordance with section 315e(1) of the German Commercial Code (HGB), including the Management's Report and the accounting records from which they were prepared, and have approved them free of qualification. Furthermore, the auditor certified that the Board of Executive Directors had taken the measures incumbent on it under section 91(2) of the German Stock Corporation Act (AktG) in an appropriate manner. In particular, it had instituted an appropriate information and monitoring system that fulfilled the requirements of the company and is applicable for the early identification of developments that could pose a risk to the continued existence of the BASF Group. The results of the audit as well as the procedure and material findings of the audit of the financial statements are presented in the Auditor's Report, the content of which has been significantly expanded since the 2017 Financial Statements.

 The Auditor's Report is rendered from page 162 onward

For more information on the auditor, see the Corporate Governance Report on page 134

Beyond the statutory audit of the Financial Statements, KPMG also conducted, on behalf of the Supervisory Board, a substantive audit with limited assurance of the nonfinancial statements (NFSs) for BASF SE and the BASF Group, which are integral parts of the respective management's reports. On the basis of its audit, KPMG did not raise any objections to the nonfinancial reporting and the satisfaction of the relevant statutory requirements.

 The assurance report issued by KPMG on the substantive audit of the NFS can be found at basf.com/nfs-audit

The auditor's reports were sent in a timely manner to every member of the Supervisory Board. The auditor attended the accounts review meeting of the Audit Committee on February 21, 2018, as well as the accounts meeting of the Supervisory Board on February 22, 2018, and reported on the procedure and material findings of its audit, including the key audit matters described in the Auditor's Report. The auditor also provided detailed explanations of the reports on the day before the accounts meeting of the Supervisory Board.


The Audit Committee reviewed the Financial Statements and Management's Report at its meeting on February 21, 2018, including the reports prepared by the auditor and the

key audit matters specified in the Auditor's Report, and discussed them in detail with the auditor. The Chairman of the Audit Committee gave a detailed account of the preliminary review at the Supervisory Board meeting on February 22, 2018. On this basis, the Supervisory Board has examined the Financial Statements and Management's Report of BASF SE for 2017, the proposal by the Board of Executive Directors for the appropriation of profit, and the Consolidated Financial Statements and Management's Report for 2017. The results of the preliminary review by the Audit Committee and the results of the Supervisory Board's own examination fully concur with those of the audit. The Supervisory Board sees no grounds for objection to the management and submitted reports.

At its accounts meeting on February 22, 2018, the Supervisory Board approved the Financial Statements of BASF SE and the Consolidated Financial Statements of the BASF Group prepared by the Board of Executive Directors, making the 2017 Financial Statements final. The Supervisory Board concurs with the proposal of the Board of Executive Directors regarding the appropriation of profit and the payment of a dividend of €3.10 per share.

Composition of the Supervisory Board

The long-serving Vice Chairman of the Supervisory Board, Robert Oswald, stepped down from the Supervisory Board at the conclusion of the Annual Shareholders' Meeting on May 12, 2017. He had been a member of the Supervisory Board as an employee representative since October 1, 2000. As the chairman of the Works Council at BASF SE's Ludwigshafen Site, BASF's Joint Works Council and the BASF Works Council Europe, Robert Oswald played a significant role in BASF's development. The Supervisory Board expresses its very sincere thanks to Robert Oswald for his contribution. He was succeeded by Sinischa Horvat, who joined the Supervisory Board as the alternate member appointed by the BASF Works Council Europe on December 4, 2013, in accordance with the Employee Participation Agreement dated November 15, 2007.

 For more information on changes within the Supervisory Board, see the Corporate Governance Report on page 131

Thanks

The Supervisory Board wishes to thank all employees of the BASF Group worldwide and the management for their personal contribution in the 2017 business year.

Ludwigshafen, February 22, 2018

The Supervisory Board



Jürgen Hambrecht
Chairman of the Supervisory Board