

# Report of the Supervisory Board



*Dear Shareholders,*

In an increasingly difficult political and economic environment, the Supervisory Board addressed the following focus areas at length in 2018:

- The updated BASF corporate strategy
- Portfolio measures, in particular the acquisition of the seed and non-selective herbicides businesses from Bayer, the merger of the oil and gas businesses of BASF and LetterOne and the transfer of the paper and water chemicals business to a joint venture with Solenis, with 49% held by BASF, as well as the repositioning of the construction chemicals business
- The further development of the global manufacturing footprint and the planned establishment of a new Verbund site in southern China
- Changes to the Board of Executive Directors and preparations for the Supervisory Board elections

The Supervisory Board addressed its tasks with a 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 2018, 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. The Chairman of the Supervisory Board was always promptly informed of current developments and significant individual issues. The Supervisory Board was 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 2018 business year, these included authorizing:

- The conclusion of the agreements to merge the oil and gas businesses of BASF and LetterOne in a joint venture, Wintershall DEA
- The expanded scope of the seed and crop protection businesses to be acquired from Bayer

- The assumption of a guarantee by BASF SE as part of in connection with the acquisition of a 10% share in a concession to produce natural gas and condensate in the Ghasha field in Abu Dhabi

### Supervisory Board meetings

The Supervisory Board held five meetings in the 2018 business year. With the exception of one two-day Supervisory Board meeting, which one member of the Supervisory Board was unable to attend on the first day, all members attended all Supervisory Board meetings in 2018. 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/supervisoryboard/meetings](https://basf.com/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, operational excellence and sustainability, developments on the capital markets, significant managerial measures taken by the Board of Executive Directors and innovation projects.

In all meetings, the Supervisory Board discussed the further development of the BASF Group's business activities through acquisitions, divestitures, transfers to joint ventures and investment projects. Discussions focused on:

- Consolidation in the areas of crop protection and seeds, and the acquisition and integration of the seed business from Bayer
- The partial acquisition of the polyamide value chain from Solvay
- The merger of the oil and gas businesses of BASF and LetterOne in a joint venture, Wintershall DEA
- The transfer of the paper and water chemicals business to a joint venture with Solenis, with 49% held by BASF

- The repositioning of the construction chemicals business, including a potential divestiture
- The progress of the Nord Stream 2 pipeline project and its project financing
- The expansion of the battery materials business by establishing production capacities in cooperation with Norilsk Nickel and Toda
- The expansion of the global manufacturing footprint with the establishment of a new Verbund site in southern China

At its meeting on February 22, 2018, the Supervisory Board reviewed and approved the Consolidated Financial Statements, Management's Report and the proposal for the appropriation of profit for the 2017 business year as presented by the Board of Executive Directors. The Supervisory Board met prior to the Annual Shareholders' Meeting on May 4, 2018, primarily to prepare for the Annual Shareholders' Meeting.

The main agenda items at the meeting on July 24, 2018, were the integration and further development of the seed business acquired from Bayer as well as the BASF Group's financial and tax strategy.

At the strategy meeting on October 24/25, 2018, the Board of Executive Directors and the Supervisory Board discussed at length the further development of the "We create chemistry" strategy and agreed on a repositioning of key elements with the BASF corporate strategy, especially relating to customer focus, sustainability, innovation, digitalization and operations. Key consultation topics were:

- Strategic portfolio development
- Operational excellence measures in production, including the digitalization of industrial processes
- Focusing on the customer in all activities
- Sustainability as a basis of long-term business success, in particular CO<sub>2</sub>-neutral growth
- Leveraging the power of innovation, including systematically harnessing the opportunities of digitalization
- Enhancing the company's organization with agile structures and streamlined decision-making processes

At its meeting on December 13, 2018, the Supervisory Board discussed and approved the Board of Executive Directors' operational and financial planning including the

investment budget for 2019, and as usual authorized the Board of Executive Directors to procure the necessary financing in 2019.

### Composition and compensation of the Board of Executive Directors

In several meetings in the 2018 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 2018 business year at its meeting on February 22, 2018.

At its meeting on December 13, 2018, the Supervisory Board evaluated, based on the counsel of the Personnel Committee, the Board of Executive Directors' performance in 2018.

The Chairman of the Board of Executive Directors, Dr. Kurt Bock, retired from the Board of Executive Directors following the Annual Shareholders' Meeting on May 4, 2018, so that he can be elected to the Supervisory Board and appointed as its chairman in 2020. He was succeeded as Chairman of the Board of Executive Directors by Dr. Martin Bruder Müller, who previously served as Vice Chairman of the Board of Executive Directors. Also with effect from May 4, 2018, the Chief Financial Officer, Dr. Hans-Ulrich Engel, was additionally appointed Vice Chairman of the Board of Executive Directors. Michael Heinz's appointment to the Board of Executive Directors was extended to the end of the 2024 Annual Shareholders' Meeting. At the same time, the number of Board members was reduced from eight to seven following the Annual Shareholders' Meeting. After being approved by the Annual Shareholders' Meeting on May 4, 2018, an updated compensation system for the Board of Executive Directors was introduced with effect as of January 1, 2018. All members of the Board of Executive Directors agreed to the required change to their employment contracts.

 For more information on the compensation of the Board of Executive Directors, see the Compensation Report on pages 146 to 158


The division of responsibilities within the Board of Executive Directors was reallocated following the change in chairman and the reduction in the number of Board members as of May 4, 2018, and due to the reorganization of the segment structure as of January 1, 2019, as part of the updated corporate strategy. The division of responsibilities

proposed by the Board of Executive Directors was approved by the Supervisory Board in each case.

 For more information on the division of responsibilities within the Board of Executive Directors, see the Corporate Governance Report from page 142 onward

### 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 pages 134 to 135

The **Personnel Committee** met three 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, 2018, the Personnel Committee advised on the targets for the Board of Executive Directors for the 2018 business year. Key topics at the meeting on October 24, 2018, were the development of leadership at the top levels of management below the Board of Executive Directors, including long-term succession planning, potential alternate candidates for that Board of Executive Directors, the extension of Michael Heinz's appointment, as well as the review of the appropriateness of the compensation awarded to the Board of Executive Directors. The performance of the Board of Executive Directors in the 2018 business year and the appointments of the members of the Board of Executive Directors were discussed at the meeting on December 13, 2018.

The **Audit Committee** is responsible for all the tasks listed in section 107(3) sentence 2 of the German Stock Corporation Act (AktG) and in section 5.3.2 of the German Corporate Governance Code in the version dated February 7, 2017. This also includes 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 one meeting, which one member did not attend, all committee members participated in the meetings.

At the meeting on February 20, 2019, the auditor reported in detail on its audits of BASF SE's Separate and Consolidated Financial Statements for the 2018 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. In preparation for the audit, the Audit Committee had, following a corresponding resolution by the Supervisory Board, additionally engaged KPMG 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 23, 2018, the Audit Committee engaged KPMG AG Wirtschaftsprüfungsgesellschaft – the auditor elected by the Annual Shareholders' Meeting – with the audit for the 2018 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 excluded in principle 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 to a very limited extent. At the meeting on December 12, 2018, the auditors responsible reported on the status of the annual audit, as well as the focus areas of the audit and the most important individual items.

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 23, 2018, and compliance in the BASF Group on December 12, 2018. 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 Supervisory Board members to be elected by the Annual Shareholders' Meeting. The Nomination Committee is guided by the objectives for the composition of the Super-

visory Board adopted by the Supervisory Board as well as the competence profile and diversity concept for the Supervisory Board resolved at the meeting on December 21, 2017. The Nomination Committee met three times in 2018. All committee members attended all meetings. The meetings addressed, on the one hand, a review of the competence profile and diversity concept resolved in 2017, as well as the preparation of the proposals for the election of Supervisory Board members at the 2019 Annual Shareholders' Meeting. Based on an analysis of the competencies required by the Supervisory Board as a whole and the competencies already covered, the Nomination Committee used a broad-based selection process to identify suitable candidates to be proposed for election as the successors for Prof. Dr. François Diederich and Michael Diekmann, who will not stand for reelection. The chairman of the committee regularly informed the Supervisory Board as a whole of the status of the selection process. The Nomination Committee presented the results of the selection process together with a nomination proposal for the shareholder representatives to the Supervisory Board for resolution at its meeting on December 13, 2018.

The **Strategy Committee** met once in 2018. 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. All committee members attended the meeting. At the meeting, the committee primarily discussed the expanded scope of the acquisition of the seed and crop protection businesses from Bayer, the combination of the paper and water chemicals business with Solenis' business and the status of negotiations with LetterOne on the merger of the oil and gas businesses.

### Corporate governance and Declaration of Conformity

The Supervisory Board places great value on ensuring good corporate governance: In 2018, 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 addition to the review of BASF's corporate governance culture, topics of discussion were the draft of a fundamentally revised German Corporate Governance Code and the proposal to translate the second E.U. Shareholder Rights Directive into German law and its not insignificant impact on the current corporate governance system. In addition, the competence profiles and diversity concepts adopted in 2017 for the Supervisory Board and the Board of Executive Directors were reviewed and confirmed.

For more information on the competence profiles, diversity concepts and composition goals, see page 133 and from page 135 onward

In accordance with the recommendations of the German Corporate Governance Code and the Guiding principles for the dialogue between investors and German supervisory boards, the Chairman of the Supervisory Board again sought dialog with investors where appropriate in 2018. The main topic ahead of the 2018 Annual Shareholders' Meeting was the changes to the compensation system for the Board of Executive Directors. Another focus in the second half of the year was the preparations for the Supervisory Board elections at the upcoming 2019 Annual Shareholders' Meeting.

At its meeting of December 13, 2018, 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 (AktG). BASF complies with the recommendations of the German Corporate Governance Code in the version dated February 7, 2017, without exception. The Corporate Governance Report provides extensive information on the BASF Group's corporate governance.

 The full Declaration of Conformity is rendered on page 166 and is available to shareholders on the company website at [basf.com/en/corporategovernance](https://basf.com/en/corporategovernance)

### 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, 10 of its 12 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 136. Two of the six shareholder representatives on the Supervisory Board have been members of the Supervisory Board for more than 15 years and are no longer considered independent due to this long period of Supervisory Board membership. Beyond this limitation, the Supervisory Board does not see any indications that the Supervisory Board role is not performed completely independently, including for these Supervisory Board members. Both Supervisory Board members will not stand for reelection at the 2019 Annual Shareholders' Meeting and will retire from the Supervisory Board. 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 was again conducted in 2018, with the Chairman of the Supervisory Board holding individual dialogs with each Supervisory Board member using a structured questionnaire. Topics centered in particular on Supervisory Board meeting agendas; cooperation with the Board of Executive Directors; information supply of the Supervisory Board; the composition and work of the committees, and cooperation between shareholder and employee representatives. The Supervisory Board does not see any need for external support of its self-assessment. The results of these individual meetings were presented and thoroughly discussed at the Supervisory Board meeting on December 13, 2018. Overall, its members rated the Supervisory Board's activity as efficient.

Independent of the efficiency review of the Supervisory Board, the Audit Committee also conducted a self-assessment of its activities in 2018 based on individual discussions by the chairman of the Audit Committee 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. The Audit Committee discussed the results at its meeting on December 12, 2018, and resolved, in consultation with the Supervisory Board, to further intensify its risk management activities, especially in connection with investments, acquisitions and divestitures.

### Separate and Consolidated Financial Statements

KPMG AG Wirtschaftsprüfungsgesellschaft, the auditor elected by the Annual Shareholders' Meeting for the 2018 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 170 onward.](#)

[For more information on the auditor, see the Corporate Governance Report on page 139](#)

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 \[basf.com/nfs-audit-2018\]\(https://basf.com/nfs-audit-2018\)](#)

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 20, 2019, as well as the accounts meeting of the Supervisory Board on February 21, 2019, 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 20, 2019, 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 gave a detailed account of the preliminary review at the Supervisory Board meeting on February 21, 2019. On this basis, the Supervisory Board has examined the Financial Statements and Management's Report of BASF SE for 2018, the proposal by the Board of Executive Directors for the appropriation of profit, and the Consolidated Financial Statements and Management's Report for 2018. 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 21, 2019, 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 2018 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 €3.20 per share.

### Composition of the Supervisory Board

Employee representatives Ralf-Gerd Bastian and Francesco Grioli retired from the Supervisory Board on conclusion of the Annual Shareholders' Meeting on May 4, 2018. The Supervisory Board expresses its very sincere thanks to Ralf-Gerd Bastian and Francesco Grioli for their services to the Supervisory Board. They were succeeded by Tatjana Diether and Roland Strasser, who joined the Supervisory Board as the alternate members appointed by the BASF Works Council Europe on December 4, 2013, in accordance with the Employee Participation Agreement dated November 15, 2007.

The Supervisory Board's term of office ends on conclusion of the 2019 Annual Shareholders' Meeting. At its meeting on December 13, 2018, the Supervisory Board resolved on candidate proposals for the election of the six shareholder representatives based on the recommendation of the Nomination Committee. According to the Supervisory Board's assessment, these meet the competence profile developed by the Supervisory Board and the objectives for its composition in full. The six employee representative were already elected by the BASF Works Council Europe on November 21, 2018, in accordance with the Employee Participation Agreement.

[For more information on changes within the Supervisory Board, see the Corporate Governance Report on page 136](#)

### Thanks

The Supervisory Board wishes to thank all employees of the BASF Group worldwide and the management for their personal contribution in the 2018 business year.

Ludwigshafen, February 21, 2019



Jürgen Hambrecht  
Chairman of the Supervisory Board